

**HUNDRED AND EIGHTY-FIRST  
REPORT**

**PUBLIC ACCOUNTS COMMITTEE  
(1983-84)**

(SEVENTH LOK SABHA)

WEALTH—TAX

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

[Action Taken on 101st Report (7th Lok Sabha)]



*Presented in Lok Sabha on..... ..*

*Laid in Rajya Sabha on..... ..*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*February, 1983/Phalgun, 1905 (Saka)*

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~~Corrigenda to Hundred and Eighty-first Report~~  
of the Public Accounts Committee (7th Lok Sabha)

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**PUBLIC ACCOUNTS COMMITTEE**  
(1983-84)

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## INTRODUCTION

1. I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Eighty First Report on action taken by Government on the recommendations of the Public Accounts Committee (1981-82) contained in their 101st Report (Seventh Lok Sabha) relating to 'Wealth Tax'.

2. In their 101st Report, the Public Accounts Committee (1981-82) had observed that the multitude of legal provisions, modes of valuation and valuation authorities for the valuation of self-same properties had created a situation where property taxes had become a source of great harassment as well as abuse. While unscrupulous people were able to evade payment of taxes with impunity, the honest tax-payers were harassed by different tax as well as valuation authorities. In the said Report, the Committee had also observed that since the Wealth Tax Act had, both in its design as well as administration, failed to achieve the very socio-economic objectives of building up an egalitarian society, the advisability of its continuance needed an indepth and objective examination. The Committee had accordingly recommended that the matter may be referred to the Economic Administration Reforms Commission for indepth examination in the light of the findings and observations of the Committee. Learning that the Economic Administration Reforms Commission has since submitted its Report on Wealth Tax to Government, the Committee have desired to be furnished with a copy of the Report of the EARC on the subject together with the decisions taken thereon by Government.

3. In the earlier Report the Committee had recommended that as the basic principle in case of Wealth Tax as well as Gift Tax and Estate Duty was the market value, common rules for valuation of unquoted equity shares consistent with the provisions of the three Acts should be framed so as to ensure that different values were not assigned to the same shares for purposes of the three taxes at the same time. In their action taken reply, the Ministry have stated that the Committee's recommendation regarding framing of common rules of valuation under the Wealth Tax Act, Gift Tax Act and Estate Duty Act has been 'noted' by Government. As a period of over a year and a half has elapsed since the PAC (1981-82) had made the above recommendation, the Committee have desired that the matter should be pursued with utmost expedition both in the interest of smooth administration of direct taxes law as also determination of a rational and equitable basis of assessment.

4. In the earlier Report, the Committee had also desired that in view of large increase in the value of movable and immovable assets in the last few years, it would be desirable to fix the exemption limit at about Rs. 5 lakhs so

(vi)

that the Department could function effectively and advantageously so far as collection of revenue from persons holding large wealth was concerned. In the present Report, the Committee have desired that the matter should be dealt with expeditiously.

5. Arising from an earlier recommendation, the Committee have also desired to be apprised of precise steps taken by the Ministry of Finance to improve the working of the institution of registered valuers which was introduced with the avowed object of bringing about better regulation and discipline over non-official valuers and to ensure that valuation reports are furnished by the registered valuers in the prescribed form.

6. The Committee considered and adopted the Report at their sitting held on 13 February, 1984.

7. For reference facility and convenience, the recommendations and observations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

8. The Committee place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI ;  
*February 23, 1984*  
*Phalgun 4, 1905(S)*

SUNIL MAITRA,  
*Chairman*  
*Public Accounts Committee*

## CHAPTER I

### REPORT

This Report of the Committee deals with the action taken by Government on the observations and recommendations contained in their 101st Report (7th Lok Sabha) on "Wealth Tax".

1.2 Action Taken notes on all the recommendations and conclusions, except one at Sl. No. 62, have been received from the Government. These have been categorised as follows :

- (i) Recommendations and conclusions that have been accepted by Government :  
Sl. Nos. 1-8, 10, 13-17, 19, 21, 24, 29-31, 33-37, 39, 42-44, 46-48 and 56-59
- (ii) Recommendations and conclusions which the Committee do not desire to pursue in view of the replies of Government : Sl. Nos. 22, 23, 28 and 32
- (iii) Recommendations and conclusions replies to which have not been accepted by the Committee and which require reiteration :  
Sl. No. 45
- (vi) Recommendation and conclusions in respect of which Government have furnished interim or no replies :  
Sl. Nos. 9, 11, 12, 18, 20, 25, 26, 27, 38, 40, 41, 49-55 and 60-73.

1.3 Of the 73 observations/recommendations made by the Committee in the 101st Report (7th Lok Sabha), replies to as many as 32 observations/recommendations are of an interim nature; and no reply in respect of one recommendation—Sl. No. 62—has so far been received. In regard to the observations/recommendations in respect of which only interim replies have been received, the Ministry of Finance in their communication dated 14 December, 1983 have stated that these recommendations involve amendments to various Direct Tax laws and are also linked with Economic Administration Reforms Commission's Report and as such, it may not be possible for the Ministry to submit final replies in respect of these recommendations for quite some time. The Committee understand that the Economic Administration Reforms Commission have since submitted their Report on Wealth Tax. As more than a year and a half has elapsed since the Committee

had presented their Report, they desire that early decisions should now be taken on the aforesaid observations/recommendations and final replies thereto submitted to them expeditiously, after getting the same duly vetted by Audit.

1.4 The Committee will now deal with the action taken by Government on some of their recommendations and conclusions.

*Raising of exemption limit for Wealth-tax*

(Paragraph 2.64)

1.5 In paragraph 2.64 of their 101st Report (7th Lok Sabha), the Public Accounts Committee had recommended as follows :

“The information furnished by the Ministry with regard to the number of wealth-tax assesseees according to the size of their wealth shows that the number of assesseees having assessable wealth above Rs. 20 lakhs was 784, those having wealth between Rs. 10 to 20 lakhs was 3776, those having wealth between Rs. 5 to 10 lakhs was 12, 147, while those having wealth below Rs. 5 lakhs numbered 3.02 lakhs as at the end of 1978-79. The Committee are surprised to find that in the records of the Department there were only 4,560 persons in the whole country having a net wealth of over Rs. 10 lakhs and only 16,707 persons having a net wealth of over Rs. 5 lakhs. The data furnished by the Ministry also indicate that as many as 94.78 per cent of the assesseees have net wealth below Rs. 5 lakhs. The Ministry have informed that “the number of wealth tax assesseees according to size of their wealth is based upon the amount of total net wealth assessed after allowing exemptions and deductions of varying amounts in accordance with the relevant provisions of the law. Also, there are likely to be a number of ‘persons’ who will be having a net wealth of over Rs. 10 lakhs or Rs. 5 lakhs but not included in the number of persons mentioned in the reply.....because they belong to categories which are not assessable to wealth-tax.”

In view of this position of the matter and particularly in view of large increase in value of movable and immovable assets in the last few years, it would, in the opinion of the Committee, be desirable if the exemption limit of wealth-tax is fixed at about Rs. 5 lakhs so that the Department may be able to function effectively and advantageously so far as collection of revenue from persons holding larger wealth is concerned.

1.6 In their Action Taken Note dated 18 April, 1983 the Ministry of Finance (Department of Revenue) have stated as follows :

“The recommendation of the Hon’ble Committee for raising the Wealth-tax exemption limit has been noted in this regard.”

1.7 The Committee had desired that in view of large increase in value of movable and immovable assets in the last few years, it would be desirable to fix the



exemption limit at about Rs. 5 lakhs so that the Department may function effectively and advantageously so far as collection of revenue from persons holding large wealth was concerned. The Government in their reply have stated that "the recommendation of the Hon'ble Committee for raising of the Wealth tax exemption limit has been noted". The Committee would like the Ministry to have this matter dealt with expeditiously.

*Concerted measures under a time bound programme to settle cases where  
in huge arrears of revenue were locked up*

(Paragraph 2.66)

1.8 In paragraph 2.66 of their 101st Report (7th Lok Sabha) the Public Accounts Committee had recommended as follows :

"No data have been furnished to the Committee with regard to the arrears out-standing against assesseees in the slab of over Rs. 5 lakhs. However, the Ministry have furnished to the Committee data showing out-standing demand exceeding Rs. 10 lakhs in each case which shows that as on 31st March, 1979, 1980 and 1981, the total arrears in such cases amounted to Rs. 52.08 crores, Rs. 63.03 crores and Rs. 75.29 crores respectively. The Committee were informed that instructions have been issued to the effect that in cases where the demand locked up is more than Rs. 10,000 the Appellate Assistant Commissioners should treat the case as a priority case. For the Commissioners of Income-tax (Appeals) the corresponding limit is Rs. 50,000. Apparently these instructions have not had the desired effect. The Committee consider that if only the Department could concentrate on these bigger cases, they could make a substantial contribution to the collection of outstanding demand of wealth-tax. The Committee, therefore, urge that the Department should take concerted measures under a time bound programme to settle these cases which have locked up huge arrears of revenue. The steps taken in this regard should be reported to the Committee."

1.9 In their Action Taken Note dated 13 October, 1982 the Ministry of Finance (Department of Revenue) have stated as under :

"The Board have again issued instructions stressing the need for timely disposal of high demand appeals. Commissioners of Income-tax (Appeals) have also been asked to lay down a time bound programme for disposal of high demand appeals as desired by the Committee."

1.10 In regard to arrears outstanding against assesseees, the Committee were informed that instructions had been issued to the effect that in cases where the demand locked up was more than Rs. 10,000 the Appellate Assistant Commissioners should treat the case as priority case and for Commissioners of Income tax (Appeals), the corresponding limit was Rs. 50,000. In para 2.66 of the Report, the Committee had observed that "apparently" these instructions had

not had the desired effect and had urged that the Department should take concerted measures under a time bound programme to settle the bigger cases which had locked up huge arrears of revenue. In their reply, Government have stated that "the Board have again issued instructions stressing the need for timely disposal of high demand appeals. Commissioners of Income Tax (Appeals) have also been asked to lay down a time bound programme for disposal of high demand appeals as desired by the Committee". The Committee would like to point out that mere issue of fresh instructions does not meet the requirement of the recommendation of the Committee. It is hardly necessary for the Committee to stress that instructions issued by higher authorities have value if they are followed by the lower formations in letter and spirit. The Committee trust that the Central Board of Direct Taxes will see to it that this done and high demand appeals are disposed of quickly. The Committee would like to have a further report in the matter.

*Institution of Registered Valuers*

(Paragraphs 3.72 to 3.75)

1.11 In regard to bringing about better regulation and discipline over non-official valuers, the Committee had, in paragraphs 3.72 to 3.75 observed as follows :

"The Committee have been informed the Section 7 (4) of the Wealth Tax Act effective from April 1976 coupled with Rule 1 BB effective from April, 1979 have tended to reduce the number of references made to Valuation Cells in cases of residential properties. The Department is separately considering framing a rule for commercial properties. The Chairman, Central Board of Direct Taxes stated in evidence that it would be better if we have rules for the remaining type of properties also and do away with the Valuers' certificates completely.

The Committee consider that so long as the avowed object for which the Valuation Cells were set up viz., that of preventing large scale avoidance of taxes by under-statement of the returned value of assets and making investment of unaccounted money in real estate unprofitable and unattractive is not achieved, the need for such an organisation will remain. The Committee would therefore expect the Ministry of Finance to keep a close watch on their functioning.

The institution of registered valuers was introduced with a view to bringing about better regulation and discipline over non-official valuers. The number of registered valuers as in July 1981 was 3283. Of these, 2031 were in respect of immovable properties, 574 in respect of jewellery, 235 in respect of agricultural lands, 193 in respect of stocks, shares securities etc. 186 in respect of machinery and plant, 49 in respect of plantations of coffee, tea, rubber and cardamam, 10 in respect of life interest, reversions and interest in expectancy, 3 in respect of mines and quarries and one each in respect of forests and works of art.

The Committee have been informed that one of the reasons which adds to the work of the Valuation Cell and leads to delay in the disposal of valuation cases is that the registered valuers do not furnish the valuation reports in the form prescribed nor do they give all the required information. However, there has been no case of a registered valuer against whom action has been taken so far under Section 34 AD for misrepresentation or suppression of a material fact or for misconduct in his professional capacity."

1.12 In their Action Taken note dated 21 October, 1982 the Department have stated that 'the observations of the Committee have been noted by the Ministry'.

1.13. The Public Accounts Committee (1981-82) were informed by the Ministry of Finance that one of the reasons which added to the work of the Valuation Cell and led to delay in the disposal of valuation cases was that the registered valuers did not furnish valuation reports in the form prescribed nor did they give all the required information. The Committee were also informed that there had been no case of a registered valuer against whom action had so far been taken under Section 34 AD for misrepresentation or suppression of a material fact or for misconduct in his professional capacity. In their action taken reply, the Ministry of Finance have stated 'the observations of the Committee have been noted by the Ministry'. The Committee would like to point out that mere 'noting' is not enough in this case. They would like to be informed of the precise steps taken by the Ministry to improve the working of the institution of registered valuers, which was introduced with the avowed object of bringing about better regulation and discipline over non-official valuers and to ensure that valuation reports are furnished by the registered valuers in the prescribed form.

The Ministry had also informed the Committee that they were separately considering framing a rule for valuation of commercial properties. The Committee would like to be informed whether this has since been done ; and if not, what are the reasons for delay.

#### **Setting up of an autonomous Valuation Authority**

(Paragraphs 3.79 and 5.11)

1.14. Emphasising the need for devising a system based on a common principle of valuation for all property taxes with a common implementation machinery, the Committee had, in paragraphs 3.79 and 5.11 of their 101st Report recommended as follows :

"The Committee are of the opinion that this multitude of legal provisions, modes of valuation and valuation authorities for the valuation of self-same properties has created a situation where property taxes have become a matter of great harassment as well as abuse. While unscrupulous people are able to evade payment of Central, State, as well as local taxes with

impunity, the honest tax payers are harassed by different tax as well as valuation authorities. It is the Committee's considered opinion that a system based on a common principle of valuation for all property taxes with a common implementation machinery would go a long way in improving the administration of all these taxes and also in ameliorating the hardships caused to the tax payers on this account. The Committee would strongly recommend 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 or extraneous 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 values so determined by this authority could be reviewed/updated by it periodically, say, at quinquennial intervals. The valuation certificate given by this authority in respect of any particular property should then be necessary as well as sufficient for all taxes relating to that property, Central, State or local.

The Committee are led to the conclusion that, both in its design as well as administration, the Wealth-tax Act has failed to achieve the very socio-economic objective of building up an egalitarian society. In fact, it is incapable of achieving such objectives in its present form and substance. So far as its administration is concerned, it is more of a liability than otherwise to the Government. It cannot be over-emphasised that it has been admitted to be inequitous. Therefore, the advisability of its continuance needs an indepth and objective examination. The Committee recommended that this specific question alongwith the question of setting up an autonomous valuations authority as recommended in para 3.79 of this Report may be referred to the Economic Administration Reforms Commission for indepth examination in the light of the findings and recommendations of the Committee in this Report. A copy of the Report of the EARC may be sent to this Committee".

