

HUNDRED AND SIXTEENTH REPORT

PUBLIC ACCOUNTS COMMITTEE (1987-88)

(EIGHTH LOK SABHA)

FUNCTIONING OF VALUATION CELLS AND VALUATION OF IMMOVABLE PROPERTIES

MINISTRY OF FINANCE
(Department of Revenue)

[Paragraphs 1.15 and 4.05A (i) (a) to (e) of the Report of the C&AG of India for the year 1985-86, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes]



Presented in Lok Sabha on 22nd March, 1988
Laid in Rajya Sabha on 22nd March, 1988

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1988/Phalgun, 1909 (Saka)

Price : Rs. 13.00

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1987-88)	(iii)
INTRODUCTION	(v)
CHAPTER I—Functioning of Valuation Cells.	1
CHAPTER II—Valuation of Immovable Properties Agricultural Lands Comprised in Coffee Plantations	13
APPENDICES	
I. Paragraph 1.15 of the Report of the C&AG of India for the year 1985-86, Union Government (Civil), Revenue Receipts, Vol. II-Direct Taxes.	16
II. Action taken by Government on recommendations contained in Paragraphs 3.69 and 3.70 of 101st Report of PAC (7th Lok Sabha).	47
III. Paragraph 4.05A(i) (a) to (e) of the Report of the C&AG of India for the year 1985-86, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes.	48
IV. Circular No. 326 dated 6 February, 1982 issued by C.B.D.T.	51
V. Circular No. 357 dated 12 May, 1983 issued by C.B.D.T.	54
VI. Statement of conclusions and recommendations	56

PART II*

Minutes of the sitting of the Public Accounts Committee held on :

(i) 26 October, 1987

(ii) 7 March, 1988

*Not printed. One cyclostyled copy laid on the Table of the House and 5 copies placed in Parliament Library.

(i)

PUBLIC ACCOUNTS COMMITTEE

(1987-88)

CHAIRMAN

Shri Amal Datta

MEMBERS

Lok Sabha

2. Shri S. M. Bhattam
3. Shri Mohd. Ayub Khan
4. Shri Y. S. Mahajan
5. Shri Ajay Mushran
6. Shri K. Ramamurthy
7. Shri Balwant Singh Ramoowalia
8. Shri Navinchandra Ravani
9. Shri S. Jaipal Reddy
10. Shri Chiranji Lal Sharma
11. Shri Pratap Bhanu Sharma
12. Genl. R. S. Sparrow
13. Dr. Chandra Sekhar Tripathi
14. Shri Vir Sen
15. Shri Yogeshwar Prasad Yogesh

Rajya Sabha

16. Shri A. K. Antony
17. Shri Nirmal Chatterjee
18. Shri Bhuvnesh Chaturvedi
19. Shri M. S. Gurupadaswamy
20. Shrimati Manorama Pandey
21. Shri B. Satyanarayan Reddy
22. Shri T. Chandrasekhar Reddy.

SECRETARIAT

1. Shri K. H. Chhaya—*Joint Secretary*
2. Shri B. D. Duggal—*Chief Financial Committee Officer*
3. Shri S. M. Mehta—*Senior Financial Committee Officer*

INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this 116th Report on Paras 1.15 and 4.05A(i) (a) to (e) of the Report of the C&AG of India for the year 1985-86, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes regarding Functioning of Valuation Cells and Incorrect Valuation of Assets—Immovable Properties.

2. The Report of the Comptroller and Auditor General of India (Civil) Revenue Receipts Vol. II, Direct Taxes was laid on the Table of the House on 8 May, 1987.

3. The Valuation Cell is an expert body manned by Engineers drawn from the Central Public Works Department to assist the Income tax Department in the matter of valuation of assets such as land, building etc. for the purpose of determining tax liability of the assesses under direct tax laws. The functioning of Valuation Cells has also been the subject matter of examination earlier by the Committee during the Sixth and Seventh Lok Sabhas. Despite the recommendations made earlier, the overall working of the Valuation Cell has not shown any marked improvement. There is, therefore, need for undertaking a review of the functioning of the Cell so as to remedy its weaknesses and deficiencies.

There is absence of feedback information regarding results of appeals in which valuation was disputed, for the guidance of valuation officers. The Committee have desired that a systematic study of cases in which valuation is reduced in appeals should be conducted once in six months and the results of such study made known to the concerned officers to enable them to improve their efficiency.

4. The Estimates Committee (Seventh Lok Sabha) the Public Accounts Committee (Seventh Lok Sabha) and the Economic Administration Reforms Commission (1981-83) had favoured the setting up of an autonomous valuation tribunal for valuation of immovable properties for all property taxes. But the Government did not accept their recommendations. The Committee have desired the Government to reconsider their decision in the light of the opinion tendered by the Law Ministry and also in consultation with the State Governments.

5. The Committee feel that there are still a considerable number of people or class of people like professionals and small businessmen/traders/shopkeepers who inspite of earning income which may be liable to be taxed are not assessed to Income Tax. The Committee have desired the Ministry to intensify the tempo of surveys so that such persons who have taxable income, are actually taxed.

6. The Committee have viewed seriously the manner in which the CBDT issued circular No. 357 laying down guidelines applicable only to coffee plantations and in Karnataka alone, prescribing rates per acre for valuation purposes. The provisions of Central Law are applicable to the entire country and therefore, there is no justification whatsoever for issue of guidelines for some particular area to the advantage or disadvantage of others. Such a discriminatory practice which gives rise to justified criticism should be avoided.

7. The Committee examined these paragraphs at their sitting held on 26 October, 1987. The Committee considered and finalised this Report at their sitting held on 7 March, 1988. The minutes of the sitting form Part II* of the Report.

8. A statement containing conclusions and recommendations of the Committee is appended to the Report (Appendix VI). For facility of reference these have been printed in thick type in the body of the Report.

9. The Committee place on record their appreciation of the assistance rendered to them in the examination of these Paragraphs by the Office of the Comptroller and Auditor General of India.

10. The Committee would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) for the Cooperation extended by them in giving information to the Committee.

NEW DELHI;
March 16, 1988

Phalguna 26, 1909 (Saka)

AMAL DATTA,
Chairman,
Public Accounts Committee.

CHAPTER I

FUNCTIONING OF VALUATION CELLS

Organisation and functions

Valuation Cell is an expert body set up in the Income-tax Department in October, 1968 and is manned by Engineers drawn from the Central Public Works Department. Its main objective is to assist the assessing officers in the matter of valuation of assets such as land, buildings etc. referred to it for the purpose of determining the tax liability of the assessee under the various direct tax laws. The entire country is covered by two regions with head-quarters respectively at Delhi (Northern Region) and Madras (Southern Region) each under the supervision of a Chief Engineer known as Regional Valuation Officer for the purpose of dealing with valuation cases. The Regional Valuation Officers are assisted by District Valuation Officers, Valuation Officers and Assistant Valuation Officers who are respectively of the ranks of Superintending Engineer, Executive Engineer and Assistant Engineer. The respective jurisdiction of these officers as laid down in rule 3A of the Wealth-tax Rules, 1957 is as follows :

District Valuation Officer	—Value of assets declared in the return exceeding Rs. 10 lakhs.
Valuation Officer	—Value of assets exceeding Rs. 2 lakhs but not exceeding Rs. 10 lakhs
Assistant Valuation Officer	—Value of assets not exceeding Rs. 2 lakhs

1.2 Valuation Cell is required to handle the following references made by the assessing officers under the various direct tax laws :

- (a) Reference under Section 16 A of the Wealth Tax Act, 1957 for determining the fair market value of immovable properties on the valuation date;
- (b) Reference under Section 15 (6) of the Gift Tax Act, 1958 for determining the fair market value of assets on the date of gift.
- (c) Reference under Section 55 A of the Income-tax Act, 1961 for ascertaining the fair market value of capital assets for the purpose of computing capital gains.

- (d) Reference under Section 269 L of the Income-tax Act, 1961 for the purposes of determining whether the property in question is fit for acquisition.
- (e) Advisory reference for determining the cost of construction of asset for Income-tax purposes or for cases relating to Estate Duty.
- (f) Reference for appearance before the Appellate authorities in cases where the assessee goes in appeal on the ground of valuation before the Appellate Authority such as AAC/CIT (A) Income-tax Appellate Tribunal.

1.3 Rule 3 B of the Wealth tax Rules 1957, Rule 11A of the Gift tax Rules, 1958 and Rule 111 AA of Income tax Rules, 1962 prescribe the margin of difference between the value returned and the fair market value for the purpose of making references under Section 16A of the Wealth-tax Act, 1957. Section 15 (6) of the Gift tax Act, 1958 and Section 55 A of the Income-tax Act, 1961, respectively. While reference to Valuation Cell under 3 B of the Wealth tax Rules, 1957 and Rule 11 A of the Gift tax Rules, 1958 lie if, in the opinion of the assessing officers, the fair market value of the property exceeds the returned value thereof more than 33 1/3 per cent or by Rs. 50,000 whichever is less, the reference under Rule 111 AA of the Income tax Rules, 1962 would lie if the fair market value of the asset exceeds the returned value thereof by more than 15 per cent or by more than Rs. 25,000, whichever is less. The reference under Section 269 L of the Income tax Act would lie if the competent authority has reason to believe that fair market value of immovable property (i) exceeds Rs. 1 lakh and (ii) exceeds the apparent consideration therefor by more than 15 per cent of such apparent consideration.

1.4 The Public Accounts Committee had in their earlier Reports* examined the functioning of the Valuation Cells and made a number of recommendations for streamlining their working so that these Cells might serve as an effective instrument of detecting avoidance of taxes through the practice of under-statement of value of immovable properties. The present enquiry is based on Paragraph 1.15** of the Report of the C&AG of India for the year 1985-86, Union Government (Civil), Revenue Receipts Vol. II-Direct taxes. The audit paragraph indicates that in spite of the recommendations made by the Public Accounts Committee and the instructions issued from time to time by the Department of Revenue the overall working of the valuation cell has not shown any marked improvement and irregularities and omissions pointed out earlier still continue to occur. In the following paragraphs the Committee make their appraisal of the functioning of the Valuation Cells.

*7th Report (6th Lok Sabha), 101st and 181st Report (7th Lok Sabha)

**Appendix-I

Cases pending disposal

1.5 In Seventh Report@ (6th Lok Sabha) the Public Accounts Committee had recommended that priority for disposal of valuation be given to cases expected to yield higher revenue and time limit fixed for completion of valuation reports to enable the assessing officers to finalise the assessments expeditiously. In pursuance of that recommendation the Central Board of Direct Taxes directed the Chief Engineers, Valuation Cells that in the following categories of cases, the valuation reports should be furnished on priority basis :

With reference to time

- (1) Cases when time-bar for completion of assessment exists;
- (2) Cases when requisitioning authority has asked for giving priority;
- (3) Cases more than 12 months old.

With reference to value

Cases when declared value is Rs. 10 lakhs and above.

1.6 The Board had also on the basis of a broad based time linked general appraisal made in 1974-76, accepted a yardstick of about 120 cases per officer per annum of which wealth tax cases would constitute about 60 cases per officer per annum. The normal time-frame for issue of order under Section 16 A (5) of the Wealth Tax Act, 1957, was 6 to 8 months and for Income Tax references about 4-6 months subject to active cooperation of the assessee in the submission of basic records and plans etc. and arranging site inspection and his prompt objection to the provisional valuation orders.

1.7 Although, according to the Ministry of Finance, the quota fixed for disposal of valuation cases has been largely achieved yet the pendency of cases is still very high. The figures furnished by the Ministry show that the average pendency of valuation cases during the period from 1982-83 to 1986-87, was 7495 cases at the end of each year which works out to 25.8% of yearly average of 29000 cases. The value wise and age-wise figures of pending cases furnished by the Ministry in respect of Northern Region are as follows :

	As on 31-3-1986	As on 31-3-1987
Cases involving value below Rs. 5 lakhs	3199	1223
Cases involving value exceeding Rs. 5 lakhs and below Rs. 10 lakhs	1194	837
High value cases above Rs. 10 lakhs	361	458
Cases pending for more than a year	341	462

The number of outstanding cases for the country as on 31-3-1986 and 31-3-87 was 9683 and 6107 respectively.

@Vide Paragraphs 2.46 and 2.47

1.8 The Committee desire that expeditious steps should be taken to clear all pending cases giving priority to cases outstanding for more than a year and cases above Rs. 10 lakhs. It is imperative that progress in the clearance of outstanding cases is closely monitored and constant watch kept on their clearance.

1.9 Recently, the CBDT in October, 1987 approved the proposal for enhancement of monetary limit of the jurisdiction of District Valuation Officer, Valuation Officer and Assistant Valuation Officer as well as their quota for disposal of cases as detailed below :—

	Jurisdiction	Quota for disposal
District Valuation Officer	Value of assets declared exceeding Rs. 20 lakhs	90 cases per Officer
Valuation Officer	Value of assets declared exceeding Rs. 5 lakhs and not exceeding Rs. 20 lakhs	180 cases per Officer
Assistant Valuation Officer	Value of assets not exceeding Rs. 5 lakhs	180 cases per Officer

1.10 The Committee hope that these norms would be strictly observed by the concerned Officers in the interest of expeditious disposal of valuation cases and they would like to be apprised of the results achieved in this direction. They would also like the Ministry to review the position of pendency of cases with the District Valuation Officers, Valuation Officers and Assistant Valuation Officers from time to time to ensure equitable distribution of work.

1.11 The valuation of Immovable property wholly or mainly used for residential purposes is determined on the basis of arithmetical formula prescribed under Rule 1BB of the Wealth Tax Rules, 1957. There is however, no corresponding formula for the valuation of commercial properties. The Ministry of Finance (Deptt. of Revenue) informed the Committee that they were considering framing of rules for commercial properties on the lines of the procedure laid down in Rule 1BB. With the framing of these rules the procedure for valuation of commercial properties would be codified and there will be less scope for arbitrariness and discretion in the hands of assessing officers in valuing such properties. This will also reduce the pressure of work on the Valuation Cell. The Committee desire the Ministry to expedite framing of the rules for valuation of commercial properties.

Need for analysing cases decided by Appellate Authorities

1.12 In pursuance of a recommendation made by the Public Accounts Committee in their Seventh Report* (Sixth Lok Sabha) the Directorate of Inspection (RS&P), Ministry of Finance undertook a limited study, in 1981-82 on the efficacy, usefulness and impact of the Valuation Cell on tax evasion. That study, according to the Department of Revenue, established that the Valuation Cell was cost effective and net gain revenue was more than the expenditure incurred for its maintenance and that the Valuation Cell served as both deterrent to the escapment of revenue and as an instrument of pre-assessment control by the assessing authority. In support of their claim, the Ministry have supplied the following information :

Year	Opening balance of cases	No. of cases received	No. of cases disposed of	Value declared by the assessee	Value assessed by Valuation Cell	Difference
(Rupees in crores)						
1982-83	7505	21158	22335	313	666	353
1983-84	6328	25655	23338	349	717	368
1984-85	8644	20280	22369	404	799	395
1985-86	6712	23019	20048	456	955	499
1986-87	9683	16018	19593	739	1590	851
		1,06,130	1,07,683	2261	4727	2466

The above figures show that the difference between the returned value and the value determined by the Valuation Cell was more than 100 per cent.

