



2010

1997

1975

1964

# A Journey Across Three Centuries

1945

1924

1922

1886

1860

150 Years  
of Income Tax

150 Years



150 Years

150 Years



## ANCIENT ERA

Taxation in India has existed since ancient times. Taxation was considered as a sacred duty in Vedic times. It finds its references in many ancient books like '**Srimada Bhagavatam**', '**Manu Smriti**' and '**Arthashastra**'. Manu, the ancient sage and lawgiver, in the 'Manu Smriti' speaks of a variety of tax measures that the king could undertake according to the Shastras and advises that taxes should relate to the income and expenditure of the subject. Manu said "As the calf and the bee take their food little by little, even so must the king draw from his realm moderate, annual taxes." The prevalence and necessity of taxation is recorded by Kalidasa in the "Raghuvansha" when he says thus of King Dileepa "It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold".

Kautilya's '**Arthashastra**' deals with taxation in an elaborate and planned manner suggesting ways to guide a king in running the state in an efficient and fruitful manner. According to him, treasury is the root of administration ('**kosh moolo dandah**').

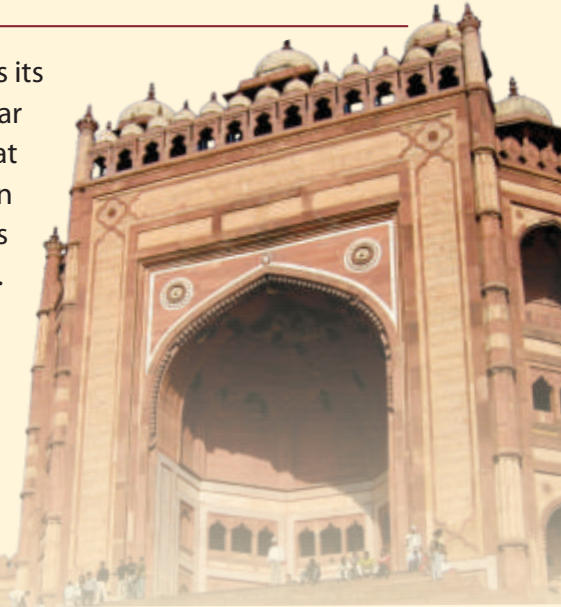


## MEDIEVAL ERA



The system of progressive taxation perhaps owes its origin to emperor Krishnadevraya of Vijayanagar who maintained that taxes should not be levied at flat rates and the amount of tax levied must depend on the income of the farmer. Tax administration was further refined by Sher Shah Suri and later by Akbar.

The Mughal emperors granted land revenue rights to a Mansabdar in exchange for promises of soldiers in war time. The treaty of 1765 gave Britishers the right to collect taxes on behalf of the emperor. Well before the dissolution of the Mughal Empire in 1857, the British system of District Collectors of land revenue was established.



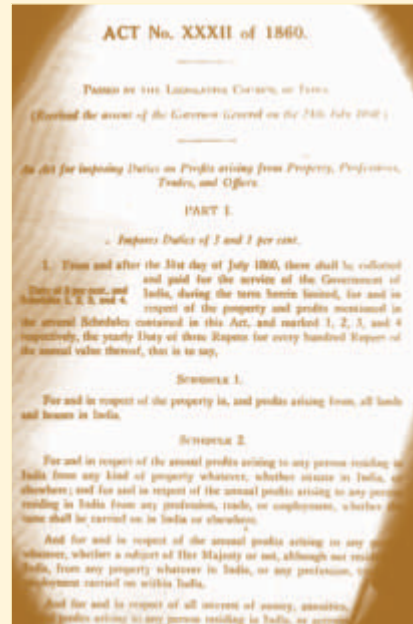
## MODERN ERA

In the aftermath of the First war of Independence in 1857, the period of British rule in India witnessed many remarkable changes in the taxation system. Although, it was highly in favour of the British government and its exchequer, it incorporated modern and scientific method of taxation tools and systems. However, it was not until 1922, a little over half a century after the introduction of Income Tax, that a comprehensive Act for dealing with various aspects of its levy and administration came into existence.

## Upto 1920



- Income Tax in India was introduced by Sir James Wilson on 24<sup>th</sup> July 1860. It was a tax selectively imposed on the rich, royalty and Britishers, and hence was not liked by the powerful. In its first year, the exchequer collected a princely sum of **Rs. 30 lakh**.
- The Act lapsed in 1865 and was re-introduced in a different form in 1867. Tax rates were based on a rough-and-ready assessment.