1.15 In their Action Taken Notes dated 13 October, 1982 the Ministry of Finance (Department of Revenue) have stated :

"Attention of the Economic Administration Reforms Commission has specifically been drawn to the recommendations made by the Committee. That Commission's final recommendations in this regard are awaited."

1.16 In their earlier Report, the Committee had observed that the multitude of legal Provisions, modes of valuation and valuation authorities for the valuation self-same properties had created a situation where property tax had become a source of great harassment as well as abuse. While unscrupulous people were able to evade payment of taxes with impunity, the honest tax-payers were harassed by different tax as well as valuation authorities.

In the said Report, the Committee had also observed that since the wealth-tax Act had, both in its design as well as administration, failed to achieve the very socio-economic objectives of building up an egalitarian society, the advisability of its continuance needed an indepth and objective examination. The Committee had accordingly recommended that this specific question alongwith the question of setting up an autonomous valuation authority may be referred to the Economic Administration Reforms Commission for indepth examination in the light of the findings and recommendations of the Committee in the 101st Report. The Committee have been informed that attention of the Economic Administration Reforms Commission has specifically been drawn to the above mentioned recommendations of the Committee and that that Commission's final recommendations in that regard were awaited. The Committee, however, find from the reply to Starred Question No. 148 on 2.12.1983, that the E.A.R.C. has since submitted its Report on wealth tax. A copy of the Report of E.A.R.C. in this regard may be sent to the Committee. The decision taken thereon may also be intimated to the Committee.

*Streamlining of the survey machinery for collecting information about urban properties from the records of local bodies.*

(Paragraph 3.102)

1.17 In paragraph 3.102 of the report, the Committee had recommended as follows :

“The Committee find that though instructions had been issued by the Central Board of Direct Taxes to those engaged in survey work to gather information in respect of properties from the records of local bodies, the Board do not have information about the number of property owners in large metropolitan areas. The Board have not even compiled a census of substantial urban properties. Considering the performance so far, the Committee, therefore feel that there is no systematic flow of information to the assessing and valuation officers in respect of sale/auction of land/houses/flats and new constructions. Since internal survey forms an integral part of the survey operations, it is imperative that the machinery for collecting relevant information from various sources with a view to detecting evasion of tax is strengthened and streamlined.”

1.18. In their Action Taken Notes dated 20 October, 1982 the Ministry of Finance (Department of Revenue) have stated :

“Census for properties to be surveyed is not practicable as it will involve a massive census operation of the properties for which neither the Income-tax Department is equipped nor can it be so equipped. However, Commissioners of Income-tax-in-charge of survey have been asked to gather a broad idea of the work load in the form of number of road, streets and important residential and commercial premises to be surveyed.

Lists of a number of sources of information have been compiled from which the survey Inspectors have to collect information during the span of three years commencing from 1982-83. Some of these sources have to be covered every year."

1.19 Again, in paragraphs 3.103 to 3.105 of the Report, the Committee have observed :

3.103 "The Committee find that the CBDT 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. A further circular issued in August, 1979 emphasised the need for intensifying survey operation but shifted the target date covering all important localities to 31 March, 1982.

3.104 The Committee have been repeatedly emphasising the need for expediting the survey operations in the posh localities. Considering the unprecedented escalation in the values of real estate in recent years, the Committee cannot but take a very dim view of the functioning of the Survey organisation. No clear and comprehensive picture has been presented to the Committee about the precise progress made in this direction. Now that the deadline fixed for the purpose is over the Committee would like the data to be tabulated year-wise with regard to the number of localities and the total number of houses surveyed, the number of new assesseees located together with full details of the areas still remaining to be surveyed. The Committee desire that a city-wise Action Plan should be prepared for completing the first round of house to house survey by a stipulated date. This plan should also cover new markets, district centres etc. : that have come up in the bigger towns in recent years."

3.105 The Committee have no doubt that any effort in this direction would not succeed without keeping close co-ordination with the municipal authorities, the State Housing Boards, registration authorities etc. The institutional arrangements in this regard need to be considerably improved. The Committee would like to be informed of the measures taken or proposed, in this direction and the results achieved."

1.20 In their Action Taken notes dated 13/20 October, 1982, the Ministry of Finance (Department of Revenue) have stated :

3.103 "The observations of the Hon'ble Committee have been noted by the Ministry.

3.104 The Commissioners of Income-tax have been asked to include, *inter alia*, the following targets in their survey operations, during 1982-83 :

- (a) Completing the survey of the premises which were to be surveyed by 31.3.1982, by 31st March, 1983 ;
- (b) Second round of survey to cover all the localities both residential and commercial in 4 years i.e. by 31.3.1986 ;
- (c) Annual survey of the following important areas :
  - (i) New commercial complexes particularly multi-storeyed commercial buildings ;
  - (ii) New industrial estates sponsored either by the Government or private colonizers ;
  - (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 4 years (1.4.1982 to 31.3.1986).
  - (i) posh residential localities ;
  - (ii) vacant land in urban and semi-urban areas ;
  - (iii) complexes where there is a concentration of godowns in metropolitan towns.

3.105 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. Information from the Municipal Authorities and Registration Authorities etc. is to be collected every year. The Central Information Branches are being streamlined and have been placed under Commissioners of Income-tax-in-charge of survey."

1.21 The Committee have carefully considered the reply of Government. It was in the context of absence of systematic flow of information to 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 notice 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 31 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 31.3.1982 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 areas, they would like to point out that the Ministry's reply does not meet the requirements of the recommendation of the Committee in regard to maintenance of complete records of all Urban properties surveyed so far. The Committee, therefore, reiterate their earlier recommendation 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 year-wise with regard to the number of localities and the total number of houses surveyed, the number of new assessees located together with full details of the areas still remaining to be surveyed. Keeping in view the phenomenal increase in the prices of real estate in recent years, particularly in metropolitan cities, the Committee need hardly re-emphasise the importance of the above data. The Committee would like to be apprised of the tabulated data and measures taken to assess the wealth that escaped assessment.

*Finalisation of draft Wealth-tax (Amendment) Rules, 1981 and framing of common rules of valuation under the Wealth-tax Act, the Gift-tax Act and the Estate Duty Act.*

(Paragraphs 3.113 to 3.119)

1.22. In paragraphs 3.113-3.119 of their 101st Report (1981-1982), the Committee had recommended as under :

“3.113. Under Rule 1-D of the Wealth-tax Rules, 1957, the market value of the unquoted equity shares of a company other than an investment company or a managing agency company shall be 85% of the break up value determined by deducting, in the first instance the value of all liabilities as shown in the balance sheet of such company from the value of all assets shown in the balance sheet and then dividing the net amount so arrived at by the total amount of its paid up equity share capital. A further discount upto 10% of the break up value is allowed in the case of companies which have not paid any dividends in the past years.



3.114. In the case of investment companies the valuation is governed by the instructions issued by the Central Board of Direct Taxes on 30.10.1967. These instructions broadly contemplate a valuation based on the average of the values determined on the break-up value method and that determined on the capitalization of the yield method.

3.115. Section 37 of the Estate Duty Act and Rules 10 (2) of the Gift Tax Rules provide for the valuation of the unquoted shares of private companies "by reference to the value of the total assets of the company". In their Instruction No. 835 of 24 May, 1975, it was clarified by the Board that the value under these provisions should be determined by the break-up method taking the market value, and not the book value of the assets of the company.

3.116. In *Kusumben D. Mohadevia Vs Commissioner of Gift Tax* (124 ITR. 799) the Bombay High Court held that the provisions of Rule 1D of the Wealth-tax Rules are directory and not mandatory and the rules made under the Act "must be for the purpose of carrying out the object of Section 7 ; the object being to determine the market value". In para 4.29 of their 51st Report (7th Lok Sabha) the Public Accounts Committee pointed out that Rule 1D based on book value of assets would not bring out the market value in the case of a company which has undisclosed assets, or where the book value is much below the fair market value. In para 4.30 of the same Report, the Committee also pointed out that the provision about discount under the said Rule 1D would also give an undue benefit in the case of shares of a company which does not declare dividends presumably with a particular design and accumulates profits in reserves. The question of valuation of unquoted equity shares in investment companies was also commented upon in para 4.31 of the same Report of the Committee.

3.117. In *Commissioner of Wealth Tax Vs. Mahadeo Jalan* (86 ITR. 621), and again in *Commissioner of Gift Tax Vs. Kusumben D. Mahadevia* (127 ITR. 38) the Supreme Court held that the yield capitalization method based on the profit earning capacity of the Company is the normal method and the break-up value method can be preferred only when the company is ripe for liquidation.

3.118. The Chairman, Central Board of Direct Taxes testified in evidence that of the two recognised methods, capitalisation of the yield method was better than the break-up value method. However, in view of the practical difficulties involved not only in determining the yield but also the maintainable profits in such cases, the Departmental Committee (1976) favoured prescribing the break-up method. It was, however, found in actual working that the break-up method resulted in very low valuation in certain cases and also led to rigging of shares.

The Board had therefore framed draft rules in substitution of Rule 1D and public comments received thereon were being examined. The representative of the Ministry added that it is not possible to resort capitalisation in all cases. Despite the Supreme Court decision, we cannot completely give up the break-up value concept..... "In the Supreme Court judgement there is a sentence which says that although the capitalised value is a good method of valuing the assets, in certain circumstances the break-up method could also be resorted to." The Committee were assured that Rule 1D will be so amended as to take care of rigging of shares and escapement of tax liability and at the same time the interests of assessee will be safe-guarded. As to the question whether the Rules made by the Board were mandatory or directory, the advice of the Law Ministry was being obtained.

3.119. Taking note of the assurance given by the Chairman, Central Board of Direct Taxes, the Committee would like the rules for the valuation of unquoted equity shares being finalised quickly. Since the basic principle is the market value both in Wealth Tax, as well as in Gift Tax and Estate Duty, the Committee would recommend that common rules consistent with the provisions of these three Acts should be framed so as to ensure that different values are not assigned to the same shares for purposes of these three different taxes at the same time. The Committee would also like to be informed of the views of the Ministry of Law on the question whether the rules framed under the Direct Taxes laws are mandatory or only directory".

1.23. In their Action Taken Note dated 18 April, 1983 the Ministry of Finance (Department of Revenue) have stated as under :

"The recommendation of the Hon'ble Committee that the draft Wealth-tax (Amendment) Rules, 1981. should be finalised quickly has been noted.

The recommendation regarding common rules of valuation under the Wealth-tax Act, Gift-tax Act and the Estate Duty Act has also been noted. Board's view hitherto has been that the rules framed under the direct tax laws are mandatory. However, in the context of a contrary view expressed by the Bombay High Court in *Kusumben D. Mahadevia Vs. Commissioner of Gift Tax* (124 ITR 799), the advice of the Ministry of Law on the question whether the rules framed under the direct tax laws are mandatory or directory has been asked for. This issue would be further considered by the Board in the light of the advice given by the Law Ministry."

1.24. Taking note of the assurance given by the Chairman, Central Board of Direct Taxes, the Public Accounts Committee had, in their earlier Report,

desired that the rules for the valuation of unquoted equity shares under the Wealth Tax Act should be finalised quickly. Since the basic principle is the market value both in the Wealth Tax as well as in Gift Tax and Estate Duty, the Committee had recommended that common rules consistent with the provisions of the three Acts should be framed so as to ensure that different values were not assigned to the same shares for purposes of the three taxes at the same time. The Committee had also desired to be apprised of the opinion of the Ministry of Law on the question whether the rules framed under the Direct Taxes laws are mandatory or only directory. In their action taken reply, the Ministry of Finance stated that the Committee's recommendations regarding expeditious finalisation of the draft Wealth-tax (Amendment) Rules, 1981 and framing common rules of valuation under the Wealth-tax Act, the Gift-tax Act and the Estate Duty Act have been 'noted' by Government. The Ministry have also stated that the question whether the rules framed under the Direct-tax Laws are mandatory or directory has been referred for advice to the Ministry of Law and this issue would be further considered by the Board in the light of the advice given by the Law Ministry. As a period of over a year and a half has elapsed since the Committee made the above recommendations, they desire that the matter should be pursued with utmost expedition both in the interest of smooth administration of direct-taxes laws as also determination of a rational and equitable basis of assessment.

*Restoring the exemption limits in respect of personal jewellery to a reasonable level.*

1.25. In paragraphs 3.134—3.137 of their 101st Report (7th Lok Sabha), the Public Accounts Committee had recommended as follows :

“3.134. Under the Gold Control Act, a declaration is required to be made if an individual possesses gold jewellery exceeding 2000 grams. and a family more than 4000 grams. Exemption in respect of personal jewellery for wealth tax purposes was withdrawn with effect from 1 April, 1963.

3.135. The Committee find that the average price of gold per 10 grams has shot up from Rs. 184.96 in 1970-71 to Rs. 1158.71 in 1979-80 while that of silver increased from Rs. 536.68 per kg. to Rs. 2297.80 per kg. during this period. Given the traditional attachment to gold and jewellery in the Indian society and the tendency to keep the family possession a close secret, it is no surprise that the withdrawal of the concession in respect of personal jewellery has not succeeded in bringing any substantial number of assesseees into the wealth-tax net. The Committee were informed in evidence that nobody had been prosecuted for concealment of such wealth ever since the exemption was withdrawn.”

3.136. In the circumstances, the Committee consider that Government would do well to restore the exemption limits to a reasonable level

keeping in view the current prices of gold and silver so that enforcement of the law becomes easy and meaningful.

3.137. According to the Ministry, valuation of jewellery is an expert function and that no instructions on the principles to be followed with regard to its valuation have been laid down by the Board. Further, there is no official price of gold or silver. The market prices which vary from day to day are published by the Reserve Bank of India.

The Committee suggest that Government must lay down suitable rules for valuation of jewellery for the guidance of the Valuation Officers. These Rules should also take care of the type of cases of avoidance of tax liability mentioned above."

1.26. In their Action Taken Note dated 18 April, 1983, the Ministry of Finance (Department of Revenue) have stated as follows :

"The recommendations made by the Hon'ble Committee have been noted."

1.27. Under the Gold Control Act, a declaration is required to be made if an individual possesses gold jewellery exceeding 2000 grams and a family more than 4000 grams. Exemption in respect of personal jewellery for wealth tax purposes was withdrawn with effect from 1 April, 1963. As the withdrawal of the concession did not bring any substantial number of assessesees into the Wealth tax net, the Public Accounts Committee had in paragraph 3.136 and 3.137 of their 101st Report (1981-82), recommended that "Government would do well to restore the exemption limits to a reasonable level keeping in view the current prices of gold and silver so that enforcement of law becomes easy and meaningful" The Committee had also suggested that Government must lay down suitable rules for valuation of jewellery for the guidance of valuation officers. In their reply, the Government have merely "noted" the recommendation. The Committee would like to be informed of the concrete action taken by Government in this regard.