1.13 The Ministry of Finance (Deptt. of Revenue) who were asked to intimate the number of cases in which the value determined by the Valuation Cell was modified in appeals, gave a very surprising reply that 'compilation of this information would require tremendous amount of exercise involving a lot of time and man-power and it is realised that the results may not be commensurate with the efforts put in'. The information which the Committee had sought was the basic information for drawing some definite conclusion as to the competence, credibility and effectiveness of the Valuation Cell. In the absence of this information it is not possible for the Committee to draw any definite conclusion about the additional revenue earned by the Department consequent upon the assessment of value by Valuration Cell. The Committee is astonished that necessity of collecting and keeping this information has not occurred to the Ministry so long.

*Vide Para 2.42

1.14 The test check* conducted by Audit revealed that in 37 cases in Kerala, Delhi, Madhya Pradesh and Assam and in 27 cases in Tamil Nadu and Uttar Pradesh the value determined by Valuation Cell was reduced in appeal. Asked to offer comments on the above findings, the Deptt. of Revenue without examining the cases referred to in the audit para, quoted in their reply an action taken reply given to an earlier recommendation (Para 3.70) contained in 101st Report (Seventh Lok Sabha) of Public Accounts Committee justifying that valuation determined by Valuation Cell was accepted in large number of cases and appeals were preferred only in an insignificant number of cases. A reference to the recommendations made in Paragraphs** 3.69 and 3.70 of the 101st Report (Seventh Lok Sabha) of the Committee indicate that the figures on which the Committee had based their observations/recommendations, pertained to the year 1974-75 which are not at all relevant or even remotely connected with the present situation.

1.15 The Government have also not been able to collect information regarding the total number of cases in which the assessee preferred appeals against valuation and the number of cases in which the valuation was upheld, and the number in which valuation was reduced or deleted. The Committee deprecate the failure of the Ministry in giving the requisite information so vital for the proper evaluation of the effectiveness of the Valuation Cell. The Audit has also pointed out that copies of appellate decisions were not made available to the Valuation Officers with the result that the Valuation Officers are denied the opportunity of updating their knowledge. The Registers of Appeals maintained by the Valuation Officers did not bear entries about the outcome of appeals in valuation cases owing to failures on the part of Income tax Officers to furnish the requisite information or to obtain copies of appellate decisions by the Valuation Officer thus defeating the very purpose for which these Registers were maintained. During evidence, the Secretary (Revenue) agreed that there was need to cull out major points in respect of valuations rejected by the Appellate authorities for the guidance of the Valuation Officers. The Committee conclude that there is no systematic appraisal of the management control and evaluation process of the Valuation Cell and it is not possible to exactly assess its overall performance in assisting the assessing officers in the matter of valuation of assets such as lands, buildings etc. referred to it for the purpose of determining the tax liability of the assessee under the Direct tax Laws. It is imperative that all cases in which the valuation is reduced in appeal are analysed critically so that not only such errors in their working are avoided in future but are also made known to the Valuation Officers throughout the country to enable them to avoid incorrect

*Sub-P. ra 1.15.09 of Audit para

**Reproduced at Appendix—II

valuation methods in similar cases. The Committee feel that a systematic study of such cases should be conducted once in six months and the results of such study should also be made known to the concerned officers as a part of their regular training. There should be an effective system for feedback of information regarding results of appeals in which valuation was disputed for guidance of valuation officers.

Review of Valuation Cell

1.16 In reply to a question whether any review of the Valuation Cell has been conducted to see if the objectives for which it was created have been achieved, the Committee were informed that it has not been done so far. The Chairman, Central Board of Direct Taxes while dis-favouring such a review, expressed the view that the Valuation Cell was not meant to be a revenue raising mechanism and it had been created to do justice both to the tax payer as well as the Board. Audit has pointed out certain deficiencies and weaknesses in the functioning of the Valuation Cell and some of these audit findings have already been accepted by the Ministry. Seeing the persistence of the same types of omissions and deficiencies as were pointed out by the Committee in an earlier report*, the Committee are convinced that the functioning of the Valuation Cell needs to be reviewed thoroughly so as to remedy the weaknesses, and deficiencies in the Cell. On an enquiry made by the Committee, the Secretary (Revenue) agreed during evidence that the Ministry would have the study/review conducted by the National Institute of Public Finance and Policy. The Committee desire that necessary action to commission such study may be taken without any loss of time. The Committee would also like to be apprised of the results of the study/review so made.

Common Principle for valuation of Properties under Direct Tax Laws

1.17 The valuation of property is based on its market value on the valuation date. Under the Wealth Tax Act, certain rules for valuation of assets have been laid down for the purpose of levy of Wealth tax. No corresponding rules exist for either gift tax or Estate Duty purposes.

The Ministry of Finance on being asked as to the desirability of having one valuation for all the Direct tax laws, intimated that it was not possible to have one valuation which should be acceptable for all the Acts because the objectives of various Acts are different, the date on which assets are to be valued may be different under different Acts and an assessable entity may be different under different Acts.

1.18 The Committee feel that even if the objectives of various Acts and the valuation dates are different, the 'market value' of the same property should not vary thereunder. Different modes of valuation lead to confusion, harassment and unnecessary litigation. The

*101st Report (7th Lok Sabha)—Paragraph 3.78

Committee desire that the matter may be examined again with a view to bringing about uniform procedure of valuation of properties under all the Direct tax Acts.

Setting up of Valuation Authority

1.19 In the background of importance of valuation of properties both under Central direct tax laws and State tax laws, and multitude of legal provisions, modes of valuation, valuation authorities etc., the Public Accounts Committee in para 3.79 of 101st Report (7th Lok Sabha) recommended that the Government of India should in consultation with the State Governments arrive at a common principle of valuation for all property taxes in the country and set up an autonomous valuation authority free from departmental influences which should, applying this common principle of valuation, determine objectively the values of all real properties at least in the urban centres in the country. The Committee reiterated the recommendation in para 4.26 of their 211th Report and para 1.16 of the 181st Report (7th Lok Sabha). The Estimates Committee (Seventh Lok Sabha) had also favoured the setting up of one independent institution of valuers who should be qualified experts in the field but should not be under the operational control of the Income tax Department.

1.20 The question of setting up of an independent agency for valuation also came up before the Economic Administration Reforms Commission (1981—83).^{*} That Commission while recommending setting up of a Valuation Tribunal to be presided over by a High Court Judge and assisted by two experts, enumerated the merits thereof as follows :

- (a) It provides for a body of experts to settle valuation of properties on a uniform basis throughout the country.
- (b) It reduces the scope for litigation by making the decisions of the proposed Tribunal final.
- (c) Being a high-powered body, the Tribunal will inspire confidence in both the Tax Department and the tax payers.

1.21 The Ministry of Finance (Deptt. of Revenue) have not accepted the recommendations made by the Committee and the Economic Administration Reforms Commission on the setting up of a Valuation Authority or Valuation Tribunal. According to the Ministry, these recommendations were referred to the Ministry of Law, who in turn consulted the President of Income Tax Appellate Tribunal in the matter. The President, ITAT did not favour any change in the existing system and the Ministry of Law also had certain reservations about the repercussions of the proposal on the working of other Tribunals and authorities dealing with valuation of properties such as the Appellate Tribunal for Forfeited Property under

^{*}Vide EARC Report Nos. 7 and 22.

the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976. From the information supplied by the Ministry of Finance (Deptt. of Revenue) the Committee find no evidence of the recommendations of the Commission or the Committee having been dealt with conclusively. Neither the Ministry have gone into the question of repercussions of the proposal on the working of other Tribunals as raised by the Law Ministry nor have they consulted the State Governments.

1.22 The Committee are of the opinion that the setting up of an autonomous valuation authority free from departmental or extraneous influences and based on a system of a common principle of valuation for all property taxes with a common implementation machinery would impart efficiency and impartiality to the valuation work and would also go a long way in reducing the hardships caused to the tax payers. The Committee accordingly urge the Government to reconsider the issue in the light of the opinion of the Law Ministry and also in consultation with the State Governments.

Valuation of Salt Pans

1.23 During the course of audit scrutiny, the audit noticed* disparity in valuation of salt pans in the same ward. In the case of one assessee the salt pans were valued at Rs. 200 per pan while in the case of another assessee these were valued at Rs. 500 per pan in the same Ward. On this disparity being pointed out, the Income tax Officer approached the concerned Valuation Officers who refused to value the salt pans as being outside their scope. On an enquiry, the Ministry of Finance intimated that the Chief Engineer (Valuation), Madras had expressed his inability to value salt pans since according to him valuation of salt pans was not within his jurisdiction and that he had no expertise for valuation of salt pans. The Ministry also informed the Committee that the Commissioner of Income tax, Pune had reported that the audit objection had been withdrawn. However, during evidence, the Committee were given to understand by audit that the audit objection had not been withdrawn as informed by the Ministry.

1.24 The Committee would like to be apprised of the correct position in this regard. Even if the audit objection had been dropped, the fact remains that there are no guidelines for valuation of salt pans which very much fall within the definition of immovable properties. The situation created by the refusal of the Chief Engineer (Valuation) needs to be rectified. The Committee, therefore, recommend that some standard method should be evolved to ensure uniformity in the valuation of salt pans.

*Vide Sub-para 1-15-15 of the Audit Para.

Survey Operations

1.25 The Economic Administration Reforms Commission (1981-83) in its Report¹ favoured a systematic and intensive survey of newly developing business and industries to identify new assesseees and to detect concealment of income in existing cases. The Public Accounts Committee also in their various Reports² emphasised the need for strengthening the machinery for collecting relevant information from various sources with a view to detecting evasion of tax.

1.26 The Committee have been informed that after the coming into force of new Section 133B of Income Tax Act, 1961 and the Cabinet's approval for strengthening the investigation machinery of the Department, a regular machinery was set up with augmented strength of officers and staff which started working from the end of 1986. The results of surveys conducted during the years 1984-85, 1985-86 and 1986-87 are as follows :

Year	No. of premises surveyed	No. of new assesseees added
1984-85	1,80,693	1,41,617
1985-86	1,65,911	1,05,688
1986-87	2,30,410	6,55,563

1.27 Surveys broadly fall in the following categories :

- (a) *Door to Door Survey* : This type of survey requires visits to new commercial complexes, new industrial estates, new construction of buildings particularly multi-storeyed buildings and godown areas in metropolitan cities. This type of survey was given statutory backing through the provisions of Section 133B introduced by the Finance Act, 1986 in the Income Tax Act, 1961. Under this provision information about persons in an area or locality is collected in a prescribed form by moving from one commercial premises to another.
- (b) *Specific Surveys* : Specific Surveys of business premises are carried out under section 133A(i) which empower the Income tax authorities to inspect books of accounts, verify cash and stock and collect such information as may be required for any proceedings under the Income-tax Act.
- (c) *Surveys for Checking Ostentatious Expenditure* : Section 133-A(5) empowers collecting of information regarding the nature and scale of expenditure incurred by an assessee in

1. ERAC Report No. 26 (30-6-1983).

2. 117th Report (4th Lok Sabha) Para 1-11, 101st Report (7th Lok Sabha) Paras 3-103-3-105 and 181st Report (7th Lok Sabha) Para 1-21.

connection with functions, ceremonies and events like marriages, birth days, anniversaries etc.

- (d) *Collection of information from internal and external sources :* Central information branches are required to carry out this most important function of collecting information from different sources like Registrar of Companies, travel agents, Registrar of properties, Department of Industries, etc., and verifying the same from the concerned persons with a view to finding out whether the requisite income, investment/expenditure stands reflected from the point of view of levy of direct taxes or not.

1.28 For regulating and streamlining the carrying out of the survey operations, the Ministry of Finance (Deptt. of Revenue) formulated a long term action plan for the period 1-4-82 to 31-3-86. From the financial year 1986-87 it was decided that the action plan for survey would aim at widening the tax base by bringing a very substantial number of new assesseees on record. Keeping this objective in view, it was decided to draw up a short term action plan for the year 1986-87 and a long term plan for the period ending 31-3-1990.

1.29 Income tax assesseees are not only very large in number but are also located through-out the length and breadth of the country. The Income-tax Department have done a commendable job by discovering and adding a record 6.56 lakh new assesseees in the year 1986-87 to their tax records through survey operations. The Committee, however, feel that there are still a considerable number of people or class of people like professionals and small businessmen/traders/shopkeepers etc. who in spite of earning income which may be liable to be taxed, are not assessed to Income tax. Since the surveys carried out by the Income Tax Department have resulted in addition of assesseees, the Committee feel that it would be worthwhile to intensify the tempo of surveys by further strengthening the investigating machinery of the Income Tax Department so that persons who have taxable income are actually taxed. This will result in recurring addition to revenues of the Government. This area or class of people, therefore, deserves special attention of the Department. The Committee desire that the Ministry should devise some suitable ways and means of bringing these people to their tax net by intensification of surveys and taking other appropriate measures.

Delay in furnishing comments on audit paragraphs

1.30 From the Report of the C&AG of India for the year 1985-86 pertaining to Direct Taxes, the Committee find that there are a large number of audit paragraphs in respect of which the comments of the 2-9591.SS/87

Ministry of Finance are stated to be awaited. One of these paragraphs is the para under examination in the case of which it has been stated that "the review was sent to the Ministry of Finance in October 1986; their comments are awaited (December, 1986)". On an enquiry in this regard, the Ministry of Finance (Department of Revenue) informed that since this was an omnibus para the examination took sometime.

1.31 The Committee note that the audit paragraph under reference contains quite a large number of individual cases and others in which the audit found certain irregularities and deficiencies. The Ministry of Finance (Department of Revenue), at the instance of the Committee, have now furnished the factual position in respect of a number of cases which is at variance with that indicated in the audit paragraph* in some cases. Had these facts been brought to the notice of audit before inclusion of the cases in the Audit Report, much of the time of the audit and the Committee would have been saved. Besides, the delay in settling the issues raised in audit might lead to such situations where the department is disabled to initiate departmental action against the erring officials on account of their having retired or left the service. The Committee, therefore, desire that the audit objections/comments should be attended to promptly by the concerned Departments/Ministry and the replies furnished to audit within the prescribed time-frame so that timely corrective action is taken on the issues raised in audit and only those objections which are valid are included in the Audit Report.

*Sub-para 1.15.08, 1.15.10, 1.15.11 and 1.15.13 of Audit para.