- The need for additional resources at the time of Anglo-Russian War necessitated revamping of the tax system. In this backdrop, Governor General Lord Dufferin introduced the Income Tax Act 1886. This was the first comprehensive Act of its kind in modern India that was a combination of 'Licence Tax' and 'Income Tax'. Taxes were collected in the same manner as land revenue. **Rs. 1.36 crore** was collected in 1886-87.
- The total number of Income Tax payers in 1914-15 was only 3,32,000 and total collection was **Rs. 3.05 crore**.
- The outbreak of World War I resulted in severe resource crunch. In 1916, for the first time, graduated rates of tax were adopted. 'Supertax' was introduced in 1917 as a measure to mop up resources for the war efforts.



**Income Tax Collection for the year 1918-19 stood at Rs. 11 Crore**

## The 20's to 40's

- The most comprehensive Income Tax law was brought about through the Income Tax Act of 1922. Enacted amidst a highly charged atmosphere of the Non-cooperation Movement, the Act of 1922, laid the ground for the growth of the Income Tax Department.
- In the period between the two world wars, many institutional changes were made to increase the efficacy of the Department. For the first time, tax administration was effectively centralized in the hands of the Central Board of Revenue in 1924.

### INCOME TAX ACT, 1922

(Printed in Govt. of India Press, Simla in 1948)

The Montagu Chelmsford reforms (1919) made a distinction between the functions and resources of the central and provincial governments. It made Income Tax as a primary source of revenue for the Central government, thereby creating a need for a separate department dedicated to this purpose. A Board of Inland Revenue was set up in the same year, and entrusted with the responsibility of income tax work.

The highlights of 1922 Act included:

- Rate of taxes to be decided by the Annual Finance Act
- Provision of Ex-parte assessment
- T.D.S. made compulsory for private employers
- Reopening of assessment
- Setting up the office of Income Tax Commissioner



In due course, a regular hierarchy of officers acting under the control of the Board and provincial Commissioners was constituted. A full-fledged and dedicated Income Tax Department was born.

- On the recommendations of Ayers Committee the assessment and appellate functions were separated in 1939 by dividing Assistant Commissioners into two classes, Appellate Assistant Commissioner (AAC) and Inspecting Assistant Commissioner (IAC). The Income Tax Appellate Tribunal (ITAT) came into existence with effect from 25<sup>th</sup> April, 1941.



**Income Tax Collection for the year 1939-40 stood at Rs. 19.82 Crore**

- With the outbreak of the Second World War and the increased imposition of taxes, tax evasion became a

common practice. This resulted in the setting up of the Special Investigation Branches in 1943.

- A shortage of manpower in the Department necessitated direct recruitment of the first batch of Income Tax Officers (Class I) Service in 1945 through the Indian Accounts and Audit Examinations. This Service later came to be known as the **Indian Revenue Service**.
- After the socio-economic and political upheaval during the Second World War and Partition, India's political sculptors realised the crucial role of the Income Tax Department not only to finance the Government, but also to establish social welfare schemes. In 1949, Income-Tax Act of 1922 was also extended to the merged States.

### Administrative Set-up in 1946

|                                   |     |
|-----------------------------------|-----|
| Commissioner Grade-I              | 5   |
| Commissioner Grade-II             | 6   |
| Appellate Assistant Commissioner  | 19  |
| Inspecting Assistant Commissioner | 27  |
| ITO Grade-I                       | 144 |
| ITO Grade-II                      | 131 |
| ITO Grade-III                     | 277 |
| Inspectors                        | 172 |



**Income Tax Collection for the year 1945-46 stood at Rs. 57.12 Crore**

## The 50's

- The Estate Duty Act, 1953 came into existence.
- Based on the recommendations of Prof. Nicholas Kaldor, the Wealth Tax Act, 1957, the Expenditure Tax Act, 1957 and the Gift Tax Act, 1958 were introduced.
- IRS (DT) Staff College started functioning at Nagpur from the year 1957 to train directly recruited ITOs Class I. From 1959, directly recruited officers in Class I started attending foundational training along with other Central and All India Services at National Academy of Administration, Mussoorie.
- Law Commission Report on new Income Tax Act was submitted in 1958. Direct Taxes Administration Enquiry Committee was setup in 1958.