## CHAPTER II

### RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

1.32 The object of the Wealth-tax Bill as introduced in May, 1957 was to impose an annual tax on the net Wealth of individuals, Hindu undivided families and companies. The wealth-tax was to be an important constituent of an integrated structure of direct taxes. With income tax, estate duty and a tax on capital gains already in existence and with the addition of wealth tax and a tax on large personal expenditure in 1957 and Gift-tax in 1958 these direct taxes were to form a composite tax system made up of complementary elements. The system was intended to subserve *inter-alia* the avowed goal of attainment of a socialistic pattern of society.

1.33 According to the Chairman of the Central Board of Direct Taxes, the idea behind the integrated pattern of taxation was that, "if a person is able to conceal his income, he is found out at the time of wealth-tax assessment. If he restored to conspicuous consumption of wealth or income, he should be caught under the Expenditure-tax Act. Should he be tempted to give away a part of his income or wealth in the form of gift, he will be caught under the Gift Tax Act. If he was able to cheat the Department under all these Acts, he will be caught under the Estate Duty Act."

1.34 The Committee find that while the number of wealth-tax assesseees has increased from 2.11 lakhs in 1972-73 to 3.46 lakhs in 1979-80 i.e. by 64.1%, the yield from this tax gone up from Rs. 35.94 crores to Rs. 69.47 crores i.e. by 79% during this period. The All India Wholesale Price Index has increased by 87.3% and the All India Industrial Workers Consumer Price Index has increased by 73.9% during the same period. The price of gold however registered an increase of nearly 320%. It is also widely known that the prices of real estate have gone up tremendously over the years particularly in the metropolitan and bigger towns. The Committee are surprised to find from the data furnished by the Department that only 5% of the assesseees has assessable wealth above Rs. 5 lakhs while the number of those having net wealth above Rs. 20 lakhs was only 0.21% of the total number of Wealth-tax assesseees. It is thus clearly established that the number of assesseees brought into the wealth-tax net has not increased in proportion to the increase in the prices of gold and real estate. In reply to a pointed question, it was admitted in evidence that

“tax evasion had certainly increased” and that “concentration of wealth in a few hands could not be fully checked.”

1.35 A selective study of the contributions made to the national exchequer in the form of wealth tax by persons controlling large industrial houses, carried out recently by the Directorate of Inspection (Investigation), has revealed that while there has been a pronounced growth in the assets/wealth of the large industrial houses, the wealth of the persons controlling these houses has declined and the nation has been denied the benefit of even normal appreciation expected in the wealth of these persons even at the wealth holding level of 1957-58. The logical inference would be that while enjoying virtually all the rights of ownership attached to the assets multiplied several-fold, not only did the growth of assets remain unchanged, the owners who control the assets of the companies, virtually as owners, escaped the real burden of wealth-tax. The study further reveals that most of these persons have made use of various tax avoidance techniques for reducing their wealth tax liabilities. The main tax avoidance methods are creation of private trusts and transfer of assets to those trusts, transfer to minors and ladies, transfer of assets to companies, conversion of equity shares into preference shares, diversion of assets through HUF and rigging of shares.

1.36 To cite one such example from the study, it was found that the assets of Sarabhai Group, as per book value increased from Rs. 88.44 crores in 1972 to Rs. 136.96 crores in 1977. The market value of the total assets is estimated at about Rs. 520 crores as against book value of about Rs. 137 crores. The ultimate control and ownership of the total assets in the group rests with about 25 individuals. The contribution of the group to the national exchequer in the form of wealth-tax has ranged from 4 to 5 lakhs per year. The members in the group have consciously made such arrangements over a period of time so as to reduce their wealth tax liabilities. The Group has created over 1600 trusts to avoid wealth-tax on a huge scale. In all the trusts the ultimate beneficiaries are the same 25 individuals in this Group. Each member of the family has been made a beneficiary of a number of trusts and is also a trustee in other trusts in which he is not a beneficiary. The trusts have been created in such a way that the applicability of Section 64 of the Income-tax Act on the basis of cross transfer of assets is rendered impossible.

The study has, therefore, come to the conclusion that the existing provisions of the Wealth-tax Act and Rules thus provide sufficient leverage to the persons controlling monopoly houses to minimise their contributions to the national exchequer. However, the calculations made by the Department show that the cost of assessment and collection of wealth-tax for the years 1978-79, 1979-80 and 1980-81 worked out to Rs. 3.47 crores, 3.61 crores and 4.10 crores respectively. In terms of percentage of the wealth-tax yield, it works out to be as high as to 6.26, 5.61 and 6.13 in the respective years. The corresponding figures of cost of collection of income tax in terms of percentage work out to

3.45, 3.28 and 2.59 during the respective years. Apparently, the cost of collection does not include the burden of social compliance, involved in the valuation of assets by private registered valuers, lawyer's fees, court fees etc.

1.37 The Committee have in the subsequent Chapters of this Report dealt with certain important aspects of administration of wealth-tax in the light of failures and omissions pointed out by audit. The Committee trust that the Department would take effective measures to see that the lacunae pointed out by them are affectively dealt with and the scope for tax evasion/avoidance is reduced to the maximum extent possible.

[S. Nos. 1 to 6 (Paras 1.32 to 1.37) of Appendix V of 101st Report of the P.A.C. (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

The observations of the Hon'ble Committee have been noted. The lacunae pointed out by the Hon'ble Committee will be duly analysed and appropriate measures taken to reduce the scope for tax evasion and tax avoidance to the maximum extent possible.

[Ministry of Finance (Department of Revenue) OM Nos. F. No. 241/1/82-A&PAC-I and F. No. 155(51)/83-TPL, dated 16.4.83].

#### **Recommendation**

The Committee find that the number of wealth-tax cases pending assessment as at the end of the year 1976-77 was 2.89 lakhs. This figure has gone upto 4.32 lakhs as at the end of 1979-80. The assessments completed during these two years numbered 2.28 lakhs and 3.26 lakhs respectively. The Committee are concerned to find that the arrears of wealth-tax demand have increased from Rs. 52.75 crores in 1976-77 to Rs. 184.08 crores in 1978-79, Rs. 180.54 crores in 1979-80 and went up further to Rs. 217.11 crores as at the end of 1980-81. Compared to the actual collection of the order of Rs. 64.47 crores in 1979-80 the arrears would amount to more than 3 years' collections. The above figures do not include the amount locked up in the pending assessments. According to the calculations made by the Ministry on the basis of average demand raised per assessment during the years 1975-76 to 1977-78, the estimated tax locked up in the pending assessments is of the order of nearly Rs. 67 crores. Thus the total outstanding dues to the exchequer on account of wealth-tax demand, amount to as high a sum as nearly Rs. 248 crores. The Committee have discussed in the subsequent paragraphs the various ramifications of this problem. The Committee must, however, at the outset express their deep sense of alarm at this situation. The Committee regret to point out that the evidence tendered before them by the representative of the Ministry of Finance did not reflect the amount of concern that they expected in such a situation. The Committee trust that at least now the CBDT would realise the

gravity of the problem and come out with a specific plan of action to clear the backlog of assessments and what is more important, collect the revenues due to the exchequer.

[S. No. 7 (Para 2.58) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

#### Action Taken

As desired by the Committee, their recommendations contained in subsequent Paras are/have been examined by the Ministry and Action being/have been taken accordingly. Further, the targets of the Central Action Plan for the year 1982-83 so far as they relate to Wealth-Tax demand and assessments are indicated for kind information of the Committee. Action Plan target for the year 1982-83 :—

- |  |  |
|--|--|
| (a) <i>Demand &amp; Collection</i><br>Arrear W.T. Demand | Collect 55% of the Gross arrear demand through adjustment/collection/reduction.                                      |
| (b) <i>Disposal &amp; Assessments</i><br>Wealth-tax      | Wealth-tax assessments with disposal of 80% of the returned/last assessed Wealth work load of Rs. 5 lakhs and above. |

It may also be submitted that wealth-tax disposals upto 31.11.82 was 1.63,175 as against 1,50,595 disposal at the end of the same month last year. During the Commissioners Conference held in May & June, 1982, it was emphasized on the Commissioners of Income-tax to pay specific attention to the disposal of wealth-tax assessments in general and to cases involving wealth of more than rupees 5 lakhs in particular. There has been also change in the rules providing four years time limit for completion of wealth-tax assessments.

Periodical review of performances has been made and the disposals are watched. Meetings have been held to locate difficulties in completion of assessments and these have been solved. I.A.Cs. have been asked to complete valuation of shares and get it circulated to other Wealth-tax Officers.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A&PAC-I and F. No. 326/59/82-WT., dated 11 March, 1983].

#### Recommendation

The data furnished to the Committee reveal that out of the total demand of the order of Rs. 180.54 crores outstanding on 31 March, 1980, 11 Commissioners' charges in Bombay, Delhi, Calcutta/West Bengal, Gujarat, Karnataka, Madras/Tamil Nadu accounted for as much as Rs. 128.14 crores.

The Committee have been informed that the reason for the sudden increase in the arrears of demand from Rs. 56.41 crores in 1977-78 to Rs. 84.08



crores in 1978-79 was the bar of limitation introduced by the Taxation Laws (Amendment) Act, 1975 according to which no assessment for the assessment years upto 1974-75 could be made after the expiry of four years from 1 April, 1975 i.e., after 31 March, 1979. As a result, the disposal of wealth-tax assessments went up from 3.19 lakhs in 1977-78 to 4.75 lakhs in 1978-79. The Chairman, Central Board of Direct Taxes admitted in evidence that "the arrears are disproportionate to the amount of revenue that we are collecting annually from the levy but this position was not there till 1978-79".

While the Committee do concede that the bar of limitation imposed for the first time in 1976 resulted in sudden spurt in the demand of Wealth-tax, they are not able to appreciate why in spite of the emphasis laid on the disposal of the wealth-tax assessments in the subsequent Action Plans, the arrears continue to rise. The Committee desire that the eleven Charges mentioned above should be enjoined to intensify the collection of arrear demand and their performance closely monitored by the Board.

[S. No. 8 (Para 2.59) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

Director of Inspection (Recovery) has been requested to make efforts to collect the arrear demand in these 11 charges in dossier cases involving demand of Rs. 10 lakhs and above and also monitor the performance of various Commissioners in this regard and report to the Board.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A&PAC-I and F. No. 326/37/82-WT, dated 15.4.1983].

#### **Further Information**

Kind attention of the Hon'ble Committee is invited to this Ministry's Office Memorandum F. No. 241/1/82-A & PAC-I dated 26.4.1983.

2. The Director of Inspection (Recovery) has reported that necessary steps were taken by the Wealth-tax Officers/Tax Recovery officers for the expeditious recovery of arrears for these years. Requests were also made to the Appellate Authorities for the expeditious disposal of pending appeals. It was further reported by him that out of gross arrears of Wealth-tax in dossier cases (with outstanding demand of Rs. 10 lakhs and above) amounting to Rs. 51.09 crores in the 11 charges referred to in para 2.18 of the Public Accounts Committee's Report, 26.89 crores were collected/reduced till 31.12.1982, which is a reduction of 52.63 per cent.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 326/37/82-W.T. dated 28.6.1983].

### **Recommendation**

The age-wise break-up of arrears furnished to the Committee shows that out of the total outstanding arrears of the order of Rs. 180.54 crores as on 31 March, 1980 the arrears of current demand i.e. those raised during 1979-80 amounted to Rs. 62.43 crores; those between 1 to 3 years old amounted to Rs. 102.28 crores; those between 3 to 6 years old amounted to Rs. 10.53 crores; those between 6 to 10 years old amounted to Rs. 4.08 crores while those over 10 years old accounted for the abalance Rs. 1.22 crores.

The Committee further observe that of the above stated arrears of Rs. 180.54 crores, the total demand in dispute before the Appellate authorities, Courts etc. amounted to Rs. 55.29 crores. This included Rs. 28.36 crores in respect of which there were neither stay orders nor were they covered by orders for payment in instalments. Demands aggregating Rs. 3.75 crores only were stayed by the Courts. Demands totalling Rs. 18.90 crores were in the nature of protective assessments in appeal. Demands involving a sum of Rs. 1.14 crores stood referred to Settlement Commission. Of the balance demand of Rs. 124.26 crores, the demand awaiting adjustment or verification, amounts due from companies under liquidation or from persons not traceable etc. amounted to over Rs. 12 crores. Thus, the net undisputed arrears of wealth tax have been assessed to be of the order of Rs. 112 crores.

[S. No. 10 (Para 2.61) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

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

Audit have also vetted this Action Taken Note without any comments.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 326/30/82-W.T. dated 2.11.1982].

### **Recommendation**

The information furnished by the Ministry with regard to the number of wealth-tax assesseees according to the size of their wealth shows that the number of assesseees having assessable wealth above Rs. 20 lakhs was 784, those having wealth between Rs. 10 to 20 lakhs was 3776, those having wealth between Rs. 5 to 10 lakhs was 12,147, while those having wealth below Rs. 5 lakhs numbered 3.02 lakhs as at the end of 1978-79. The Committee are surprised to find that in the records of the Department there were only 4,560 persons in the whole country having a net wealth of over Rs. 10 lakhs and only 16,707 persons having a net wealth of over Rs. 5 lakhs.

The data furnished by the Ministry also indicate that as many as 94.78 per cent of the assesseees have net wealth below Rs. 5 lakhs. The Ministry have informed that "the number of wealth tax assesseees according to size of their wealth is based upon the amount of total net wealth assessed after allowing exemptions and deductions of varying amounts in accordance with the relevant provisions of the law. Also, there are likely to be a number of 'persons' who will be having a net wealth of over Rs. 10 lakhs or Rs. 5 lakhs but not included in the number of persons mentioned in the reply.....because they belong to categories which are not assessable to wealth-tax."

In view of this position of the matter and particularly in view of large increase in value of movable and immovable assets in the last few years, it would, in the opinion of the Committee, be desirable if the exemption limit of wealth-tax is fixed at about Rs. 5 lakhs so that the Department may be able to function effectively and advantageously so far as collection of revenue from persons holding larger wealth is concerned.

[S. No. 13 (Para 2.64) of Appendix V of 101st Report of the P.A.C. (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

The recommendation of the Hon'ble Committee for raising the Wealth-tax exemption limit has been noted in this regard.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 155 (51) 83-TPL dated 18.4.1983].

