

HUNDRED AND FIRST REPORT
PUBLIC ACCOUNTS COMMITTEE
(1981-82)

(SEVENTH LOK SABHA)

WEALTH-TAX

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[Paragraphs 4.02, 4.06(i), 4.07(i) & (ii), 4.08(i) and
4.09 of the Report of the Comptroller and Auditor
General of India for the year 1979-80—Union
Government (Civil) Revenue Receipts
Vol. II, Direct Taxes]



*Presented in Lok Sabha on 23rd April 1982
Laid in Rajya Sabha on 30th April 1982*

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(Seventh Lok Sabha)

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- (i) 1 January, 1982 (FN & AN)
- (ii) 2 January, 1982 (FN & AN)
- (iii) 24 April, 1982 (AN)

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**PUBLIC ACCOUNTS COMMITTEE
(1981-1982)**

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*Ceased to be Member of the Committee consequent on his appointment as a Deputy Minister w.e.f. 15 January, 1982.

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***Ceased to be Members of the Committee consequent upon their retirement from Rajya Sabha on 2 April, 1982.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and First Report of the Committee on paragraphs 4.02, 4.06(i), 4.07(i) & (ii), 4.08(i) and 4.09 of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes relating to "Wealth-tax".

2. The Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes was laid on the Table of the House on 17 March 1981.

3. The Committee have in this Report concluded 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 a liability than otherwise to the Government. The provisions of the Act have been admitted to be inequitious. Therefore, the advisability of its continuance on the statute book needs an indepth and objective examination. The Committee have also noticed that there is multiplicity of legal provisions, modes of valuation and valuation authorities for the valuation of the same properties. The Committee have recommended setting up of an autonomous valuation authority, free from departmental or extraneous influence which should determine objectively the values of all real properties at least in the urban centres in the country.

4. The Committee have recommended that the specific question of continuance or otherwise of the Wealth-tax Act as also 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 this Report.

5. The Public Accounts Committee (1981-82) examined these paragraphs at their sittings held on 1 and 2 January, 1982. The Committee considered and finalised this Report at their sitting held on 24 April, 1982. Minutes of the sittings form Part II* of the Report.

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

7. The Committee place on record their appreciation of the assistance rendered to them in the examination of these paragraphs by the office of the Comptroller and Auditor General of India.

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

SATISH AGARWAL

Chairman

Public Accounts Committee.

NEW DELHI;

April 28, 1982

Vaisakha 8, 1904(S)

*Not printed. (One cyclotyped copy laid on the Table of the House and five copies placed in Parliament Library).

REPORT
CHAPTER I

OBJECTIVES OF WEALTH TAX LAW

1.1 The text of the Statement of objects and reasons spelt out at the time of introduction of the Wealth-tax Bill on 15 May, 1957 in Lok Sabha reads as under :—

“The object of this Bill is to impose an annual tax on the net wealth of individuals, Hindu undivided families and companies. The proposed tax is an important constituent of an integrated tax structure which Government have been aiming at for some time. 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 (separately being proposed) the direct taxes will form a composite system made up of complementary elements. Apart from the fact that a composite tax system of this type helps to satisfy the criterion of the ability to pay, it is consistent with the avowed goal of the attainment of a socialistic pattern of society.”

1.2 Asked about the extent to which this legislation had achieved the desired objectives, the Chairman, CBDT stated in evidence :

“Besides the two objectives namely, prevention of concentration of wealth in fewer hands and realising some revenue from them, there was another important objective, and that was an integrated system of taxation. Before this Act was placed on the statute book, Prof. Kaldor, an expert from UK, visited our country and suggested that there should be an integrated system of taxation with a view to preventing tax evasion. Therefore, he suggested that besides the Income-tax Act, there should be Wealth-tax Act, Expenditure Tax Act and Gift Tax Act. The Estate Duty was already there in 1953. The idea is that if a person is able to conceal his income, he is found out at the time of the wealth-tax assessment. If he resorted 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. That was the purpose for which this enactment was placed on the statute book. The collection of revenue was a secondary consideration, or no consideration at all. The other objective of prevention of concentration of wealth in the hands of a few, who belonged to the affluent class, was already there. In our opinion, the enactment has been quite successful, though not completely successfully, in unearthing the tax evasion of income. The wealth tax return is an annual return which a wealthy person has to give to the department. Should there be any accretion of wealth, which he is not able to explain with reference to his annual income, or incomes

earned by him in the past, he is caught there. This Act has some deterrent effect. In so far as revenue is concerned, the revenue has started with Rs. 7 crores. It reached Rs. 67 crores last year. In the current year it might be Rs. 75 crores. As compared to the revenue that we get from income tax which will be the budget estimate of Rs. 3,134 crores, it is only a small fraction as compared to that."

1.3 In reply to a specific question on how far the composite tax structure has succeeded in achieving the avowed goal of the attainment of a socialistic pattern of society, the Chairman, CBDT stated :

"A mention of the integrated tax structure is made in the Statement of Objects and Reasons of the Bill. But apart from that, one of the objectives is to achieve the socialistic pattern of society. Now here I have with me figures from 1970-71 onwards upto 1980-81. We started with the number of 1,73,000 of wealth tax assessees and we have now on our Register today as on 31-3-1981 3,90,000 assessees. The growth in the number of assessees during the last three years....was 20%.

We are trying to find out the class of people who should be paying Wealth Tax. There are certain provisions in the Wealth Tax Act which give certain concessions and exemptions and deductions with the result that we are not able to bring any of the persons having a wealth of say, Rs. 5 lakhs, within the tax net.

If a person possesses a wealth of, say Rs. 5 lakhs he can still be out of tax net."

1.4 The Secretary, Ministry of Finance (Department of Revenue), supplementing the above statement, stated :

"It is true that the Statement of Objects and Reasons aims at progressing towards the socialistic pattern of society.

But it is too much to attach too much value to this tax structure as the most important tool towards that goal. There is the rest of the system, the economy, the policies....The impact of our imports would lead to inflation from time to time. We have also the seasonal problems of agriculture. We have the population growth. All this, in fact, contributes to make the poor poorer and the rich richer. The impact of inflation will be felt more by those with small and fixed incomes rather than by those who will have control over productive assets. These are very large questions. They cannot be tackled by just the Tax Acts."

1.5 Asked to elucidate the Kaldorian concept of integrated system of taxation, the Chairman, CBDT clarified :

"As I mentioned, Kaldor's concept of checking tax-evasion was based on this; a person who evades income-tax will either spend it away or gift it away or accumulate and acquire some investment; in case he resorts to any one of these three ways, we should be able to catch him by one of these three Acts. That appears to my mind to be the logic behind bringing these three Acts."

1.6 Affirming that expenditure tax was an important constituent of the integrated pattern of taxation, the Chairman, CBDT explained the reasons for giving up the concept of expenditure tax as follows :—

“ . . . Expenditure tax was one of the methods to tax this unearned, unaccounted income

That pattern might have become slightly weaker, but at that time the considerations which weighed with us were broadly two. One, it was very difficult to administer. For example, if a person has some unaccounted income, or has concealed some income, then he can meet his expenditure out of that and after two or three years, it is very difficult to find out; thus it was very difficult to administer. The second consideration which was a secondary consideration, was that the post of collection, as compared to the revenue, was very high. The revenue was so insignificant—it was less than Rs. 1 crore—that it was given up although it was originally considered to be a part of the integrated tax structure.”

1.7 In reply to a question whether the concept of expenditure tax which was to form a component of the integrated system of taxation was in actual working found to be impracticable, the Chairman, CBDT replied in the affirmative.

1.8 Asked whether the Department favoured continuance of the existing system of taxation, the Chairman, CBDT stated :

“ I would like to say that the wealth-tax has served a very useful purpose, though it might not have served the last purpose, where again, to some extent, with the rate of growth being twelve per cent every year, that also has been taken care of. But so far as the other objectives are concerned, they have been properly served. If the last objective is also to be served very effectively, it is not that we should abolish the wealth-tax but we should make the provisions more stringent.”

1.9 In the same context, he added :

“ I would readily concede that there is much to be desired; that this enactment may not have served hundred per cent of its purpose—I am talking of wealth tax—the purpose for which it was put on the Statute Book. But all the same I would like to submit before this Committee that it has served a very useful purpose and its continuance, I would certainly plead before this Committee.”

1.10 It is seen that out of a total number of 3,13,368 assessees, the number of assessees below the taxable wealth of Rs. 5 lakhs was 2,96,795. In other words, only 5 per cent of the wealth-tax assessees on the registers of the Department had wealth above Rs. 5 lakhs. The Committee therefore enquired how far the achievement of the objective of the enactment of wealth-tax in not allowing concentration of wealth in a few hands has been attained. The Chairman, CBDT stated :

“ The number of assessees in the category of above Rs. 5 lakhs is only 5 per cent of the total number of assessees on our registers. But according to a study recently conducted, we have tried to find

out what is the collection made from this category of 5 per cent people—almost 40 per cent of our revenue came from 16,000-assessee where wealth is above Rs. 5 lakhs and remaining 60 per cent, from 2 lakh and odd assessee."

1.11 He amplified :

".....It was not a case to case study.....It was done on a sample basis."

1.12. Asked whether it would not be desirable to concentrate on these 5% of people, the Chairman CBDT stated :

".....I would like to draw the attention of the Committee to the fact that the number of persons with an ostensible wealth of Rs. 5 lakhs is very small in this country. If we were to leave out 95 per cent of cases out of our probe and scrutiny, then the result will be that tax evasion will increase. A person with Rs. 8 lakhs or Rs. 9 lakhs of wealth should have a corresponding annual income. In case we do not have this probe in respect of this class of assessee, then this class of people will start showing income which is not commensurate with their real income. So, in order to have a check, as I said, on the Integrated Tax System, revenue is not the only consideration. The revenue consideration is not at all the consideration. It is an integral system. In case we leave out this affluent class of people—about 2,90,000 assessee from the wealth-tax net, evasion of income will also increase.

This, therefore, serves as a check on income-tax cases.

So far as concentration on the larger wealth-tax cases is concerned, we are already doing that and we are trying to see with our Directorate of Investigation that more attention is devoted to these cases."

1.13 Asked to what extent the integrated tax system had helped in arresting evasion of tax, the Chairman, CBDT stated :

".....We have not been able to check 100% of tax evasion. We could not achieve 100% of non-concentration of wealth in a few hands."

1.14 Asked to indicate specifically whether tax evasion had increased, the Chairman, CBDT replied :

"Certainly it has increased."

1.15 The Committee desired to be apprised of the factors which had impeded the fulfilment of the desired objectives. The Chairman, CBDT explained :

".....Wealth-tax was introduced basically with the idea of having an integrated tax structure with a view to tackling tax evasion. It would be said and probably accepted by some that tax evasion has not been completely arrested. But so far as the revenue is concerned, it was never the consideration, although we were able to collect Rs. 67 crores during the last year,

and we might collect about Rs. 75 crores during the current year. But when compared to the total ~~revenue~~ of over Rs. 3,100 crores, this Rs. 75 crores is not much. So far as operation of Act is concerned, there may be reasons why the Department has failed to operate it successfully. The law may be faulty so that its implementation or operation may cause difficulty for the tax administration. Now this is also to some extent correct. After the receipt of the Choksi Committee's Report, the entire matter relating to simplification and rationalisation not only of wealth tax but also of income-tax, estate duty and gift tax has been gone into by the Board. Thereafter, the Government appointed the Economic Administration Reforms Commission headed by Mr. Jha. They are looking into all the provisions of the Income-tax Act with a view to simplifying them and rationalising them. I do hope that they will take into consideration provisions where the loopholes or evasion of tax are there."

1.16 He added :

"There is no failure as such in the philosophy of wealth tax. I have not accepted it. . . . and I would not accept it again. But certain provisions of the wealth-tax are difficult to understand, they need to be rationalised."

1.17 According to the Department of Economic Affairs, the percentage increases in price indices between 1972-73 and 1979-80 were as follows :

- (1) As measured by the All-India Wholesale Price Index (1970-71=100) the increase between 1972-73 and 1979-80 works out to 87.3 per cent.
- (2) As measured by the All India Industrial Workers' Consumer Price Index (1960=100) the increase during 1972-73 and 1977-78 comes to 73.9 per cent.