### Growth of Organizational Strength

| POST                                  | STRENGTH |       |        |
|---------------------------------------|----------|-------|--------|
|                                       | 1946     | 1950  | 1959   |
| Commissioners of Income-tax           | 11       | 13    | 18     |
| Assistant Commissioners of Income-tax | 36       | 102   | 169    |
| Income-tax Officers                   | 470      | 857   | 2295   |
| Non-gazetted staff                    |          | 9,000 | 17,325 |

## The 60's

- Income Tax Act, 1961 came into existence with effect from 01.04.1962, based on the recommendations of the Law Commission and the Enquiry Committee.
- The Central Board of Revenue Act, 1963 replaced the Central Board of Revenue with two different Boards viz. Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) for administering direct and indirect taxes respectively.
- In 1966, Intelligence Wing was created and placed under the charge of Directorate of Inspection (Investigation).
- Committee for rationalization and simplification of tax structure (Bhoothalingam Committee) submitted its report in 1967. Based on its recommendations, Summary Assessment Scheme was first introduced in 1968.



**Direct Taxes Collection for the year 1960-61 stood at Rs. 287.47 Crore**

### Creation of Directorates

- |   |  |
|---|--|
| ⇒ <b>1940</b> Directorate of Inspection (Income Tax)    | ⇒ <b>2005</b> Directorate of Income Tax (Infrastructure)         |
| ⇒ <b>1952</b> Directorate of Inspection (Investigation) | ⇒ <b>2006</b> Directorate of Income Tax (BPR)                    |
| ⇒ <b>1960</b> Directorate of Inspection (RSP)           | ⇒ <b>2007</b> Directorate of Income Tax (HRD)                    |
| ⇒ <b>1972</b> Directorate of Inspection (OMS)           | ⇒ <b>2007</b> Directorate of Income Tax (L&R)                    |
| ⇒ <b>1978</b> Directorate of Inspection (Vigilance)     | ⇒ <b>2011</b> Directorate of Income Tax (Expenditure Budget)     |
| ⇒ <b>1978</b> Directorate of Inspection (Recovery)      | ⇒ <b>2011</b> Directorate of Income Tax (Criminal Investigation) |
| ⇒ <b>1981</b> Directorate of Inspection (Systems)       |  |

## The 70's

- In the year 1970, recovery functions for collection of Direct Taxes dues performed by State Government officials were assigned to Tax Recovery Officers.
- Wanchoo Committee of 1971 and Choksi Committee of 1978 gave recommendations for curbing and controlling tax evasion and for simplifying the tax system.
- A numeric-alphabetic PAN consisting of 9 digits and 2 letters was attempted in 1970-71. Lack of appropriate computer technology led to its untimely demise and it was not before another quarter of a century that the PAN became a functional reality.
- 29 posts of Commissioners were created in 1973. The First Cadre Review of IRS(IT) was completed in November 1976.
- Settlement Commission was established in 1976 on the basis of recommendations of Wanchoo Committee.
- Based on the recommendations of Choksi Committee, Appellate functions were given to a new cadre of Commissioners known as CIT (Appeals) in the year 1978.

### Voluntary Disclosure Scheme, 1975

- The menace of tax evasion that had existed since Second World War became alarming by the 70s. The Wanchoo Committee attributed high tax rates and economy of shortages, controls and licenses as its main causes. The Department launched special drive and conducted 2029 searches in 1974-75 as against 538 searches in 1973-74. It also launched a Voluntary Disclosure Scheme in 1975 amidst media blitzkrieg. The scheme was a success. Rs. 1500 Crore was disclosed as Undisclosed Income / Wealth as against a total of Rs. 267 Crore disclosed during the earlier schemes of 1951 & 1965.
- The then Chairman, CBDT, Shri S. R. Mehta was awarded the Padma Bhushan.