#### **Recommendation**

Considering the developing nature of the economy and the sky-rocketting pace of increase in the value of real estate in recent years, the Committee are not in a position to place reliance on the data furnished to them. Obviously, there has been no worthwhile effort to locate new assesseees. It is no secret that a larger number of high cost buildings particularly in the metropolitan cities, have been coming up over the years. In case concerted and well directed efforts are made it would not be surprising to the Committee if 12,147 wealth-tax assesseees between Rs. 5 lakhs to 10 lakhs reported for the entire country, are found in one big size city alone.

[S. No. 14 (Para 2.65) of Appendix-V of 101st Report of the Public Accounts Committee (1981-82). (Seventh Lok Sabha)].

#### **Action Taken**

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

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 411/1/82-IT (Inv.) dated 13.12.1982].

### **Recommendation**

No data have been furnished to the Committee with regard to the arrears out-standing against assesseees in the slab of over Rs. 5 lakhs. However, the Ministry have furnished to the Committee data showing outstanding demand exceeding Rs. 10 lakhs in each case which shows that as on 31st March, 1979, 1980 and 1981, the total arrears in such cases amounted to Rs. 52.08 crores, Rs. 63.03 crores and Rs. 75.29 crores respectively. The Committee were informed that instructions have been issued to the effect that in cases where the demand locked up is more than Rs. 50,000 the Appellate Assistant Commissioners should treat the case as a priority case. For the Commissioners of Income-tax (Appeals) the corresponding limit is Rs. 50,000. Apparently these instructions have not had the desired effect. The Committee consider that if only the Department could concentrate on these bigger cases, they could make a substantial contribution to the collection of outstanding demand of wealth-tax. The Committee, therefore, urge that the Department should take concerted measures under a time bound programme to settle these cases which have locked up huge arrears of revenue. The steps taken in this regard should be reported to the Committee.

[S. No. 15 (Para 2.66) of Appendix-V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

The Board have again issued instructions stressing the need for timely disposal of high demand appeals. C.I.T. (Appeals) have also been asked to lay down a time bound programme for disposal of high demand appeals as desired by the Committee.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 326/21/82-W.T. dated 13.10.1982].

### **Recommendation**

From the detailed particulars of the top 50 assesseees against whom there are heavy arrears of wealth-tax, the Committee find that the total arrears of wealth-tax against these assesseees amounted to over Rs. 46 crores on 31 March, 1980. 13 of these assesseees against whom the outstanding arrears ranged between Rs. 1.08 crores to Rs. 5.47 crores accounted for total outstanding of the order of Rs. 28.73 crores. Most of these demands are stated to be in dispute. In one case, the defaulter (Shri Dharam Teja) left the country without obtaining clearance certificate from the Income-tax authorities. The

arrears against Shri Dharam Teja amount to Rs. 1.76 crores. Action is stated to have been taken against the carrier Airline under the provisions of Section 230(2) and (3) of the Income-tax Act. The Committee were informed in evidence that as on 31 March, 1979 the Income-tax demand against Shri Dharam Teja was of the order of Rs. 6.50 crores. The compensation payable to Shri Dharam Teja consequent upon the nationalisation of the Jayanti Shipping Company amounting to Rs. 3.32 crores (approx) was attached.

[S. No. 16 (Para 2.67) of Appendix-V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

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

2. Audit have also vetted this Action Take Note without any comments.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I, F. No. 326/30/82-W.T. and F. No. 326/28/82-W.T.dated 13-10-1982)].

#### **Recommendation**

The Committee find that in a number of cases appeals are pending before the Commissioner (Appeals) while in one case revision and settlement petitions are pending before the Commissioner. Requests are stated to have been made by the Department to the Commissioners concerned to accord priority to the disposal of appeals. The Committee would like these cases to be pursued actively by the Special cell in the CBDT with a view to ensuring that these are disposed of without much loss of time.

[S. No. 17 Para 2.68) of Appendix-V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

The Director of Inspection (Recovery) has been instructed to take action in accordance with the recommendations of the Public Accounts Committee. The matter is also being watched by the Central Board of Direct Taxes.

2. Audit have also vetted this Action Taken Note without any comments.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 326/28/82-W.T. dated 13.10.1982].

### **Recommendation**

Considering the large number of recovery certificates awaiting disposal year after year, the Committee consider that there is need to strengthen and streamline system. The Committee would like to be apprised of the steps taken by the Department to improve the system in the field and the results achieved.

[S.No. 19 (Para 2.70) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

The Commissioners of Income-tax (Recovery) alongwith necessary complimentary staff have been appointed at 5 places, e.g., Bombay, Calcutta, Delhi, Ahmedabad and Madras for closely supervising the work of tax recovery. The multiple charges at these places account for about 65% of the tax arrears. As these Commissioners have been put in position only last year, the Government would like to which the progress of tax recovery for sometime more before taking further steps to accelerate the tempo of this work.

The machinery tax recovery was earlier considered by the Choksi Committee and certain suggestions were made. However, the suggestions of the Choksi Committee are under consideration of the Economic Administration Reforms Commission and their suggestions are awaited.

[Ministry of Finance (Department of Revenue) O.M. Nos. F.N. 241/4/82-A&PAC-I and F.N. 398/33/82-IT (B) dated 16.10.1982].

### **Recommendation**

The Committee further suggest that effective monitoring of the outstanding above Rs. 10 lakhs should be done by the Special Cell in the Central Board of Direct Taxes so that large amounts of revenue do not remain locked up in departmental proceedings for unduly long periods.

[S. No. 21 (Para 2.72) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

The Directorate of Inspection (Recovery) attached to the Central Board of Direct Taxes, New Delhi has been monitoring the tax demand arrears of

**Income-tax and other direct taxes exceeding Rs. 10 lakhs broadly in the following manner :—**

- (i) Dossiers which are received quarterly are reviewed and necessary directions wherever called for, are issued to the Commissioners of Income-tax.
- (ii) The Director of Inspection and other officers of the Directorate undertake tours to major field offices for discussions with Commissioners and other officers. Decisions are arrived at these meetings on the steps to be taken for speedy recovery of tax arrears.
- (iii) Such officers of the Directorate also help, the field offices by gathering and supplying information from sources like Settlement Commission etc.
- (iv) A close watch is also being kept on the disposal of appeals before Commissioner of Income-tax (Appeals) and other authorities so that large amount is not locked up in pending appeal proceedings.

[Ministry of Finance (Department of Revenue) O.M. Nos. F.No. 241/4/82-A & PAC-I and F. No. 405/97/82-ITCC dated 10.11.1982]

#### **Recommendation**

Para 4.07 (i) of the Audit Report refers to a case in which a statutory reference was made under Section 16A(1) of the Wealth-tax Act, 1957 and it was binding on the wealth-tax officer to have adopted the valuation done by the Valuation Officer. The Committee have been informed that 'due to pressure of work and possible delinking of papers pertaining to the valuation reference/report, to wealth-tax Officer failed to act on the Departmental Valuation Report. The resultant dislocation of assessment papers is attributed to shifting of the office of the wealth-tax officer assessing this case to a different building. Thereafter, the case was transferred to another Wealth-tax Officer. The explanation is hardly convincing. Obviously, there has been a failure to maintain the records properly. The IAC who was required to keep a check on such references also failed to exercise necessary supervision. The Committee trust that more vigilance shall be exercised in such matters and the Board's instructions sorupulously followed.

[S. No. 24 (Para 3.16) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha.)]

### **Action taken**

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

[Ministry of finance (Department of Revenue) O.M. No. F.No. 241/5/82-A&PAC-I F. No. 326/27/82-W.T. dated 20.10.82].

### **Recommendation**

The Committee find that the average time taken by the Valuation Cells for finalisation of valuation on reference is 4 to 7 months depending on the nature of reference. On an average, the Valuation Cells in the Northern and Southern Zones finalised 17,133 and 9,479 valuations per year respectively in the last five years. Even so, the pendency as on 31 March, 1980 was 9,399 and 2,696 respectively. The Audit Report [Para 1.15 (iii)] shows that the values determined by the Valuation Cells ranged from 212 to 280 per cent of the values returned during the years 1977-78 to 1979-80. The Committee have been informed that in the absence of specific studies on the fate of valuations done by Valuation Cells, it is difficult to conclude how far these have been helpful in preventing evasion of taxes through under-valuation of assets. However, a sample study was conducted by the Department in some selected metropolitan charges of Delhi, West Bengal, Bombay and Tamil Nadu to have an idea of the extent of modification of the values determined by the Valuation Cells in appeal.

[S. No. 29 (Para 3.68) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

The observations of the Hon'ble Committee have been noted. However, enclosed herewith is a flow chart of the time to be taken by the valuation cell for different purposes. From this it would be seen that on an average the valuation cell may take 5-6 months in disposing of a case routine nature. Regarding the fate of valuation done by the Valuation cell at the hands of the appellate authority, the data given to the Hon'ble Committee as enumerated in para 3.69 would indicate that the valuations done by the valuation cell have either been accepted by the assessee themselves or if challenged in appeal, they have been upheld many times.

[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].



## Valuation : The Job

<i>Flow Chart</i>	<i>WT</i>	<i>Cons. Cost</i>	<i>Acqn.</i>
1. Receive ref.	1	1	1
2. Prelim scrutiny.	1	1	1
3. Return incorrect ref.	4	4	4
4. Scrutinise ref.	1	1	1
5. Receive fresh ref.	—	1	1
6. Type Notice : To Ase	1	1	1
7. Send Notice To	4	4	4
8. Service Notice : Ase.	4	4	4
9. Await record-Ase	15	15	15
10 Receive Exten Appli-	1	1	1
11. Grant extension.	1	1	1
12. Receive record.	30	30	30
13. Study details.	2	5	2
14. Ask more Inf-Ase	2	2	2
15. Type Notice : Inspn,	1	1	1
16. Service Notice : Inspn.	7	7	7
17. Collect Rates : land, P.A.	3	3	3
18. Prepare. Preli. Est.	2	—	—
19. Type Est. Notice.	2	—	—
20. Service Notice-Ase.	4	—	—
21. Await objcs. : Ase.	15	—	—
22. Receive Extn. Appln.	1	—	—
23. Grant Ext.	1	—	—
24. Hear Ase.	1	—	—
25. Receive Objns.	30	—	—
26. Consider, Refuse, objns.	4	—	2
27. Prepare Valn. Report.	2	20	2
28. Type report : Sketch.	3	5	3
29. Despatch report.	1	1	1
30. Abstract in Register.	1	1	1

TOTAL : 145 days, 111 days 86 days

Minimum

### **Recommendation**

The Committee find that out of 74 properties in West Bengal and Tamil Nadu Charges, (certain clarifications 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.

[S. No. 30 (Para 3.69) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **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**

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.

[S. No. 31 (Para 3.70) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

From the data given in Para 3.69 it would be seen that out of 74 cases, the valuations 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].

### **Recommendation**

3.72 The Committee have been informed that Section 7(4) of the Wealth Tax Act effective from April 1976 coupled with Rule 1BB effective from April, 1979 have tended to reduce the number of references made by Valuation Cells in cases of residential properties. The Department is separately considering framing a rule for commercial properties, The Chairman, Central Board of Direct Taxes stated in evidence that it would be better if we have rules for the remaining type of properties also and do away with the Valuers' certificates completely.

3.73 The Committee consider that so long as the avowed object for which the Valuation Cells were set up viz., that of preventing large scale avoidance of taxes by under-statement of the returned value of assets and making investment of unaccounted money in real estate unprofitable and unattractive is not achieved, the need for such an organisation will remain. The Committee would therefore expect the Ministry of Finance to keep a close watch on their functioning.

3.74 The institution of registered valuers was introduced with a view to bringing about better regulation and discipline over non-official valuers. The number of registered valuers as in July 1981 was 3283. Of these, 2031 were in respect of immovable properties, 574 in respect of jewellery, 235 in respect of agricultural lands, 193 in respect of stocks, shares, securities etc. 186 in respect of machinery and plant, 49 in respect of plantations of coffee, tea, rubber and cardamom, 10 in respect of life interest, reversions and interest in expectancy, 3 in respect of mines and quarries and one each in respect of forests and works of art.

3.75 The Committee have been informed that one of the reasons which adds to the work of the Valuation Cell and leads to delay in the disposal of valuation cases is that the registered valuers do not furnish the valuation reports in the form prescribed nor do they give all the required information. However, there has been no case of a registered valuer against whom action has been taken so far under Section 34 AD for misrepresentation or suppression of a material fact or for misconduct in his professional capacity.

[S. Nos. 33 to 36 (Paras 3.72, 3.73, 3.74 & 3.75) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

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

[Ministry of Finance (Department of Revenue) O.M. No./F. No. 241/5/82-A&PAC-I/F. No. 326/19/82-WT. dated 21.10.1982].

### **Recommendation**

The data furnished at the instance of the Committee shows that the proportion of wealth-tax returns supported by valuation done by registered valuers in the various Charges varies from 5 to 10 per cent in the Patiala C.I.T. Charge to 72 per cent in West Bengal (C-I and C-II) Charges. The number of cases in which the basis for valuation adopted by the registered valuers was questioned/disapproved by the assessing officer is anywhere between 1 per cent in Shillong C.I.T. Charge to 76.43 in Tamil Nadu (Central) Charge.

[S. No. 37 (Para 3.76) of Appendix V of 101st Report of Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

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

[Ministry of Finance (Department of Revenue) O.M. No./F. No. 241/5/82-A&PAC-1/F. No. 326/26/82-W.T. dated 13.10.1982].

### **Recommendation**

The valuation of properties is important not only for the purpose of wealth tax, but also for other Central direct taxes, like gift tax, estate duty and capital gains tax. It is also important for State taxes, like registration fees and stamp duty. It has its relevance for municipal taxes, like property tax too. The provisions of various laws governing valuation are not, however, identical; even the basic principle of 'market value' has been departed from in respect of residential houses for wealth tax purposes under Rule 1BB of the Wealth Tax Rules, 1957. Even where the basic principles remain the same, different modes of valuation have been prescribed by rules or instructions issued under different tax laws. In the resultant situation different values for the self same property are determined at the same time by different tax authorities for purposes of different taxes. In fact, the Committee have come across cases, such as those commented upon in para 3.103 of the Committee's 7th Report (6th Lok Sabha), where different values for the same properties are adopted for purposes of different taxes though the principles of valuation as well as the instructions under the two tax laws happen to be the same. For purposes of Central direct taxes the institution of approved registered valuers was introduced to bring about better regulation and discipline over non-official valuers. Despite the specific recommendations of the Public Accounts Committee contained in Paras 2.7 of their 117th Report (4th Lok Sabha), and 3.98 of their 7th Report (6th Lok Sabha) about the Central Board of Direct Taxes exercising proper control over the registered valuers and in spite of the powers given to the Board for that purpose under Chapter VII (B) of the Wealth Tax Act 1957, it has apparently, not been possible for the Board to

control their activities. According to the evidence tendered by the Ministry of Finance before the Committee, '...the registered valuers do not furnish their valuation reports in the form prescribed under the rules and do not give all the required information ! As a measure of further control departmental Valuation Cells manned by engineering officers were set up to help the Central tax authorities and these valuation cells were also given statutory recognition in the various Central direct tax laws. The evidence before the Committee would cast serious doubt on the efficacy of these Valuation Cells also. The Committee have repeatedly come across cases where references on question of valuation were not made to the Valuation Cells though required to be made, or where valuations given by the Cells were not adopted in the assessments despite specific provisions of the Central tax laws making such valuations binding on the tax authorities. The time taken by the Valuation Cells to give their valuation reports is also far too long and the number of cases remaining pending with them very high. In a large number of cases valuations given by the Valuation Cells do not stand the test of appeal.

