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Annual Report on the Income-Tax Admn: of the Punjab, 1927-28.

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XXXXX ANNUAL REPORT ON THE INCOME TAX DEPARTMENT OF THE PUNJAB AND NORTH WEST FRONTIER PROVINCE FOR THE YEAR 1927-28.

STAFF. Mr. M.L. Darling was in charge of the department from the beginning of the year until the 5th of October, except for the interval from the 9th of May to the 2nd of June when Rai Bahadur Mangat Rai cfficiated. After Mr. Darling left the department Mr. W.R. Pearce officiated from the 6th October to the 3rd of February. From the 4th of February to the end of the year I was in charge.

SANCTIONED STRENGTH.

2. The severe shortage of staff which had been a great handicap on the department was relieved in this year by the addition of three Income-tax Officers, two Assistant Income-tax Officers, six Inspectors, seventeen clerks and eleven peons. The result of this has been that it has been possible to grant leave to officers who required it without any detriment to the work of assessment and also occasionally to post an additional officer to an over-burdened circle, which without such assistance would not be able to complete its assessments in time to allow of punctual recovery of the tax.

In September 1927 the Ambala and Simla circles which had been experimentally amalgamated in 1925 were again separated. At the same time the head-quarters of the Assistant Commissioner, Eastern Division, were removed from Ambala to Amritsar, which is the most important income-tax centre in the division.

TRADE CONDITIONS.

3. Statistics of the main factors of Indian trade for the year 1926-27, which is the accounting year for the year under review, show that it was an even more unsatisfactory year than 1924-25. Exports of wheat most of which are contributed by the Punjab fell again from 212,000 tons valued at 3½ crores to 176,000 tons valued at 2.71 lakhs. In 1924-25 the exported crop consisting of 1,[illegible] tons was valued at 17 crores. The exports of raw cotton again, which is another important Punjab

	No. of assessees.	Initial demand (Income-tax and Super-tax).
		Lakhs.
1926-27	30678	73
1927-28	30867	76

There is reason to think that internal trade conditions in the province were not so bad as the statistics relating to the import and export of the prime commodities would indicate. It must also be borne in mind that the true assessable income of many assessees had not previously been discovered and that progressive assessments have still to be resorted to in a large number of cases. That the number of these cases is decreasing will be seen later.

THE DEMAND. 5. The main sources of revenue for the last three years are classified below :-

	1925-26 Lakhs	1926-27 Lakhs	1927-28 Lakhs.
(a) Salaries etc.			
(1) Salaries (Income-tax only)	12.51	12.65	13.08
(2) Interest on securities (Income-tax only)	1.69	2.26	1.81
(3) House property	4.62	5.29	4.82
(4) Professional earnings.	2.47	2.67	2.23
(Legal business in brackets)	(1.61)	(2.13)	(1.91)
	21.29	22.87	21.94
(b) BUSINESS).			
(5) Banking	1.52	.62	.20
(i) Urban	3.85	4.76	5.60
(ii) Rural	5.60	5.62	6.04
(6) Piece goods	3.14	3.09	3.28
(7) Trade in agricultural produce.	4.82	5.80	5.58
(8) Contracts	1.72	1.92	2.71
(9) Timber	.92	2.63	5.15
(10) Hides and Skins	.18	.35	1.10
Total	21.75	24.79	29.66

(c) INDUSTRIES.

	1925-26 Lakhs	1926-27 Lakhs	1927-28 Lakhs.
(11) Ginning factories	4.26	1.99	.77
(12) Oil	1.24	-	-
(13) Flour Mills	.01	.15	.28
(14) Coal	.09	-	-
(15) Tanneries	.11	. 5	-
(16) Carpets	.11	.28	.38
(17) Other manufacturing processes.	3.06	1.49	2.14
Total	8.88	3.96	3.57

5. A few remarks may be made on the principal fluctuations. The drop under interest on securities is perhaps partly due to the lower yield of Government securities, and partly to the transfer of capital to banking, which shows a considerable increase. The decrease under house property is surprising. This head might be expected to be fairly constant or to show a progressive increase as a result of urban surveys. During the year 21,000 houses and shops were surveyed at Amritsar, Lahore and Rawalpindi, but the results of survey are not uniformly productive of a higher assessment. In Lahore it has sometimes been found necessary to reduce the figures of annual value in the light of the information received. This is one cause of the decrease. Another cause reported from Rawalpindi is the destruction of property by fire during the riots in 1926. A third and perhaps the most important cause is indicated by the case of an assessee, the whole of whose income from property amounting to about a lakh had to be set off against business losses incurred in this year.