**Direct Taxes Collection for the year 1974-75 stood at Rs. 1632.02 Crore**

## The 80's

- In the year 1981, IRS (DT) Staff College, Nagpur was re-designated as National Academy of Direct Taxes (NADT).
- In 1982, Regional Training Institutes at Bombay, Calcutta, Lucknow and Bangalore started functioning under the control of the National Academy of Direct Taxes.
- Taxation Laws (Amendment) Act, 1984 streamlined procedures for better work management to reduce inconvenience to tax payers, litigation and anomalies. It also rationalised some tax provisions.
- Post of Director General (Investigation) was created in 1985 for more effective investigation of tax evasion cases.
- L. K. Jha Committee was set up for simplification and rationalisation of tax laws in 1987. The Direct Tax Law (Amendment) Act, 1987 introduced uniform previous year and brought about re-designation of ITO Group A as Assistant Commissioner of Income Tax, etc.



**Direct Taxes Collection for the year 1983-84 stood at Rs. 4232.38 Crore**

## The 90's

- The Indian economy moved towards increased globalization in 1990s. In 1993, Authority for Advance Rulings was set up to provide the non-residents with the facility of ascertaining in advance their Income Tax liability.
- The Permanent Account Number (PAN), a 10 digit alphanumeric number was launched in 1994. It acts as a unique identifier and enables the Department to link all transactions like tax payment, TDS / TCS credits, Income Tax Returns, High Value Transactions etc. to individual taxpayers. More than 12 Crore PANs have been allotted till date.
- 1997 was the watershed year as it heralded another series of tax reforms in India. The tax rates were reduced significantly to encourage more voluntary compliance. The concept of Minimum Alternative Tax (MAT) for Corporate taxpayers was introduced. Income Tax collections started to increase substantially.
- Sec. 260A was introduced in 1998 enabling direct appeals to High Court. Some other changes were also made in that year e.g.
  - 1/6 Scheme & penalty for non-filing of return were introduced to widen tax base.
  - Gift-tax was abolished.
  - Kar Vivad Samadhan Scheme was introduced.
- The nineties saw increasing emphasis on providing better taxpayer services. Slogans like "File, Smile and Go" became the order of the day.



### Voluntary Disclosure of Income Scheme, 1997

VDIS, launched in 1997, attracted 4,75,477 declarants and the total Income / Wealth of Rs. 33,695 Crore was disclosed. **Rs. 9803.46 crore** were collected as tax and interest, making it the most successful Voluntary Disclosure Scheme.

### Comparative Tax Rates (MMR)

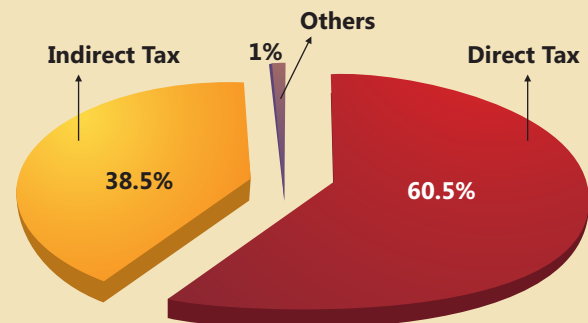
| Year | Rate  |
|------|-------|
| 1957 | 91.8% |
| 1958 | 84%   |
| 1971 | 97%   |
| 1978 | 84%   |
| 1984 | 67.5% |
| 1985 | 50%   |
| 1997 | 30%   |
| 2010 | 30%   |

**Direct Taxes Collection for the year 1996-97 stood at Rs. 38895 Crore**

## The New Millennium

- The Department was restructured in 2001 to prepare the human resources for the new technological environment and to reduce stagnation at all levels that had threatened to demotivate the whole Department.
- Increase in globalization and foreign investment brought new challenges for the Income Tax Department. Transfer Pricing Laws were introduced and the Directorate General of International Taxation was created.
- The Income Tax Department became the biggest revenue mobiliser for the Government in 2007-08, with its share increasing from **34.76%** in 1997-98 to **52.75%** in 2007-08.

### Central Revenue Collections 2009-2010



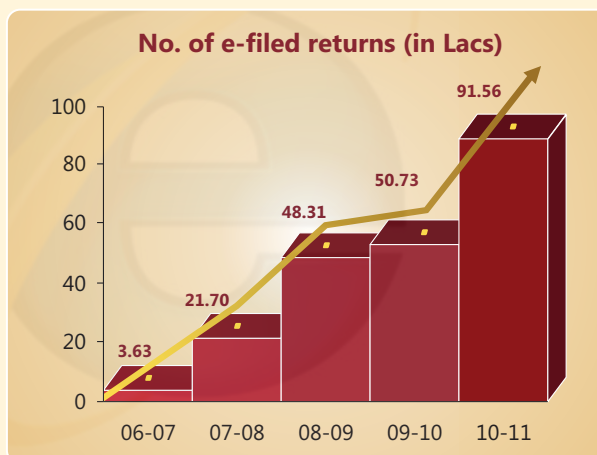
**Direct Taxes Collection for the year 2004-05 stood at Rs. 132771 Crore**