[S. N. 39 (Para 3.78) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

The observations of the Committee have been noted. However it is submitted that the following has been the work load position of Valuation Cell during 1981-82.

Cases brought forward :	7752
Cases received during the year :	26052
Cases disposed of during the year :	26300
Cases carried forward :	7505

[Ministry of Finance (Department of Revenue) O.M No. F. No. 241/5/82-A & PAC-I/F. No. 326/25/82-WT—dated 14.10.1982].

#### **Recommendation**

The Committee have been expressing concern in the past about the extent to which property values are manipulated in the tax returns. An idea of the extent of non-disclosure of assets and or under-valuation of properties could be had from the results of the survey operations carried out in South Delhi during 1979-80. Out of over 3,000 new houses that were surveyed only 916 new wealth tax assesseees were added. As stated earlier, the total number of group of above Rs. 5 lakhs brought into the tax net in the entire country was 16,707 only as on 31 March, 1980.

[S. No. 42 (Para 3.99) of Appendix-V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

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

[Ministry of finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I/F. No. 411/1/82-IT (INV.) dated 11.12.1982].

### **Recommendation**

The Committee find that there has been a phenomenal increase in the prices of real estate in recent years, particularly in the metropolitan towns. In Delhi for example, the average rate per square metre for the residential plots auctioned by DDA in 1981 ranged between Rs. 407 in East Delhi to Rs. 2,996 in South Delhi/Safdarjun Enclave. In respect of commercial plots the value realised was Rs. 6,225/- per sq. metre in West Delhi and as high as Rs. 34,143 per sq. metre in South Delhi (Bhikaji Cama Place). The cost of land is stated to vary from Rs. 35 to Rs. 1100 per Sq. yard in Madras, Rs. 350 to Rs. 3660 in Calcutta Rs. 150 to Rs. 4000 per sq. yard in Bombay and Rs. 300 to Rs. 4,400 per sq. yard in Delhi. The cost of construction varies from Rs. 69 to Rs. 135/- per sq. foot in these cities. The Committee are therefore positive that this staggeringly low figure of wealth-tax assesses borne on the registers of the Department does not reveal a true picture with regard to the Potential taxable wealth in the country.

[S. No. 43 (Para 3.100) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

The observations of the Hon'ble Committee have been sent to all Commissioners of Income-tax for guidance and necessary action.

[Ministry of finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I/dated 30.6.1983]

### **Recommendation**

The Committee were informed that in terms of Instruction No. 842 dated 12.6.1975 issued by the Central Board of Direct Taxes, information about sale/auctions of land/houses/flats is gathered from various sources such as Municipal authorities, Improvement Trusts, Housing Boards etc., and the Inspecting Assistant Commissioner (Acquisition) passes on the information received from the registering authority to Wealth-tax Officer/Gift-tax Officer/Income-tax Officer for utilisation in the course of relevant assessment.

[S. No. 44 (Para 3.101) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

The observation of the Horible Committee have been noted by the Ministry.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/5/82-A & PAC-I, F. No. 411/1/82-II (Inv.) dated 13.10.1982].

### **Recommendation**

The Committee find that the CBDT 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. A further Circular issued in August, 1979 emphasised the need for intensifying survey operations but shifted the target date covering all important localities to 31 March, 1982.

[S. No. 46 (Para 3.103) of Appendix V of 101st Report of the Public Accounts Committee (1981-82)(Seventh Lok Sabha)].

### **Action Taken**

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

[Ministry of Finance (Department of Revenue) O M. Nos. F. No. 241/5/82-A & PAC-I/F.No. 411/1/82-II (Inv.)—dated 13.10.1982].

### **Recommendation**

The Committee have been repeatedly emphasising the need for expediting the survey operations in the post localities. Considering the unprecedented escalation in the values of real estate in recent years, the Committee cannot but take a very dim view of the functioning of the Survey organisation. No clear and comprehensive picture has been presented to the Committee about the precise progress made in this direction. Now that the deadline fixed for the purpose is over the Committee would like the data to be tabulated year-wise with regard to the number of localities and the total number of houses surveyed, the number of new assessees located together with full details of the areas still remaining to be surveyd. The Committee desire that a city wise Action Plan should be prepared for completing the first round of house to house surveys by a stipulated date. This plan should also cover new markets, district centres etc., that have come up in the bigger towns in recent years.

[S. No. 47 (Para 3.104) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### Action Taken

The Commissioners of Income-tax have been asked to include, *Inter alia*, the following targets in their survey operations during 1982-83 :

- (a) Completing the survey of the premises which were to be surveyed by 31.3.1982, by 31st March, 1983 :
- (b) second round of survey to cover all the localities both residential and commercial in 4 years *i.e.* by 31.3.1986 ;
- (c) Annual survey of the following important areas :
  - (i) New commercial complexes particularly multi-storeyed commercial buildings ;
  - (ii) New industrial estates sponsored either by the Government or private colonizers ;
  - (iii) New construction of buildings particularly multi-storeyed buildings ;
  - (iv) Godown areas in metropolitan cities.
- (d) A complete survey of the follow to be made once in a cycle of 4 years (1.4.1982 to 31.3.1986) :
  - (i) posh residential localities ;
  - (ii) vacant land in urban and semi-urban areas ;
  - (iii) complexes where there is a concentration of godowns in metropolitan towns.

[Ministry of Finance (Department of Reveune) O.M. Nos. F. No. 241/5/82 A & PAC-I and F. No. 411/1/82-IT (Inv) dated 20.10.1982].

### Recommendation

The Committee have no doubt that any effort in this direction would not succeed without keeping close co-ordination with the municipal authorities, the State Housing Boards, registration authorities etc. The institutional arrangements in this regard need to be considerably improved. The Committee would like to be informed of the measures taken or proposed, in this direction and the results achieved.

[S. No. 48 (Para 3.105) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

### Action Taken

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. Information from



the Municipal Authorities and Registration Authorities etc., is to be collected every year. The Central Information Branches are being streamlined and have been placed under Commissioners of Income-tax in-charge of survey.

[Ministry of Finance (Department of Revenue) O.M. No. F. Nos. 241/5/82 A & PA -I F. No. 411/1/82-IT (Inv.) dated 20.10.1982].

#### **Recommendation**

3.134. Under the Gold Control Act, a declaration is required to be made if an individual possesses gold jewellery exceeding 2000 grams and a family more than 4000 grams. Exemption in respect of personal jewellery for wealth tax purposes was withdrawn with effect from 1 April, 1963.

3.135. The Committee find that the average price of gold per 10 grams has shot up from Rs. 184.96 in 1970-71 to Rs. 1158.78 in 1979-80 while that of silver increased from Rs. 536.68 per kg. to Rs. 2297.80 per kg. during this period. Given the traditional attachment to gold and jewellery in the Indian society and the tendency to keep the family possessions a close secret, it is no surprise that the withdrawal of the concession in respect of personal jewellery has not succeeded in bringing any substantial number of assesseees into the wealth-tax net. The Committee were informed in evidence that nobody had been prosecuted for concealment of such wealth ever since the exemption was withdrawn.

3.136. In the circumstances, the Committee consider that Government would do well to restore the exemption limits to a reasonable level keeping in view the current prices of gold and silver so that enforcement of the law becomes easy and meaningful.

3.137. According to the Ministry, valuation of jewellery is an expert function and that no instructions on the principles to be followed with regard to its valuation have been laid down by the Board. Further, there is no official price of gold or silver. The market prices which vary from day to day are published by the Reserve Bank of India.

The Committee suggest that Government must lay down suitable rules for valuation of jewellery for the guidance of the Valuation Officers. These Rules should also take care of the type of cases of avoidance of tax liability mentioned above.

[S. Nos. 56 to 59 (Paras 3.134 to 3.137) of Appendix V of 101st Report of the P.A.C. (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

The recommendations made by the Hon'ble Committee have been noted.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/5/82-A & PAC-I F. No. 155 (51)/83-TPL—dated 18.4.1983].

### **CHAPTER III**

#### **RECOMMENDATIONS OR OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT**

##### **Recommendation**

3.8 In the case cited under Audit Paragraph 4.06(i), although the value of the property in question was more than Rs. 5 lakhs and the value returned by the assessee was also less than 8 times the net rental value, the case was not referred to the Valuation Cell for valuation as required in the Board's instruction of December, 1971. The entire property was rented out and the net rental value was available with the W.T.O. in the income-tax assessment records. The test audit also revealed that the W.T.O. did not charge additional wealth-tax in respect of urban immovable property for the assessment years 1974-75 and 1975-76. The assessments are since stated to have been rectified and the additional wealth tax dues have been realised. The Committee regret to observe that the assessments for the assessment years 1975-76 and 1976-77 were not checked by Internal audit even though they were required to do so.

3.9 The Committee find that the re-assessments made for 1974-75 and 1975-76 have been quashed in appeal. Information on the question whether these were set aside on merits or on technical grounds has not been made available to the Committee (April 1982). In any case, loss of revenue to the exchequer could have been avoided if the Wealth-tax Officer had made a reference *ab initio* to the Valuation Cell for valuation. The Committee desire that the Wealth-tax Officer concerned should be suitably taken up for the negligence in this case.

[S. Nos. 22 & 23 (Paras 3.8 & 3.9) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

##### **Action Taken**

(a) The standing instructions are that every month the assessing officers have to furnish list of cases falling in Immediate/Priority categories to Internal Audit through their Range IACs. Before taking up internal audit of any ward/

circle, the Internal Audit has to check up the completeness of the above list through scrutiny of the relevant D & C Registers.

This Wealth-tax case escaped checking by Internal Audit as no list of Wealth-tax Auditable cases was furnished by the assessing officers.

(b) Re-assessments made in this case for 1974-75 & 1975-76 were cancelled by the Appellate Assistant Commissioner on the ground that the Wealth Tax Officer had no jurisdiction to initiate proceedings u/s. 17(1) (b) as the existence of the relevant property had been disclosed by the assessee and was within the knowledge of the Wealth Tax Officer at the time of completion of the original assessments. The AAC observed that revising the value of the said property was a change of opinion on the part of the W.T.O. Departmental appeals against the A.A.C's order have been dismissed by the Tribunal. Special Leave for Petition has been authorised in this case.

(c) The Wealth-tax officer who completed the original assessment for the assessment years 1974-75 and 1975-76 has explained his lapse to be due to his having completed the assessment during a drive for disposal of wealth-tax cases, being new to the relevant provision and rush of work. In so far as the valuation of the property is concerned, the WTO relied upon the report of the registered valuer. The Commissioner of Income-tax has found the mistake to be bonafide due to over-sight.

[Ministry of Finance (Department of Revenue) O.M. Nos./F. No. 241/5/82-A&PAC-I and F. No. 326/61/82-WT. dated 14.3.1983].

#### **Recommendation**

The Committee find that after the incorporation of Rule 1 BB with effect from 1.4.79, the maintenance and updating of record of rental values of houses used residential purposes has assumed added importance. The Committee have been informed that only some of the units of the Valuation Cell collect data on rental value in their respective areas which is kept as a continuous record for reference in future cases and utilised as and when necessary. The Committee would impress upon the Board the need to devise better information systems and control mechanisms to ensure collection and dissemination of data on sale of land/houses, rental values in close coordination with the municipal authorities, Registration offices of the State Governments, State Housing Boards etc. The Committee would like to be apprised of the steps taken in this direction.

[S. No. 28 (Para 3.67) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

The Valuation Cell of the Department has to deal with valuation of immovable property of various types and for this purpose collects data of rent,

sale prices etc. from various sources. While under Rule 1 BB, it is generally the Wealth-tax Officer who has to make the prescribed computation, the advice from valuation cell can always be obtained whenever the need be. The Board have issued instructions from time to time to the Wealth-tax officers for references to the Valuation Cell in all liable cases.

[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].

#### **Recommendation**

The large arrears outstanding both in the Northern and Southern Zones also point to the need for streamlining the functioning of the Valuation Cells so that the pendency as well as the timelag of 4 to 7 months in completing the valuation are effectively reduced. The Committee, therefore, suggest that a work and methods study into the functioning of the valuation Cells should be carried out and necessary action taken in the light thereof to streamline the system.

[Sl. No. 32 (Para 3.71) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

The Board has looked into the position of pendency and disposal with the Northern and Southern regions of the Valuation Cell. During 1981-82 those valuation cells had received 26052 cases for valuation while during this period 26300 were disposed of. Out of 7504 cases pending as on 31.3.82 only 1511 cases remained pending for more than six months which constituted only 5.8% of the work load. From the statistics it would appear that the average time taken has ranged from 3-5 months. From the flow chart of work annexed to this reply it would be seen that on an average 145 days are taken in wealth-tax proceedings ; 111 days in estimates of cost of construction and 86 days for acquisition proceedings. The time indicated in the flow chart would appear to be reasonable.

At any rate the Board have emphasised upon the Valuation Cell the need for expeditious disposal of cases for valuation and to keep the level of pendency to the minimum necessary. The Board have also asked the Valuation Cell to review the position regarding all cases which may be pending for more than six months and also to send a list to the Board of cases more than one year old.

[Ministry of Finance (Department of Revenue) O.M. No./F. Nos. 241/5/82-A&PAC-I/F. No. 326/18/83-WT dated 18.2.1983].