CHAPTER II

VALUATION OF IMMOVABLE PROPERTY—AGRICULTURAL LANDS COMPRISED IN COFFEE PLANTATIONS

2.1 Paragraph 4.05A(i)(a) to (e) of the Report of the Comptroller and Auditor General of India for the year 1985-86, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes, has brought out instances of under assessment due to under-valuation of agricultural lands comprised in coffee plantations and other irregularities as noticed by the audit during the course of their study Appendix III.

2.2 Prior to the amendment made by the Finance Act 1969 agricultural wealth was wholly exempt from wealth tax. The Finance Act 1969 extended the levy of wealth tax to the value of agricultural property with effect from assessment year 1970-71. The Finance (No. 2) Act 1980 excluded from the purview of Wealth tax the value of agricultural property other than value of agricultural land comprised in tea, coffee, rubber or cardamom plantations.

In relation to assessment year commencing on 1-4-1983 or any other subsequent year, agricultural land and growing crops (including fruits on trees), grass or standing trees on such land, stand excluded from the purview of Wealth tax under the provisions of Section 2(e)(2)(ia) of the Wealth tax Act, 1957.

No rules were framed for valuation of such lands, during the period the agricultural lands were within the purview of Wealth tax.

2.3 The Committee regret to say that although the provisions regarding taxation of agricultural lands comprised in the specified plantations remained on the statute book for over a decade yet the Central Board of Direct Taxes knowing fully well that valuation of these lands in particular for wealth tax purposes was a complex subject, did not frame any rules or guidelines for being followed by the assessing officers for valuation of these lands. Ironically, in 1982, while the tax provisions in regard to agricultural lands and growing crops were withdrawn from the statute book through the Finance Act, 1982, the Central Board of Direct Taxes became alive to the need for issue of guidelines* for valuation of these lands with a view to speeding up the disposal of pending assessments involving valuation. The magnitude of pendency of assessments can be gauged from the fact that as on 28 Feb. 1982, the pendency of assessments in respect of Karnataka Coffee Plantations alone was nearly 40,000. This figure

*Circular No. 326 dated 6 February, 1982—Vide Appendix-IV.

would certainly have been much more in respect of all types of plantations (tea, coffee, rubber and cardamom) all over the country. Had the guidelines for valuation been issued earlier, the pendency would surely have been very low.

2.4 The Committee regret to observe that the CBDT who is administratively responsible for implementing the provisions of the Direct Taxes laws failed in its duty by not framing requisite rules within reasonable time after the enactment of law, to ensure its proper implementation. The Committee need hardly emphasise that implementation of the provisions of law should be closely watched and rules regulating them framed with precision and due promptitude.

2.5 Another disturbing feature which the Committee have noticed is the discriminatory application of guidelines issued by CBDT. In May 1983, the Board issued another circular (No. 357)* laying down separate guidelines for agricultural lands comprised in coffee plantations located in Karnataka only. According to this circular the rates ranging from Rs. 5,000 to Rs. 15,000 per acre in accordance with the average yield per acre were considered reasonable for valuation of plantation lands covered by plants which had started yielding.

2.6 It was pointed out in the Audit Report that the adoption of guidelines laid down by the Central Board of Direct Taxes for coffee plantations in Karnataka alone led to under-assessments in a number of cases resulting in substantial loss of revenue. Asked to comment on the audit findings, the Ministry of Finance (Deptt. of Revenue) informed that 'it is not always that such measures (issue of guidelines) are in the best interest of revenue'. Clearly, the Karnataka coffee plantations were given concessional treatment over all other plantations including Coffee Plantations in other States.

2.7 During evidence, on an enquiry as to why the concessional treatment was extended only to coffee plantations in Karnataka, the Member, CBDT stated: "Basically, somehow or the other, the only trouble which arose was from Karnataka and they represented". He also informed that the then Member incharge of Wealth tax had gone to Karnataka and it was found that the problems could be solved if the pending assessment were finalised with the help of a standard method of valuation. This led to issue of circular (No. 357 dated 12 May 1983). In reply to a question, the Ministry of Finance (Deptt. of Revenue) informed that keeping in view various practical difficulties in implementing the earlier circular (No. 326 dated 6 February 1982) in Karnataka Charges, further circular was issued for valuation of lands comprised in coffee plantations in Karnataka.

*Appendix-V.

2.8 It is disquieting to find that the clarification contained in Circular issued in 1983 was made applicable only to coffee plantations and that too in Karnataka alone. This only indicates that the matter was not given the serious attention it deserved. The Committee deprecate the lackadaisical approach of the Government in an issue so vital for raising revenues. The provisions of a Central Law are applicable to the whole of the country and therefore there should not be any justification whatsoever for the guidelines issued thereunder being made applicable to certain limited area/areas to the disadvantage or advantage of others. While deprecating the manner in which the whole issue was handled, the Committee only hope that the Government would not resort to such a discriminatory practice in future which can give rise to justified criticism apart from being illegal.

NEW DELHI;
16th March, 1988
26 Phalgun, 1909 (S)

AMAL DATTA,
Chairman,
Public Accounts Committee.

APPENDIX I

(Vide Para 1.4 of the Report)

Extracts of Para 1.15 of the Report of the C&AG of India for the year 1985-86, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes

1.15 Functioning of Valuation Cells :

1.15.01 The Central Government established in October, 1966, a Departmental Valuation Cell manned by Engineering Officers taken on deputation from the Central Public Works Department to assist the assessing officers and various direct tax laws. Certain details about the functioning of the Valuation Units under the Cell are given in the following subparagraphs :

(i) No. of Valuation Units/District

Year	No. of Valuation V.O.	Units A.V.O.	No. of Valuation Districts
1981-82	79	78	11
1982-83	79	78	11
1983-84	79	78	11
1984-85	79	78	11
1985-86	78	77	12

(ii) No. of cases referred to Valuation Cells, disposed of and pending at the end of the each of three years ending 1985-86 :

	Year	For disposal at the beginning of the year	No. of cases referred during the year	Disposed of during the year	Pending at the end of the year
(a) Income tax	1983-84	1,769*	12,805	11,446	3,128
	1984-85	3,128	10,228	10,634	2,722
	1985-86	2,722	12,490	10,599	4,613
(b) Wealth tax	1983-84	4,492*	11,925	11,157	5,260
	1984-85	5,260	9,355	10,976	3,639
	1985-86	3,639	9,851	8,620	4,870
(c) Gift tax	1983-84	33*	134	87	80
	1984-85	80	133	168	45
	1985-86	45	134	123	56
(d) Estate Duty	1983-84	186*	541	437	290
	1984-85	290	327	417	200
	1985-86	200	178	282	96

*Figures are under reconciliation by the Ministry of Finance.

Law and Procedure

1.15.02 Pursuant to the recommendations of the Public Accounts Committee, the Central Government set up a Valuation Cell in the Income-tax Department in October 1968, which is manned by qualified engineers of the Central Public Works Department. The main objective of the Departmental Valuation Cell is to aid and assist the assessing officers in the correct determination of the fair market value of assets for the purpose of the different incidence of direct taxes and to prevent the large scale avoidance of taxes by understatement of the values by assessees on the basis of the certificates of registered valuers. The Valuation Cell is assigned the work of valuation of immovable properties such as land, buildings, etc., referred to it under the Tax laws.

With the amendments of the Direct Taxes Acts, Valuation Cells were created in the Income-tax Department and specific provisions for statutory reference of the valuation of properties to the Valuation Cell, if the assessing officer was of the opinion that the values returned are understated by assessees, were inserted.

Under the Income-tax Act, a reference to the Valuation Cell lies—

- (a) for ascertaining the fair market value of capital assets for the purpose of computing capital gains;
- (b) for the purpose of estimating the cost of construction of capital assets;
- (c) for the purpose of initiating acquisition proceedings in respect of immovable properties and estimating the amount of compensation payable;
- (d) for the purpose of estimating the reserve price of properties attached towards recovery of tax arrears.

For the purpose of Wealth-tax, Gift-tax and Estate-duty the references are made for the following :

- (i) to determine the fair market value of immovable properties on the valuation date;
- (ii) to determine the fair market value of assets on the date of gift;
- (iii) to determine the fair market value of immovable properties held by the deceased at the time of his death.

The Reserve Bank of India may also refer cases of valuation of immovable properties held by non-residents under the provisions of the Foreign Exchange Regulation Act.

The Central Board of Direct Taxes exercises overall control of the Departmental Valuation Cell. The Departmental Valuation Cell, however,

functions under the directions of the Chief Engineers at New Delhi and Madras, designated as Regional Valuation Officers. They are assisted by District Valuation Officers, Valuation Officers and Assistant Valuation Officers in the corresponding ranks of Superintending Engineers, Executive Engineers and Assistant Engineers of the Central Public Works Department. They have assigned jurisdiction with reference to varying monetary values of the property.

District Valuation Officer	—Value of assets declared in the return exceeding Rs. 10 lakhs.
Valuation Officer	—Value of assets declared exceeding Rs. 2 lakhs but not exceeding Rs. 10 lakhs.
Assistant Valuation Officer	—Value of assets not exceeding Rs. 2 lakhs.

In July 1969, the Central Board of Direct Taxes instructed the assessing officers that the value once determined for an assessment year should ordinarily be left undisturbed for another two years but should be re-assessed after two years. These instructions were withdrawn in July 1970 in view of the statutory provisions introduced in the Acts.

1.15.03 *Recommendations of the Public Accounts Committee*

In their 181st Report, the Public Accounts Committee emphasising the need to bring out better regulation and discipline over non-official valuers observed that so long as the avowed objectives for which the valuation cells are set-up namely, that of preventing large scale avoidance of taxes by understatement of the returned value of assets and making investment of unaccounted money in real estates unprofitable and unattractive, are not achieved, the need for such as organisation remained and expected the Ministry of Finance to keep a close watch over their functioning. On the delay in the disposal of cases referred to the Valuation Cell being attributed to the non-furnishing of the valuation reports by the registered valuers in the prescribed form with all the required information, the Committee wanted the Ministry to be informed of the precise steps undertaken to improve the working of the institution of registered valuers and to ensure that the valuation reports are furnished by the registered valuers in the prescribed form.

The valuation of properties is important not only for the purpose of wealth-tax but also for other direct taxes. The provisions of various laws governing valuation are, however, not identical though the principles of valuation and the instructions under the tax laws happen to be the same.

In their 181st Report the Public Accounts Committee found that :

- (i) reference on questions of valuation were not made to the valuation cell in all cases required to be made.
- (ii) Valuation given by the valuation cells were not adopted in the assessments despite specific provisions in the tax laws making such valuation binding on tax authorities.

- (iii) The time taken by valuation cells to give valuation reports was far too long.
- (iv) The number of cases pending remained very high.
- (v) In a large number of cases, the valuations given by valuation cells did not stand the test of appeal.

Noticing the large pendency in the cases and the time lag in completing the valuation, the Committee suggested a Works and Method Study into the functioning of the Valuation Cell and necessary action to streamline the system. In February 1983, the Ministry of Finance accordingly emphasised upon the Valuation Cells the need for expeditious disposal of cases for valuation and to keep the level of pendency to the minimum necessary, at the same time asking the valuation cells to review all the cases pending for over six months and to send lists of the cases over one year old.

1.15.04 Review

A review of the functioning of the Departmental Valuation Cell, particularly in the context of the observations and recommendations of the Public Accounts Committee, was conducted during the year 1985-86. The results of the review are summarised in the following paragraphs :

A. No. of cases awaiting disposal

(i) The number of cases referred to the departmental Valuation Cells, the number of disposed of and the number of pending for disposal during the five years 1981-82 to 1985-86 are given below :

Year	Opening balance	No. of cases referred to the valuation cell	Total	No. of cases disposed of by the cell	No. of cases pending valuation	Percentage to total
1981-82	8,379	29,278	37,657	28,854	9,243*	24.5
1982-83	9,243	25,402	34,645	27,163	7,482	20.5
1983-84	7,482	30,334	37,816	27,183	10,633	28.1
1984-85	10,633	23,011	33,644	25,475	8,169	24.2
1985-86	8,169	27,681	35,850	23,295	12,555	35

The number of cases referred to the Valuation Cell every year was approximately 27,000 on an average. The number of cases pending for disposal had gone up over the years and at the end of 1985-86, the pendency was 12,555 cases, a record 35 per cent. The cases were pending

*Does not include Karnataka Figures for want of records.

from 6 to 36 months (3 years) and in respect of 10 States, the value of the 7,006 properties pending for disposal amounted to Rs. 137.15 crores.

The average disposals during the five years was 72 per cent and the time taken for disposal of a case varied from 3 months to 41 months (nearly 3½ years). Time barring cases and cases connected with recovery proceedings were given priority in disposal over other cases, which were taken up in order generally of the date of reference. Cases of high value involving large revenue were, however, not afforded any priority. The under valuation in the cases disposed of ranged from 1 per cent upto 728 per cent of the declared values.

(ii) At the end of March 1986, there were 12,555 cases of valuation pending with the Departmental Valuation Cells. The period of pendency of these cases are as given below :—

No. of cases pending	Total	Percentage to Total
For less than 6 months	10,474	83
For over 6 months but less than 12 months	1,491	12
For over 12 months	590	5

The State-wise particulars of the number of cases referred to the Valuation Cell, the number disposed of and the number pending are as given below :—

DETAILS OF CASES REFERRED TO VALUATION CELL

State	1982-82				1982-83				1983-84			
	Open- ing Balance	Re- ceipts	Dis- posals	Clos- ing Balance	Open- ing Balance	Re- ceipts	Dis- posal	Clos- ing Balance	Open- ing Balance	Re- ceipts	Dis- posal	Clos- ing Balance
1	2	3	4	5	6	7	8	9	10	11	12	13
Tamil Nadu	2667	9274	8772	3169	3169	7210	7839	2540	2540	8948	7661	3827
New Delhi	348	1575	1585	338	338	1620	1675	283	283	1688	1633	338
Madhya Pradesh	327	1865	1757	435	435	1509	1618	326	326	2428	2061	693
Orissa	21	274	275	20	20	135	127	28	28	204	193	39
Assam	326	156	426	56	56	196	74	178	178	186	275	89
Karnataka	*	*	*	440	440	965	1147	258	258	1457	1223	492
Bihar	116	463	514	65	65	735	400	400	400	585	655	330
Uttar Pradesh	562	1715	1911	366	366	1465	1214	617	617	1103	1355	365
Gujarat	972	1996	2159	809	809	1686	1997	498	498	2702	2391	809
Punjab	771	2855	2984	642	642	2635	772	505	505	2785	2578	712
Maharashtra	573	3596	3156	1013	1013	2783	3083	713	713	3553	3114	1152
Haryana	80	293	308	65	65	180	244	1	1	382	268	115
Andhra Pradesh	599	2168	2026	741	741	1781	2051	471	471	1890	1533	828
Kerala	142	680	577	245	245	560	707	98	98	432	331	199
Rajasthan	415	1403	1431	387	387	1031	1256	162	162	1016	794	384
Jammu & Kashmir	—	—	—	—	—	—	—	—	—	—	—	—
West Bengal	460	965	973	452	452	911	959	404	404	975	1118	261
Himachal Pradesh	—	—	—	—	—	—	—	—	—	—	—	—
Total	8379	29278	28854	9243	9243	25402	27163	7482	7482	30334	27183	10633

* Figures not available.