1.18 During the 8 years from 1972-73 to 1979-80, the number of wealth-tax assessees went up from 2.11 lakhs to 3.46 lakhs and the collection of wealth-tax went up from Rs. 35.94 crores to Rs. 64.47 ~~crores~~. Looking to the ever-rising values of properties, the collection of wealth-tax has not shown any marked improvement. In this context, the Committee enquired whether the wealth-tax collections reflected the spurt in the real estate values. The Finance Secretary stated :

"I think, if I understand the point correctly, what you are looking for is a relationship between the growth of revenue and tax, due to increase in property value as reflected in the growth of GNP, growth of land revenue, property value, etc. and there should be some co-relation, if the tax is administered well. . . . Assessments have been done on a different method. They show the actual revenue. The revenue collections include the increases which have taken place in the value of the property. I gather, our statistical studies do not give us substantial information on this. One point is, the wholesale price index has

gone up so much. It is all very well. But within the wholesale price, I am using an illustration, certain indices have moved up faster than certain other indices. But for the purpose of our assessments which are in the form of financial assets or physical assets, buildings etc., what provisions are involved in the properties brought to assessment every year and how these values have moved from year to year.....But I do not think the Departmental statistics give us this information right now."

1.19 The Chairman, Central Board of Direct Taxes added :

"I would like to submit straightway that the value of the assets, especially of the real estate, gold and diamonds has gone up two time or two and a half times over a period of four or five years. But I would like to submit that there are certain factors in so far as collections go which have to be taken into consideration while judging whether our collections are commensurate with the inflation and increase in the prices.....We have given concessional rate to most of the residential properties."

1.20 He added :

"I will not be able to give a firm answer as to what the reason is."

He further added :

".....these rules that we framed and which came into force in 1979.....gave concessional value to the properties. Again we will have to do a lot of activity to find out what exactly is there. Although there was a sort of fall in rates in 1978-79 and 1979-80 all the assessments were not completed in that year; the assessments of the arrears in bigger cases or complicated cases would have been completed in the next few years. That factor has also to be taken into consideration. To come to a conclusion that our collections are not commensurate with the increase in the value of the assets would not, I would submit, be quite fair."

1.22 In reply to a question if the concept of assessment on the basis of fair market value was workable and whether the Department had been able to take care of the massive spurt in the valuation of property, the Chairman, CBDT replied :

"We are taking note of it and our figures do indicate that we are taking into consideration the spurt in the fair market value of the various assets. This is my personal view that the values have increased during the last 1½ years. Earlier, they had not increased that much. For the current year, we have fixed the target at Rs. 67 crores. In this year, we have already reached the target."

1.23 Asked to indicate the reasons why despite the increase in the number of assessees and the ever-rising values of properties, the collection of wealth-tax had not shown any marked improvement, the Ministry of Finance have, in a note furnished subsequently (March 1982), stated as under :

"The increase in collection of wealth-tax during 1979-80 is about 80% over the collection during 1972-73 as compared with the increase of only about 60% in the number of assessees.

The amount of wealth-tax demand/collection is directly dependent upon the exemptions and rate structure of wealth-tax applicable to the different assessment years. Further, the collection during the year also relates to assessments made in earlier years in respect of various previous assessment years. It may not therefore, be possible to correlate the collection of wealth-tax with the price indices of assets of respective years."

Cost of collection

1.24 The cost of assessment/collection of wealth-tax vis-a-vis that of income-tax given below :

Year	Amount in crores of Rupees	Cost of collection in terms of percentage	
		Wealth- tax	Income- tax
1978-79	3.47	6.26	3.55
1979-80	3.61	5.61	3.28
1980-81	4.10	6.13	2.59

1.25 Asked whether any extra man-power had been specifically and exclusively employed for assessment and collection of wealth-tax, the Ministry of Finance have stated :

"There is no deployment of man-power exclusively for wealth-tax."

Case Studies

1.26 The Directorate of Inspection (Investigation) Special Cell, carried out a selective study recently of contributions made to the national exchequer in the form of wealth-tax by persons controlling the large industrial houses. The salient features of the study are summarised below.

The following table shows the growth of the assets of some of the large industrial houses during the period 1972 to 1977 :

Name of the Industrial Houses	(Rs. in crores) Value of Assets 1972	(Rs. in crores) Assets 1977	Per- cent- age in- crease over 1972
		1972	1977
Tata	641.93	1009.28	66.6
Birla	589.42	1070.20	81.6
Mafatlal	183.74	285.63	55.4
J.K. Sanghania	121.45	267.31	120.1
Modi	58.05	125.26	115.78
Sarabhai	88.44	136.92	62.3
Goenka	18.01	52.26	190.17

[The above data does not take into account the marked value of the assets]"

1.27 It is common knowledge that during these years the value of bonds, securities and also immovable properties have multiplied. A wealth of Rs. 1 lakh in 1957-58, at an yield of 10% would have multiplied to Rs. 6.72 lakhs over a period of last 20 years. On the basis of this assumption, the following table shows the expected appropriation in wealth of these persons over a span of 20 years.

Name of the person	Value of wealth disclosed in Asstt. Year 1957-58 (in lakhs)	Projected value of the wealth in 1977-78 at yield of 10% (in lakhs)	Wealth in Assessment year 1977-78 disclosed (in lakhs)
M.P. Birla	45.28	304.02	11.65(R)
B.M. Birla	58.67	394.70	16.85(R)
Smt. Rukmanidevi Birla	75.43	507.40	19.49(R)
J.R.D. Tata	12.21	82.14	12.58
N.H. Tata	1.98	13.32	16.00(R)
Y.N. Maftial	37.57	252.75	12.94 (76.77)
R.N. Maftial	35.53	239.03	17.81
Anand Sarabhai	15.12	101.72	2.65
Gautam Sarabhai	22.07	148.48	0.59
V.H. Dalmia	9.19	61.83	7.79
G.K. Singhania	7.36	40.51	25.10
K.N. Modi	2	13.45	0.67
R.P. Goenka	7.76	52.21	1.20

1.28 The above projection clearly shows that the wealth of the persons controlling these large industrial houses has declined in 1977-78 and the Nation has been denied the benefit of even normal appreciation expected in the wealth of these persons even at wealth-holding level of 57-58. In contrast to this, it is observed that there has been pronounced growth in the assets/wealth of the large industrial houses. As these large industrial houses are controlled by the persons are the real owners of the multiplied wealth of these institutions.

1.29 The main conclusions based on the case study are as under :

- (i) The growth in the large industrial houses has been channelled through the development of corporate sector, an achievement made possible largely on account of resource potentials and know-how available to such institutions in mobilising, generating and utilising economic surplus. One of the factors contributing to the enlargement of the size of such corporate sectors is the phenomenon of inter-corporate investments by family controlled business houses. It is also evident from the study that in this growth and the size of large industrial houses, family controlled investment companies have played a crucial role.
- (ii) The disquieting feature revealed is the decline in the wealth of most of these persons. Another phenomenon witnessed is that the increase in the wealth shown by these persons for taxation is invariably considerable lagging behind the overall growth observed in the groups and *priu-facie*, appreciably falls short of even reasonable appreciation and corresponding

contributions expected from the wealth holdings of these persons.

- (iii) The facts collected clearly show that most of these persons have devised and made use of various tax avoidance techniques for reducing their wealth-tax liabilities. The main tax avoidance methods used by these persons are :
 - (a) Creation of private trusts and transfer of assets to these trusts;
 - (b) Transfer to minors and ladies;
 - (c) Transfer of assets to companies;
 - (d) Conversion of equity share into preference shares;
 - (e) Diversion of assets through H.U.F., and
 - (f) Rigging of shares.

1.30 The case studies *inter-alia* give an analysis of the wealth-tax returns of the members of a large industrial house, *viz.*, Sarabhai Group. The total assets of this Group as per book value have increased from Rs. 88.44 crores in 1972 to Rs. 116.73 crores in 1976 and 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 contribution of the group to the national exchequer in the form of Wealth-tax has ranged from Rs. 4 to 5 lakhs in a year during the last 4 years. A striking feature is the phenomenal growth in the assets of the group on the one hand and its almost negligible contribution to the wealth-tax of the Exchequer, on the other. The Members in this Group have consciously made such arrangements so as to reduce their wealth-tax liabilities.

The Study further shows that the following techniques have been devised by the Group to circumvent the provisions of Direct Tax Laws :

- (i) Creation of private trusts and transfer of assets to the trusts;
- (ii) Creation of investment companies and transfer of assets to the companies;
- (iii) Property impressed with the character of H.U.F.

To quote the findings of the study :

"The device of creation of private trusts has enable the group to avoid wealth-tax on a huge scale. Prior to March, 1972, there were about 400 private trusts in Sarabhai family. After March, 1972 more than 1200 trusts were created with the result that the total number of such trusts as on today (date of study) is about 1600. In all these trusts, the ultimate beneficiaries are the 25 individuals of this group. Each member of the family has been made a beneficiary of the 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."

1.31 The study clearly shows that the existing provisions of Wealth-tax Act and Rules provide sufficient leverage to the persons controlling mono-

poly houses to minimise their contributions to the national exchequer. The plugging of some of these loopholes is considered imperative. The following recommendations have been made :

- (i) It may be worthwhile to extend the levy of wealth-tax to private limited companies and investment companies.
- (ii) The existing instructions which regulate the valuation of unquoted shares of investment companies need substantial modifications.
- (iii) The definition of 'unquoted share' should be extended so as to clearly bring under the ambit those quoted shares, where *prima facie*, evidence shows that the quotations have been rigged in a stock exchange.
- (iv) In order to curb tax avoidance through the mechanics of private trusts, it would be necessary to make certain legal changes.
- (v) Rule 1-D which governs the valuation of preference shares also needs modification. The valuation of preference shares in cases wherein rights over reserves and surplus of companies have been retained in converted shareholdings, should also be regulated on the basis of 'asset backing method', as is the case with the unquoted shares of private limited companies.

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 resorted 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 assesses 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 has 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 assessees had 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 assessees. It is thus clearly established that the number of assessees 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 Rs. 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 3.55, 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, lawyers'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 effectively dealt with and the scope for tax evasion/avoidance is reduced to the maximum extent possible.

CHAPTER II

ARREARS OF WEALTH TAX ASSESSMENTS/DEMAND

Audit Paragraph :

2.1 The arrears of demand and cases pending assessment as at the end of the assessment years 1976-77 to 1979-80 are given below. The arrears of demand exceed three times the yearly realisation of tax.

Year	No. of cases pending assessments	Arrears of demand (Rs. in crores)
1976-77	2,88,949	52.75
1977-78	3,14,224	56.41
1978-79	3,31,561	184.08
1979-80	4,32,988	180.54

[Paragraph 4-02 of the Report of the Comptroller and Auditor General of India for the year 1979-80. Union Government (Civil)—Revenue Receipts—Volume II—Direct Taxes—p. 114]

2.2 The following statement shows the number of assessees on General Index Register, number of assessments completed and the proceeds collected in respect of Wealth-tax during the years 1970-71 to 1979-80 :

Financial year	No. of wealth-tax assessees on G.I.R. as at the end of the year	No. of wealth-tax assessments completed	Amount collected (Amount in crores in rupees)
1970-71	1,73,255	1,90,205	15.31
1971-72	2,03,655	2,35,769	25.14
1972-73	2,11,178	2,48,031	35.94
1973-74	2,17,881	2,36,696	35.78
1974-75	2,18,928	2,50,624	39.23
1975-76	2,30,524	2,65,672	53.73
1976-77	2,49,306	2,79,927	60.44
1977-78	2,82,864	3,18,565	48.46
1978-79	3,18,450	4,75,021	55.41
1979-80	3,46,291	3,25,718	64.47

Arrears of Wealth Tax Demand

2.3 The demand in arrears under Wealth-tax as at the end of each of the years 1976-77 to 1979-80 is given below:

Year	Demand in arrears at the end of the year (In crores of rupees)
1976-77	52.75
1977-78	56.58
1978-79	184.08
1979-80	180.54

2.4 These arrears do not obviously include Wealth-tax locked up in 4,32,988 pending assessments as on 31-3-1980. The Committee, therefore, desired to have an estimate of the tax so locked up. The Ministry of Finance (Department of Revenue) have, in a note, stated as follows:

"The estimate of wealth-tax locked up in pending assessments may be formed with reference to assessments completed during the past years and the net demand raised in these years. In this connection following chart may be relevant:

Financial Year	No. of assessments completed	W.T. demand raised ('000' Rs.)	Average demand per assessment
1975-76	265572	395323	1488
1976-77	279927	441649	1577
1977-78	318565	499318	1570
1978-79	475021	2003411	4217
1979-80	325718	952714	2802

The year 1978-79 was the one in which limitation provisions became applicable to wealth-tax assessments for the first time. As a result assessments for a number of years involving various disputes in the case of the same assessee were completed in one year. The picture of demand raised during this year would be a distorted one in as much as the demands were raised without the assessments being subjected to appellate scrutiny. This year, therefore, could be said to be an abnormal year. The subsequent year 1979-80 can also not be said to be a normal year in as much as only some of the assessments completed during 1978-79 underwent appeal process. The basis of assessments completed in 1979-80 in respect of the remaining cases would be the same as in 1978-79. It would thus appear that a more reasonable estimate could be arrived at by taking average of the demand raised during 1975-76 to 1977-78 for the purpose of computing the average wealth-tax demand created per wealth-tax assessment. This can be worked out as under:

Financial Year	Average demand raised per assessment
1975-76	1488
1976-77	1577
1977-78	1570
	4635
Average for these three year in 4635/3	=1545
Estimated tax locked up in 432988 pending assessments will be	= Rs. 1545 × 432988
	= Rs. 66.89 crores."