## Valuation : The Job

<i>Flow Chart</i>	<i>WT</i>	<i>Cons. Cost</i>	<i>Acqn.</i>
1. Receive ref.	1	1	1
2. Prelim scrutiny.	1	1	1
3. Return incorrect ref.	4	4	4
4. Scrutinise ref.	1	1	1
5. Receive fresh ref.	—	1	1
6. Type Notice : To Ase.	1	1	1
7. Send Notice To	4	4	4
8. Service Notice : Ase.	4	4	4
9. Await record—Ase	15	15	15
10. Receive Extn. Application	1	1	1
11. Grant extension.	1	1	1
12. Receive record.	30	30	30
13. Study details.	2	5	2
14. Ask more Inf-Ase	2	2	2
15. Type Notice : Inspn.	1	1	1
16. Service Notice : Inspn.	7	7	7
17. Collect Rates : land, PA.	3	3	3
18. Prepare. preli. Est.	2	—	—
19. Type Est. Notice.	2	—	—
20. Service Notice—Ase.	4	—	—
21. Await objcs. : Ase.	15	—	—
22. Receive Extn. Appln.	1	—	—
23. Grant Ext.	1	—	—
24. Hear Ase.	1	—	—
25. Receive Objns.	30	—	—
26. Consider, Refute objns.	4	—	2
27. Prepare Valn. Report.	2	20	2
28. Type report : Sketch.	3	5	3
29. Despatch report.	1	1	1
30. Abstract in Register.	1	1	1
<b>TOTAL :</b>	<b>145 days</b>	<b>111 days</b>	<b>86 days</b>
<b>Minimum</b>			

## **CHAPTER IV**

### **RECOMMENDATIONS OR OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION**

#### **Recommendation**

The Committee find that though instructions had been issued by the Central Board of Direct Taxes to those engaged in survey work to gather information in respect of properties from the records of local bodies, the Board do not have information about the number of property owners in large metropolitan areas. The Board have not even compiled a census of substantial urban properties. Considering the performance so far, the Committee, therefore feel that there is no systematic flow of information to the assessing and valuation officers in respect of sale/auction of land/houses/flats and new constructions. Since internal survey forms an integral part of the survey operations, it is imperative that the machinery for collecting relevant information from various sources with a view to detecting evasion of tax is strengthened and streamlined.

[S. No. 45 (Para 3.102) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

Census for properties to be surveyed is not practicable as it will involve a massive census operation of the properties for which neither the Income-tax Department is equipped nor can it be so equipped. However, Commissioners of Income-tax in-charge of survey, have been asked to gather a broad idea of the work load in the form of number of roads, streets and important residential and commercial premises to be surveyed. Lists of a number of sources of information have been compiled from which the survey Inspectors have to collect information during the span of three years commencing from 1982-83. Some of these sources have to be covered every year.

[Ministry of Finance (Department of Revenue) O.M. Nos. F.No. 241/5/82-A & PAC-I/F.No. 411/1/82-IT (Inv.) dated 20.10.1982].

## **CHAPTER V**

### **RECOMMENDATIONS OR OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

#### **Recommendation**

In the 38th Report (7th Lok Sabha), the Public Accounts Committee had recommended that the Wealth-tax Act may be amended to provide for a period two years (instead of four years as at present) beyond which the bar of limitation would apply. The Committee would like to reiterate this recommendation as it would go a long way in ensuring simultaneous disposal of income-tax and wealth-tax assessments which would be in the interest of revenue as well as the assessee.

The Committee were informed that it had been impressed upon the wealth-tax Officers that in cases where the wealth declared is more than Rs. 5 lakhs, the assessment for both income-tax and wealth-tax purposes should, as far as possible, be taken up together. Despite these instructions the Ministry were not in a position to furnish to the Committee the break-up of the amount of tax in arrears by the size of wealth assessed in the wealth-group below and above Rs. 5 lakhs. It is obvious that the instructions have remained only on paper.

[S. No. 9 (Para 2.60) of Appendix V of 101st Report of the P.A.C. (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

The recommendation of the Hon'ble Committee for laying down a two year period of limitation for completing assessments under the Wealth-tax Act has been noted. A final decision in the matter will be taken after Government have received the final phase reports of the Economic Administration Reforms Commission.

[Ministry of Finance (Department of Revenue) O.M. Nos. F.No. 241/4/82-A & PAC-I and F. No. 155 (51)/83-TPL dated 18.4.1983].

### **Recommendation**

2.62. The above data clearly disproves the widespread impression that large arrears of demand are due to stay orders and/or on account of delay in disposal of the cases by the courts. The generalised reasons given by the Ministry for the huge accumulation of arrears are insolvency, emigration to Pakistan, double taxation relief under consideration and petitions for waiver of penalties pending consideration. The Committee consider the situation to be highly unsatisfactory. They would urge the Department to make an indepth cause-wise analysis of the large amount of wealth-tax arrears awaiting realisation so as to segregate such of the demands which are not realisable and have to be written off and determine with some precision the amount which is clearly due to the exchequer and must be realised expeditiously.

2.63. The Special Cell should be asked to undertake this study and the Committee should be informed of the measures taken or proposed in this regard.

[S. No. 11 & 12 (Para 2.62 & 2.63) of Appendix V of 101st Report of the Public Accounts Committee 1981-82) (Seventh Lok Sabha)]

### **Action Taken**

As desired by the Hon'ble Committee Director of Inspection (Research, Statistics and Public Relation) has been asked to undertake this study. The Committee shall be informed of the measures taken or proposed in this regard in due course.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 326/29/82-WT dated 2.11.1982].

### **Recommendation**

The Committee find that the number of tax recovery certificates pending disposal as at the end of the years 1977-78, 1978-79 and 1979-80 in respect of income-tax and other direct taxes put together was 28.43 lakhs, 29.04 lakhs and 28.21 lakhs respectively. The number of certificates disposed of wholly or partly during these years was 6.71 lakhs, 6.66 lakhs and 5.27 lakhs respectively. The total demand certified for recovery during 1979-80 was of the order of Rs. 1027.61 crores of which Rs. 287.61 crores was recovered during the years, leaving a balance of Rs. 740 crores. The Committee were informed that statistics for Corporation Tax and Wealth-tax were not maintained separately. Information regarding the number and amount of arrears for which recovery certificates have not been issued as also reasons for non-enforcement of recoveries after certification in cases involving arrears of tax of Rs. 1 lakh and above is also not readily available with the Department. The Committee consider that broadening of the data base is essential for proper monitoring.



The Committee would, therefore, emphasise the need for maintaining essential statistics for each direct tax separately under broad income groups say below 1 lakh, 1 to 5 lakhs, 5 lakhs to 10 lakhs etc.

[S. No. 18 (Para 2.69) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

The suggestion of the Hon'ble Committee has been noted. The Director of Organisation & Management (Income-tax) Services has been asked to examine and send proposals for strengthening the statistical data. After taking into account the results of the above study appropriate measures will be taken to broaden the data base essential for proper monitoring.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 398/33/82-IT (B) dated 16.10.1982].

#### **Recommendation**

The Committee note that the penalties included in arrears of outstanding demand exceeding Rs. 10 lakhs in each case were as high as Rs. 21.20 crores against the total arrears of Rs. 75.29 crores in these cases as on 31 March, 1981. (The corresponding figure of arrears of penalties on 31 March, 1979 was Rs. 4.97 crores out of total arrears of Rs. 52.08 crores in these cases). Out of the above amount of Rs. 21.20 crores, penalties to the tune of Rs. 10.53 crores were outstanding against as few as 20 assesseees. The amount in individual cases varies from Rs. 28 lakhs to nearly Rs. 211 lakhs. The Committee were informed that 'penalties were not upheld in most of the cases and were reduced in a number of cases by Appellate authorities'. It has also been admitted that cases of vexatious assessments or additions made on frivolous grounds did sometimes come to the notice of the Board. While such tendency which certainly cannot be widespread, has to be curbed and the erring officials suitably taken up, the Committee consider that the Department must concurrently study the decisions of the higher Courts with a view to finding out the reasons why the penalties are not upheld in most of the cases and are reduced in others by the Appellate authorities with a view to improving the quality of assessments.

[S. No. 20 (Para 2.71) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

A study, as desired by the Hon'ble Committee, will be undertaken by a Committee which has already been constituted for the purpose. This Committee is headed by the Director General (Special Investigation). On receipt of the report of the Committee, action as considered appropriate will be taken.

[Ministry of Finance (Department of Revenue) O.M. Nos. F. No. 241/4/82-A & PAC-I and F. No. 411/32/82-IT (Inv.) dated 20.10.1982].

### **Recommendation**

The case mentioned in para 4.07 (ii) of the Audit Report again highlights the failure of the assessing officer to conform to the departmental valuation resulting in under-assessment of wealth of Rs. 31.87 lakhs. On the omission being pointed out by Revenue Audit, additional demand of the order of Rs. 91,976 has been raised against the three assessees for the assessment years 1972-73 to 1974-75. However, for the earlier two years viz., 1970-71 and 1971-72 the re-assessment proceedings have become time-barred. The Committee consider that in such cases of glaring failures, the Wealth-tax Officer concerned should be suitably taken up. The Committee would like to be informed of the action taken against the concerned officer. The Committee would also like to be informed about the position of recovery of the additional demand.

[S. No. 25 (Para 3.23) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

The Wealth-tax Officers concerned have been cautioned to be alert/careful in figure. The assessees' appeals are awaiting disposal ; the additional demand is yet to be collected.

[Ministry of Finance (Department of Revenue) O.M. No. F. Nos. 241/5/82-A and PAC-I/D.O.F. No. Audit-32 (PAC)/82-83 dated 30.10.1982]

### **Recommendation**

In a somewhat similar case cited under paragraph 4.08 (i) of the Audit Report, the Wealth-tax Officer failed to work out the correct area of land which was available in Income-tax records of the assessee for wealth-tax purposes. Consequent under-assessment of wealth aggregating to Rs. 36.29 lakhs resulted in short levy of tax of Rs. 86,706. The assessments are stated to have been set aside by the Commissioner of Income-tax on 11 March, 1981 but re-assessment Proceedings had not been completed upto September, 1981. This is a case of failure on the part of the assessing officer to properly correlate the assessment made under two direct taxes viz., Income-tax and wealth-tax. That this should be so despite constant exhortations by the Committee and repetitive instructions issued by the Board, is regrettable. The Committee would stress the need for tightening up supervision at the level of IACs so that such mistakes do not occur.

[S. No. 26 (para 3.28) of Appendix of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

Following the PAC's recommendation in their 26th Report (1980-81) for ensuring better co-ordination between officers framing assessments under different Direct Taxes, the Loard have constituted a Committee of the Departmental Officers to suggest proper follow-up action.

While inspection the work of an I.T.O. the Inspecting Assistant Commissioner is required to satisfy himself whether the information regarding other taxes has been fully utilised. The Income-tax officers performance as disclosed in the Inspection Report is to be taken into account by the IAC while writing the Income-tax Officer's Confidential Report.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I F. No. Audit-32 (PAC)/82-83/DIT dated 20.12.1982]

### **Recommendation**

Rule 1BB incorporated from 1 April, 1979 governs valuation of residential houses with multiplier factors of 100/8 and 100/9 applicable to 'net maintainable rent'. The formula in this rule is independent of market value and even of actual cost. In Kusumben D. Mahadevia Vs. Commissioner of Wealth-tax (124 ITR 799), the Bombay High Court have held that a rule "made under Section 7, must be for the purpose of carrying out the object of section 7, the object being to determine the market value as contemplated by Section 7(1)." The Rule thus contravenes the principle of open market value provided for a Section 7(1) in respect of fully marketable assets like real property. Furthermore, Rule 1 BB is irreconcilable with the provisions of the Income tax Act and the Gift-tax Act wherein the principle of fair market value determined by normal market forces, continues to apply. The Committee consider that since Rule 1 BB lays down an altogether different mode of valuation of house property which has nothing to do with the concept of fair market value as enumerated in Section 7(1), it is a substantive provision and a separate law in itself. The Committee, therefore, desire that the views of the Ministry of Law should be obtained in this regard. The Committee would like to be apprised of the same.

[S. No. 27(Para 3.66) of Appendix V of 101st Report of the P.A.C. (1981-82) (Seventh Lok Sabha)].

### **Action Taken**

A reference on this issue has been made to the Ministry of Law. As desired, the Committee would be apprised of the views of the Law Ministry in the matter.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I/F. No. 155(51)/83-TPL dated 18.4.1983]

### **Recommendation**

The Charges where the percentage of cases questioned/disapproved by the assessing officers was high are Bombay C I and II (66%), Andhra Pradesh I and II (54%). Gujarat all Charges (56%), Meerut (50%), West Bengal I and II and (C) (44%). Considering the high percentage of such cases and the admitted fact that the registered valuers tend to delay giving information and even then do not give all the information required, the Committee consider that there is need for exercising stricter supervision and discipline over the registered valuers. The Committee would, therefore, like a sample study to be made to find out the type of deficiencies generally noticed with particular reference to the amount of under-valuation noticed by the assessing officers/appellate authorities so as to find out to what extent the institution has sub-served the objectives in view and what measures need to be devised to improve the system in the interest of revenue.

[S. No. 38 (Para 3.77) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)]

### **Action Taken**

As desired by the Hon'ble Committee the Board have instructed the Directorate of Inspection (RS & PR) to carry out a sample study in consultation with the Chief Engineer (Valuation), New Delhi. Further, a press note has been issued inviting attention of the Public as well as approved valuers towards deficiencies noticed in valuation certificates.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I/F. No. 326/23/82-WT dated 14.4.1983].

### **Recommendation**

The Committee are of the opinion that this multitude of legal provisions, modes of valuation and valuation authorities for the valuation of self-same properties has created a situation where property taxes have become a matter of great harassment as well as abuse. While unscrupulous people are able to evade payment of Central, State, as well as local taxes with impunity, the honest tax payers are harassed by different tax as well as valuation authorities. It is the Committee's considered opinion that a system based on a common principle of valuation for all property taxes with a common implementation machinery would go a long way in improving the administration of all these taxes and also in ameliorating the hardships caused to the tax payers on this account. The Committee would strongly recommend 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 or extraneous 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 values so determined by this authority could be reviewed/updated by it periodically, say, at quinquennial intervals. The valuation certificate given by this authority in respect of any particular property should then be necessary as well as sufficient for all taxes relating to that property. Central, State or local.

[S. No. 40 (Para 3.79) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

Attention of the Economic Administration Reforms Commission has specifically been drawn to the recommendation made by the Committee. That Commission's final recommendation in this regard are awaited.

[Ministry of Finance (Department of Revenue) O.M. No. F./No. 241/5/82-A & PAC-I dated 13.10.1982].

#### **Recommendation**

The Committee find that with the sanctioning of 500 additional posts of Inspectors (Survey) in June, 1979, the Survey Organisation has been set up on a permanent footing, Eight Commissioners of Income-tax designated as Commissioners of Income-tax (Investigation) have recently been posted at Delhi, Bombay, Calcutta, Madras, Ahmedabad, Bangalore, Hyderabad and Ludhiana. They are responsible mainly for carrying out survey operations. To monitor the progress of survey operations on all India basis, a Director of Inspection (Survey) has also been posted at New Delhi as on 31 August, 1981, 81 Income-tax Officers and 519 inspectors were deployed exclusively for work relating to survey. The Committee find that inspite of such massive addition to the staff strength at all levels, the number of new wealth-tax assessees found during the years 1978-79, 1979-80, 1980-81 and 1981-82 (upto October, 1981) was only 4,452, 7,722, 3,119 and 1,759 respectively. The additional demand raised was also not very significant being Rs. 33.44 lakhs, 20.83 lakhs, 54.79 lakhs and 7.77 lakhs during the respective years. Information regarding the tax actually collected from such assessees is stated to be 'not presently available'.