DETAILS OF CASES REFERRED TO VALUATION CELL

State	1984-85				1985-86			
	Opening Balance	Receipts	Disposal	Closing Balance	Opening Balance	Receipts	Disposal	Closing Balance
1	2	3	4	5	6	7	8	9
Tamil Nadu	3827	6502	7721	2608	2608	9460	7456	4612
New Delhi	338	1299	1285	352	352	1359	1150	561
Madhya Pradesh	693	1744	2150	287	287	1020	996	311
	39	364	168	235	235	310	271	274
Assam	89	194	95	188	188	343	350	181
Karnataka	492	867	1101	258	258	2241	1237	1262
Bihar	330	390	439	281	281	421	544	158
Uttar Pradesh	365	956	1119	202	202	799	788	213
Gujarat	809	2556	2392	973	973	2840	2104	1709
Punjab	712	1971	2003	680	680	1733	2002	411
Maharashtra	1152	2550	3082	620	620	3155	2555	1220
Haryana	115	46	463	112	112	286	276	122
Andhra Pradesh	828	929	1324	433	433	1139	907	665
Kerala	199	527	505	221	221	527	651	97
Rajasthan	384	665	893	156	156	966	957	165
Jammu & Kashmir	—	—	—	—	—	—	—	—
West Bengal	261	1037	735	563	563	1082	1051	495
Himachal Pradesh	—	—	—	—	—	—	—	—
Total	10633	23011	25475	8169	8169	27681	23295	12555

The number of cases referred to Valuation Cell is too small when compared to the total number of Wealth-tax assesseees and the number of immovable properties that may be held by them and the number requiring reference to the Valuation Cell.

Year	No. of Wealth-tax assesseees	No. of cases referred to the Valuation Cell	Percentage
1981-82	4,11,387	29,278	7
1982-83	4,23,311	25,402	6
1983-84	4,37,135	30,334	7
1984-85	5,01,062	23,011	5
1985-86	1,32,818*	27,681	4.79

*Figures furnished by the Ministry of Finance are provisional.

The statistics has also revealed that the number of cases referred to the Valuation Cell for valuation of properties in the following three charges where the metropolitan cities of Bombay, Calcutta and Delhi are situated was far less than the number referred to in Tamil Nadu with the city of Madras.

The particulars for the year 1985-86 are :

Tamil Nadu	12,068
Bombay	3,775
Calcutta	1,645
Delhi	1,711

(B) General Reasons for the pendency

The broad reasons for the pendency are :

- (i) Dilatory tactics adopted by assesseees in submitting the requisite documents and other particulars required by the Valuation Officers;
- (ii) Incomplete information furnished by the assessing officers who made the references;
- (iii) Inordinate delays in issue of notices by the Valuation Cell;
- (iv) Lack of adequate and timely action in the pursuance of the cases where documents and other particulars were called for from assesseees.

1.15.05 Works and Method Study on the functioning of Valuation Cells

In para 3.71 of their 101st Report (7th Lok Sabha, 1981-82), the Public Accounts Committee recommended the need for streamlining the functioning of the Valuation Cell so that the pendency as well as the time lag of 4 to 7 months in completing the valuation are effectively reduced. The Committee accordingly suggested a Works and Method Study into the functioning of the Valuation Cells.

Pursuant to these recommendations, the Central Board of Direct Taxes directed the Directorate of Organisation and Management Services (DOMs) in the Income-tax Department to undertake the Works and Method Study

of the Valuation Cell. The Study was however, undertaken by the Directorate in February 1985/January 1986 only and its Report is still awaited. In the absence of the results of a Works and Methods Study, the Valuation Cells are functioning according to the guidelines issued by the Chief Engineers (North and South Zones). The guidelines of the Chief Engineer (Valuation) are updated upto 15 September 1982.

1.15.06 *Absence of centralised Data Bank*

There is no centralised Data Bank for guidance in the matter of valuation of properties, commercial, industrial etc., to facilitate coordination of cases decided by the different valuation officers. In Kerala, the sale particulars of land gathered from the Sub Registry Offices are made use of. In Delhi, the sources of information of value of land are Delhi Development Authority auctions, Registrar's office and schedule of market rates with the Land and Development Officer. In the absence of any centralised record, one and the same rate for valuation of properties situated in different areas separated by long distances is adopted resulting in erroneous valuation of landed property.

The Departmental Valuation Cell came into being in 1968. The Central Board of Direct Taxes have also not brought out a Manual for the guidance of the Valuation Officers.

1.15.07 *Maintenance of prescribed Registers*

According to the instructions issued by the Central Board of Direct Taxes in June 1979 the Valuation Officers are required to maintain, *inter-alia*, the following important registers viz.,

- (a) Register of references to Valuation Cell.
- (b) Case register.
- (c) Instances of Sale Register.

(i) The Central Board of Direct Taxes (in June 1979) Prescribed a register of references for valuation to the Valuation Cell to be maintained by all the assessing officers and directed the Inspecting Assistant Commissioner to make periodical checks of the register to ensure that all cases required to be referred to the Valuation Cell have actually been referred to it and also send a certificate to the effect at the end of each financial year to the Commissioner of Income-tax.

The test check in a few assessing offices (detailed below) revealed that in a majority of the wards, the prescribed register was not being maintained and wherever maintained, the entries in the Register were not complete. No periodical checks had also been carried out by the Inspecting Assistant Commissioners to point out the cases of omission. The departmental

authorities could not, therefore, ensure that all the cases required to be referred to the Valuation Cell had actually been referred for valuation.

State	Number of wards test checked	Number in which the registers were maintained	Number in which the registers were not maintained	Number in which the registers were maintained defectively
Kerala	10	5	4	1
Karnataka	7	2	4	1
New Delhi	Not maintained	—	—	—
Uttar Pradesh	27	1	26	—
Tamil Nadu	21	3	16	2

(ii) Case register gives the particulars of the cases referred to the Valuation Cell for determining the fair market value of the assets under the provisions of the different Acts. The register is to be maintained for each Act separately.

In the Delhi charges, there is no consolidated register at the level of the District Valuation Officer where all references for valuations under the various Acts are recorded. No system existed to watch the progress of the cases at any given time and consequently the stage of a particular case at any given time was not available in the register.

In the Madhya Pradesh charges the entries regarding issue of notices, value assessed, date of finalisation of the report and difference between the assessed value and declared value were not noted in the registers.

(iii) The Register of Instances of Sale is intended to assist the Valuation Officer in making a realistic estimate of value of the assets. The register should provide complete details of determining the land value, if the sale instance is of a composite property. The physical attributes of the assets such as the access, shape, size, etc., should also be noted in the register. The Taluk or District Registry where all sale deeds are registered and the details of sale and purchase of properties available with the Inspecting Assistant Commissioner (Acquisition) are the main sources wherefrom the sale instances are to be collected and noted in the register.

The Registers maintained by the Valuation Officers in Maharashtra State were not kept upto date and did not incorporate the latest sale transaction in their jurisdiction. The registers contained instances of sales as old as 1976 and in any case not beyond 1983. As the prices of land and buildings are constantly on the increase, estimating the fair market value of property on the basis of market prices prevailing 3 to 4 years back would lead to unrealistic and incorrect results.

In Bombay, the Valuation Officer considered the prices prevailing 2 to 8 years prior to the valuation dates for determining the fair market value of seven similar properties referred to him by the assessing officers.

1.15.08 Valuation determined by the Valuation Cell not adopted in the assessments

Under the provisions of the Wealth-tax Act, 1957, the Wealth-tax Officer may refer the Valuation of any asset to the Valuation Officer if the value returned in the return, in his opinion, is less than its fair market value. The assessing officers may also make a reference to the Departmental Valuation Cell to determine the fair market value of the assets under the provisions of other Direct Taxes Acts to ascertain the value of investment in the construction of properties, to determine the income not disclosed by the assessee, the real value of gift and the real value of the estate passing on death of a person.

While it is obligatory for a Wealth-tax Officer to adopt the value determined by the Valuation Cell in respect of the properties referred to them in completing the Wealth-tax assessments, the fair market value of the properties determined by the Valuation Cell in pursuance of references made under other Direct Taxes Acts is only advisory. However, the value determined by the Valuation Cell will help the assessing officers for suitable adoption of the value of assets in the assessments under the respective Acts.

(i) During test audit it was noticed that in 8 states, the values of immovable properties in 28 cases were referred to the Valuation Cell for determining their fair market value. However, the value as determined by the Departmental Valuation Cell was not adopted in assessments without recording any reasons therefor. The total value of the property thus under assessed in the assessments amounted to Rs. 1.96 crores.

(ii) For the assessment year 1984-85, a Co-operative Housing Society declared the total cost of construction of a housing complex as Rs. 10,37,530 in the Income-tax returns. The cost of construction was not supported by a certificate of registered valuer. On a reference made by the Income-tax Officer in October 1983 the Valuation Officer, adopting the approved plinth area rate, determined the cost of construction at Rs. 15,82,800. The Co-operative Society had not furnished the details of materials purchased and quantities used in the construction as well as the vouchers for its purchase to the Valuation Officer. The Income-tax Officer questioned the cost of construction determined by the Valuation Officer at a higher value stating that the accounts of the assessee were audited by a Chartered Accountant and the construction was done by a contractor on turn-key basis. The Chief Engineer, Valuation justified the Valuation determined by the Valuation Officer and stated that in

the absence of details of materials purchased and used in the construction as well as the supporting vouchers of purchase, the cost of construction determined by the Valuation Officer was not questionable and desired that the accounts of the Society may be got audited as envisaged under the Income-tax Act.

The Income-tax Officer rejected the cost of construction determined by the Valuation Officer and completed the assessment for 1984-85 in July 1985 accepting the cost of construction at Rs. 10,37,530 as declared by the Co-operative Society.

The rejection of the valuation done by the Valuation Officer would, *prima facie*, not be in order as the assessee society had failed to justify the value declared by producing the accounts and other supporting documents. This resulted in income of Rs. 5,45,270 escaping assessment.

1.15.09 Modification of valuation in appeals

In para 3.70 of the 101st Report (7th Lok Sabha 1981-82), the Public Accounts Committee observed that "the Committee.....find that the values determined by the Valuation Cell are not upheld by the appellate authorities in a quite large number of cases. The Committee consider that while on the one hand it is necessary to curb the tendency on the part of the assesseees to undervalue the properties, it is equally necessary that the Valuation Officers act in a judicious manner and be fair to the assesseees and revenue. This underscores the need for proper selection and training of the personnel employed for this work". In their action taken note of March 1983 on the above observation, the Ministry of Finance stated that the "advice of the Honourable Committee for proper selection and training of Valuation Officers has been noted."

A test check conducted in a few offices of Valuation Officers revealed that the value determined by the Valuation Officers had not stood the test of appeal and had been reduced in appeal in a number of cases. Some such instances are—

(i) In 37 cases in Kerala, Delhi, Madhya Pradesh and Assam, the value of properties was determined by the Departmental Valuation Officers at Rs. 536.29 lakhs. On appeal by the assesseees, the value was reduced to Rs. 305.78 lakhs by the appellate authorities.

(ii) 57 assessments made in Tamil Nadu and Uttar Pradesh charges were disputed in appeal by the assesseees against the Valuation of properties at Rs. 406.40 lakhs by the Valuation Cells. In appeal, the value in 27 cases was reduced to Rs. 233.10 lakhs. The decision in appeal in the remaining 30 cases are awaited.

The Central Board of Direct Taxes have issued instructions in January 1980 and August 1982 that the grounds of appeal should be supplied to
3—959LSS/87

Valuation Officers while preparing departmental defence and copies of appellate decisions are also to be supplied and where valuation is modified in appeal by 25 percent or more, such cases should be brought to the notice of the Valuation Officer for preferring further appeal.

It was noticed in audit that in Karnataka, Calcutta and Delhi charges that the copies of appellate decisions were not made available to the Valuation Cells with the result that the Departmental Valuation Officers were not aware of modifications, if any, made in their valuations in appeal. Absence of feedback information denies the Valuation Officers an opportunity to prefer further appeal wherever called for and also improve upon their efficiency.

In Karnataka charge, a Register of Appeals is maintained by the Valuation Officer to enter cases of valuation disputed in appeal and information from the department should be obtained to enter other columns of the Register. No entries are found in the column "outcome of appeal" owing to the failure to furnish the required information by the Income-tax Officer or to obtain copies of appellate decision by the Valuation Officer. The register serves the Valuation Officer with the reasons for modifications of the valuation in appeals and with the facts/principles on which the appellate authorities had differed so as to review the guidelines issued in this regard. The purpose of the maintenance of the register had, however, not been achieved.

1.15.10 *Failure to refer cases to valuation cell for determining the fair market value*

Under the Wealth-tax Rules, effective from 1 January 1973, a reference may be made to the Departmental Valuation Officer, if the assessing officer considers that the fair market value of a property exceeds the returned value by more than 33 1/3 per cent or Rs. 50,000, whichever is less. Similar references are also to be made by the assessing officers under the provisions of Income-tax Act, Gift-tax Act for determining valuation of property, or the cost of construction either for acquiring the property by the department or to determine the undisclosed investment by the assessee or the value of the gift returned short. Where such a reference is made under the Wealth-tax Rules to the Valuation Officer it is obligatory on the Wealth-tax Officer to complete the assessment in accordance with the valuation of the Departmental Valuation Officer.

(a) *Rajasthan*

In this charge, a test check of records of 21 assessing officers revealed that in 15 wards, 78 cases which were required to be referred to the Departmental Valuation Cell in terms of the above provisions of the Wealth-tax Rules were not referred to the Valuation Officer by the assessing authorities. As a result, it could not be ensured in audit whether the valuation of the properties adopted by the assessing authorities was correct.

The net wealth of a Hindu undivided family was computed by Wealth-tax Officer for the assessment year 1977-78 in March 1980 adopting the value of three immovable properties at Rs. 1,33,400, Rs. 4,00,000 and Rs. 3,00,000 as against the returned value of Rs. 1,00,000, Rs. 3,00,000 and Rs. 1,00,000 respectively. Though the value adopted in respect of each of these properties exceeded the returned value by more than the prescribed limit of Rs. 50,000 and the cases were required to be referred to the departmental valuation cell for determining the correct fair market value, no reference was made to the Valuation Cell. Another property was also adopted at Rs. 75,362 as against the returned value of Rs. 1,07,000. Further, the amount of compensation due to the Hindu undivided family in respect of land acquired by Government under the Urban Ceiling Act was not included in the assessment. The rate of tax was also not applied correctly in this case. On these omissions being pointed out in June 1980, the department referred the case to the Departmental Valuation Officer who valued the properties at Rs. 20,56,000 as against the value of Rs. 9,08,762 adopted in the assessment. The assessment was, accordingly, revised by the department in November 1985 creating an additional demand of Rs. 46,180 which was also collected in December 1985.