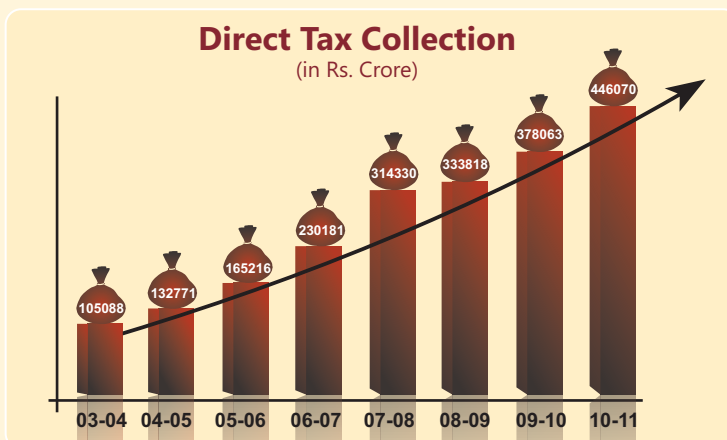
## Modernisation & Tax Payer Services

While rationalization of tax rates reflected the first phase of tax-reforms of 90s, modernization and technological upgradation and rolling out of Taxpayer Services constituted the other. Several new initiatives were taken.

- **WEBSITE** – The website of the Department [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in) was launched in the year 2003 to provide a host of informational, interactive and transactional services to the Taxpayers.
- **TIN** – Tax Information Network (TIN) was established to integrate primary information of tax collection, tax deduction and third party information. The system allows the Department to create separate account for each PAN holder.
- **TAXNET** – An All India Tax Network (TAXNET) was setup in 2007 by consolidating 36 independent regional databases into a single centralized database (PDC or Primary Data Centre) at Delhi with a Business Continuity site at Mumbai & limited Disaster Recovery site at Chennai. It created 2.5 TB consolidated database which was one of the largest databases of Government of India. 718 Income Tax offices in 520 cities are part of this network.
- **E-PAYMENT** – Taxpayers have the facility to pay their taxes online, through ATMs, Debit Cards or Cheques at agency bank branches across the country.
- **E-FILING** - In 2006-07 the high impact and high visibility project for electronic filing (e-filing) of Income Tax Returns was launched. Returns could be filed online using digital signature, without digital signature or through e-Return intermediaries. In the first year 3.63 Lakh taxpayers used this facility. The number has now grown to 92 Lakhs in the year 2010-11.
- **TRPS** - Tax Return Preparer Scheme was launched in 2006 to assist individual and HUF taxpayers to file their Return of Income. The Department trained nearly 4700 unemployed or under employed graduates at 100 centers across the country to enable them to prepare Returns of taxpayers at marginal cost. The scheme used Online Learning Management System for distance learning for the first time.
- **INCOME TAX OMBUDSMAN** – In 2006, the institution of Income Tax Ombudsman was set up in 12 cities throughout the country to look into tax related grievances of the common public.
- **REFUND BANKER** - The Refund Banker Scheme was launched in January 2007 in Delhi and Patna charges. Data of Refunds determined by the Assessing Officer gets transferred to the Refund Banker (State Bank of India) which issues refund through Electronic Clearing System (ECS) in cases where MICR code is available or through Cheque, if MICR is not available. The scheme has now been extended to the whole country.
- **SEVOTTAM** - Sevottam Scheme was launched in the year 2007 to standardize service delivery to the taxpayers. The Department identified the services delivered to different taxpayer segments and promised definite time lines for delivery of these services. The first citizen friendly single window Aayakar Seva Kendra (ASK) to rollout these services was setup at Pune. Today 15 ASK centres are functional in the country.