[S. No. 41 (Para 3.98) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

Information regarding the wealth-tax actually collected from such assessees is still awaited from some Commissioners of Income-tax. The information received so far reveals that during the financial year 1980-81 and 1981-82 Rs. 13.52 lacs and Rs. 10.46 lacs respectively were collected from such assessees.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I/F. No. 411/1/82-II (Inv.) dated 5.11.1982].

### Recommendation

3.113 Under Rule 1-D of the Wealth-tax Rules, 1957, the market value of the unquoted equity shares of a company other than an investment company or a managing agency company shall be 85% of the break up value determined by deducting, in the first instance the value of all liabilities as shown in the balance sheet of such company from the value of all assets shown in the balance sheet and then dividing the net amount so arrived at by the total amount of its paid up equity share capital. A further discount upto 10% of the break up value is allowed in the case of companies which have not paid any dividends in the past years.

3.114 In the case of investment companies the valuation is governed by the instructions issued by the Central Board of Direct Taxes on 30.10.1967. These instructions broadly contemplate a valuation based on the average of the values determined on the break-up value method and that determined on the capitalization of the yield method.

3.115 Section 37 of the Estate Duty Act and Rules 10 (2) of the Gift Tax Rules provide for the valuation of the unquoted shares of private companies "by reference to the value of the total assets of the company". In their Instruction No. 835 of 24 May, 1975, it was clarified by the Board that the value under these provisions should be determined by the break-up method taking the market value, and not the book value of the assets of the company.

3.116 In *Kusumben D. Mahadevia Vs. Commissioner of Gift Tax* (124 ITR. 799) the Bombay High Court held that the provisions of Rule 1-D of the Wealth-tax Rules are directory and not mandatory and the rules made under the Act "must be for the purpose of carrying out the object of Section 7 ; the object being to determine the market value". In para 4.29 of their 51st Report (7th Lok Sabha) the Public Accounts Committee pointed out that Rule 1D based on book value of assets would not bring out the market value in the case of a company which has undisclosed assets, or where the book value is much below the fair market value. In Para 4.30 of the same Report, the Committee also pointed out that the provision about discount under the said Rule 1D would also give an undue benefit in the case of shares of a company which does not declare dividends presumably with a particular design and accumulates profits in reserves. The question of valuation of unquoted equity shares in investment companies was also commented upon in para 4.31 of the same Report of the Committee.

3.117 In *Commissioner of Wealth Tax Vs. Mahadeo Jalan* (86 ITR. 621), and again in *Commissioner of Gift Tax Vs. Kusumben D. Mahadevia* (122 ITR. 38) the Supreme Court held that the yield capitalization method based on the profit earning capacity of the company is the normal method and the break-up value method can be preferred only when the company is ripe for liquidation.

3.118 The Chairman, Central Board of Direct Taxes testified in evidence that of the two recognised methods, capitalisation of the yield method was better than the break-up value method. However, in view of the practical difficulties involved not only in determining the yield but also the maintainable profits in such cases, the Departmental Committee (1976) favoured prescribing the break-up method. It was, however, found in actual working that the break-up method resulted in very low valuation in certain cases and also led to rigging of shares.

The Board had therefor framed draft rules in substitution of Rule 1D and public comments received thereon were being examined. The representative of the Ministry added that it is not possible to resort to capitalisation in all cases. Despite the Supreme Court decision, we cannot completely give up the break-up value concept..... "In the Supreme Court judgement there is a sentence which says that although the capitalised value is a good method of valuing the assets, in certain circumstances the break-up method could also be resorted to." The Committee were assured that Rule 1D will be so amended as to take care of rigging of shares and escapement of tax liability and at the same time the interests of assessee will be safe-guarded. As to the question whether the Rules made by the Board were mandatory or directory, the advice of the Law Ministry was being obtained.

3.119 Taking note of the assurance given by the Chairman, Central Board of Direct Taxes, the Committee would like the rules for the valuation of unquoted equity shares being finalised quickly. Since the basic principle is the market value both in Wealth Tax, as well as in Gift Tax and Estate Duty, the Committee would recommend that common rules consistent with the provisions of these three Acts should be framed so as to ensure that different values are not assigned to the same shares for purposes of these three different taxes at the same time.

The Committee would also like to be informed of the views of the Ministry of Law on the question whether the rules framed under the Direct Taxes laws are mandatory or only directory.

[S. Nos. 49 to 55 (Paras 3.113 to 3.119) of Appendix V of 101st Report of the P.A.C. (1981-82) (Seventh Lok Sabha)].

#### **Action Taken by the Ministry**

The recommendation of the Hon'ble Committee that the draft Wealth-tax (Amendment) Rules, 1981 should be finalised quickly has been noted.

2. The recommendation regarding common rules of valuation under the Wealth-tax Act Gift-tax Act, and the Estate Duty Act has also been noted.

3. Board's view hitherto has been that the rules framed under the direct tax laws are mandatory. However, in the context of a contrary view expressed by the Bombay High Court in *Kusumben D. Mahadevia Vs. Commissioner of Gift-tax* (124 ITR 799), the advice of the Ministry of Law on the question whether the rules framed under the direct tax laws are mandatory or directory has been asked for. This issue would be further considered by the Board in the light of the advice given the Law Ministry.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/5/82-A & PAC-I and F. No. 155 (51)/83-TPL dated 18.4.1983 and 13.5.1983].

#### **Recommendation**

4.4 The Committee observe that a large number of cases of mistakes or omissions finding mention in the Audit Report resulted from rush in completion of pending assessments towards the close of the period of limitation in 1979. The number of such wealth-tax assessments completed in January, February and March, 1979 was 47,355, 64,953 and 1,47,728 respectively. This represents 54.8 per cent of the total assessments completed during the year. During the month of March alone, 31 per cent of the total assessments were completed. At the instance of Revenue Audit, the Central Board of Direct Taxes (Directorate of Inspection) [IT & A] ordered a review in February, 1981 by the Internal Audit, of the assessments completed during the last six months of the financial year 1978-79 where the assessed wealth was over Rs. 5 lakhs. The review (March 1982) revealed non-levy of additional wealth-tax in 167 cases, non-reference to Valuation Cell in 141 cases, non-levy of penalty for non-payment of self-assessment tax in 91 cases, mistakes in calculation of tax or in computation of net wealth in 422 cases. In all, 821 mistakes with estimated tax effect of Rs. 89 lakhs came to notice. However, remedial action had been initiated only in 115 cases upto March 1982.

4.5 The Committee desire that necessary follow up action in the remaining cases should be taken without loss of time. The additional revenue realised as a result should be reported to the Committee within six months.

[S. Nos. 60 & 61 (Para 4.4 & 4.5) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

On the basis of the reports received till 24.9.82, the tax involved in the mistakes discovered is Rs. 93 lakhs. The review is continuing.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/6/82-A & PAC-I/D.O.F. No. Audit-32 (PAC)/82-83/DIT/13494 dated 30.10.1982].



### **Recommendation**

5.1 The Wealth Tax Act has been on the statute book, for a quarter of a century. The tax was introduced, along with the Expenditure tax in 1957, not merely as a revenue measure but also with the express objects of forming 'an important constituent of an integrated tax structure' and serving 'the avowed goal of the attainment of a socialistic pattern of society'.

5.2 According to the Statement of Objects and Reasons, "With income tax, Estate Duty and a tax on Capital gains already in existence and with the addition of the wealth tax and a tax on large personal expenditures. ... the direct taxes will form a composite system made up of complementary elements". With the same object, Gift-tax was added to the list in 1958. The idea behind this integrated pattern of taxation, introduced of suggestion to Prof. Kaldor, was to cut out all escape routes for the tax payer by providing that he should pay tax not only on the income earned but also on its accumulation (Wealth-tax) as well as on its transfer, for consideration (Expenditure-tax) or otherwise (Gift-tax).

5.3 Under the Act, wealth-tax was leviable on the net wealth of every individual, Hindu Undivided Family and Company. Within three years, however, the wealth-tax on companies was abolished with effect from 1.4.1960.

The expenditure tax, which was anticipated to become 'a potent instrument for restraining ostentatious expenditure and far promoting savings, was also abolished in 1966 for 'administrative reasons'. With the opening up of these escape routes, the original Kaldorian concept of integrated tax system apparently ceased to exist.

5.4 In the administration of the direct tax laws this aspect of integrated character of these taxes was never given much importance by the tax authorities. An almost total lack of coordination between the assessments made on the same assessee sometimes by the same assessing authorities, under these different taxes has been a subject of repeated adverse comments by the Committee. In Para 4.12 of their 186th Report (5th Lok Sabha), the Committee pointed out the chronic lack of coordination among the assessing officers of the department and among the assessment records pertaining to different direct taxes. particularly, income-tax and wealth-tax. While repeating their concern on this matter in para 3.103 of their 7th Report (6th Lok Sabha), the Committee stressed that steps should be taken to find an abiding solution to the problem of lack of coordination among various direct tax authorities. Paragraph 3.2 and 3.26 of the present report are however indicative of this malaise continuing. Time and again the Committee have also made a suggestion that the desirability of having an integrated income and wealth return, at least in bigger cases, should be seriously considered. The Committee have also had occasion to suggest in Para 4.25 of their 38th Report (7th Lok Sabha) that the limitation period for completion of assessments should be the same both under

the Income-tax Act and the Wealth-tax Act so as to ensure that the two assessments are taken up together. The Central Board of Direct Taxes are stated to have already issued administrative instructions on this point. Despite all these recommendations of the Committee, the evidence before the Committee is clear to the effect that the information available in the assessment records pertaining to different direct taxes, and in particular income-tax and wealth-tax, is not used even when the assessments are made by the same authority with the result that unscrupulous tax-payers are able to get away by filing different facts and figures for purposes of different taxes. Therefore, the notion of integrated tax structure providing a barrier against of escape routes has been found to be a myth, in actual working.

5.5 The Committee are, therefore, of the view that the avowed object of an 'integrated tax structure' has not been achieved in practice. In the design of direct taxes it was virtually, given up when the wealth-tax on companies and later the expenditure tax, were abolished. In the administration of direct taxes the department has never done anything beyond paying lip sympathy to the concept. The Chairman of the Central Board of Direct Taxes conceded during evidence before the Committee that tax evasion, which the integrated tax system was meant to tackle, had "certainly increased."

5.6 As for the second main object, *i.e.* the attainment of a socialistic pattern of society by reducing inequalities in the distribution of incomes and wealth and by preventing concentration of wealth in fewer hands, the Committee need hardly labour the point that the direct taxes have not made any impact in arresting the growing disparities. After the abolition of wealth-tax on companies, the wealth tax has no direct relevance to concentration of economic power in a few hands because of the corporate veil. The selective study made by the Directorate of Inspection (Investigation) Special Cell has clearly brought out that though family controlled investment companies have played a crucial role in the growth and size of large industrial houses in the country, yet the wealth assessed in the hands of persons controlling these houses has declined over the years. The study has pointed to the widespread avoidance of taxes through devices like the creation of private trusts, transfer of assets the companies, rigging of shares, etc. Valuation of unquoted shares has been the subject of comment by this Committee on many an occasion in to past. Specific cases of tax avoidance through the medium of private trusts were also commented upon in paragraph 59 of the Report of the Comptroller and Auditor General of India for the year 1978-79. The relevant provisions in the direct taxes laws were amended in 1980 but apparently more remains to be done. The Chairman of the Central Board of Direct Taxes, in his evidence before the Committee, referred to devices like the so-called 'jewellery companies' which hold personal jewellery of the share-holders, who can then continue using it without paying any wealth-tax thereon. The Committee are also aware of similar devices being adopted for residential properties. It is little wonder that out of 3,46,291 wealth tax assesses as on the books of the

department as on 31.3.1980, these assessed to a wealth of over Rs. 5 lakhs each constitute only five per cent. In absolute term the number of such assesseees is only 16,707, a number which could, in any realistic assessment, be exceeded in a single metropolitan city in this country. There is an all round proliferation of black money which is eating into the entrails of the economy. Even sporadic surveys, by the department have disclosed unaccounted investment in costly and luxurious construction, decoration and ornamental fitting, fixtures and furnishings as mentioned in Para 210 of the Committee's 123rd Report (6th Lok Sabha).

5.7 As for the revenue angle, after 25 years of its working, the wealth-tax contributed a more Rs. 64 crores to the total tax revenues of the Central Government of over Rs. 11,500 crores in the year 1979-80. The ten-fold growth of G.N.P. in the country with the development of the economy under the successive Five Year Plans is hardly reflected in the collections of wealth-tax. Between the years 1972-73 and 1979-80, while the wholesale price index went up by 87% the collections under wealth tax went up only by 79%. In other words, the collections did not keep pace even with the inflation in values much less reflect the generation of new wealth in the economy over the years. The cost of collection of wealth-tax comes to more than twice the cost of collection of income-tax in percentage terms. The Committee are convinced that if the departmental energies employed on the administration of wealth-tax are diverted to the better collection of income-tax, the gain to revenue would be more than the meagre collection of 64 crores of rupees under the wealth-tax.

5.8 It would thus appear that none of the goals set for this unique experiment of wealth tax have been fulfilled. The periodical amendments made to improve its working have only resulted in creating more inequities and greater problems. The value of one house exclusively used for residence by the assessee was frozen as on 1.4.1971 or the date of acquisition, whichever is later, with effect from 1.4.1976. The market value of a housing property, wholly or mainly used for residential purposes was substituted by a national value computed under Rule 1 BB with effect from 1.4.1979. As a result of these provisions similar properties used for similar purposes would have different values and hence different burdens of tax depending merely on the dates of construction or ownership. Further, the assesseees owning wealth of the same market value in different forms would suffer different tax burdens. In the present situation when values of real properties in urban areas are literally skyrocketing it is conceivable that a person owning liquid wealth of rupees 25 or 30 lakhs may acquire house property whose value, by virtue of application of Rule 1 BB, would be merely a fraction of that amount. Apparently such amendments have resulted in a highly inequitable distribution of burdens under the wealth tax. On the question whether or not properties having similar market values as, in terms of the rules being valued differently the Chairman, Central Board of Direct Taxes stated that.....“there

inequities like this. It is the policy of Government that more houses should be built.....”

5.9 Personal jewellery was taken out of the definition of personal or household effects exempt from tax in 1971 retrospectively from 1.4.1963. On present day prices every person owning gold ornaments in excess of about 75 tolas should be a wealth tax assessee because even the enhanced basic exemption is Rs. 1.5 lakhs only. The exemption for a house is limited to Rs. 1 lakh. Even taking into account the provisions of Rule 1 BB in respect of residential houses most of the property owners in the urban areas should be in the wealth tax net. If these provisions were really enforced, the number of wealth tax assessees should be many times more than the figure of 3.46 lakhs borne on the registers of the department. The conclusion is inescapable that the provisions of the Wealth-tax Act have not only become inequitous but are also unworkable.