2.5 From the figures of arrears of wealth-tax as at the end of the year 1979-80, it is seen that whereas the collections were of the order of Rs. 64.47 crores, the outstandings mounted to Rs. 180.54 crores. Asked to explain this unusual phenomenon, the Chairman, Central Board of Direct Taxes stated:

"I admit 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."

2.6 The Committee desired to know the figures of collections and out-standings as on 31 March, 1981. The Chairman, C.B.D.T. informed the Committee as follows :

"The gross arrears were of the order of Rs. 217 crores and net arrears Rs. 110 crores. The corresponding figures for 31.3.1979 were Rs. 184 crores and 60 crores net. The collections for 1979-80 and 1980-81 were Rs. 64.47 crores and Rs. 67.58 crores respectively.

There was a time limit introduced in the Wealth Tax Act which made all assessments pertaining to the assessment years time-barred on 31-3-1979. Earlier there was no such limit with the result that the assessments were kept pending. With this time limit, the Wealth tax Officers were compelled under law to frame all the assessments upto 1974-75 by 31-3-1979. This is also indicative of the fact whereas immediately in the year 1977-78, we had completed only 3.18 lakh assessments, in 1978-79, we completed as many as 4.75 lakh assessments. The result was that the demands which had been raised, had not fallen due on 31-3-1979. This was one factor which was responsible for the sudden spurt in arrears as on 31-3-1979. Whereas in the earlier years, we had created a demand of only Rs. 60 crores, this year the demand created was of the order of Rs. 212 crores.

So, there was a bulk disposal of assessments, there was a bulk raising of demands. The demands which were raised in the last few months of 1978-79 were mainly responsible for huge arrears. This is also evident from the figures I gave just now. Out of the gross arrears of Rs. 184 crores, the outstanding for collection as on 31-3-1979 was about Rs. 60 crores. This means that the net for collection was only Rs. 60 crores. The remaining demand had not fallen due or was being disputed or had been stayed by the court or appellate authorities. This is the reason why there was such a huge hike in the arrears position as on 31-3-1979."

2.7 Asked whether it was due to this factor of time-bar that the Department were obliged to complete a much larger number of assessments during 1978-79, the Chairman, C.B.D.T. stated in evidence :

"On account of the introduction of the time-bar in 1978-79, we had to dispose of 4.75 lakhs assessment, because otherwise they would have become time-barred, but it was at the cost of disposal of the income tax assessments. We have got S.I.U. norms. We had to be satisfied with the lower disposal so far as income-tax cases were concerned."

He added :

"In 1979-80, we had disposed of 24.12 lakh summary assessments out of a total of 33.10 lakhs. In the next year, when the (wealth-tax) time limit pressure was not there, our disposal went up to 34.89 lakhs. There was a corresponding increase in the total number of income-tax assessments."

2.8 Replying to a pointed question on the desirability or otherwise of having uniform limitation period for completion of both income-tax and wealth-tax assessments, the Chairman, C.B.D.T. stated :

"Earlier, there was no limit. We reduced it to four years. If we reduce it to two years and bring it on par with the time limit for income-tax, it may create some difficulties in wealth-tax assessments. Most of the difficult wealth-tax cases involve valuation of properties and other assets. It takes quite some time before we are able to get these valuation reports. On the income-tax side, this problem is not so acute. So, we thought we would keep a higher time-limit for wealth-tax assessments."

2.9 Asked whether taking up of both income-tax and wealth-tax assessments of the assessee simultaneously was possible administratively, the Chairman, C.B.D.T. replied :

"We have already issued instructions to the Commissioners, and through them, to W.T.Os. that where the wealth assessed is more than Rs. 5 lakhs, cases should, as far as possible, be taken up together, for income-tax wealth-tax purposes. In case it is more than Rs. 5 lakhs, we will give them a certain weightage in disposal. That is the inducement given by us."

2.10 He added :

"It would be an ideal state of affairs if we were to complete both income-tax and wealth assessments within the assessment year itself. But that would require a very large increase in man power, at all levels."

2.11 Age-wise break-up of the arrears of Rs. 180.54 crores as on 31-3-1980, as furnished by the Ministry of Finance, is given below:

	(Rs. 000's)
(i) Out of current demand	624298
(ii) Between one to two year old arrears	877658
(iii) Between two to three year old arrears	145114
(iv) Between three to four year old arrears	45964
(v) Between four to five year old arrears	39627
(vi) Between five to six year old arrears	19685
(vii) Between six to seven year old arrears	13692
(viii) Between seven to eight year old arrears	13127
(ix) Between eight to nine year old arrears	10638
(x) Between nine to ten year old arrears	3320
(xi) Over ten year old	12192
Total	180,53,15

2.12 From the above statement, it is seen that of the arrears of tax for collection i.e., Rs. 180.54 crores as at the end of 1979-80, Rs. 62 crores related to demands of 1979-80, Rs. 88 crores to demands which were one to two years old, Rs. 15 crores to demands which were 2 or 3

years old and Rs. 14.33 to demand over 3 and upto 10 years old and the balance Rs. 1.21 crores to demand over 10 years old.

2.13 Asked to give reasons for arrears remaining to be realised beyond 10 years, the Chairman, C.B.D.T. stated :

"Rs. 1.21 crores arrear is over 10 years old. If we break up according to the reason-wise pendency, may be it belongs to those people who have left India or companies which are in liquidation or who have no known assets....."

2.14 Of the arrears of Rs. 180.54 crores, the total demand in dispute before various appellate authorities, Courts etc., aggregated to Rs. 55.29 crores. This figure included a sum of Rs. 28.36 crores on which there were neither stay orders nor were they covered by orders for payment in instalments. Only Rs. 3.75 crores of demands were stayed by Courts. Rs. 18.89 crores of demands were in the nature of protective assessments in appeal. The amount involved in cases pending before the Settlement Commission was only Rs. 1.14 crores.

2.15 The break-up of the total demand of Rs. 55.29 crores in dispute, furnished by the Ministry, is given below:

(In thousands of Rupees)

I. Amount for which stay has been granted

(a) By the Courts	37546
(b) by the W.T. authorities	
(i) pending disposal of appeals (including amounts under protective assessments).	188936
(ii) Pending disposal of settlement petitions	11377

II. Amounts not covered by above and for which instalments have been granted :

(i) Pending disposal of appeals	28246
(ii) Settlements/writ petitions	3127
(iii) Amounts disputed in appeals/reference but not stayed or covered by instalments	283620
Total demand in dispute before Appellate Authorities courts etc. (37546+188936+11377+28246+3127+283620)	Rs. 552852 (000)

2.16 Asked to give a break-up of the remaining Rs. 125.26 crores arrears of demand, the Chairman, C.B.D.T. stated :

"In regard to the other balance demand, amount not fallen due before the end of the quarter is Rs. 36 crores. Normally, we give 35 days for collection and therefore, this amount had not fallen due as on 31-3-80. The amount which is awaiting adjustment or verification is Rs. 1.62 crores.....The amount due from companies under liquidation is Rs. 0.04 crore. The amount due from persons who are not traceable or not known as such, is Rs. 3.46 crores.....There is a net arrears of Rs. 112 crores which has been worked out."

2.17 The charge-wise break-up of the arrears of Rs. 180.54 crores as on 31-3-1980 furnished at the Committee's instance is reproduced at Appendix I.

2.18 The following charges account for substantial demands (out of Rs. 180.54 crores) as outstanding:

Cs. I.T. Bombay	.	.	.	.	.	.	Rs. 28.03 crores
C.I.T. Bombay (C)	.	.	.	.	.	.	Rs. 7.73 crores
Cs. I.T. Delhi	.	.	.	.	.	.	Rs. 19.69 crores
C.I.T. Delhi (C)	.	.	.	.	.	.	Rs. 10.74 crores
Cs. I.T. W.B.	.	.	.	.	.	.	Rs. 24.55 crores
C.I.T. Calcutta (C)	.	.	.	.	.	.	Rs. 4.02 crores
Cs. I.T. Gujarat	.	.	.	.	.	.	Rs. 5.80 crores
C.I.T. Gujarat (C)	.	.	.	.	.	.	Rs. 6.19 crores
C.I.T. Karnataka (C)	.	.	.	.	.	.	Rs. 10.37 crores
Cs. I.T. Tamil Nadu	.	.	.	.	.	.	Rs. 9.86 crores
C.I.T. Madras (C)	.	.	.	.	.	.	Rs. 1.16 crores
							<hr/> Rs. 128.14 crores

2.19 In paragraphs 2.12 and 2.13 of their 34th Report (7th Lok Sabha), the Public Accounts Committee (1980-81) recommended:

"From the statement given in Appendix I the Committee find that the net arrears of tax outstanding against the monopoly houses covered by the MRTP Act, 1969 amounted to Rs. 1,164.60 lakhs as on 31 March, 1979. The Ministry have stated that "this statement does not include information about three dominant undertakings registered under Section 20(b) of the MRTP Act, 1969."

The Committee recommend that information regarding tax in arrears and current demand exceeding Rs. 10 lakhs should henceforth be made available to Parliament through the Annual Reports of the Ministry."

2.20 In their Action Taken Note dated 26-5-1981, the Ministry of Finance have stated :

"The observations of the Public Accounts Committee contained in the above paras have been noted by the Ministry. The information about the cases relating to tax arrears exceeding Rs. 10 lakhs as on 31 March, every year, updated upto 30 September will be incorporated in the Annual Reports of the Ministry for financial year 1981-82 onwards."

2.21 The Public Accounts Committee (1980-81) had, in paragraph 5.10 and 5.11 of their 34th Report (7th Lok Sabha) recommended :

"A special cell has been functioning in the Directorate of Inspection since June, 1972 entrusted with the responsibility of effectively tackling tax evasion by large industrial houses. Originally only 2 Groups of Industrial houses were entrusted to it. But now 8 Groups are entrusted to it. According to the Ministry, with the limited staff at its disposal, the Cell is not able to keep surveillance over all the 2000 and odd companies belonging to the large industrial houses covered under the MRTP definition. The representatives of the Ministry averred during evidence that surveillance over MRTP companies should continue to be done by the existing field machinery on a decentralised basis. The Committee

understand that during 1979-80, the Cell was actively involved in 72 assessments which yielded additional revenue of the order of Rs. 48 crores to the Government.

The Committee are strongly of the view that the activities of the large industrial houses need to be watched more closely than has been the case so far. Considering the fact that the monopoly houses in the country are increasingly adopting the same techniques and tactics of tax evasion and tax avoidance as the multi-national companies, the Committee would emphasise the need for strengthening the Special Cell so that it becomes an effective instrument for overseeing the activities of the monopoly concerns, for directing, coordinating and expediting their assessments as well as for studying the various methods employed by them to evade/avoid their tax liability as to make it increasingly difficult for them to dodge the tax dragnet."

2.22 In their Action Taken note dated 24-9-1981, the Ministry of Finance have furnished the following reply:

"The recommendations of the Committee are accepted in principle. As submitted to the Committee, it is not possible for the Directorate of Inspection (Special Investigation), as the Special Cell is now designated, to oversee all the cases of all the large industrial houses. The strength of the Directorate of Inspection (Special Investigation) will be augmented in order that important cases of a few more group can be overseen by it."

2.23 The number of wealth tax assessees according to size of their wealth for the years 1970-71 to 1978-79, as furnished by the Ministry of Finance (Department of Revenue) is as under:

Year	Above Rs. 20 lakhs	Between Rs. 10 to 20 lakhs	Between Rs. 5 to 10 lakhs	Below Rs. 5 lakhs	Grand Total
1970-71	448	1445	6057	1,59,669	1,67,619
1971-72	449	1599	6105	1,90,172	1,98,325
1972-73	361	1340	5841	1,98,440	2,05,982
1973-74	385	1320	6085	2,08,459	2,16,249
1974-75	331	1575	6137	2,11,336	2,19,379
1975-76	296	1499	6359	2,22,370	2,30,524
1976-77	301	1353	6838	2,40,814	2,49,306
1977-78	408	1676	7487	2,73,293	2,82,864
1978-79	784	3776	12147	3,01,743	3,18,450

2.24 According to the above break up of wealth-tax assessees, there are only 4,560 persons in the whole country having a net wealth of over Rs. 10 lakhs and only 16,707 persons have a net wealth of over Rs. 5 lakhs. It is seen that 0.21% of the assessees have net wealth exceeding Rs. 20 lakhs, 1.19 % of the assessees have net wealth between Rs. 10 lakhs and 20 lakhs, 3.82% of the assessees have net wealth between Rs. 5 and Rs. 10 lakhs and the remaining 94.78% of the assessees have net wealth below Rs. 5 lakhs.