6. Turning to business we note a great increase in the income from banking and money lending, which are not necessarily adversely affected by a year of bad trade. The principle of progressive enhancement, no doubt, is still an important cause in a class of assessees so reluctant to maintain and produce accounts as the

money lenders. Contracts show a further increase which reflects the numerous public works both civil and military which are in progress in many places in the Punjab. The timber trade had a better year than it has had for sometime, but the principal cause of the very large increase was, as already mentioned, the Government Trading Taxation Act, which made liable to tax the income of the hill States who market in British India the produce of their forests. The increase under hides and skins is accounted for by a high individual assessment on a trader who was considered to have concealed extensive business connections with America.

7. Under "industries" the most noticeable feature is the disastrous year which the ginning factories have had, and which was due in great measure to the failure of the cotton crop. The smaller industries, on the other hand, appear to have flourished, particularly flour mills and carpet factories.

COLLECTIONS AND ARREARS.

8. The figures for the last two years are :-

	Collections	Arrears at the close of the year.
	Lakhs	Lakhs.
1926-27	66.59	6.74
1927-28	73.99	3.61

This very marked improvement is due largely to the fact that strict instructions were issued to Income-tax Officers to take up the more important cases early in the year and to attempt to complete the assessments by the end of December. This leaves time to collect the tax before the end of the financial year. It is satisfactory to note that the improvement was effected by the imposition of fewer penalties under Sec. 46 than in the previous year, the number being 1682 as against 2106. Assessees are clearly realizing that it is to their advantage to pay the tax promptly and not incur a further liability.

SUBMISSION OF RETURNS AND ACCOUNTS.

9. The effect of progressively enhancing the assessment on assessees who refuse to make returns of their income or to produce accounts, and of occasional reminders to the most inveterate defaulters of the possibility of criminal prosecution, is seen in this year's figures, which are given below side by side with the figures of the two previous years :-

Percentage of	1925-26	1926-27	1927-28
(a) Returns submitted to Returns issued.	63	69	81
(b) Accounts produced to Accounts called for.	63	68	74

Whilst the ideal of complete compliance with statutory requirements has not been reached, the progress made is satisfactory, at any rate, so far as the number of returns and accounts is concerned.

RELIABILITY OF RETURNS AND ACCOUNTS.

10. When, however, we turn to examine the degree of reliability of the returns and accounts submitted, we find that the quantitative improvement has not been entirely accompanied by a qualitative improvement. The percentages are as follows :-

Percentage of	1925-26	1926-27	1927-28
(a) Returns accepted to returns submitted.	46	47	43
(b) Accounts entirely or mainly relied upon to accounts produced.	49	64	63

The problem which now faces the department is that of applying suitable external checks to sets of accounts which reveal no internal discrepancy, but which result in an income which is often very greatly at variance with the general impression of the extent of the assessee's means. There can be no doubt that the policy pursued by the department, whilst it has succeeded in compelling large numbers of recalcitrant assessees to produce all the material necessary for a correct

assessment, has also had the effect of stimulating others to fabricate material and endeavour in this way to avoid the payment of the legitimate amount of tax. For this evil there is of course only one remedy, and that is in well established cases to prosecute the offenders in the criminal courts. It is however by no means an easy matter to obtain independent external evidence with which to confute the material often elaborately fabricated which is placed before the Income-tax Officer.

EVASION. 11. Many assessees who would shrink from embarking on a deliberate course of complete fabrication of accounts are not above committing the cognate offence of omitting large individual items of profitable business from the accounts rendered. This is perhaps the commonest form of evasion. The fact that in the two provinces under my control penalties under Section 28 aggregating nearly Rs.20,000 were imposed in this year indicates that Income-tax Officers are on the look out for these omissions, but there is reason to think that a much larger amount of income than is indicated by this figure is concealed from the department. It is true that in the case of assessees whose business dealings are principally with persons whose incomes are also taxable the possibilities of evasion are less, because the knowledge obtained from one tax-payer's accounts is regularly employed to check the accounts of other tax-payers. But in the Punjab there is a large class of tax-payers, principally money lenders, retail dealers and owners of businesses transacted on a purely cash basis, to whose accounts this method of check is not applicable, since their clients are either agriculturists or persons whose income is below the taxable limit, and whose affairs do not come under the review of the Income-tax Officer.