(b) *Bombay*

(i) An assessee declared the value of a property at Rs. 1,60,000 as on the valuation date 31 March 1979 in his Wealth-tax returns for the assessment year 1979-80. For the subsequent assessment years, the value of the property was declared by the assessee at Rs. 2,20,000 on the basis of the registered valuer's certificate. Not agreeing with the valuation, the Wealth-tax Officer referred the case to the Valuation Cell for determining the fair market value of the property. The Assistant Valuation Officer valued the property at Rs. 3,30,000 as on 31 March 1979 and the Wealth-tax assessments for the assessment years 1979-80 to 1985-86 were completed by the Wealth-tax Officer on this value. According to the provisions of the Act and the upward market conditions in the eighties, the valuation determined by the Valuation Cell could be adopted for a period of three years and the case should have been referred to the Valuation Cell thereafter for determining the fair market value, so that the value of the property as assessed would be realistic. Accordingly, the case was required to be referred to the Valuation Cell in 1981 and in 1984. Failure to refer the case to the Valuation Cell and adopting the same value for 8 long years had led to gross under-valuation of the property.

(ii) For the assessment years 1980-81 to 1982-83, the value of properties located in two cities were declared by the assessee at Rs. 2,64,680 on the basis of a certificate issued by a registered valuer and the wealth-tax assessments for these years were completed accepting the valuation of the property as declared by the assessee. On audit pointing out the apparent low valuation of the properties, the Wealth-tax Officer referred

the case to the Departmental Valuation Cell which determined the value of the property at Rs. 19,47,000 for the assessment year 1980-81, Rs. 21,16,000 for the assessment year 1981-82 and at Rs. 22,71,000 for the assessment year 1982-83.

Failure to refer the case to the Departmental Valuation Cell resulted in under-assessment of wealth of Rs. 55,39,960 involving short levy of Rs. 1,39,248. The assessments have since been rectified raising additional demand of Rs. 1,39,248.

(c) *Bihar*

In this charge the assessing officers at Bhagalpur, Nalanda and Arrah had not made any reference of valuation of property to the valuation Cell during the last 5 years.

(d) *Uttar Pradesh*

The net wealth of an individual included free hold land measuring 75,400 sq. ft., in a posh locality with a small construction thereon. The value of the property was estimated by the registered valuer at Rs. 2,67,000 which was accepted by the department while completing the wealth-tax assessments of the individual, for the assessment years 1977-78 to 1979-80 in October 1981. Audit scrutiny revealed that the value of the property was grossly under-estimated for two reasons.

(i) The land was valued at Rs. 8 per sq. ft. on the basis of the rate of Rs. 5.30 per sq. ft. fixed by the Development Authority in respect of lease hold plots of a new underdeveloped colony instead of at the much higher rate prevalent for free hold plots in the posh locality, and

(ii) Hypothetical deductions to the extent of Rs. 3,76,648 were allowed for developing roads, levelling, multiple ownership, arithmetical error of Rs. one lakh etc. As the valuation by the registered valuer was less than the fair market value of the property, the case should have been referred to the departmental valuation cell under the provisions of the Act. This was not done. By adopting the value of land at Rs. 8 per sq. ft. its value alongwith construction would work out to Rs. 6,41,000. The incorrect valuation resulted in under-assessment of wealth by Rs. 3,74,000 in each of the three assessment years and a total under charge of tax of Rs. 23,774.

On being referred to the Departmental Valuation Cell the fair market value of the property was determined at Rs. 11,43,000, Rs. 12,20,000 and Rs. 13,74,000 in October 1985, for the assessment years 1977-78, 1978-79 and 1979-80 respectively. The department accepted the valuation and revised the assessments in January 1986 creating an additional demand of Rs. 72,924.

(e) *Karnataka*

During the previous year relevant to the assessment year 1981-82, a private limited company sold in July 1980 property consisting of buildings and land appurtenant thereto situated in a commercial area of big city for Rs. 7,00,000 and returned a capital gain of Rs. 1,40,000, after deducting Rs. 5,60,000 as its cost of acquisition, being the market value on 1 January 1964. In the assessment completed for the assessment year 1981-82 in June 1984, the assessing officer had not accepted the cost of acquisition of the property and had determined a capital gain of Rs. 2,00,000 adopting the cost of acquisition as Rs. 5,00,000 under the directions of the Range Inspecting Assistant Commissioner who was guided by a valuation report of a registered valuer of November 1983 placing the value as on 1 January 1964 of the property at Rs. 5,23,450 being the average of values under the "land and building" and "rent capitalisation" methods. Audit scrutiny revealed that the assessee had, in connection with the acquisition proceedings under the Act, produced a valuation report of 10 June 1980 from a registered valuer wherein the valuer had valued the building according to the reversionary value method of valuation taking note of the fact that the building was a tenanted property and the owner could get vacant possession even through legal means, only after ten years at Rs. 6,65,043 as on 10 June 1980 and that the competent authority had dropped the acquisition proceedings accepting the valuation report. As the property was tenanted even as on 1 January 1964, applying the principle of reversionary value as was done in the valuation report of 1980, the cost of acquisition worked out to Rs. 3,35,812 as on that date. The adoption in the assessment of the cost of acquisition at Rs. 5,00,000 instead of Rs. 3,35,812 resulted in the short computation of income by Rs. 1,39,052 (after set off some allowable losses to the extent of Rs. 1,43,017) and a short levy of tax of Rs. 69,528.

The objection was communicated to the department in December 1985. The statement of facts was issued in April 1986. The department stated (April 1986) that the method adopted by audit viz., estimation of fair market value on the basis of reversionary interest was not sound and does not give the exact market condition as on a particular date. It was further stated that the "average of land and building" method as was done, was the scientific one and that considering that the property was purchased in 1953 for Rs. 3,25,200, the adoption of Rs. 5 lakhs by the department on 1 January 1964 cannot be considered too high.

The reply needs consideration as the method of valuing the property on the basis of average of "land and building" and "rental" method, ignored the fact of depression in the value of property due to occupation by tenants and the valuation report dated 10 June 1980 which was more reasonable should have been applied for the computation of capital gains as well, in the

absence of any extenuating factors. In any case, the acceptance of two different basis for the valuation of the same property by two authorities under the Income-tax Act without a reference to the valuation cell led to one of the decisions being apparently wrong, more appropriately the one relating to capital gains involving under charge of tax of Rs. 69,528.

1.15.11 Under valuation of properties by the Departmental Valuation Cell Orissa :

(a) For the assessment year 1982-83 the value of a 'Ladies Nursing Home' situated in a city was estimated by the department at more than Rs. 10 lakhs as against the Valuation or Rs. 8.03 lakhs done by the registered valuer. On a reference made to the Valuation Officer by the assessing officer the value of the property was determined by the Valuation Officer at Rs. 8.66 lakhs. Not being satisfied with the valuation made by the Valuation Officer, the Chief Engineer, Valuation, New Delhi directed the Superintending Engineer, Valuation, Calcutta to recompute the value. Finding several omissions and defects in the method of valuation adopted by the Valuation Officer, the Superintending Engineer, Valuation Calcutta, finally determined the value of the Nursing Home at Rs. 11.51 lakhs as against Rs. 8.66 lakhs determined by the Valuation Officer.

Calcutta :

According to the guidelines issued by the Chief Engineer, Valuation, where any property or part of the property is let out to any relative of the assessee, it should be examined before applying the rental method of valuation of the property that the rent is the fair rent and not merely collusive rent.

(b) For the assessment year 1979-80, an owner of a three storeyed building declared the value of the property in a metropolitan city at Rs. 1,42,000 in the wealth-tax returns and the value was not supported by a certificate of a registered valuer. Two floors of the building were let out and one floor was in the occupation of the assessee. The Wealth-tax Officer referred the case in December 1980 to the Departmental Valuation Officer for determining the value of the property as on 31 March 1979 being the valuation date relevant to the assessment year 1979-80. Adopting the land and building method of valuation for the self-occupied portion of the property and rental method for the let out portions, the value of the property was determined at Rs. 2,19,200 as on 31 March 1979 by the Departmental Valuation Officer. The net wealth of the assessee was computed adopting the value of the building at Rs. 2,19,200.

It was noticed in audit that the assessee had let out the ground floor of the building to a school at a monthly rent of Rs. 700 and the entire first floor and one room in the ground floor to her husband at a monthly

rent of Rs. 400 for running a nursing home. From the records it was observed that no attempt was made by the Valuation Officer to determine the fair rent of the let out portions of the property especially the portion let out to her husband to run a nursing home and to work out the correct market value of the portion let out leading to under-valuation of the property.

Bombay :

(c) According to the guidelines issued for valuation of immovable properties by the department, in the case of cinema, hotels, factories etc., leased rent should be taken into account if the building is leased outright ensuring that the rent charged is comparable to the prevailing market rent for similar properties. In a case where the rent is deliberately kept low or being let out to close relations etc., the prevailing market rent or profit earning capacity should be taken into account.

A cinema theatre was run by an assessee till March 1971. By an agreement dated 1 April 1971, the cinema with fixtures and furniture was given on lease to a partnership firm consisting of himself, his wife and married daughter, the assessee having 50 per cent share in the firm. The lease rent was fixed at Rs. 3,500 per month. The assessee retired from the firm in June 1971 and the partnership was continued by the other two partners. The lease rent was raised to Rs. 5,000 in 1976.

In the Wealth-tax return for the assessment year 1983-84 (valuation date 31 March 1983) the value of the cinema theatre was declared at Rs. 3,67,685. The case was referred to the Valuation Officer for determining the fair market value of the property by the Wealth-tax Officer stating, inter alia, that the theatre building owned by the assessee is let out to an exhibitor firm consisting of the assessee's wife and assessee's married daughter. In view of the near relationship between the lessor and lessee the rent is shown at a very low figure as against the higher rent potential for the type of building.

Adopting rent capitalisation method, the Valuation Officer determined in April 1986 the value of the cinema at Rs. 6,34,000 as on 31 March 1983.

On the registered valuer objecting to the capitalisation of rent at Rs. 5,000 p.m. on the ground that the rent of Rs. 3,500 fixed on 1 April 1971 should alone be considered without any increase thereto, the Valuation Officer stated that the rent of Rs. 3,500 was not fixed by any competent authority and the rent agreed in April 1971 could not be taken as standard rent. However, the main question whether in view of the close relationship between the parties, the rent of Rs. 5,000 itself could be considered as reasonable as on the date of valuation, was not examined by the Valuation Officer in the light of the guidelines issued in this regard. Taking

into account the profit made by the firm as on 31 December 1982 at Rs. 77,500, this should have been considered for capitalisation instead of rent at Rs. 5,000 p.m. The yield capitalisation would have resulted in increase in the value of property by Rs. 1,70,000. To a query whether the revised lease charges agreed to in 1976 were collusive or deliberately low, the Valuation Officer stated that this should be examined with reference to the normal returns for such property in 1976 and not in 1982 and 1983. But as the property was to be valued as on 31 March 1983 being the valuation date, whether the rent derived from the property on that day was low or collusive rent should have been considered.

(d) Properties situated in two plots along with plant and machinery agreed to be sold by an assessee on 4 November 1985 for a consideration of Rs. 41 lakhs was referred by the Inspecting Assistant Commissioner to the Valuation Cell in January 1986 for determining the fair market value of the property as on 4 November 1985. Applying the physical valuation method, the District Valuation Officer determined the value at Rs. 26.16 lakhs. The sale consideration of Rs. 41 lakhs included the value of plant and machinery and in the absence of break-up of Rs. 41 lakhs between land and buildings and plant and machinery the value of Rs. 26.16 lakhs could not be compared. In reply to audit the District Valuation Officer stated that the break-up of the figures was not indicated by the parties to the transaction. Neither the Inspecting Assistant Commissioner furnished the break-up value of the sale consideration. The Inspecting Assistant Commissioner accepting the absence of the break-up of the figures stated that the question of valuation of plant and machinery would be referred to a separate wing. Further report is awaited.

(e) The President and Managing Trustee of a Foundation run by the head of a religious sect in Pune was in default in the payment of Income-tax and Wealth-tax to the extent of over Rs. 3.89 crores. The Income-tax Officer attached 4 plots of land under the occupation of the Foundation towards recovery of the tax arrears, and passed on the case to the Tax Recovery Officer to initiate recovery proceedings. The plots of land were valued by a registered valuer on 10 January 1980 as follows :

Valuation date	Value determined by a registered valuer
31-12-1974	Rs. 15,92,182
31-12-1975	Rs. 18,79,613
31-12-1976	Rs. 39,36,855
31-12-1977	Rs. 41,60,915

The Tax Recovery Officer referred the case for Valuation of these lands to the Valuation Officer to determine the fair market price as well as the reserve price. The valuation Officer directed the Foundation in November 1985, to submit the necessary documents for estimating the fair

market value of the lands. In December 1985, the Trustees of the Foundation submitted a note on the ownership of the property which indicated that the properties were only in its occupation and it was not the legal owner. The Trustees also furnished a copy of the lease deed leasing the property to an Ashram connected with the Foundation. The Trustees stated that the total land area was 2,19,300 sq. ft. and a rent of Rs. 2,25,000 was being recovered from the property. Adopting the Rent Capitalisation method the Valuation Officer valued the property in February 1986 at Rs. 31,18,000 much lower than the valuation made as on 31 December 1976 and 31st December 1977 by the registered valuer.

The valuation made by the Valuation Officer was grossly undervalued by adoption of the rent capitalisation method. The lease agreement is in the nature of lease and licence agreement covering a period of eleven months initially and extended from time to time. Considering the closeness of the lessee the Ashram, and lessor the Foundation, it is not in order to resort to capitalise the rent in perpetuity. The Valuation Officer in his letter of February 1986 stated that if tenancy was to be ignored the value of the property would be much more and the value be determined by land and building method which would be much higher. For this purpose the Valuation Officer sought for a specific reference from the Tax Recovery Officer. The Tax Recovery Officer had not followed it up.

The value of the property was shown at Rs. 44,31,855 in the Balance Sheet of the Foundation as on 31 December 1981. The value of these lands was determined at Rs. 41,60,915 as on 31 December 1977 by the registered valuer. The value of the land determined by the Valuation Officer at Rs. 31,18,000 was apparently lower by any standard.