2.25 Asked to give an estimate of the understatement in these figures, the Ministry of Finance have stated:

"The break up of figures of wealth-tax assessees according to slabs of net wealth was obtained from various Commissioners of wealth-tax charges and the reply was based upon the information so received. In the absence of any material to the contrary, the Ministry do not visualise any understatement in these figures. However, it may be stated that the number of wealth-tax assessees 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 law. Also there are likely to be a number of 'persons' who will be having a net wealth of over Rs. 10 lakhs or 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."

2.26 The Committee desired to have a break-up of the amount of tax in arrears by size of wealth assessed in the wealth group above Rs. 5 lakhs and below Rs. 5 lakhs. The Ministry of Finance (Department of Revenue) have expressed their inability to furnish the same stating that :

"No registers/records etc., from which this information can be collected are maintained by the Department. This could be done only by Physical scrutiny of all the wealth-tax assessment files which besides being a very voluminous and time-consuming job could seriously dislocate the normal work of the Deptt."

2.27 The Committee enquired during evidence as to how much arrears of the total outstanding arrears of Rs. 180.54 crores pertained to the category of assessees in the slab of over Rs. 5 lakhs, the Chairman, CBDT replied :

"We are trying to reconcile the arrears. It is a laborious and time-consuming job. We have to look into each and every file and then link up the arrears with the wealth level. You see it is possible that a person may be possessing a wealth of over Rs. 20 lakhs but his arrears may be very small. But a person with a wealth of Rs. 5 lakhs accumulates his arrears. This requires examination and physical scrutiny of each and every file to find out the information."

2.28 Detailed particulars of the top 50 assessees in descending order of demand of wealth-tax in arrears as on 31 March, 1980 reproduced as Appendix II show that a total of Rs. 46.41 crores as outstanding against them. The wealth-tax demands outstanding against the top 13 of these assessees range between over Rs. one crore and Rs. five crores; the total arrears due being of the order of Rs. 28.73 crores.

2.29 The statement shows that sum of Rs. 175.98 lakhs was outstanding against Dr. J. Dharma Teja, who had since left the country. The Committee enquired about the reasons for non-recovery of wealth-

tax dues from the known assets. In reply, the Member (Wealth-tax), C.B.D.T. stated :

"Shri Dharma Teja was the Managing Director of Jayanti Shipping Company and as far as we know, his total assets were the shares of that company. This company was nationalised sometime in 1971 and all his shares were taken over by the Government. After that, all he was entitled to was a compensation amounting to Rs. 3,31,84,000/- . This was the amount of compensation which was receivable by Mr. Dharma Teja from the Government in 1971. Tax amount was quantified but at that time he had only a right to receive compensation He received the compensation only on 31-3-1979. The Department had attached it. At that particular time, as on 31-3-1979, the income tax demand against Mr. Dharma Teja was Rs. 6,50,54,000."

2.30 Asked whether the market value of the right to compensation should have been quantified, the Member, C.B.D.T. replied :

"As far as I can understand, what was considered here was how much this gentleman was going to get. The right was quantified at Rs. 3,31,84,000. There was no further question of considering the market value of this particular right. This particular right was worth Rs. 3,73,94,000; this was the amount, which he was to receive from the Government inclusive of interest (at 4½%)."

2.31 Subsequently, the Ministry of Finance have furnished the following particulars of attachment of compensation :

" the compensation payable to Dr. Dharma Teja was attached by the T.R.O. Bombay on 19-11-71, 19-12-72 and 19-12-73." An amount of Rs. 372.94 lakhs was collected in the quarter ending March, 79. The aforesaid amount was adjusted against I.T. arrears."

2.32 The Committee desired to have details in chronological order of the factors leading to accumulation of gross arrears, wherein these exceeded rupees one crore, together with steps taken to recover the tax arrears. The Ministry of Finance have, however, furnished a statement showing assessment years in which the outstanding wealth-tax, demands as on 31-3-1980 were raised in respect of these assessees. The same is reproduced as Appendix III.

2.33 According to the Ministry, the reason for non-collection of part of the wealth-tax demand is not the ineffectiveness of the legal and administrative framework for collection, but a number of other factors as tabulated below :

- "(a) Demands are in dispute before the Appellate Authorities and in many cases stay has been granted till the disposal of appeals.
- (b) In some cases assessees have become insolvent and the assets have been taken over by official assignee.

- (c) In some cases demands have been raised as a protective measure and collections are not pressed in such cases till the final disposal of the issue involved.
- (d) In some cases the assessees have left for Pakistan without leaving any asset in India.
- (e) Double taxation/Duty relief applications are pending in some cases.
- (f) In some cases petitions before Settlement Commission are pending.
- (g) Petitions of waiver of penalties etc. are pending."

2.34 Asked to furnish details of the steps designed to effect reduction in arrears of collection of wealth-tax, the Ministry of Finance have stated as follows :

".....the Department has been laying emphasis on collection of arrears of Wealth-tax, Gift-tax and Estate Duty in its action plans from year to year. Further *vide* Board's D.O.F. No. 303/13/81-ED dated 31-7-81 the Commissioners of Income-tax (Appeals) have been requested to dispose of the high demand appeals in respect of Wealth-tax, gift-tax and estate duty on a priority basis."

2.35 The Committee enquired whether any time bound programme was formulated or structural changes were devised to liquidate the ever-increasing arrears, the Chairman, C.B.D.T. stated :

"We draw up an action plan every year and according to it, we lay down for every wealth tax officer a certain percentage of assessments which have to be completed during that particular year. Similarly, we also lay down a target for collection of arrear demand. We also lay down a target for collection of current demand. The Board has laid down all these targets, and I can say that in the targets laid down for our current action plan for 1981-82, we have said that regarding the disposal of wealth tax above Rs. 5 lakhs i.e. cases which give us nearly 40% of the revenue, the Income Tax Officer should dispose of 75% of the work-load with him. We deliberately fixed the target slightly higher in order to introduce an element of challenge. The Income Tax or Wealth Tax Officer can make an effort to reach it. But sometimes they even-exceed it. If the ITO is quite vigilant, he can exceed it."

2.36 He added :

".....we are as much concerned about the accumulation of arrears as this Hon. Committee is. We had in fact discussed this question threadbare in the Commissioners Conference where all the Commissioners all over India had assembled in May, 1981. We had then devised certain methods of liquidating the wealth-tax arrears."

Over-pitched/vexatious assessments

2.37 Asked if it would be correct to infer that the wealth tax assessments, specially in the higher income bracket were apt to be over-pitched because of the lacunae in the provisions of the Act, the Chairman, C.B.D.T. stated :

"As a general rule, they are not to be over-pitched, but as I said, in view of the special reasons which were prevailing during 1978-79 certain assessments which were made in the last quarter of that financial year and especially in the last month of that year, were not correctly made, certain irregularities were committed, certain over-pitched assessments were made and certain cases which should have been referred to higher authorities, had not been referred. But we had reviewed the position in the later years. Now, I think as a matter of rule, only few assessments are over-pitched and even then, it is ensured that the assessments are not done in a very slipshod manner."

2.38 In the same context, the Chairman, C.B.D.T. further stated :

"We have been issuing instructions from time to time that the overpitching of assessments should be avoided. The assessments should be very reasonable and cogent reasons should be given in the assessment order wherever some additions have to be made, so that they stand the test of appeal and no defects are found by the internal audit parties or by the Revenue Audit parties..... All the same, I would not deny that sometimes, the officers try to err on the side of making some additions which are later on not found sustainable by the appellate authorities. But so far as the mandatory provisions are concerned, I have no doubt that out officers are required to comply with them, and they are not allowed to make assessments which may be set aside in appeal or thrown out in appeal."

2.39 The Committee desired to know if cases of vexatious assessments had come to the notice of the higher officers and if so, what administrative action was taken against the erring officers. The Chairman, C.B.D.T. replied :

"I do not certainly deny that some times in some cases the assessments are vexatious and some additions are made on frivolous grounds. We take note of this only administratively while making inspection of the work of the I.T.O. or at the time of writing the annual confidential report. At that time the inspecting or reporting officer has to see whether by and large the I.T.O.'s assessments have stood the test of appeal or whether they are made on baseless grounds. I do not deny that such assessments are being made by certain officers who consider themselves to be pro-revenue. We have been trying to see that they bring to bear a balanced judgement and sense of proportion."

2.40 He added :

"Adverse comments certainly are given. We can say in the C.R. (Confidential Report) that his sense of proportion is poor. I do not remember whether anybody has been suspended or dismissed."

Recovery of undisputed demands

2.41 In connection with the steps taken to liquidate undisputed arrears etc., the Chairman, CBDT informed the Committee as follows :

".....We are quite aware of the fact that the arrears are very large and they are mounting up from year to year.

In the annual Income-tax Commissioners' Conference that was held in April/May, 1980, we had discussed this question threadbare. At that time, we had thought that this was one of the key result areas which should be included in the Central Action Plan and, therefore, we have laid down certain targets for the collection of these arrears. The target is further broken up in two quarters, June quarter and September quarter. I have already reviewed the position for the quarter ending 30-9-81.

I would like to read out my comments which I have sent to all the Commissioners of Income-tax. I have said in the area of wealth-tax, in absolute terms, our performance is rather poor considering that we have collected only Rs. 21 crores as against the target of Rs. 30 crores which was for the first two quarters, But we can derive satisfaction from the fact that we have done much better during the current year than in the preceding year when we collected only Rs. 5 crores, a mere 3 per cent of the total arrears.....

We keep on monitoring the collection of these arrears through the Central Action Plans and a quarterly review is issued after the close of each quarter.....

In addition to that, we found that a lot of these arrears representing penalty, etc. were locked up in the petitions which were pending under Section 188 before the Commissioner of Wealth-tax. We have set up a target for the disposal of petitions under Section 1 BB also. This is also a subject matter of review every quarter. We have written to all the Commissioners during the last month so that they should devote their entire attention to the liquidation of these arrears.

We have also taken up another step. In so far as the arrears locked up in appeals are concerned, we have written to all the appellate authorities to treat the cases where arrears are locked up in the appeals, as priority appeals. As the Committee knows, there are two types of appellate authorities. One is the Appellate Assistant Commissioner and the other is the Commissioner of Income-tax (Appeals). For the Appellate Assistant Commissioner, we have said that the cases where the demand locked up is more than Rs. 10,000 they should treat it as a priority case and, for the Commissioners of Income-tax (Appeals), we have said that the corresponding figure should be Rs. 50,000.

We have also found that when the assessees go to the Settlement Commissioner, then they think that the entire demand is stayed till the disposal of their petitions by the Settlement Commissioner. We have discussed this matter with the Settlement Commission and we have decided, with the approval of the Chairman, Settlement Commission, that where an assessee files a petition before

the Settlement Commissioner and it has not yet been heard and it has not been decided whether it is to be admitted or not, in that case, so far as the undisputed demand is concerned, we should have a free hand to recover that amount. He has agreed to it and we have already issued instructions on 31-7-81 that no bar will operate against the collection of undisputed demand where the petitions have been filed before the Settlement Commission and the Settlement Commission has not yet decided whether the petition should be admitted or not...."

2.42 The Committee desired to know whether any study was made to evaluate reasons for not recovering the undisputed demands. In reply, the Chairman, C.B.D.T. stated :

"That is correct. We will study that."

Penalties

2.43 The Committee desired to know the quantum of penalty included in the arrears of Rs. 180.54 crores together with its year-wise break-up. The Ministry of Finance has stated as follows :

"There is no source record from which the amount of arrears on account of penalties included in the total arrears could be compiled. The only way to collect it is by reference to the records of each Wealth-tax Ward/Circle. This is a voluminous and highly time consuming work and the Hon'ble Committee are requested to dispense with this requirement.

However, amount of penalties included in arrears of cases with outstanding demand exceeding Rs. 10 lakhs, is available and is given below :

	Arrears relating to penalties	Total arrears in these cases
As on 31-3-79	Rs. 4,96.59 lakhs	Rs. 52,08.18 lakhs
As on 31-3-80	Rs. 6,62.63 lakhs	Rs. 60,03.59 lakhs
As on 31-3-81	Rs. 21,19.85 lakhs	Rs. 75,29.04 lakhs"

2.44 Details of 20 cases involving the highest amounts of penalties in respect of outstanding demands exceeding Rs. 10 lakhs for the years ended 31 March, 1979, 1980 and 1981 furnished by the Ministry of Finance are reproduced in Appendices IV-A to IV-C.