APPLICATION OF FLAT RATE OF PROFIT.

12. A noticeable result of the increased number of cases in which accounts are produced is a corresponding increase in the application of flat rates of profit. Fortunately there has also been an appreciable increase in the number of profit and loss accounts submitted on which assessments could be based. There are many types of business, particularly retail business, in which the maintenance of satisfactory stock accounts is too expensive to be practicable. In such cases there is no alternative but to estimate income as a percentage of turnover. This fact is usually admitted by the assessees affected, but they persistently contend that the rates applied are excessive. These rates are however usually based on careful local enquiries and are brought under review whenever any considerable change in trading conditions is considered to have taken place. This method of assessment, although at best it can only be regarded as a pis aller, can never, in my opinion, be entirely eliminated and must continue to play a considerable part in the work of the department. It is probably better to concentrate on arriving at fair standard rates than to bring pressure to bear on assessees to compile accounts, which from the nature of their business cannot be accurate, and which are entirely unsusceptible of any check by the department.

APPEALS.

13. There was some increase in the number of appeals instituted during the year which was 2,876 as against 2,561 in the previous year, but of these, 2,453 related to the assessment year 1927-28. About two-thirds of these appeals had been disposed of by the 31st of March and these had resulted in a net decrease of Rs. 1,18,000. Out of this amount only about Rs. 34,000 related to the assessment of 1927-28, but it is probable that further considerable reductions will be made, since the largest and most important cases are normally decided late in the year and the

appeals come up for hearing after the end of the financial year. 638 appeals have in fact been disposed of between the 31st of March and the present time. The financial effect of these has however not been calculated.

PETITIONS UNDER SECTION 33.

14. The figures for the Punjab and North West Frontier Province for the last three years are as follows :-

	Instituted	Disposed of.	Pending at the close of the year.
1925-26	689	725	231
1926-27	622	747	110
1927-28	581	604	87

It is satisfactory to notice that the number of these petitions is still on the decrease, but the relief afforded to the Commissioner has been more than counter balanced by the large number of applications for reference to the High Court.

REFERENCES TO THE HIGH COURT.

15. These applications numbered no less than 81 in the year under review as compared with 49 in the preceding year. 30 of these applications were rejected and 30 were withdrawn by the assessees. Out of the latter 25 were withdrawn after the assessment had been modified and 5 after an order under section 33 confirming the assessment. References to the High Court were made in eight cases. Three of these references have so far been decided, all in favour of the department. Five are still pending in the High Court.

HIGH COURT DECISIONS.

16. The most important ruling of the Lahore High Court during the year was that in the case of Khushiram Karamchand v. Commissioner of Income-tax, in which the Court held that once the Income-tax Officer has issued a notice under section 23(2) to the assessee and that notice has been complied with, the Income-tax Officer cannot then issue a notice under section 22(4) or make a summary assessment

under section 23(4) because of the failure to comply with such a notice subsequently issued. The practice of the department in the Punjab and North West Frontier Province has been modified to suit this ruling, but it is desirable that an opportunity should be taken to bring the point before the Court again, especially in view of recent decisions in the Calcutta and Patna High Courts regarding the correct interpretation of these sections of the Act.

INSPECTIONS.

17. All the offices were inspected in the course of the year by the Assistant Commissioners. The amount of touring done by the Commissioner was rather less in this year owing to the fact that no less than four different officers held charge during the year. The number of days spent on tour was as follows :-

	Days
Commissioner	106
Assistant Commissioner, N.and F.Division.	208
Assistant Commissioner, Eastern Division.	197
Assistant Commissioner, Western Division.	130

GENERAL.

18. The standard of efficiency of work in the department has continued to improve. During his recent tour, the Member of the Board visited several of the largest Income-tax circles and inspected a percentage of the assessment. His general remarks confirmed the impressions of that experienced officer Mr. Darling regarding the progress which has been made. The officers of the department have however been exhorted not to relax their efforts, but to aim at still further improvement and at the elimination of any defects which may from time to time have formed the subject of criticism.

It only remains for me to express my appreciation of the assistance which has been generously rendered by the district officers and their staff to the department during the year, particularly in connection with the uncongenial task of recovering arrears from defaulters.

27.7.28.

Sd/- A. Raisman,
Commr. of Incometax, Punjab.

ATTESTED.
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