(f) For the assessment year 1983-84, the value of a property situated at Bombay which was jointly owned by 19 owners was returned for Wealth-tax purposes at Rs. 8,55,000 as on the valuation date, 31 March 1983, the value of each share being Rs. 45,000 (in the Joint Property). The assessing officer at Delhi in whose jurisdiction the assessments of the co-owners were to be made referred the case to the Departmental Valuation Officer at Bombay in January 1985 for determining the fair market value of the property as on the valuation dates 31 March 1980, 1981, 1982, 1983 and 1984. By applying the physical valuation method, the Valuation Officer, Bombay, valued the property as under :

Valuation date	Value determined
	Rs.
31-3-1980	9,17,000
31-3-1981	10,64,000
31-3-1982	12,11,000
31-3-1983	14,39,000
31-3-1984	17,12,000

A search and seizure in the premises of some of the co-owners had revealed that a part of the property at Bombay had been sold to a public enterprise in April-May 1985 for a price of Rs. 85,00,000. The assessing Officer, therefore, requested the Valuation Officer for a review of his valuation so that the gross under-valuation of the property could be corrected. The Valuation Officer refused to review the case on the ground that the acquisition by Government or Semi-Government body was for specific purpose and the compensation paid did not represent the market value and the eviction of the 100 hutments in the land was possible only by a Government or Semi-Government body and not by any private party. The value of the land would not be more than Rs. 3,37,000 for any private bidder and as the value of land for each co-owner was less than Rs. 2 lakhs, the valuation was to have been made by the Assistant Valuation Officer and the valuation having actually been done by the next superior authority it did not call for any review.

The reasons given by the Valuation Officer are not tenable as the compensation is determined with reference to the market conditions and did not reflect a purchase and the value of the property was returned in the Wealth-tax returns for the assessment year 1983-84 at Rs. 8.55 lakhs. The value being more than Rs. 2 lakhs but less than Rs. 10 lakhs, the property was also rightly valued by the Valuation Officer and further review by the District Valuation Officer was possible.

The Valuation Officer further stated that after considering the whole property for determining the value, the individual share was to be arrived at after reducing the value by 10 per cent. A further reduction of 15 per cent was allowed by the Valuation Officer towards open space to be reserved for the recreational purposes. It would not be correct to allow both the deductions when the property was to be individually valued for wealth tax purposes as the individual share in the plot of land by each co-owner was less than 3,000 sq. yds. in area.

Andhra Pradesh

(g) For determining the fair market value of a college building, as on 31 March 1981, 31 March 1982 and 31 March, 1983, being the valuation dates relevant to the assessment years 1981-82, 1982-83 and 1983-84, the Wealth-tax Officer made a reference in August 1984 to the Departmental Valuation Officer stating that the value of the college building was determined by him at Rs. 1.20 lakhs for the earlier assessment year 1979-80 taking into account the location of the building and estimating the site value at Rs. 1 lakh and the superstructure at Rs. 20,000 as against the value of Rs. 59,020 declared by the assessee in his wealth-tax returns and that the assessee not accepting the valuation had gone in appeal to the Appellate Assistant Commissioner. In this report of March 1985, the Valuation Officer determined the value of the college building at the declared value of Rs. 59,020 for the four assessment years 1980-81 to 1983-84.

stating that the building was more than 100 years old and covered under the provisions of Rent Control Act. In his order of October 1984, the Appellate Assistant Commissioner decided the value of the college building for the assessment year 1979-80 at Rs. 87,000 taking into account the site value and the superstructure thereon. The value of Rs. 87,000 was accepted by the assessee. The Wealth-tax Officer again referred the valuation to the Valuation Officer stating that the Appellate Assistant Commissioner had decided the value of the building at Rs. 87,000 for the assessment year 1979-80 which was also accepted by the assessee. Thereupon, the Valuation Officer revised the valuation of the property at Rs. 87,000 stating that the assessee had not intimated him of the acceptance of the decision. Adoption of rental method of valuation by the Valuation Officer as against the land and building method followed by the Appellate Assistant Commissioner led to the undervaluation of the property. Further the Valuation Officer is required to determine the valuation of the property independently regardless of any valuation of the property in appeal.

Tamil Nadu.

(h) The valuation of six buildings belonging to an assessee was referred to the Valuation Cell in October, 1981. In its valuation report in respect of 4 buildings for the assessment years 1963-64 and 1964-65 furnished in March 1985, as against the correct total value of buildings of Rs. 11.91 lakhs as on 31 March 1963 and Rs. 12.26 as on 31 March 1964, the value in the valuation report was given as Rs. 10.54 lakhs and Rs. 10.81 lakhs respectively which led to short valuation of property by Rs. 1.37 lakhs and Rs. 1.45 lakhs for the two years. Failure to furnish the details of valuation in the report and working out the total in a separate sheet led to the short valuation. The Valuation Officer has agreed to rectify the mistake.

(i) Free hold pockets of land in the central and urban developed area are not taken up for valuation by the Valuation Cell, if they are claimed as agricultural lands. In the absence of adequate guidelines for valuation of these lands as agricultural lands as claimed by the assessee there was short valuation of the lands. In one case, claiming the lands as agricultural lands the value was declared by the assessee as Rs. 26,000. But on the basis of the value of developed plots in neighbourhood area the value of the lands worked out to Rs. 21 lakhs treating the lands as vacant house sites.

1.15.12 Irregular withdrawal of cases referred for valuation to the Valuation Cell.

Madhya Pradesh

(a) A private Company returned the value of a factory building as on 31 December 1983 at Rs. 6,56,510. Although no wealth-tax was

leviable on companies, the Wealth-tax Officer referred the case of the factory building for valuation by the Valuation Cell in November, 1984 but subsequently withdrew the reference in December 1985. In the meantime the market value of the factory building was estimated by the Departmental Valuation Officer to be over Rs. 90,00,000. Since the balance sheet of the company disclosed the factory building at Rs. 6,56,510 as against the market value of Rs. 90,00,000, the value of the equity shares of the company worked out on the basis of value of assets in the balance sheet would lead to undervaluation of equity shares in the hands of share-holders.

(b) A discretionary trust declared the value of one of its building as on 21 October 1979 at Rs. 4,07,802 in the Wealth-tax returns. The property was let out for residential and commercial purposes by the Trust. The Wealth-tax Officer referred the valuation of the building to the Valuation Officer in March 1983 and subsequently withdrew the reference in June 1983 on the ground that the building had been let out for several years and was covered by the Rent Control Act and the provisions of Wealth-tax Rules were to be supply for determining the valuation. The provisions of Wealth-tax Rules were however, not applicable to this case as the asset was an immovable property let out for business purposes. The withdrawal of the case from the Valuation Cell was therefore, not in order.

1.15.13 *Loss of revenue due to delay in valuation of immovable property.*

Haryana

Under the Wealth-tax Act, 1957, the assessment for any assessment year shall be completed before the expiry of four years from the end of the assessment year or within one year from the date of filing of the return.

(a) In one charge, three wealth-tax cases were referred to the Departmental Valuer for valuation of the properties for the assessment years 1976-77, 1977-78 and 1979-80 in time (one case was however, referred in January 1984 at the fag end of the limitation period viz. 31 March 1984) but the valuation was done/communicated to the assessing officers after the expiry of the period prescribed for completion of the assessments. As a consequence, wealth to the extent of Rs. 10.98 lakhs escaped assessment. The details of the cases are :

Name of assessee	Name of property	Assessment year and valuation date
A	Factory building	1977-78
B	Cinema theatre	(31 March 1977)
		1976-77
		(31 March 1976)
C	Cinema theatre	1979-80
		(31 March 1979)

Value returned	Date of reference to valuation cell	Value assessed	Date of valuation	Difference value
Rs. 6,80,507	August 81	Rs. 7,04,900	Jan, 1983	Rs. 24,393
1,50,716	Oct. 1980	1,65,700	Dec. 1981	14,984
5,03,641	Jan. 1984	15,62,000	March 85	10,58,359

Assam

(b) An assessee showed an investment of Rs. 1,74,000 on a property (a two storeyed RCC building total area 454.67 sq. metres) constructed between 1976 and 1980. As per the Valuer's report the investment amounted to Rs. 1,77,000. On being referred to the Valuation Cell in December 1983, the Valuation Officer in November 1985 estimated the total investment at Rs. 3,24,606 during the relevant period viz. assessment years 1977-78 to 1980-81. No assessment proceedings could be initiated to charge the undisclosed income as they had become time barred by 31 March 1985. The loss of revenue amounted to Rs. 65,619.

Kerala

(c) The Valuation Officer estimated (April 1984) on a reference by the Income-tax Officer in December 1983 the cost of construction of a building during 1976-77 at Rs. 1,54,600 against Rs. 92,260 claimed as invested in the return. Action to reopen the assessment made in February 1980 for the assessment year 1977-78 under the provisions of Income-tax Act, 1961, within 8 years was negatived by the Commissioner of Income-tax as the assessee had disclosed all material facts in the return. Failure to initiate timely action had led to a loss of revenue of Rs. 31,116.

1.15.14 *Unwarranted valuation by the Valuation Officer without any official reference from the assessing officer.*

According to the powers of the Valuation Officer, the Valuation Officer is to deal with the valuation of properties when the declared value did not exceed Rs. 10 lakhs, referred to him by the assessing Officer.

Andhra Pradesh

An assessee made a direct approach to the Valuation Officer of the rank of Executive Engineer for valuation of the property (declared value Rs. 22 lakhs) and the Valuation Officer also valued the property at the value of Rs. 24.46 lakhs without the case being referred to the Valuation Cell by the assessing Officer. The search and seizure operations conducted by the Income-tax Department in the premises of the assessee revealed that the measurements of the property were short recorded in the field book, measurement register and the expensive items of lavish construction were valued by the Valuation Officer at a low price, as a result of which the property was grossly under-valued by the Valuation Officer. The Commissioner of Income-tax referred the valuation of the property to the District Valuation Officer who was of the rank of Superintending Engineer who initiated action for the valuation in December 1983. However, the assessee adopted dilatory tactics and delayed the valuation by eight months and finally filed a writ petition in the High Court and obtained interim stay of further proceedings in August 1984. Unable to proceed further in the matter, the District Valuation Officer closed the case of valuation of the

property in his books. In the absence of an authentic valuation report the loss to revenue cannot be evaluated. The Valuation Officer had exceeded his jurisdiction in undertaking the valuation of the property whose value exceeded Rs. 10 lakhs, besides committing a breach of procedure in entertaining a reference direct from assessee.

1.15.15 Omission to value the assets by the Valuation Cell

Under the Wealth-tax Act, 1957, the net wealth of an assessee means the aggregate value of all assets, wherever located belonging to the assessee as reduced by the aggregate value of all admissible debts owed by him on the valuation date.

Bombay

During the course of audit of the wealth tax assessments of an assessee it was noticed that salt pans owned by an assessee were valued at Rs. 200 per pan for the assessment years 1978-79 and 1979-80. In the case of another assessee assessed in the same ward the salt pans owned by him were valued at Rs. 200 per pan upto the assessment year 1976-77 and at Rs. 500 per pan from assessment year 1977-78. On the disparity in valuation of salt pans in the same ward being pointed out with a suggestion for upward revision of valuation in the former case by Audit, the Inspecting Assistant Commissioner (Audit) stated that the assessing officers, had approached the Assistant Valuation Officer, Valuation Officer and Chief Engineer, Valuation having jurisdiction over him for valuation of salt pans for the purpose of Wealth-tax Act. However, these Departmental Valuation Officers did not determine the value of the salt pans on the ground that they did not fall within the category of immovable property in the shape of land and buildings.

The Act provides for making a reference by the Wealth-tax Officer to the Valuation Cell for determining the fair market value of any asset where the Wealth-tax Officer is of the opinion that the value is understated in the wealth-tax returns. For the purpose of estimating the value of any asset, in pursuance of a reference the Valuation Officer may serve on the assessee a notice for production of the accounts and other documents to enable him to determine the value of the asset. No action calling for the details regarding salt pans was taken by the Valuation Cell. Failure to determine the value of salt pans on the plea that they are not in the nature of land and buildings is not in order. Specific guidelines for valuation of properties of this nature is called for. Absence of departmental guidelines in this regard had led to adoption of different values of the assets of the same nature assessed in the same ward.

1.15.16 Survey operations

In para 1.21 of their 181st Report (7th Lok Sabha-1983-84) the Public Accounts Committee, inter-alia, observed that "it was in the context of absence of systematic flow of information in the assessing and valuation

Officers in respect of sale/auction of land/houses/flats and new constructions in metropolitan cities and the fact that internal survey formed an integral part of the survey operations that the Committee had stressed the need for strengthening and streamlining the machinery for collecting relevant information from various sources with a view to detect evasion of tax. Although instructions had been issued by the Central Board of Direct Taxes to those engaged in survey together information in respect of properties from the records of local bodies, the Committee noticed that the Board had no information about the number of property owners in large metropolitan areas. As early as in 1970, the Public Accounts Committee (1969-70) had in paragraph 1.11 of their 117th Report (4th Lok Sabha) laid stress on external survey and systematic analysis and processing of information thus collected. The Central Board of Direct Taxes had issued instructions in October 1977, requiring the Commissioners of Income-tax to arrange their programme of survey in such a manner that all the areas in their respective charges were fully covered by the end of 1979-80 priority being given to posh localities/new localities and important markets. Another circular issued in August 1979 emphasised the need for intensifying survey operations but shifted the target date covering all important localities to March 1982.

The Committee have now been informed that a number of sources of information have been identified and Commissioners of Income-tax have been asked to get information from these sources exhaustively in a span of 3 years starting from 1982-83. From the Government's reply the Committee also find that the target date for completing survey of premises had been further shifted from March 1982 to March 1983, and this dead-line is also over. While the Committee take note of the steps now taken by the Department to survey properties in Urban Area, they would like to point out that the Ministry's reply does not meet the requirements of the recommendations of the Committee in regard to maintenance of complete records of all Urban properties surveyed so far. The Committee, therefore, reiterate their earlier recommendations contained in paragraph 3.102 of the 101st Report and would like the data collected from 1 April 1978 upto 31 March 1983 to be tabulated yearwise with regard to the number of localities and the total number of houses surveyed, the number of new assesses located together with full details of the areas still remaining to be surveyed. Keeping in view the phenomenal increase in the price of real estate in recent years, particularly in metropolitan cities, the Committee need hardly reemphasise the importance of the above data".

The Central Board of Direct Taxes issued instructions in October 1982 to all the Commissioners of Income-tax to include *inter alia*, the following targets in the survey operations during 1982-83.

(a) Completing the survey of the premises which were to be surveyed by 31 March 1982 by 31 March 1983.

(b) Second round of survey to cover all the localities both residential and commercial in four years by 31 March 1986.

(c) Annual survey of the following important areas :—

(i) New commercial complexes particularly multi-storeyed commercial buildings.

(ii) New industrial estates sponsored either by Government or private colonisers.

(iii) New construction of buildings particularly multi-storeyed buildings.