2.45 From the figures furnished by the Ministry of Finance, it is seen that the 20 cases involving the highest amounts of penalties account for recoverable penalties amounting to Rs. 1352.95 lakhs during the quarter ended 31st March, 1981.

2.46 One of the reasons given by the Ministry for non-collection of part of the wealth-tax demand is that petitions of waiver of penalties etc. are pending.

2.47 Asked to give an idea of the quantum of penalties which was ultimately sustained at the appellate level, the Chairman, CBDT stated :

"It was not upheld in most of the cases and it was reduced in a number of cases by the Appellate Commissioners."

Recovery of tax demands

2.48 Where an assessee defaults in making payment of a tax, the Income-tax Officer may issue a certificate to the Tax Recovery Officer for recovery of the demand by attachment and sale of the defaulter's movable or immovable property, etc.

2.49 The Audit Report (1979-80) mentions the corporation tax and income-tax demand certified to Tax Recovery Officers and State Government Officers for recovery and its year-wise particulars for the year 1979-80 as follows :

	(Rupees in crores)			
	Demand certified	Total	Demand Recovered	Balance
	At the beginning of the year	During the year		
1979-80	703.96	323.65	1027.61	287.61
				740.00

2.50 The Committee desired to have detailed information about tax recovery certificates issued with amount thereof and reasons for non-enforcement of recoveries after certification in cases involving arrears of tax of Rs. 1 lakh and above.

2.51 The Ministry have furnished the following information in respect of income-tax and other direct taxes put together for the years 1977-78 to 1979-80 :

STATEMENT OF TAX RECOVERY CERTIFICATES AND THEIR DISPOSAL

	1977-78	(Rs. in crores)	
		1978-79	1979-80
1. No. of Certificates for disposal	28,42,939	29,03,786	28,21,258
2. No. of Certificates disposed of	6,21,804	6,18,375	4,77,737
3. No. of Certificates partly disposed of	49,601	47,428	49,295
4. a) No. of Certificates in which Moveable properties attached	45,073	38,128	25,357
(b) Amount in (a) above	24.13	23.32	21.55
5. (a) No. of cases in which immovable properties attached	6,875	NA	5,703
(b) No. of properties in (a) above	8,134	..	7,235
(c) Amount in (a) above	59.51	..	86.93

2.52 Asked to indicate the position of wealth-tax demands certified during 1979-80, the Chairman CBDT stated :

"We do not have a separate classification for Income-tax and for wealth-tax."

2.53 In regard to difficulties faced by the Department in liquidating the mounting arrears, the Chairman, CBDT stated :

"One fact the Hon. Committee may keep in view that if we are not able to recover the arrears from persons within the period of one or two years, then it becomes hard core of arrears. It becomes more difficult to recover the arrears. That is why cases of more than 10 years old are pending. It may be that the

assessees would have left the country or they would have gone in liquidation or there would have been some other reasons. The various modes of recovery given in the Income-tax Act and they are to be put into operation and the amount is to be recovered. So far as the issue of tax recovery certificate.....is concerned, there is a time-limit provided in the Act. The time-limit is the period of one year from the last date of the financial year in which the demand is made. Now, there are three or four modes of recovery in the Act. In case the Income-tax Officer adopts one of those modes within the prescribed time, there is no further time limit for completion of recovery proceedings."

2.54 The Committee desired to know whether any prosecutions were launched in big cases for wilful evasion of taxes. The Chairman, CBDT stated :

"We have not arrested or detained in prison any tax defaulter."

He further explained :

"There is a provision. In fact, we negotiated with the State Government for keeping these persons and there were some difficulties. They have explained that they cannot do it because of certain administrative difficulties. We do not have any civil prison of our own....."

2.55 Asked whether coercive measures like detention of wilful defaulters could act as a deterrent to others, the Chairman, CBDT stated :

"I agree fully that, if we were even to threaten a person about his being arrested and detained in a civil prison it may work as a deterrent and he might pay up the amount. But we do not have the necessary facilities or arrangements for keeping them in prison, and the State Governments also do not want to keep them. I do remember, when I was a Commissioner, I wanted to detain some people, but the State Government said that we would have to make so much payment for detaining them. Then I thought that I would be spending much more than the amount of tax that I was to recover. In any case, we would pursue this matter further and see that this provision in the law is made more effective. I learn that a person was arrested in Bombay ten days back for non-payment of tax.....It was about Rs. 1-1/2 lakhs."

2.56 In reply to another question, the Chairman, CBDT stated :

"A post of C.I.T. (Recovery) has been created to take charge of recovery matters, and wherever it is considered that a person has money and he is not paying, action will be taken against him."

2.57 Asked about the reasons why inspite of having enormous powers vested in the Department to effect recovery of tax arrears, it had not been possible to realise/reduce the arrear demands, the Finance Secretary stated :

"We share fully the concern expressed by you.....and we are trying our best to improve the position, and in fact, the position is bound to improve as we go along."

2.58 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.

2.59 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, Karasaka, 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. 184.08 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.

2.60 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 of 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.

2.61 The age-wise breakup 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 balance 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.

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.

2.64 The information furnished by the Ministry with regard to the number of wealth-tax assessees according to the size of their wealth shows that the number of assessees 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 assessees have net wealth below Rs. 5 lakhs. The Ministry have informed that "the number of wealth tax assessees 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.

2.65 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 assessees. 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 assessees between Rs. 5 lakhs to Rs. 10 lakhs reported for the entire country are found in one big size city alone.

2.66 No data have been furnished to the Committee with regard to the arrears outstanding against assessees 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 31 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 out-standing 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.

2.67 From the detailed particulars of the top 50 assessees against whom there are heavy arrears of wealth-tax, the Committee find that the total arrears of wealth-tax against these assessees amounted to over Rs. 46 crores on 31 March, 1980. 13 of these assessees 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.

2.68 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.

2.69 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 year, 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.

2.70 Considering the large number of recovery certificates awaiting disposal year after year, the Committee consider that there is need to strengthen and streamline the 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.

2.71 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 assessees. 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 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.

2.72 The Committee further suggest that effective monitoring of the outstandings 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.

CHAPTER III

(a) INCORRECT VALUATION OF PROPERTIES

3.1 Reproduced below are certain typical cases of incorrect valuation of properties/jewellery which the Committee have selected for detailed examination. The facts of each case have been given after the relevant audit paragraph.

Audit paragraph :

3.2 (i) The wealth-tax assessments and re-assessments of an individual for the assessment years 1974-75 to 1976-77 were completed in January and March 1977 and October 1977 in which the value of a house property was adopted as Rs. 7,44,400 as returned by the assessee on the basis of certificate of an approved valuer. The income-tax assessment records of the assessee revealed that the entire property was rented out and was fetching a gross annual rent of Rs. 1,94,825. Its net annual value was of Rs. 1,18,784, Rs. 1,23,543 and Rs. 1,20,247 for the assessment years 1974-75 to 1976-77 respectively. This case was not referred to the Valuation Cell for valuation as required in the Board's instructions of December, 1971, although the value of the property was more than Rs. 5 lakhs and the value returned by the assessee was also less than 8 times the net-rental value. In the wealth-tax assessments of the same assessee for the assessments years 1974-75 and 1975-76 additional wealth-tax on the value of urban assets owned by him was also not levied.

On these mistakes being pointed out by Audit in September, 1976 and August 1977, the department accepted them and referred the case to the departmental Valuation Cell which determined the value of the house property as Rs. 11,36,000, Rs. 11,27,000 and Rs. 14,18,000 respectively for the assessment years 1974-75 to 1976-77. Thereupon, the department revised the assessments on 8.6.1978, adopting the valuation determined by the Valuation Officer and raised an additional demand of Rs. 72,286 for the assessment years 1974-75 and 1975-76. Report about the assessment year 1976-77 is awaited (December 1980).

3.3 The audit paragraph was sent to the Ministry of Finance in September 1980. Their reply is awaited (December 1980).

[Paragraph 4.06(i) of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) Revenue Receipts Vol. II—Direct Taxes].

Facts of the case

3.4 The assessee referred to in the above mentioned paragraph is Shri Anokh Singh. The property which is the subject matter of valuation, is situated in Motia Khan, Delhi.

3.5 The relevant details relating to the assessments in question, as furnished by the Ministry, are given in the following chart :

Assessment year	Date of filing original return	Date of filing revised return	Date of completion of assessment
1974-75	31-7-74 (value of Motia Khan property returned Rs. 5,20,398/-)	18-8-75 (Value of Motia Khan property revised to Rs. 7,44,400/-)	6-9-75
1975-76	14-8-75 (Value of property returned at Rs. 7,44,400/-)	—	17-11-1975
1976-77	30-7-76 (Value of property returned at Rs. 7,44,400/-)	—	7-10-76

“The revised return for the assessment year 1974-75 was accompanied by a valuation report by a registered valuer, valuing the property in question at Rs. 7,44,400/-. The same value was returned for the assessment years 1975-76 and 1976-77. The value shown in all the three assessment years was accepted by the W.T.O. Audit have pointed out that having regard to the annual rental value of the property and the instructions of December, 1971, the case should have been referred to the Valuation Cell. The Audit have also pointed out 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.”

3.6 In reply to a further question, the Ministry have stated that the assessments for the assessment years 1975-76 and 1976-77 were liable to be checked but could not be checked by Internal Audit.

3.7 The present position about rectification of assessments and raising of demands as intimated by the Ministry is given below :

“The proceedings for the assessment years 1974-75 and 1975-76 were opened u/s 17(1)(b) of the Wealth-tax Act on 6.7.77. The assessments were completed on 8.6.78 by taking the value of the property as per the report of the Valuation Cell, valuing it at Rs. 11,36,000/- and Rs. 11,27,000/- respectively. (However, these orders were cancelled by A.A.C. on 10.5.79 and appeals filed by the Department before the ITAT were dismissed on 9.4.81). The C.W.T. modified the order of the W.T.O. for the assessment year 1976-77 u/s 25(2) of the Wealth-tax Act and raised an additional demand of Rs. 62,180/-. However, the order of the CWT has been cancelled by ITAT on 6.2.1980.

For charging additional Wealth-tax on urban immovable properties, the assessments for 1974-75 and 1975-76 were rectified u/s 35 of the Wealth Tax Act on 31.5.79, resulting in demands of Rs. 2,290/- and Rs. 4,285/- respectively and the same have been realised from the assessee.”

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 WTO 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 ex-chequer 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.

Audit Paragraph :

3.10 (i) The wealth-tax returns of an individual for the assessment years 1970-71 to 1974-75 included a piece of land admeasuring 3,751 sq. yds. within the well-developed part of a big city. This land was claimed to be agricultural and its value was returned at Rs. 3 lakhs for the assessment years 1970-71 to 1972-73 and at Rs. 3.30 lakhs for the assessment years 1973-74 and 1974-75, as certified by an approved valuer. The assessment records showed that, as early as August, 1974, the Wealth-tax Officer had considered the land to be non-agricultural for these assessment years and on the 2nd August, 1974 referred its valuation to the departmental Valuation Officer. The Valuation Officer in his report of 23 May, 1975 had valued the land at different values ranging from Rs. 4,87,630 for the assessment year 1970-71 to Rs. 8,32,730 for the assessment year 1974-75. This report of the Valuation Officer was made after spot inspection by him and he had observed in it that it was uncultivated land, was fenced around and was situated in well-developed old residential area in the city. The assessments of these five assessment years were, however, finalised on the 30 December, 1978 i.e. more than three and half years after this valuation report, incorrectly treating the land as agricultural and accepting the value of the land as returned and as certified by an approved valuer as Rs. 3 lakhs and Rs. 3.30 lakhs. In these assessment orders, no mention was made of the fact that the valuation of the land had been referred to the Valuation Officer and his report had also been received. Failure to consider the valuation report of the departmental Valuation Officer, which was binding on the Wealth-tax Officer, in wealth-tax assessments for the assessment years 1970-71 to 1974-75 (done together on 30 December, 1978 as against time-bar operating on 31st March, 1979) resulted in total under-assessment of wealth of Rs. 24.80 lakhs with consequent under-charge of tax of Rs. 87,527.

3.11 The audit objections has been accepted by the Ministry of Finance.

"Paragraph 4.07(i) of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil), Revenue Receipts Vol. II—Direct Taxes—pp. 121-122."

Facts of the case

3.12 The assessee referred to in the afore-mentioned paragraph is Smt. Gangaben Ratilal Patel. The property, which is the subject matter of valuation, is situated in I.P.S. No. 3, Navrangpura, Ahmedabad.