5.10 As for the administration of the Wealth-tax Act the less said the better. Although the officers' cadre in the department have been considerably strengthened in recent years and assessment work has also been simplified a lot with a substantial enhancement of the limit for summary assessment, the pendency of assessments has been going up rapidly under income tax as well as wealth tax in the last few years. As on 31.3.1980 the number of wealth tax assessments pending (4,32,988) exceeded the number of assessments completed during the year (3,25,718) as well as the total number of assessees in the books of the department (3,46,291). The amount of tax collected in the year was Rs. 64.47 crores ; the amount of tax in arrears was Rs. 180.54 crores. If the amount of tax locked up in the assessments pending for completion, estimated by the Board itself at Rs. 66.89 crores were also added the amount in arrears would come to Rs. 247.43 crores. In other words, the arrears come to four times the annual collections—an unfortunate situation indeed. The department could not give the break-up of these arrears according to certain slabs of wealth on the plea “No registers/records etc. from which this information can be collected are maintained”. (Para 2.26 *ante*). The Committee's inquiry about the details, in chronological order, of the factors leading to accumulation of gross arrears and steps taken to recover them, at least in cases where these exceeded Rs. 1 crore each elicited only a year-wise statement of arrears (Para 2.32 *ante*). A question about the amount of penalties included in the total arrears on account of Rs. 180.54 crores met with the response, “there is no source record from which the amount of arrears on account of penalties included in the total arrears could be compiled”. (Para 2.43 *ante*). When asked to indicate particulars of the wealth tax arrears certified to the Tax Recovery Officers and the details of recovery, the Chairman, Central Board of Direct Taxes stated, “We do not have a separate classification for income tax and wealth tax”. (Para 2.52 *ante*). According to the figures given by the Ministry of Finance, the arrear demand in dispute amounted only to Rs. 55.29 crores. This would mean that an arrear demand of as much as Rs. 123.25

rores is undisputed demand. The Central Board of Direct Taxes could give no reasonable explanation for non-recovery of even this large undisputed demand. The Committee have repeatedly emphasised the need for preparing a census of house properties and for completing a survey of posh localities in urban centres on a time-bound programme. Nevertheless the Committee's inquiry about a census of substantial urban properties elicited the response ... "the Board do not have information about the number of property owners in large metropolitan areas. The Board have not compiled census of substantial urban properties" (para 3.79 *ante*). When viewed in the context of these glaring defaults of administration the expressions of 'concern' or of 'Action Plan targets' on behalf of the Board do not cut much ice with the Committee.

[S. Nos. 63 to 72 (Para 5.1 to 5.10) of Appendix V of 101st Report of the PAC (1981-82) (Seventh Lok Sabha)]

#### **Action Taken**

The observations/recommendations of the Hon'ble Committee have been brought to the notice of the Economic Administration Reforms Commission.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/6/82 A & PAC-I.F. No. 155 (51)/83-TPL dated 16.4.1983].

#### **Recommendation**

The Committee are led to the conclusion that, both in its design as well as administration, the Wealth-tax Act has failed to achieve the very socio-economic objective of building up an egalitarian society. In fact, it is incapable of achieving such objectives in its present form and substance. So far as its administration is concerned, it is more of a liability than otherwise to the Government. It cannot be over-emphasised that it has been admitted to be inequitous. Therefore, the advisability of its continuance needs an indepth and objective examination. The Committee recommend that this specific question alongwith the question of setting up an autonomous valuation authority as recommended in para 3.79 of this Report may be referred to the Economic Administration Reforms Commission for indepth examination in the light of the findings and recommendations of the Committee in this Report. A copy of the Report of the EARC may be sent to this Committee.

[S. No. 73 (Para 5.11) of Appendix V of 101st Report of the Public Accounts Committee (1981-82) (Seventh Lok Sabha)].

#### **Action Taken**

Attention of the Economic Administration Reforms Commission has specifically been drawn to the recommendation made by the Committee. That Commission's final recommendations in this regard are awaited.

[Ministry of Finance (Department of Revenue) O.M. No. F. No. 241/6/82 A & PAC-I dated 13.10.1982].

NEW DELHI;

*February 23, 1984*

*Phalguna 4, 1905 (Saka)*

SUNIL MAITRA

*Chairman,*

*Public Accounts Committee.*

## PART II

### MINUTES OF THE 60TH SITTING OF PUBLIC ACCOUNTS COMMITTEE HELD ON 13 FEBRUARY, 1984.

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The Public Accounts Committee sat from 1500 hrs. to 1730 hrs. in  
Committee Room 'D', Parliament House Annexe, New Delhi.

#### PRESENT

- Shri Bhiku Ram Jain—*in the Chair*
2. Smt. Vidyavati Chaturvedi
  3. Shri G.L. Dogra
  4. Shri Satyanarayan Jatiya
  5. Shri Mahavir Prasad
  6. Shri Jamilur Rahman
  7. Dr. Sankata Prasad
  8. Dr. Harekrushna Mallick
  9. Shri Nirmal Chatterjee
  10. Shri Kalyan Roy

#### SECRETARIAT

1. Shri H.S. Kohli —*Chief Financial Committee Officer*
2. Shri K.K. Sharma —*Senior Financial Committee Officer*
3. Shri Krishnapal Singh —*Senior Financial Committee Officer*

#### REPRESENTATIVES OF THE OFFICE OF THE C & AG OF INDIA

1. Shri N. Sivasubramanian—*Director of Receipt Audit*
2. Shri R. Balasubramanian—*Joint Director (C & CX)*
3. Shri S.K. Gupta —*Joint Director (DT)*
4. Shri S.R. Sapra —*Joint Director (SR)*

2. In the absence of the Chairman, Shri Bhiku Ram Jain was chosen to act as Chairman of the sitting under Rule 258 (2) of the Rules of Procedure and Conduct of Business in Lok Sabha.
3. The Committee considered and adopted the following subject to the amendments/modifications as indicated in Annexures I to V :
 

\*                      \*                      \*                      \*
5. Action Taken Report on the recommendations contained in 101st Report of the PAC (7th Lok Sabha) on Wealth Tax.
3. The Committee also approved some minor modifications/amendments arising out of factual verification of the draft Reports by Audit.
4. The Committee also authorised the Chairman to finalise the report and present the same to the House.

*The Committee then adjourned*

#### ANNEXURE I

**LIST OF MODIFICATIONS/AMENDMENTS MADE BY THE  
PUBLIC ACCOUNTS COMMITTEE IN THE DRAFT  
REPORT ON ACTION TAKEN BY GOVERNMENT  
ON THE RECOMMENDATION CONTAINED IN  
101ST REPORT (7TH LOK SABHA) ON  
WEALTH-TAX.**

.....

<i>Page</i>	<i>Para</i>	<i>Line</i>	<i>Substitute the last sentence in the para by the following :</i>
5	1.7	10-15	“The Committee would like the Ministry to have this matter dealt with expeditiously”.

**APPENDIX**  
**Statement of Conclusions and Recommendations**

Sl. No.	Para No.	Ministry/ Department concerned	Conclusion and/or Recommendation
1	2	3	4
1.	13	Finance (Revenue)	Of the 73 observations/recommendations made by the Committee in their 101st Report (7th Lok Sabha), replies to as many as 32 observations/recommendations are of an interim nature ; and no reply in respect of one recommendation—Sl. No. 62—has so far been received. In regard to the observations/recommendations in respect of which only interim replies have been received, the Ministry of Finance in their communication dated 14 December, 1983 have stated that these recommendations involve amendments to various Direct Tax laws and are also linked with Economic Administration Reforms Commission's Report and as such, it may not be possible for the Ministry to submit final replies in respect of these recommendations for quite some time. The Committee understand that the Economic Administration Reforms Commission have since submitted their Report on Wealth Tax. As more than a year and a half has elapsed since the Committee had presented their Report, they desire that early decisions should now be taken on the aforesaid observations/recommendations and final replies thereto submitted to them expeditiously, after getting the same duly vetted by Audit.
2.	1.7	Do.	The Committee had desired that in view of large increase in value of movable and immovable assets in the last few years, it would be desirable to fix the exemption limit at about Rs. 5 lakhs so that the Department may function effectively and advantageously so far as collection of revenue from persons



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holding large wealth was concerned. The Government in their reply have stated that "the recommendation of the Hon'ble Committee for raising of the Wealth exemption limit has been noted". The Committee would like the Ministry to have this matter dealt with expeditiously.

3. 1.10 Finance  
(Revenue)

In regard to arrears outstanding against assesses, the Committee were informed that instructions had been issued to the effect that in cases where the demand locked up was more than Rs. 10,000 the Appellate Assistant Commissioner should treat the case as priority case and for Commissioners of Income tax (Appeals), the corresponding limit was Rs. 50,000. In para 2.66 of the Report, the Committee had observed that "apparently" these instructions had not had the desired effect and had urged that the Department should take concerted measures under a time bound programme to settle the bigger cases which had locked up huge arrears of revenue. In their reply, Government have stated that "the Board have again issued instructions stressing the need for timely disposal of high demand appeals. Commissioners of Income Tax (Appeals) have also been asked to lay down a time bound programme for disposal of high demand appeals as desired by the Committee". The Committee would like to point out that mere issue of fresh instructions does not meet the requirement of the recommendation of the Committee. It is hardly necessary for the Committee to stress that instructions issued by higher authorities have value if they are followed by the lower formations in letter and spirit. The Committee trust that the Central Board of Direct Taxes will see to it that this is done and high demand appeals are disposed of quickly. The Committee would like to have a further report in the matter.

4. 1.13. Do.

The Public Accounts Committee (1981-82) were informed by the Ministry of Finance that one of the reasons which added to the work of the Valuation Cell and led to delay in the disposal of valuation cases was that the registered valuers did not furnish

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valuation reports in the form prescribed nor did they give all the required information. The Committee were also informed that there had been no case of a registered valuer against whom action had so far been taken under Section 34 AD for misrepresentation or suppression of a material fact or for misconduct in his professional capacity. In their action taken reply, the Ministry of Finance have stated 'the observations of the Committee have been noted by the Ministry'. The Committee would like to point out that mere 'noting' is not enough in this case. They would like to be informed of the precise steps taken by the Ministry to improve the working of the institution of registered valuers, which was introduced with the avowed object of bringing about better regulation and discipline over non-official valuers and to ensure that valuation reports are furnished by the registered valuers in the prescribed form.

The Ministry had also informed the Committee that they were separately considering framing a rule for valuation of commercial properties. The Committee would like to be informed whether this has since been done ; and if not, what are the reasons for delay.

5. 1.16 Finance  
(Revenue)

In their earlier Report, the Committee had observed that the multitude of legal provisions, modes of valuation and valuation authorities for the valuation of self-same properties had created a situation where property tax had become a source of great harassment as well as abuse. While unscrupulous people were able to evade payment of taxes with impunity, the honest tax-payers were harassed by different tax as well as valuation authorities.

In the said Report, the Committee had also observed that since the Wealth-tax Act had, both in its design as well as administration, failed to achieve the very socio-economic objectives of building up egalitarian society, the advisability of its continuance needed an indepth and objective examination. The Committee had accordingly recommended that this specific question alongwith the question

of setting up an autonomous valuation authority may be referred to the Economic Administration Reforms Commission for indepth examination in the light of the findings and recommendations of the Committee in the 101st Report. The Committee have been informed that attention of the Economic Administration Reforms Commission has specifically been drawn to the above mentioned recommendations of the Committee and that that Commission's final recommendations in that regard were awaited. The Committee, however, find from the reply to Starred Question No. 148 on 2.12.1983, that the E.A.R.C. has since submitted its Report on Wealth-tax. A copy of the Report of E.A.R.C. in this regard may be sent to the Committee. The decision taken thereon may also be intimated to the Committee.

6. 1.21 Finance  
(Revenue)

The Committee have carefully considered the reply of Government. It was in the context of absence of systematic flow of information to 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 to gether information in respect of properties from the records of local bodies, the Committee notice 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

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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 31 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 31.3.1982 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 areas, they would like to point out that the Ministry's reply does not meet the requirements of the recommendation of the Committee in regard to maintenance of complete records of all urban properties surveyed so far. The Committee, therefore, reiterate their earlier recommendation 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 year-wise with regard to the number of localities and the total number of houses surveyed, the number of new assesseees located together with full details of the areas still remaining to be surveyed. Keeping in view the phenomenal increase in the prices of real estate in recent years, particularly in metropolitan cities, the Committee need hardly re-emphasise the importance of the above data. The Committee would like to be apprised of the tabulated data and measures taken to assess the wealth that escaped assessment.

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1.24 Finance  
(Revenue)

Taking note of the assurance given by the Chairman, Central Board of Direct Taxes, the Public Accounts Committee had, in their earlier Report, desired that the rules for the valuation of unquoted

equity shares under the Wealth Tax Act should be finalised quickly. Since the basic principle is the market value both in the Wealth Tax as well as in Gift Tax and Estate Duty, the Committee had recommended that common rules consistent with the provisions of the three Acts should be framed so as to ensure that different values were not assigned to the same shares for purposes of the three taxes at the same time. The Committee had also desired to be apprised of the opinion of the Ministry of Law on the question whether the rules framed under the Direct Taxes laws are mandatory or only directory. In their action taken reply, the Ministry of Finance stated that the Committee's recommendations regarding expeditious finalisation of the draft Wealth-tax (Amendment) Rules, 1981 and framing common rules of valuation under the Wealth-tax Act, the Gift-tax Act and the Estate Duty Act have been 'noted' by Government. The Ministry have also stated that the question whether the rules framed under the Direct-tax Laws are mandatory or directory has been referred for advice to the Ministry of Law and this issue would be further considered by the Board in the light of the advice given by the Law Ministry. As a period of over a year and a half has elapsed since the Committee made the above recommendations, they desire that the matter should be pursued with utmost expedition both in the interest of smooth administration of direct-taxes laws as also determination of a rational and equitable basis of assessment.

8      1.27 Finance  
          (Revenue)

Under the Gold Control Act, a declaration is required to be made if an individual possesses gold jewellery exceeding 2000 grams and a family more than 4000 grams. Exemption in respect of personal jewellery for wealth tax purposes was withdrawn with effect from 1 April, 1963. As the withdrawal of the concession did not bring any substantial number of assesseees into the Wealth tax net, the Public Accounts Committee had in paragraphs 3.136 and 3.137 of their 101st Report (1981-82), recommended that "Government would do well to

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restore the exemption limits to a reasonable level keeping in view the current prices of gold and silver so that enforcement of law becomes easy and meaningful." The Committee had also suggested that Government must lay down suitable rules for valuation of jewellery for the guidance of valuation officers. In their reply, the Government have merely "noted" the recommendation. The Committee would like to be informed of the concrete action taken by Government in this regard.

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