(iv) Godown areas in metropolitan cities.

(d) A complete survey of the following is to be made once in a cycle of four years (1 April 1982 to 31 March 1986) :

(i) Posh residential localities.

(ii) Vacant land in urban and semi-urban areas.

(iii) Complexes where there is concentration of godowns in metropolitan towns.

The number of premises surveyed and new assessee discovered in a few charges are given below :

Charge	No. of new premises surveyed					No. of new assessee discovered				
	1981-82	1982-83	1983-84	1984-85	1985-86	1981-82	1982-83	1983-84	1984-85	1985-86
Cochin and Trivandrum	5641	11689	11303	4048	—	1654	2932	2430	1435	—
Nasik	—	14357	22602	4409	1934	—	670	2925	1535	61
Survey-Range, Bombay	—	75532	81266	47688	38082	—	5997	9548	2492	8146
Gujarat	—	—	—	—	4700	—	—	—	—	387
Assam	—	9123	24575	16007	9349	—	988	3903	2164	2127
Karnataka	—	43903	46804	20281	9293	—	2231	3843	1154	1976

Kerala

In Cochin and Trivandrum charges, 3834 returns were filed by the new assesseees. The department raised a demand of Rs. 118.79 lakhs from them out of which Rs. 94.22 lakhs were collected for the years 1981-82 to 1984-85. No exhaustive property survey was undertaken to cover every region. The survey operation was carried out on random basis confining to buildings having a plinth area of over 1500 sq. ft. owing to innumerable constructions coming up. The achievements of survey operations with reference to the targets fixed could not be ascertained from the records.

Bombay

In Nasik charge no reasons for the shortfall in the survey operations could be found from the records whereas no target was fixed in the survey range, Bombay. Tax of Rs. 21.36 lakhs was collected in Nasik charge from the new assesseees discovered.

Gujarat

In Gujarat, the survey operations were confined to business premises only. No list of commercial complexes with concentration of business was maintained by the department. The shortfall in the survey operations was attributed to civil disturbances etc.

Assam

No target for survey operations was fixed in Assam charge.

Karnataka

No information whether the survey operations covered new commercial complexes etc., or posh residential localities was available from the records maintained in Karnataka charge.

Other charges

In other places the search and seizure operations were not carried out as per programme fixed by the Central Board of Direct Taxes. The Board's instructions were not complied with fully in respect of the few charges where the survey operations were conducted. The Income-tax department had not carried out a systematic survey of new residential localities and business complexes to bring the new assesseees in the tax net. The assurance given to the Public Accounts Committee and the instructions issued by the Board to the Commissioners of Income-tax largely remained unfulfilled and no action seems to have been initiated so far.

1.15.17 Conclusions

(i) While the total number of cases for disposal during the five years period from 1981-82 to 1985-86 more or less remained the same, the actual disposal of these cases showed a decline registering a larger increase

in the pendency. The pendency at the end of 1985-86 was 12,555 cases against the pendency of 9000 cases on an average, during the earlier years.

(ii) The inherent deficiencies in the law and procedure led to inordinate delays in the issue of notices by the Valuation Cell, incomplete information being furnished by the assessing Officers, lack of adequate and timely action in the pursuance of cases and dilatory tactics being adopted by assesseees in submitting the information to the Valuation Officers and those facts largely contributed to the huge pendency.

(iii) There is no centralised data bank available for the guidance of the Valuation Officers in the matter of valuation of properties, commercial industrial etc., and there was hardly any co-ordination in valuation of the immovable properties by different Valuation Officers.

(iv) The prescribed Registers maintained by the Valuation Cells are deficient in many respects.

(v) Though the value determined by the Valuation Cell is binding for the purposes of wealth-tax, instances were noticed where they were not adopted in wealth-tax assessments.

(vi) The machinery provides for feed back information in respect of the cases decided by the Valuation Cells where the valuations determined by them are modified in appeals. This procedure is not followed with the result the benefits of appeal orders are not available to the Valuation Cells for corrective action.

(vii) The departmental instructions and the law, require references to the Valuation Cell of certain cases depending upon the possible undervaluation in properties. Considering the large number of immovable properties in urban cities and their appreciation in values in recent years the number of cases referred to the Valuation Cell was negligible. In three charges in Bihar State, no case was referred to the Valuation Cell during the last 5 years. In several other charges also there was failure to refer many cases to the Valuation Cells.

(viii) Cases were noticed where due to failure to apply the correct and scientific method of valuation to determine the value of the property and adoption of different methods had led to undervaluation of properties.

(ix) Delays in valuation of property by the Cell had also led to operation of time bar resulting in loss of revenue to Government.

(x) There are no instruction or guidelines regarding the valuation of salt pans.

(xi) No systematic survey of new residential localities and commercial complexes to bring new assesseees in the tax net was carried out.

The review was sent to the Ministry of Finance in October 1986; their comments are awaited (December 1986).

APPENDIX II

(Vide Para 1.4)

Action taken by Government on recommendations contained in Paragraphs 3.60 and 3.70 of 101st Report of PAC (7th Lok Sabha).

Recommendation

3.69 The Committee find that out of 74 properties in West Bengal and Tamil Nadu Charges, (certain clarification in respect of Delhi and Bombay are still awaited), covered by the sample study on the basis of assessments completed during 1974-75 on the basis of valuation made by the Valuation Cell, the Valuation was disputed by the assesseees in 38 cases. In 20 cases, the Valuation made by the Cell was totally confirmed by the AAC/CIT-(A) Tribunal and partially reduced in 13 cases. In the remaining 5 cases, it was totally reduced by the Appellate authorities.

Action taken

The observations of the Hon'ble Committee have been noted.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/5/82-A&PAC-I/F. No. 326/20/82-WT, dated 15-3-1983].

Recommendation

3.70 The Committee thus find that the values determined by the Valuation Cell are not upheld by the appellate authorities in a quite large number of cases. The Committee consider that while on the one hand, it is necessary to curb the tendency on the part of the assesseees to undervalue the properties, it is equally necessary that the valuation officers act in a judicious manner and be fair both to the assesseees and the revenue. This underscores the need for proper selection and training of the personnel employed for this work.

Action taken

From the data given in Para 3.69 it would be seen that out of 74 cases, the valuation made by the valuation cell could not be assailed in 56 cases. Thus in about 76% of cases the valuation made by the Valuation Cell was totally successful. Furthermore, the valuation made by the Valuation Cell was partly upheld in about 17% of cases. Thus the valuations made by the valuation cell was defeated only in 7% cases.

The advice of the Hon'ble Committee for proper selection and training of valuation officers has been noted.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/5/82-A&PAC-I/F. No. 326/20/82-WT, dated 15-3-1983].

APPENDIX III

(Vide Para 2.1 of the Report)

Paragraph 4.05 A(i) (a) to (e) of the Report of the C&AG of India for the year 1985-86, Union Government (Civil) Revenue Receipts, Vol. II, Direct Taxes

4.05 Incorrect valuation of assets

A. Immovable properties

(i) Under the provisions of the Wealth-tax Act, 1957, the Wealth-tax Officer shall subject to rules made in this behalf estimate the value of any asset (other than cash) to be the price, which in his opinion, it would fetch if sold in the open market on the valuation date. Besides, Agricultural lands comprised in tea, coffee, rubber or cardamom plantations were chargeable to wealth tax upto the assessment year 1982-83. No rules were framed for valuation of these lands though a decision was taken by the department in 1980 itself to frame rules for valuation of lands comprised in specified plantations. In February 1982 the Board issued guidelines through a circular for valuing these plantation lands by capitalising the average income realised from these lands for six years. In March 1983, the Board through another circular issued fresh guidelines in respect of lands in coffee plantations situated in Karnataka are concerned stating that the revision was made with a view to have some uniform procedure for speedy completion of the assessments pending in Karnataka. According to these guidelines the rates ranging from Rs. 5,000 to Rs. 15,000 per acre in accordance with the average yield per acre were considered reasonable for valuation of plantation lands covered by plants which had started yielding. The Wealth-tax Officers complied with the circular instructions of the Board and completed the assessments during the years 1983-84 and 1984-85. The following under-assessments due to under-valuation of coffee lands and other irregularities were noticed by audit (November 1984 to January 1986).

(a) The Wealth-tax Officer initiated action for reopening of a large number of assessments concluded in the years 1977-78 and 1978-79, 1979-80 and 1980-81 as the value of coffee lands included in the assessments at rates ranging from Rs. 5,000 to Rs. 7,000 per acre, were in his opinion found to be too low as the market value of the lands prevailing then ranged from Rs. 20,000 to Rs. 30,000 per acre. The Wealth-tax Officer also took into consideration the fact that in two neighbouring districts, coffee lands which were less fertile had been valued by the concerned Wealth-tax Officers at rates ranging from Rs. 12,000 to Rs. 16,000

per acre. However, after the issue of the guidelines by the Board in February 1982 and March 1983, the Wealth-tax Officer dropped the proceedings initiated for reopening the past assessments. This resulted in consequent short-levy of tax of Rs. 19.37 lakhs computed on the basis of minimum of Rs. 20,000 per acre for the assessment years 1977-78 to 1981-82 in the case of 31 assesseees.

(b) In another thirty cases, the value of lands returned by the assesseees in their wealth-tax returns amounted to Rs. 3.54 crores. The value of these lands was arrived at Rs. 2.53 crores by Wealth-tax Officer by applying the guidelines issued by the Board. Although the value of the land as returned was more by Rs. 1.01 crores than the value determinable as per guidelines, the returned value was ignored and assessments were concluded adopting the value as per guidelines. The resultant under-assessment led to undercharge of tax of Rs. 2,57,639 for the assessment years from 1977-88 to 1982-83.

(c) In four cases, the land was sold for a sale consideration of Rs. 54.35 lakhs effected on dates subsequent to the relevant valuation dates which was ignored and the coffee lands were valued at Rs. 12.14 lakhs by adopting the rates suggested in the guidelines. The value of coffee lands sold in May 1979, July 1979, May 1980 and May 1981 for Rs. 11,00,000, Rs. 9,15,000, Rs. 26,20,000 and Rs. 8,00,000 respectively were adopted in the assessments of immediately preceding assessment years at mere Rs. 3,27,630, Rs. 1,55,000, Rs. 5,56,540 and Rs. 1,75,000. Failure to adopt the higher value resulted in under valuation of wealth by Rs. 42.21 lakhs involving short levy of tax of Rs. 1,46,454 for eight assessment years.

(d) In seven cases though the value of the coffee lands included in the earlier assessment years had been accepted by the assessee, the value of the land was determined at a lower valuation of Rs. 47.77 lakhs by the assessing officer for the subsequent assessment years 1980-81 to 1982-83 on the basis of the Board's guidelines. The under valuation amounted to Rs. 62.70 lakhs on this account leading to short levy to tax of Rs. 2,46,929.

(e) In another case, an estate purchased for Rs. 15,05,000 in 1968 and valued by an approved valuer at Rs. 17,50,000 as on 30 June 1977 (assessment year 1978-79) was value at Rs. 5,86,206 as on 30 June 1977 in the assessment concluded in October 1982. The estate was similarly valued at amount of Rs. 4,92,740 and Rs. 6,61,634 for the assessment years 1977-78 and 1979-80 in the assessments concluded in March 1982 and October 1982 respectively. Owing to the adoption of lower valuation there was undercharge of tax of Rs. 64,490 for the three years together.

The Department stated that the Board's circulars were binding on the assessing authorities even if the value arrived at in accordance with the guidelines was less than the prevailing market value or the value accord-

ing to the approved valuer's reports or values returned by the assesseees themselves. It was also stated by the Department that even according to judicial pronouncements. Board's circulars which are especially beneficial to the assesseees (benevolent circulars) are binding on the assessing authorities even if they deviate from law.

The Scheme of valuation of assets laid down in the Act envisages valuation of asset at market value only. The Act authorises the Board to make rules to provide the manner in which the market value of the assets has to be determined. The Board's Circulars of February 1982 and March 1983 lay down only guidelines for the valuation of lands and these circulars not being in the nature of instructions are not binding on the assessing officers.

The comments of the Ministry of Finance on the paragraph are awaited (December 1986).

APPENDIX IV

(Vide Para 2.3)

F. No. 319/15/80-WT

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 6th Feb., 1982

SUBJECT : *Valuation of agricultural land comprised in tea, coffee, rubber and cardamom plantations—guidelines regarding.*

Prior to the amendment made by the Finance Act, 1969, agricultural wealth was wholly exempt from Wealth-tax. The Finance Act, 1969 extended the levy of Wealth-tax to the value of agricultural property with effect from assessment year 1970-71. The Finance (No. 2) Act, 1980 has excluded from the purview of Wealth-tax the value of agricultural property other than the value of agricultural land comprised in tea, coffee, rubber or cardamom plantations and trees standing on such plantations. This amendment has come into force with effect from 1st April, 1981 and accordingly applies in relation to assessment year 1981-82 and subsequent years. Therefore, agricultural lands comprised in tea, coffee, rubber and cardamom plantations are liable to Wealth-tax from assessment year 1970-71 onwards. However, the value of agricultural land comprised in tea, coffee, rubber or cardamom plantation continues to enjoy a limited exemption along with value of specified financial assets upto Rs. 1.5 lakhs.

2. So far, no rules have been framed for the valuation of agricultural lands or lands comprised in tea, coffee, rubber or cardamom plantations in particular. In order to have some uniform procedure for the valuation of agricultural land comprised in these plantations, the following broad guidelines have been laid down for the valuation of such lands.

3. The agricultural land in the specified plantations may be classified into the following three categories, namely :—

- (a) lands covered by plants which have started yielding;
- (b) virgin land which is in the process of being developed and land covered by plants which have not started yielding;
- (c) virgin land capable of being planted but which has not been planted and lands not falling in any of the above specified categories.

4. The value of the land at 3(a) above will be determined by employing the 'income capitalisation method'. For this purpose, land utilized for constructing roads, paths, farm houses, store houses, yards, building for procession, building for housing the coolies and the supervisory staff will not be worked out separately, but will be deemed to be covered by the value of the land with reference to the yield.

The following procedure will be adopted :

- (a) The net annual income of the estate will be computed by taking the average of the aggregate gross income as per accounts for 6 years including the relevant accounting year as reduced by the average of aggregate expenditure for the same years.
- (b) If any expenditure for self-management is not debited to the accounts, the average aggregate expenditure will be increased by an amount equal to 5% of the average of the gross income from the plantation as an allowance for self-management of the plantation.
- (c) In computing expenditure, the expenses will be allowed on commercial principles but will not include the following :
 - (i) Interest on borrowals for preparation and development of the estate.
 - (ii) Provision of gratuity.
 - (iii) Expenses of personal nature.
 - (iv) Wealth-tax.
 - (v) Depreciation on plant and machinery (excluding tools and implements).
 - (vi) Expenses of capital nature.
- (d) The net annual income as computed above will be reduced by an ad hoc deduction of 25% of such net annual income.
- (e) The annual income as so arrived at will be capitalised by adopting a multiplier of 6.