3.13 The relevant details relating to the assessments in question, as furnished by the Ministry, are given below :

Assessment years	Date of filing the original return	Date of filing the revised return	Value declared (of property)
1970-71	28-9-70		3,00,000
1971-72	28-9-71		3,00,000
1972-73	11-8-72		3,00,000
1973-74	1-10-73	25-9-74	3,30,100
1974-75	31-7-74	29-9-74	3,30,100

The values returned in the first three assessment years were supported by the report dated 24-9-70 of an approved valuer. It has been reported by the CIT that for the latter two years no report of the approved valuer was filed, even though it was mentioned by the assessee that the values shown were supported by the certificate of the approved valuer.

Reference was made by the W.T.O. in August, 1974 to the Valuation Cell for the assessment years 1970-71 to 1973-74 and in February, 1975 for the assessment year 1974-75. The Valuation Cell were asked to value the land as if it were non-agricultural one. The Valuation Officer *vide* report dated 23-5-75 valued the same at Rs. 4,87,630/-, Rs. 5,62,650/-, Rs. 6,56,425/-, Rs. 7,50,200/- and Rs. 8,32,730/- for the respective years.

The assessments for all these years were completed on 30-12-78, treating the land as agricultural and accepting the valuation shown in the returns.

The file was audited by the revenue audit on 4-1-1980, who pointed out the omission in adopting the valuations made by the Valuation Officer of the Valuation Cell."

3.14 The present position about rectification of assessments and raising of demands as intimated by the Ministry is given below :

"All the assessments were set aside by the CWT *vide* order u/s 25(2) dated 22-8-1980 with the direction that they should be redone in accordance with proper law and facts. Revised assessment orders were passed on 15-7-81. The demands have apparently not fallen due."

3.15 Asked to indicate the circumstances in which the Wealth Tax Officer concerned failed to adopt the value returned by the Valuation Officer, the Ministry of Finance (Department of Revenue) have stated :

"The Commissioner of Income-tax has reported that in the case referred to in para 4.07(i), the Wealth-tax Officer made reference to the Valuation Cell from a separate folder captioned as 'Valuation Folder'. After that, there was certain change in the jurisdiction of Inspecting Assistant Commissioners, due to which, the office of the W.T.O. assessing this case was shifted to a different building, resulting in dislocation as assessment papers. Then, this case was transferred from the said W.T.O. to another W.T.O. There was a change of officers in the latter charge and the W.T.O., who completed the case finally, due to pressure of work and possible delinking of papers pertaining to the valuation reference report, failed to act on the Departmental Valuation Report."

3.16 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, the 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 scrupulously followed.

Audit Paragraph

3.17 (ii) A house property in a metropolitan city shared equally by four individual assessee was valued at Rs. 31,87,500 and Rs. 21,33,600 (its value fell as a number of flats in the building had been sold) for the assessment years 1972-73 and 1974-75 respectively by the departmental Valuer. While completing the wealth-tax assessments in the case of one co-owner in January 1978, the department considered his 1/4 share in the value of the property on the basis of the said valuation. In the wealth-tax assessments of the other three co-owners for the same assessment years 1972-73 to 1974-75, completed in September 1974 and February 1975, the value of the house property had been adopted at a much lower figure. These assessments also needed revision for adoption of the higher value as per the departmental Valuer's report subsequently received. This was not done. The omission resulted in an under-assessment of wealth of Rs. 31,86,621, in the aggregate, leading to a total undercharge of wealth-tax of Rs. 82,578, including non-levy of additional wealth-tax.

3.18 Further, according to the Board's instructions of June, 1970, the Wealth-tax Officer was also required to re-open, in June 1978, when departmental valuation report was received, the earlier assessments (for the assessment years 1970-71 and 1971-72 which were not then time-barred)

in all these four cases for consideration of the correct value of the property. This was also not done. Re-opening of the assessments for the assessment years 1970-71 and 1971-72 is now time-barred.

3.19 The Ministry of Finance have accepted the audit objection and stated (December, 1980) that the matter is being examined whether remedial action can be taken now as escaped wealth.

[Paragraph 4.07(ii) of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil), Revenue Receipts Vol. II—Direct Taxes, pp. 122-23]

Facts of the Case

3.20 The assessees referred to in the paragraph mentioned above are Sarvashri Ajit Singh, Harbhajan Singh and Amrik Singh. The property which is the subject matter of valuation, is situated at 4A, Auckland Square, Calcutta.

3.21 The relevant details relating to the assessments in question, as furnished by the Ministry are given below :

"Four assessees, three mentioned above and another Shri Arvindar Pal Singh were co-owners of the property having 1/4th share each. Wealth-tax assessments in respect of former three mentioned in the audit para, for the years 1972-73 and 1973-74 were completed on 25-9-1974 and for the year 1974-75 on 15-2-1975. No reference was made to the Valuation Cell.

In respect of the fourth co-sharer Shri Arvindar Pal Singh, reference was made to the Valuation Cell in respect of the said property. Apparently the assessments in this case were not completed at the time they were done in the case of the other three co-sharers. The assessments were completed on 16-1-78 on the basis of the report of the Valuation Officer.

The Revenue Audit, *vide* objection dated 23-2-79, pointed out that the assessments in the case of the other three co-sharers should also have been revised, by taking suitable remedial action, on the basis of the Valuation of the property adopted in the case of Shri Arvindar Pal Singh. They have, further observed that the W.T.O. should have also taken action for the assessment year 1970-71 and 1971-72, when the Valuation report was received."

3.22 The present position about rectification of assessments and raising of demands as intimated by the Ministry is given below :

"The assessments under Section 17(1)(a) of the Wealth-tax Act had been re-opened in all the three cases. (Sept. '81) Remedial action has already been completed on 29-9-1981 by raising

additional demands in the three cases under Section 17(1)(a) as under :

Name of assessee	Addl. demand raised
(1) Ajit Singh :	
1972-73	Rs. 24,714.00
1973-74	Rs. 1,868.00
1974-75	Rs. 5,785.00
(2) Amrik Singh :	
1972-73	Rs. 24,324.00
1973-74	Rs. 1,868.00
1974-75	Rs. 4,198.00
(3) Harbhajan Singh :	
1972-73	Rs. 23,139.00
1973-74	Rs. 1,868.00
1974-75	Rs. 4,212.00
Total :	Rs. 91,976.00

3.23 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 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.

Audit Paragraph

3.24 The Income-tax records of an assessee for the assessment years 1966-67 to 1974-75 disclosed that she had purchased 1,14,605 sq. ft. of land in a posh locality in Bangalore in May 1960 for a consideration of Rs. 1,05,000 and that she had sold portions of the land totalling 27,605 sq. ft. between the years 1965-66 and 1974-75. With reference to these details, the area of land held by the assessee on the valuation date relevant to the assessment year 1966-67 would be 1,06,108 sq. ft. and would thereafter progressively reduce on successive valuation dates bringing it on the valuation date relevant to the assessment year 1974-75 to 87,000 sq. ft. In the wealth-tax assessments of the assessee for the assessment years 1966-67 to 1974-75, which were made together on 16 March, 1979 (time-bar operating on 31 March, 1979), the area of land held by the assessee on the respective valuation dates was uniformly taken at 50,000 sq. ft. only and its value was adopted as Rs. 5,56,600 for the assessment years 1971-72 to 1974-75 and for the earlier assessment years, a reduction of 10 per cent in value for each assessment year was made. Thus, for all the assessment years the correct area of land which was workable from the income-tax records was omitted to be adopted for valuation, resulting in under-assessment of wealth aggregating Rs. 36,29,107 for nine years from 1966-67 and a total short levy of tax of Rs. 86,706.

3.25 The Ministry of Finance have accepted the audit objection in principle.

[Paragraph 4.08(i) of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil)—Revenue Receipts, Vol. II—Direct Taxes, pp. 124-125]

Facts of the case

3.26 The assessee referred to in the paragraph cited above is Smt. Sara Bai. The property, which is the subject matter of valuation is situated at 37/2, Cunningham Road, Bangalore.

The relevant details relating to the assessments in question as furnished by the Ministry are given below.

"Asstt. year	Value of the property Rs.	Date of return	Date of completion of the assessment
1966-67	3,33,630	25-2-75	18-3-79
1967-68	3,70,700	Do.	Do.
1968-69	4,11,890	Do.	Do.
1969-70	4,57,650	Do.	Do.
1970-71	5,08,500	Do.	Do.
1971-72	4,65,000	Do.	Do.
1972-73	5,96,000	Do.	Do.
1973-74	5,96,000	Do.	Do.
1974-75	6,00,000	Do.	Do.

The valuation of the property shown in various returns was supported by report dated 8-5-71 of an approved valuer.

The Revenue Audit pointed out that the approved valuer had wrongly taken the area of land available with the assessee at 50,000 sq. ft. and that the correct area of land available with the assessee for the various assessment years should have been worked with reference to the Income-tax records for the purpose of valuation for the various assessment years."

3.27 The present position about rectification of assessments and raising of demands as intimated by the Ministry is given below :

"The Commissioner of Wealth Tax has set aside the assessments for all the years u/s 25(2) of the Wealth Tax Act on 11-3-81. Re-assessment proceedings have not yet been completed. (September, 1981)".

3.28 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 to 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 I.A.Cs so that such mistakes do not occur.

(b) VALUATION OF URBAN IMMOVABLE PROPERTIES

3.29 The principle of valuation of properties is contained in section 7 of the Wealth Tax Act, 1957. The sum and substance of the provision is that, subject to the rules as may be prescribed in this behalf, the value of an asset shall be estimated to be the price which in the opinion of the assessing officer it would fetch if sold in the open market on the relevant date.

3.30 Valuation of immovable properties is generally made by one of the following methods depending upon the nature of the case :

- (i) Land and building method.
- (ii) Rent capitalisation method.
- (iii) Profit and loss method.

Over a period of time, a number of rules were inserted in the Wealth-Tax Rules *viz.*, Rules 1B, 1C, 1D, 2, 2A, 2B, 2C, 2D, 2E, 2F, 2G, 2H and 2I. All these rules laid down some principles or formulae providing guidance in the matter of valuation of various classes of assets.

3.31 The Central Board of Direct Taxes issued a Circular dated 28 September, 1957, prescribing the capitalisation method (by adopting a multiple, say 20 times of such annual value) when the municipal valuation appeared to be *prima facie* too low. Otherwise "the value of land and buildings should be estimated with due regard to the nature, size and locality of the property, the amenities available and the price prevailing for similar assets in the same locality or in the neighbourhood of that locality."

3.32 In another circular dated 16 March, 1968, the Central Board of Direct Taxes laid down the following guidelines :

"In view of the various divergent factors which affect the market value of the property no rigid rule for valuation of house property can be followed. However, in the case of properties covered by the Rent Control Acts it may be appropriate to adopt the rent receivable as the basis of calculating unless the circumstances warrant the adoption of a different mode of valuation."

3.33 The Chokshi Committee favoured the yield method. It recommended that :

"Values of house properties should be determined by the method of capitalisation of the return actually received or which could reasonably be received from those properties."

3.34 Rule 1 BB [Inserted by the Wealth-tax (Amendment) Rules, 1979, with effect from 1-4-1979] provides that :

"For the purpose of sub-section (1) of Section 7, the value of a house which is wholly or mainly used for residential purposes shall be the aggregate of the following amounts, namely :—

- (a) the amount arrived at by multiplying the net maintainable rent in respect of the part of the house used for residential purposes by the fraction 100/8; and
- (b) the amount arrived at by multiplying the net maintainable rent in respect of the remaining part of the house, if any, by the fraction 100/9.

In relation to a house which is built on leasehold land, the fraction 100/9 and 100/10 respectively are applicable for (a) and (b).

3.35 Explaining the provisions of Rule 1BB which was inserted by the Wealth Tax (Amendment) Rules, 1979 with effect from 1 April, 1979, the Ministry of Finance have stated :

“... estimate of price which an asset would fetch if sold in the open market on the relevant date is deemed to be arrived at in accordance with the procedure laid down by the rules. According to the provision contained in Rule 1BB the value of a house is the aggregate of the amounts arrived at by multiplying the net maintainable rent by prescribed multiplier/factor of 100/8 in respect of the part of the house used for residential purposes and that arrived at by multiplying the net maintainable rent by multiplier/factor of 100/9 in respect of the remaining part of the house not used for residential purposes. If the house is built on leasehold land then the multiplier/factor in respect of the part of the house for residential purposes is to be taken at 100/9 in place of 100/8 and in respect of the remaining part of the house not used for residential purposes, the multiplier/factor is to be taken at 100/8 in place of 100/9.

The value of the house arrived at as above is to be adjusted by increasing it by an amount, calculated as provided for in the rule, in the cases of such house properties where the un-built area of the plot of land on which the house is built, exceeds the areas specified in the rule. It may be mentioned that rule 1BB does not apply to the cases of the nature specified in Sub-rule (5) of rule 1BB”.