- **ITDMS** - Integrated Taxpayer Data Management System (ITDMS) for drawing of 360° taxpayer profile was launched in 2007. The system creates 360° profile by using huge volume of data available from internal and external databases and builds individual profiles, family relationships etc. by using sophisticated data mining tools and search engine. ITDMS has provided an exceptionally potent tool to the investigation wing for non-intrusive investigation.
- **CFL** - Cyber Forensic Labs were setup in 2008 to identify relevant digital data during search and survey operations, recover hidden or password protected or deleted data and store retrieved data in a manner so that it could be used as evidence in judicial proceedings.
- **CPC** - Centralized Processing Centre was setup in Bengaluru in 2009 for bulk processing of e-filed and paper returns. The Centre operates without any interface with taxpayers in a jurisdiction – free manner. The Centre processed 86.9 lakh returns in 2010-11.
- **THE DIRECT TAXES CODE BILL, 2010** – To replace the 50 years old Income-tax Act, 1961, simplified 'The Direct Taxes Code Bill, 2010' was introduced in the Parliament in 2010.



## Awards and Accolades



- Integrated Tax Payer Data Management System (**ITDMS**) was conferred the **Prime Minister's award** for Excellence in Governance and Administration in the year 2010.
- CPC Bengaluru was awarded the **"Gold Award for Excellence in Government Process Re-engineering"** for the year 2010-2011.
- Electronic filing of Income Tax Returns Project was awarded **"National e-Governance Silver Award"** in the category "Outstanding Performance in Citizen Centric Service Delivery" for the year 2007-08.
- Aayakar Seva Kendras (**ASK**), Pune and Kochi were granted the coveted IS 15700 certification by the Bureau of Indian Standards (BIS).



## Our Vision

To partner in the nation building process through progressive tax policy, efficient and effective administration and improved voluntary compliance.

## Our Mission

- To formulate progressive tax policies
- To make compliance easy
- To enforce tax laws with fairness
- To deliver quality services
- To continuously upgrade skills and build a professional and motivated workforce

## We Believe in

- Equity and transparency;
- Promoting taxpayer awareness towards voluntary compliance;
- Effective deterrence against tax evasion;
- Continuous research as the foundation of tax policy and administration; and
- Adopting technology as an enabler for improved service delivery.

1860- ₹ 0.3 Cr.

1886- ₹ 1.36 Cr.

1922- ₹ 22.17 Cr.

1961- ₹ 287.47 Cr.

1975- ₹ 1632.02 Cr.

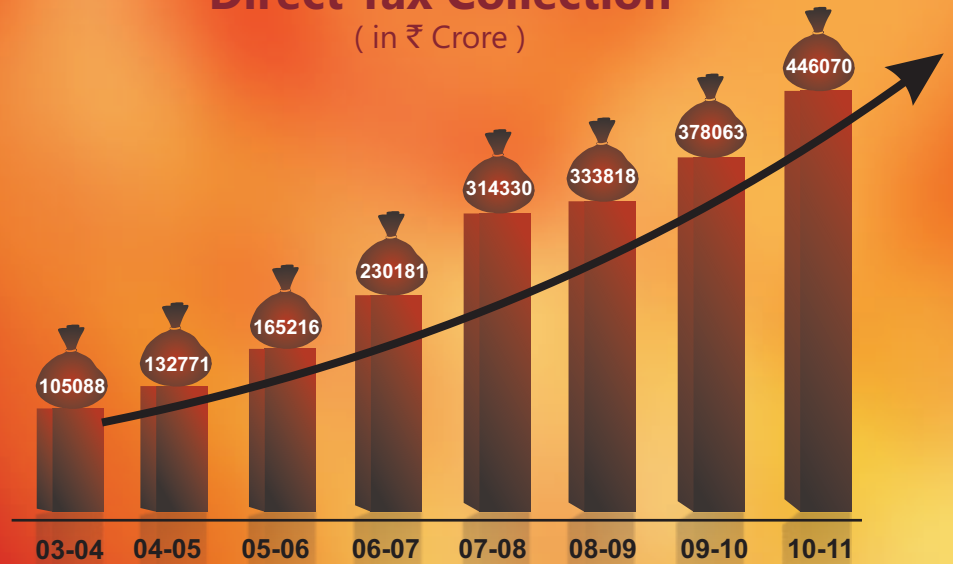
1997- ₹ 38895 Cr.

2011- ₹ 446070 Cr.

TAXPAYERS' LOUNGE

## Direct Tax Collection

( in ₹ Crore )



DIRECTORATE OF INCOME-TAX (PR, PP & OL)

MAYUR BHAWAN, NEW DELHI - 110001