5. The value of land at 3(b) above will be determined by adding the actual cost of the improvement to the market value of the virgin land.

6. The value of land at 3(c) above will be determined by the usual method of valuation, i.e. to ascertain the market value on the basis of what it would fetch if sold in the open market. While doing so, due regard may be given to the value of the land recommended by the Tea/Coffee/Rubber/Cardamom Board for the purpose of granting development loan relevant to the valuation on date.

7. Pending Wealth-tax assessments involving valuation of specified plantation may be finalised on the above basis.

Sd./-
P. RANGANATHAN,
Under Secretary
Central Board of Direct Taxes

Copy to :

1. All Chambers of Commerce.
2. All Commissioners of Income-tax.
3. All Commissioners of Income-tax (Appeals).
4. All Inspecting Assistant Commissioners and Appellate, Assistant Commissioners of Income-tax.
5. Director of Inspection (Income-tax and Audit)/(RSP&PR)/(PUB)/(Investigation)/(Vigilance)/(Special Cell)/Director O&B Services (Income-tax).
6. All Officers and Sections in the Central Board of Direct Taxes.
7. Assistant Director of Inspection (Bulletin).
8. Comptroller & Auditor General of India.
9. Superintending Engineer (Valuation).
10. Ministry of Law, Justice and Company Affairs.

Sd./-
P. RANGANATHAN,
Under Secretary
Central Board of Direct Taxes

AUTHORISED FOR ISSUE
(B. B. JAIDKA)
Asstt. Director of Inspection (RS&P)

APPENDIX V

(Vide Para 2.5)

F. No. 319/9/83-WT

GOVERNMENT OF INDIA
CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 26th March, 1983/
12 May, 1983

SUBJECT : *Valuation of agricultural land comprised in tea, coffee, rubber and cardamom plantations—guidelines regarding.*

Attention is invited to Board's circular No. 326 dated 6th February, 1982 issued from file No. 319/15/80-WT on the above subject. In view of various practical difficulties in implementing this circular the Board makes the following broad guidelines for the valuation of lands comprised in coffee plantations in order to have some uniform procedure for speedy completion of the pending assessments as far as Karnataka Charges are concerned.

2. The plantation, land in the coffee plantations may be classified into the following three categories, namely :—

- (a) lands covered by plants which have started yielding;
- (b) virgin land which is in the process of being developed and land covered by plants which have not started yielding;
- (c) virgin land capable of being planted but which has not been planted and lands not falling in any of the above specified categories.

3. In valuing lands at 2(e) above, the value will be determined on the basis of yield per acre. As far as coffee plantations are concerned, the following yield/value pattern was considered reasonable :—

<i>Yield per acre in Kgs.</i>	<i>Valuation (Rs.)</i>
250 and below	5,000.00
251—350	6,000.00
351—450	7,000.00
451—550	9,000.00
551—650	11,000.00
651—750	13,000.00
751 and above	15,000.00

The average of six years production of the yielding area is to be arrived on this basis. Where, however, six years data is not available, the average is to be worked out with reference to the number of years for which yield is available.

4. In respect of lands at 2(b) above, the value may be taken at Rs. 3,000/- per acre with due consideration to peculiar factors in individual cases. With regard to value of lands at 2(c) above, no value need be taken as the value of such virgin lands may be negligible.

5. Regarding the stock of coffee, a value of the same may be separately determined on the basis of the average of the preceding three years' dividend and added to the value of the land.

6. With regard to the other assets, such as land utilised for constructing roads, baths, farm houses, store houses, yards, buildings for processing, building for housing the coolies and supervisory staff etc., no separate addition need be made.

7. Pending Wealth-tax assessments involving valuation of coffee plantations may be finalised on the above basis.

Sd./-
P. RANGANATHAN,
Under Secretary
Central Board of Direct Taxes

APPENDIX VI

Statement of Conclusions and Recommendations

Sl. No.	Para No.	Recommendation												
1	2	3												
1.	1-8	The Committee desire that expeditious steps should be taken to clear all pending cases giving priority to cases outstanding for more than a year and cases above Rs. 10 lakhs, It is imperative that progress in the clearance of outstanding cases is closely monitored and constant watch kept on their clearance.												
2.	1-9	<p>Recently, the CBDT in October, 1987 approved the proposal for enhancement of monetary limit of the jurisdiction of District Valuation Officer, Valuation Officer and Assistant Valuation Officer as well as their quota for disposal of cases as detailed below :</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <thead> <tr> <th style="text-align: left;"></th> <th style="text-align: center;"><i>Jurisdiction</i></th> <th style="text-align: center;"><i>Quota for disposal</i></th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">District Valuation Officer</td> <td style="text-align: center;">Value of assets declared exceeding Rs. 20 lakhs</td> <td style="text-align: center;">90 cases per officer</td> </tr> <tr> <td style="text-align: left;">Valuation Officer</td> <td style="text-align: center;">Value of assets declared exceeding Rs. 5 lakhs and not exceeding Rs. 20 lakhs</td> <td style="text-align: center;">180 cases per officer</td> </tr> <tr> <td style="text-align: left;">Assistant Valuation Officer</td> <td style="text-align: center;">Value of assets not exceeding Rs. 5 lakhs</td> <td style="text-align: center;">180 cases per officer</td> </tr> </tbody> </table>		<i>Jurisdiction</i>	<i>Quota for disposal</i>	District Valuation Officer	Value of assets declared exceeding Rs. 20 lakhs	90 cases per officer	Valuation Officer	Value of assets declared exceeding Rs. 5 lakhs and not exceeding Rs. 20 lakhs	180 cases per officer	Assistant Valuation Officer	Value of assets not exceeding Rs. 5 lakhs	180 cases per officer
	<i>Jurisdiction</i>	<i>Quota for disposal</i>												
District Valuation Officer	Value of assets declared exceeding Rs. 20 lakhs	90 cases per officer												
Valuation Officer	Value of assets declared exceeding Rs. 5 lakhs and not exceeding Rs. 20 lakhs	180 cases per officer												
Assistant Valuation Officer	Value of assets not exceeding Rs. 5 lakhs	180 cases per officer												

1	2	3
3.	1·10	The Committee hope that these norms would be strictly observed by the concerned officers in the interest of expeditious disposal of valuation cases and they would like to be apprised of the results achieved in this direction. They would also like the Ministry to review the position of pendency of cases with the District Valuation Officers, Valuation Officers and Assistant Valuation Officers from time to time to ensure equitable distribution of work.
4.	1·11	The valuation of immovable property wholly or mainly used for residential purposes is determined on the basis of arithmetical formula prescribed under Rule 1BB of the Wealth Tax Rules, 1957. There is however, no corresponding formula for the valuation of commercial properties. The Ministry of Finance (Deptt. of Revenue) informed the Committee that they were considering framing of rules for commercial properties on the lines of the procedure laid down in Rule 1BB. With the framing of these rules the procedure for valuation of commercial properties would be codified and there will be less scope for arbitrariness and discretion in the hands of assessing officers in valuing such properties. This will also reduce the pressure of work on the Valuation Cell. The Committee desire the Ministry to expedite framing of the rules for valuation of commercial properties.
5.	1·15	The Govt. have also not been able to collect information regarding the total number of cases in which the assessee preferred appeals against valuation and the number of cases in which the valuation was upheld, and the number in which the valuation was reduced or deleted. The Committee deprecate the failure of the Ministry in giving the requisite information so vital for the proper evaluation of the effectiveness of the Valuation Cell. The Audit has also pointed out that copies of appellate decisions were not made available to the Valuation Officers with the result that the Valuation Officers are denied the opportunity of updating their knowledge. The Registers of Appeals maintained by the Valuation Officers did not bear entries about the outcome of appeals in valuation cases owing to failures on the part

of Income tax Officers to furnish the requisite information or to obtain copies of appellate decisions by the Valuation Officer thus defeating the very purpose for which these Registers were maintained. During evidence, the Secretary (Revenue) agreed that there was need to cull out major points in respect of valuations rejected by the Appellate authorities for the guidance of the Valuation Officers. The Committee conclude that there is no systematic appraisal of the management control and evaluation process of the Valuation Cell and it is not possible to exactly assess its overall performance in assisting the assessing officers in the matter of valuation of assets such as lands, buildings etc. referred to it for the purpose of determining the tax liability of the assessee under the Direct tax Laws. It is imperative that all cases in which the valuation is reduced in appeal are analysed critically so that not only such errors in their working are avoided in future but are also made known to the Valuation Officers throughout the country to enable them to avoid incorrect valuation methods in similar cases. The Committee feel that a systematic study of such cases should be conducted once in six months and the results of such study should also be made known to the concerned officers as a part of their regular training. There should be an effective system for feedback of information regarding results of appeals in which valuation was disputed for guidance of valuation officers.

In reply to a question whether any review of the Valuation Cell has been conducted to see if the objectives for which it was created have been achieved, the Committee were informed that it has not been done so far. The Chairman, Central Board of Direct Taxes while disavouring such a review, expressed the view that the Valuation Cell was not meant to be a revenue raising mechanism and it had been created to do justice both to the tax payer as well as the Board. Audit has pointed out certain deficiencies

and weaknesses in the functioning of the Valuation Cell and some of these audit findings have already been accepted by the Ministry. Seeing the persistence of the same types of omissions and deficiencies as were pointed out by the Committee in an earlier report*, the Committee are convinced that the functioning of the Valuation Cell needs to be reviewed thoroughly so as to remedy the weaknesses, and deficiencies in the Cell. On an enquiry made by the Committee, the Secretary (Revenue) agreed during evidence that the Ministry would have the study/review conducted by the National Institute of Public Finance and Policy. The Committee desire that necessary action to commission such study may be taken without any loss of time. The Committee would also like to be apprised of the result of the study/review so made.

7. 1-18 The Committee feel that even if the objectives of various Acts and the valuation dates are different, the 'market value' of the same property should not vary thereunder. Different modes of valuation lead to confusion, harassment and unnecessary litigation. The Committee desire that the matter may be examined again with a view to bringing about uniform procedure of valuation of properties under all the Direct tax Acts.
8. 1-22 The Committee are of the opinion that the setting up of an autonomous valuation authority free from departmental or extraneous influences and based on a system of a common principle of valuation for all property taxes with a common implementation machinery would impart efficiency and impartiality to the valuation work and would also go a long way in reducing the hardships caused to the tax payers. The Committee accordingly urge the Government to reconsider the issue in the light of the opinion of the Law Ministry and also in consultation with the State Governments.

1

2

3

9. 1.24 The Committee would like to be apprised of the correct position* in this regard. Even if the audit objection had been dropped, the fact remains that there are no guidelines for valuation of salt pans which very much fall within the definition of immovable properties. The situation created by the refusal of the Chief Engineer (Valuation) needs to be rectified. The Committee, therefore, recommend that some standard method should be evolved to ensure uniformity in the valuation of salt pans.
10. 1.29 Income tax assesseees are not only very large in number but are also located throughout the length and breadth of the country. The Income-tax Department have done a commendable job by discovering and adding a record 6.56 lakh new assesseees in the year 1986-87 to their tax records through survey operations. The Committee, however, feel that there is still a considerable number of people or class of people like professionals and small businessmen/traders/shopkeepers etc. who in spite of earning income which may be liable to be taxed, are not assessed to Income tax. Since the surveys carried out by the Income Tax Department have resulted in addition of assesseees, the Committee feel that it would be worthwhile to intensify the tempo of surveys by further strengthening the investigating machinery of the Income Tax Department so that persons who have taxable income are actually taxed. This will result in recurring addition to revenues of the Government. This area or class of people, therefore, deserves special attention of the Department. The Committee desire that the Ministry should devise some suitable ways and means of bringing these people to their tax net by intensification of surveys and taking other appropriate measures.

*See paragraph 1.23 of this Report.

1	2	3
11.	1-31	<p>The Committee note that the audit paragraph under reference contains quite a large number of individual cases and others in which the audit found certain irregularities and deficiencies. The Ministry of Finance (Department of Revenue), at the instance of the Committee, have now furnished the factual position in respect of a number of cases which is at variance with that indicated in the audit Paragraph* in some cases. Had these facts been brought to the notice of audit before inclusion of the cases in the Audit Report, much of the time of the audit and the Committee would have been saved. Besides, the delay in settling the issues raised in audit might lead to such situations where the department is disabled to initiate departmental action against the erring officials on account of their having retired or left the service. The Committee, therefore, desire that the audit objections/comments should be attended to promptly by the concerned departments/Ministry and the replies furnished to audit within the prescribed time-frame so that timely corrective action is taken on the issues raised in audit and only those objections which are valid are included in the Audit Report.</p>
12.	2-3	<p>The Committee regret to say that although the provisions regarding taxation of agricultural lands comprised in the specified plantations remained on the statute book for over a decade yet the Central Board of Direct Taxes knowing fully well that valuation of these lands in particular for wealth tax purposes was a complex subject, did not frame any rules or guidelines for being followed by the assessing officers for valuation of these lands. Ironically, in 1982, while the tax provisions in regard to agricultural lands and growing crops were withdrawn from the statute book through the Finance Act, 1982, the Central Board of Direct Taxes became alive to the need for issue of guidelines for valuation of these lands with a view to speeding up the disposal of</p>

61

*Vide Sub-paras 1-15-08, 1-15-10, 1-15-11 and 1-15-13 of Audit paragraph.

1	2	3
		<p>pending assessments involving valuation. The magnitude of pendency of assessments can be gauged from the fact that as on 28 February 1982, the pendency of assessments in respect of Karnataka Coffee Plantation alone was nearly 40,000. This figure would certainly have been much more in respect of all types of plantations (tea, coffee, rubber and cardamom) all over the country. Had the guidelines for valuation been issued earlier, the pendency would surely have been very low.</p>
13.	2.4	<p>The Committee regret to observe that the CBDT who is administratively responsible for implementing the provisions of the Direct Taxes laws failed in its duty by not framing requisite rules within reasonable time after the enactment of law to ensure its proper implementation. The Committee need hardly emphasise that implementation of the provisions of law should be closely watched and rules regulating them framed with precision and due promptitude.</p>
14.	2.8	<p>It is disquieting to find that the clarification contained in Circular issued in 1983 was made applicable only to coffee plantations and that too in Karnataka alone. This only indicates that the matter was not given the serious attention it deserved. The Committee deprecate the lackadisical approach of the Government in an issue so vital for raising revenues. The provisions of a Central Law are applicable to the whole of the country and therefore there should not be any justification whatsoever for the guidelines issued thereunder being made applicable to certain limited area/areas to the disadvantage or advantage of others. While deprecating the manner in which the whole issue was handled, the Committee only hope that the Government would not resort to such a discriminatory practice in future which can give rise to justified criticism apart from being illegal.</p>