3.36 The Committee desired to know whether it had been held by any judicial authority that Rule 1BB was designed to give a concession and was of retrospective application. In reply, the Ministry have stated :

“There has not so far been any judgment/decision by any High Court with regard to retrospective application of or intent behind the Rule 1BB. The special bench of the Income-tax Appellate Tribunal, however, held that rule 1BB is retrospective in application. Other benches are also reported to have followed this decision. These decisions have not been accepted by the Department. The Ministry's view is that Rule 1BB is applicable for assessment year 1979-80 and onwards and not earlier years.”

3.37 In *Kusumben 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 Committee desired to know whether the provisions of Rule 1BB had been reviewed in the light of the principle enunciated by the Bombay High Court in the above cases. Ministry's reply is still awaited (April, 1982).

3.38 The Committee desired to know the mode of valuation of self-occupied residential properties that existed prior to the incorporation of Rule 1BB effective from 1 April 1979. The Chairman, CBDT stated :

“There was a general concession of Rs. one lakh in the case of owners who possess a residential accommodation. At that time also

we were trying to arrive at the value of the house by capitalising the rent yield. But then there was another Section namely 7(4) which existed prior to 1.4.1979. According to this Section, the value of the house would be pegged at the value as for the year 1971-72 or the year of acquisition of the property, whichever is latter. In the case of residential house or self-occupied house which was constructed after 1971, the value of the house would be pegged on the basis of the value for the year in which the house was constructed. In the case of houses constructed prior to 1971, if the value has increased from 1971, the enhanced value will be ignored."

3.39 Asked to clarify whether valuation of identical properties constructed prior to 1971 and those constructed after that year, would be governed by separate modes of valuation, the Chairman, CBDT stated :

"Under Rule 7(4) the value for the year in which the property is constructed or the assessment year 1971-72, whichever is later, is taken into account. So in this case, the value for the assessment year 1971-72 would be the value of the property. In the case of the second example (i.e., properties constructed after 1971-72), we should work out the net annual value and then multiply it with the prescribed multiplier if it is self occupied. It is 9 times, I think. We would take net maintainable rent of such a property."

3.40 The Committee enquired whether this did not leads to inequitous valuation, since the fair market value of the properties was identical on the date of valuation. The Chairman, CBDT stated :

"...there are inequities like this. It is the policy of the Government that more houses should be built so that people can either live in their own houses or rent them out to others and for that, the Government want to give some concessions. Now, it is for the assessee to see all these things. He may put his money in the agricultural land for which the whole of his money would be exempt. There are certain concessions allowed. But we cannot compare one assessee of this type with other assessee of that type."

3.41 Asked whether it could be concluded that the assessable value was different from the fair market value, the Chairman CBDT stated :

"May be different. We are assuming that the market value is equal to that, by assumption."

3.42 The Committee enquired whether arrangements existed for systematic supply of information regarding rental values, in various areas, available with Municipal/registration authorities, to assessing and valuing officers. The Ministry of Finance (Dept. of Revenue) have in a note, stated :

"Registration offices do not seem to maintain record of rental values. Municipal authorities do maintain such records for fixing municipal taxes on properties... the Commissioners of Income-tax get the necessary data through Central Intelligence Branches as and when necessary. Some of the units of the Valuation Cell have reported that they collect data on rental value in their

respective areas. The data collected in each case is kept in a continuous record for reference in future cases and utilised as and when needed."

3.43 The Committee desired to know the effect of Section 7(4) of the Wealth-tax Act and Rule 1BB of the Wealth-tax Rules in relation to houses on the functioning of the Valuation Cells and whether the pending references had been reviewed in the light of these new provisions. In reply, the Ministry of Finance have stated :

"The promulgation of Rule 1BB and the provision of Section 7(4) of the Wealth-tax Act have tended to reduce the number of references made to valuation cell in the cases of residential house.

The new provisions have been made prospectively. The question of reviewing the references already made, therefore should not arise."

3.44 Asked whether the utility of the Valuation Cell had greatly diminished with the introduction of Rule 1BB, the Chairman, C.B.D.T. replied :

"1BB covers only residential property. You have the commercial properties. These go to the Valuation Cell."

He added :

"Valuation Cell will be concerned with Valuation of properties for Income-tax purposes; there are also gift tax cases, there are also Estate Duty cases."

3.45 The Committee pointed out that the commercial properties were covered by global valuation and their value may be reflected in the balance sheets. The Committee, therefore enquired about the rationale for artificial valuation of commercial properties. The Chairman, C.B.D.T. stated :

"We are separately considering framing a rule for commercial properties. I agree that it would be better if we have rules for remaining type of properties also and do away with the valuers' certificates completely."

3.46 The Committee pointed out that there was a multiplicity of agencies for valuation of immovable properties for different purposes and enquired whether it would not be desirable to have only one agency for valuation for purposes of municipal taxes, state registration fees, Income-tax, wealth-tax, estate duty and gift tax. The Finance Secretary stated :

"We can certainly consult the States about having one valuation Cell like this. Whatever may be the reaction of the States, we have to consult them."

3.47 Asked about the various taxes—Central, State and Local, for which valuation of properties was necessary, the Ministry of Finance have stated :

"Information on all Local, State and Central taxes leviable in the country for which valuation of properties is required to be made is not available."

Valuation Cell

3.48 On the recommendation of the Public Accounts Committee a Valuation Cell was set up in the Income-tax Department in October 1968 to assist the Income-tax Officers in detecting under-valuation of urban immovable properties. The work-load of the Valuation Cell considerably increased after the enforcement of the Taxation Laws (Amendment) Act, 1972, when it acquired statutory recognition. Prior to that the functions of the Cell were purely advisory.

3.49 The organisation and functions of the Valuation Cell are given below :

(1) Organisation :

There are two Chief Engineers located respectively at New Delhi and Madras known as Regional Valuation Officers under the Wealth-tax Act. The Cell functions under the over all supervision of the Central Board of Direct Taxes.

The Regional Valuation Officer is assisted by District Valuation Officers, Valuation Officers, and Asstt. Valuation Officers, who are respectively of the rank of Superintending Engineer, Executive Engineer and Asstt. Engineer. They are assigned jurisdiction with reference to monetary limits of the value of the property.

(2) Functions :

The main function of Valuation Cell is to deal with the cases pertaining to valuation of immovable properties (lands, buildings, plant and machinery) referred to them under the provisions of different Acts. The valuation of lands and buildings are dealt with by qualified Civil Engineer borne on the cadre of the CPWD, and posted to the Valuation Cell at different stations all over India. For valuation of plant and machinery there are two Executive Engineers (Electrical) also from CPWD and posted at New Delhi and Madras respectively.

The valuation cell handles references made by assessing officers broadly falling under 4 categories as under :

(i) *Statutory references* : These are made by the assessing officers under the following provisions :

- (a) Section 16A of the Wealth-tax Act, 1957.
- (b) Section 55A of the Income-tax Act, 1961.
- (c) Section 15(6) of the Gift-tax Act, 1958.

In all these cases the valuation made by the officers of the valuation cell is mandatory and valuation of the property is to be taken accordingly.

(ii) *Semi-statutory references* : These are made by the Inspector Asstt. Commissioner (acquisition) u/s 269L of the Income-tax Act, 1961. The purpose is to determine whether the property in question is fit for being taken under the proceedings for acquisition under Chapter XXA of Income-tax Act, 1961. The Valuation Officer in these cases is empowered to call for

reports, carry out inspection of the property and to determine the fair market value but his valuation is not mandatory.

(iii) *Advisory references* : In these cases references are made for determining the cost of construction of a building for Income-Tax purposes or for the cases relating to Estate Duty. The Valuation Officer has no statutory powers for compelling production of documents/details and for Inspection of the property etc. The valuation made is also not mandatory.

(iv) *References for appearance before the Appellate Authorities* : Where the assessee goes in appeal against the assessment on ground of valuation, among others, before the appellate authority such as AAC/CIT(A)/Income-tax Appellate Tribunal, valuation officers are given an opportunity under the relevant Act for being heard by the Appellate authorities in respect of the departmental valuations.

3.50 Instructions were issued by the Central Board of Direct Taxes on 28 December, 1971 on the types and categories of assets which were required to be referred to the Valuation Cells by the assessing officers. Under Section 16A of the Wealth-tax Act, inserted from 1st January 1973, the Wealth-tax Officer may refer the valuation of any asset to the Valuation Officer :

- (a) In a case where the value of the asset as returned is in accordance with the estimate made by a registered valuer, if the Wealth-tax Officer is of opinion that the value so returned is less than its fair market value;
- (b) In any other case, if the Wealth-tax Officer is of opinion—
 - (i) that the fair market value of the asset exceeds the value of the asset as returned by more than such percentage of the value of the asset as returned or by more than such amount as may be prescribed in this behalf; or
 - (ii) that having regard to the nature of the asset and other relevant circumstances, it is necessary so to do.

3.51 According to Rule 3B inserted with effect from 1 January, 1973, a reference may be made to the Departmental Valuation Officer, if the assessing officer considers that the fair market value exceeds the returned value by more than 33-1/3 per cent or Rs. 50,000 whichever is less.

3.52 Where a reference is made to the Valuation Officer, it is obligatory on the Wealth-tax Officer to complete the assessment in accordance with the valuation of the Valuation Officer *vide* Section 16(6) of the Act.

3.53 The following table shows the number of wealth-tax cases decided by the Valuation Cells and the total amount of valuation made by them compared with the returned value in the decided cases :

(In lakhs of rupees)

Year	Wealth-tax	
	Value returned	Value determined
1977-78	22,481.36	47,902.78
1978-79	38,924.70	1,09,733.96
1979-80	13,600.81	37,109.51

3.54 According to these figures the values given by the Valuation Cells range from 212 to 280 per cent of the values returned during the years 1977-78 to 1979-80. Asked whether these figures would be truly indicative of the extent of under-valuation or the higher values would have been quashed in appeal in most of these cases, the Ministry stated :

"There is no source records/data from which the number of cases in which the values given by the Valuation Cells under the Wealth-tax Act were modified and the extent of reduction/modification effected in appeal could be gathered. However, a sample study to have an idea of the extent of modification of the values determined by the Valuation Cells in appeal, was conducted in the metropolitan charges of Delhi, Bombay, West Bengal and Tamil Nadu. The information compiled in respect of the charges of West Bengal and Tamil Nadu is given overleaf. Certain clarifications in respect of information received from Delhi and Bombay, have been called for and are awaited."

1	2	3	4	5
Number of properties of No. out of (1) in which valuation was taken in which value was disputed by the assessees and taken to the assit, completed during F.Y. 1974-75 on the basis of valuation made by the V. Cell.	Total returned value of urban immovable property comprised in col. 2.	Total assessed value of urban immovable property comprised in col. 2.	No. out of 2 in which valuation made by the cell was totally confirmed by AAC/CIT(A) Tribunal as on 31-3-80.	
6	7	8	9	10
Value of properties (a) re-turned and (b) finally asses-sed involved in col. 5.	Value of properties (a) re-turned and (b) finally asses-sed involved in col. 7.	Value of properties (a) re-turned and (b) finally asses-sed involved in col. 7.	No. out of (2) in which valuation made by the cell was partially reduced by appellate authorities, AAC/ CIT(A) Tribunal as on 31-3-80.	Valuation of properties (a) re-turned and (b) amount of reduction involved in col. 9.
Rs. 22,49,074	Rs. 27,80,008	Rs. 13	Rs. 10,95,000	Rs. 19,39,000
				Rs. 30,05,000
				Rs. 24,590

3.55 The following statement shows the number of cases referred to Valuation Cells, number finalised and the number of cases pending with Valuation Cells at the end of each year from 1975-76 to 1979-80.

Year	No. of cases referred to valuation cells.	No. of cases finalised	No. of cases pending with Valuation Cells at the end of each year.
1	2	3	4
NORTHERN ZONE			
1975-76	14,133	13,389	6,736
1976-77	17,433	16,452	2,717
1977-78	17,461	16,453	8,725
1978-79	21,432	21,950	8,607
1979-80	18,132	17,420	9,399
SOUTHERN ZONE			
1975-76	10,806	10,380	4,951
1976-77	7,709	7,847	4,813
1977-78	9,776	8,170	6,419
1978-79	9,358	12,883	2,894
1979-80	7,919	8,117	2,696

3.56 In regard to average time taken by the valuation cells for finalisation of valuation of properties, the Ministry of Finance have informed the Committee as follows :—

"The average time taken by the Cell for finalisation of valuation on a reference is 4 to 7 months depending upon the nature of reference as to whether it is statutory or non-statutory and upon the complexity of the case and co-operation of the assessee in furnishing required information, details and documents or facilitating inspection and also the pendency of the references with them."

Registered Valuers

3.57 Under Section 34-AB of the Wealth-tax Act, inserted with effect from 15 November, 1972, the Board is required to maintain a register to be called the Register of Valuers who will be persons possessing qualification prescribed (in rules) in this behalf.

3.58 The number of persons registered as on 9-7-81 as valuers under Section 34 AB of the Wealth-tax Act and the category of assets for the valuation of which they are registered are given below :

S. No.	No. of persons registered	Categories of assets for which registered
1.	2031	Immovable
2.	235	Agricultural lands,
3.	49	Plantations of Coffee, tea, rubber and cardamom
4.	1	Forest
5.	3	Mines and quarries.
6.	193	Stocks, shares and debentures, securities shares in partnership firms and business assets etc.
7.	186	Machinery and Plant
8.	574	Jewellery
9.	1	Works of art.
10.	10	Life interest reversions and interest in expectancy
		3,283

3.59 According to the Ministry of Finance, the institution of registered valuers was introduced with a view to bringing about better regulations and discipline over non-official valuers. The valuers appointed under section 4 of Estate Duty Act who were performing their function under the Wealth-tax Act also were replaced by the registered valuers over whom the Board exercised some control. Provisions were made in the Wealth-tax Act relating to appearance by registered valuers before the wealth-tax authority on behalf of the assessees.

3.60 The Committee desired to know about the type of control exercised by the Central Board of Direct Taxes on the Registered Valuers. In a note the Ministry of Finance (Department of Revenue) have stated as follows :

"Section 34AD provides for removal of names of the valuers from the register where the Board is satisfied that it is necessary to do so, after giving the person concerned reasonable opportunity of being heard and after such further enquiry if any, as it deems fit to make. The name of registered valuer may be so removed by the Board in the cases where (i) name is found to have been entered in the register by error or on account of misrepresentation or suppression of a material fact (ii) where the registered valuer is convicted of an offence and sentenced to a term of imprisonment, or has been found guilty of misconduct in his professional capacity rendering him unfit to be kept on the register of valuers. Rules 8(E) to 8(M) have been prescribed for the aforesaid purpose of exercising control over registered valuers."

3.61 Asked to indicate the number of cases wherein the Department had proceeded so far against registered/approved valuers for under-valuing property, the Ministry of Finance have stated :

"According to the reports received from Commissioners of Income-tax, there is no case of valuer against whom action has been taken so far. (Reports/clarification from Commissioner of Income-tax, Agra, Bombay, Kanpur, Kanpur(c), Delhi, (IV, V & (C), Tamilnadu-III and Baroda are awaited (Dec. 1981))."

3.62 The Committee desired to know about the inherent defects in the institution of registered/approved valuers which add to the work of departmental valuation officers. In reply, the Ministry of Finance (Dept. of Revenue) have stated :

"As reported by Valuation Cell, one of the reasons which adds to their work and leads to delay in the disposal of valuation cases is that the registered valuers do not furnish their valuation reports in the form prescribed under the rules and do not give all the required information."

3.63 The Committee enquired if the Board had used its powers of control over the Registered Valuers to improve their working. In a note, the Ministry of Finance (Department of Revenue) have stated :

"To avoid delay and to persuade the registered valuers to furnish valuation report in prescribed proforma accompanied by essential documents, instructions were issued to all commissioners to advise the registered valuers to strictly follow the provisions of Rule 8D and submit valuation reports in prescribed form and also necessary information alongwith the report. The Commissioners were also asked to warn them that failure to do so shall be construed as misconduct in professional capacity within the meaning of Sec. 34AD(I) (ii) of Wealth-tax Act."

3.64 At the instance of the Committee, the Ministry have furnished the following statement showing the proportion of wealth-tax returns which were supported by valuation done by registered valuers in various charges during the last 2 years. The number of cases in which the basis for valuation adopted by registered valuers was questioned by assessing officers and the percentage thereof to the total number of such cases :

S. No.	Name of C.I.T.	Proportion of W.T. returns supported by valuation done by registered valuers	No. of cases in which basis for valuation adopted by registered valuers has been questioned by assessing officers	Percentage
1.	2	3	4	5
1.	Kolhapur	10%	265	14
2.	Rohtak	11%	44	3
3.	Pune	34%	109	3
4.	Nasik	10.2%	49	5.67
5.	Vishakhapatnam	23%	31	27
6.	Cochin/Trivandrum	13.5%	121	10.4

1	2	3	4	5
7.	Coimbatore	20%	256.35	40
8.	Jabalpur	25%	84	10
9.	Nagpur	24%	97	2
10.	Jullundur	27%	31	2.2
11.	Patiala	5 to 10%	37	14
12.	Jaipur	41%	106	21
13.	Jodhpur	9%	63	3
14.	Shillong	6.3%	21	1
			cases (simple basis)	
15.	Andhra Pradesh-I & II	11.4%	24	54
16.	Orissa	10.3%	11	5.5
17.	West Bengal (C-I & II)	72%	15	44
18.	Karnataka—I & II (C)	Varies from 20% to 15% from circle to circle.		
19.	West Bengal all charges above 30%	(Average)	About 25 cases	About 15
20.	Bombay (c)—I & II	22%	35	66
21.	Tamilnadu—I	21%	—	—
22.	Tamilnadu—II	22%	10	15
23.	Tamilnadu—IV	2%	10	5
24.	Madurai	10%	72	25
25.	Bhopal	11%	79	2
26.	Lucknow	25.25%	110	11.35
27.	Tamilnadu (Central)	33%	100	76.43
28.	Amritsar	8½%	10	10
29.	Ranchi	25	19	21
30.	Patna	45.29%	3	21.5
31.	Rajkot	40%	41	15
32.	Delhi—I, II, III & IV	60%	139	37
33.	Tamilnadu—III	24%	*	10
34.	Baroda	49.53%	24	*
35.	Meerut	39%	*	50
36.	Gujarat	60%	301	56
	(All charges including central)			

*This particular information is awaited from CIT concerned.

Notes : 1. The information has been gathered on a sample basis by having the physical scrutiny of the files made in one of two wards in each IAC's Range in a Commissioner's charge. In some Commissioners Charges, which are comparatively smaller, the information has been collected from all the wards. The information in Col. No. 3 is with regard to wealth-tax returns filed during the financial years 1979-80 and 1980-81 and that given in col. 4 is with regard to wealth-tax assessments completed during these financial years.

2. Reports/clarifications are awaited from Cs. I.T. Agra, Bombay, Kanpur(C), Ludhiana, Allahabad and Delhi-IV, V and (C).

3.65 The Central Board of Direct Taxes had caused a sample study on the fate of valuation certificates in some selected metropolitan charges to be conducted in respect of wealth-tax and estate duty assessments completed during the financial year 1974-75. The results of the Study are reflected in the following statement :

C.I.T.	No. of assessments (WT/ED) completed during financial year 1974-75	No. of urban immovable properties involved in col. (2)	No. of urban immovable properties involved in col. (1)	No. out of (1) in which valuation was accepted by the assessing officers.	No. out of (3) in which certificates were filed by registered valuers.	No. out of (4) in which valuation was made by Register- ed valuers.	No. out of (4) in which valuation was made by Regd. valuers was not accepted and reference was made to the valuation cell and assessment was completed on the basis of their report.
1	2	3	4	5	6	7	
Tamilnadu	13087	932	1302	97	96	11	
Delhi	5117	1316	1452	776	754	11	
Bombay (Central)	46	7	9	6	6	—	
West Bengal	19166	761	251	181	70	70	

[Information in respect of changes Tamilnadu, Bombay & West Bengal relates to both the Wealth-tax & Estate Duty cases. In Delhi change information is only in respect of Wealth Tax cases.]
(Report from CIT Bombay is awaited)

C.I.T.	No. of assessments (WT/ED) completed during Financial Year 1974-75.	No. of urban immovable properties involved in col. (2)	No. of properties out of (3) the value of which was taken in the asst. on the basis of valuation made by the V. Cell.	No. out of (4) in which valuation was disputed by the assessees and taken to appellate authorities.	Total returned value of urban immovable properties comprised in Col. (5).		
					1	2,44,074	
1	2	3	4	5	6		
Tamilnadu	13087	932	1302	4	—	—	
Bombay (Central)	46	7	9	—	—	—	18,27,610
West Bengal	3834	825	905	31	14	18,27,210	
	19166	761	761	70	37	61,050	

	(7)	(8)	(a)	(9)	(b)	(10)	(8)	(11)	(b)	(12)	(a)	13	(b)	Valuation of properties returned and (b) amount of reduction involved in Col. (12) on 31-3-80.			
														No. out of (5) in which valuation made by the Cell was totally confirmed in Col. (8) by AAC/CIT(A) Tribunal as on 31-3-80	No. of properties (a) re-turned & (b) finally assessed involved in Col. (10)	Value of properties (a) re-turned & (b) finally assessed involved in Col. (10)	
Total assessed value of urban immovable properties comprised in Vol. (5).	2,71,000	1	244074	271000	—	—	—	—	—	—	—	—	—	—	—	—	—
Tamilnadu	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Bombay (Central)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Delhi	29408.50	—	—	—	—	—	4	1084360	1512716	—	—	—	—	—	—	—	—
West Bengal	109620	19	20050	259090	13	10950	19390	13	10950	19390	5	30050	5	30050	25590	25590	

*Certain clarifications sought for from CIT are awaited.
(Report from CIT Bombay is awaited.)

3.66 Rule 1 BB 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 *Kusumban 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 in Section 7(1) in respect of fully marketable assets like real property. Furthermore, Rule 1BB is irreconciliable 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 1BB 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.

3.67 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 for 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.

3.68 The Committee find that the average time taken by the Valuation Cells for finalisation of valuation on a 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.

3.69 The Committee find that out of 74 properties in West Bengal and Tamilnadu 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 assessees 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.

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

3.71 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 time lag 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.

3.72 The Committee have been informed that 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'.

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 34AD for misrepresentation or suppression of a material fact or for misconduct in his professional capacity.

3.76 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 officers is anywhere between 1 per cent in Shillong C.I.T. Charge to 76.43 in Tamil Nadu (Central) Charge.

3.77 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 subserved the objectives in view and what measures need to be devised to improve the system in the interest of revenue.

3.78 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 1 BB 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. The large number of cases valuations given by the Valuation Cells do not stand the test of appeal.

3.79 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 Committees, 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.

(C) SURVEY OF URBAN IMMOVABLE PROPERTIES

3.80 A brief note on the set up and functions of the survey organisation furnished by the Ministry indicates the following position :

"The Income-tax Department identifies new assessees through survey. Survey is an integrated operation involving detection and utilisation of information from external and internal sources. The object of survey is (i) to bring into tax register all persons liable to tax and (ii) to collect relevant information from various sources with a view to detecting evasion of tax. It is a continuous activity to achieve this object and includes survey of business premises, survey of house properties in various localities and collection of information from various sources. Survey is a local activity carried out mainly by the Inspectors of Income-tax and is organised by the Inspecting Assistant Commissioners and Income-tax Officers under the supervision of the Commissioners of Income-tax. With the sanction of 500 additional posts of Inspectors of Income-tax 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 and have been made mainly incharge of survey operations. To monitor the progress of survey operations on all India basis a Director of Inspection (Survey) has been posted at New Delhi. The

overall control over the survey activities of the Department is exercised by Member (Inv.) of Central Board of Direct Taxes, New Delhi. As on 31 August, 1981, 81 Income-tax Officers were deployed exclusively for work relating to survey. As regards the Inspectors of Income-tax, out of 742 Inspectors required by the Board to be deployed exclusively for survey work, pending further sanction of posts for recently intensified intelligence activities, 223 Inspectors have been temporarily asked to be withdrawn from survey work for being deployed for intelligence work."

3.81 Details of the survey operations undertaken during each of the last 3 years as also the action taken to recover the tax dues from such assessees as furnished by the Ministry are given below :

	1978-79	1979-80	1980-81	1981-82 (Upto Oct., 81)
1. No. of premises surveyed	138207	397372	551477	265257
2. No. of extracts taken	247971	Not available.	127640	175098
3. No. of new assessees to whom notices for assessment/re-assessment issued :				
I.T.	53608	81746	87304	45869
W.T.	4452	7722	3119	1759
4. No. of assessments made in Survey cases. :				
I.T.	50700	59465	70347	28895
W.T.	1690	3316	2931	1322
5. Demand raised (000) :				
I.T.	58490	57085	70184	20104
W.T.	3344	2083	5479	777
6. No. of Voluntary returns filed :				
I.T.	160090	153219	154181	125210
W.T.	4048	5874	6086	2912

"The number of new Wealth-tax assessees found during the last three years is given in the above statistical information.

The number of assessees having assessable wealth of upto Rs. 5,00,000 and over Rs. 5,00,000 lakhs separately is not presently available.

As regards recovery of tax dues, it may be stated that whenever there is outstanding demand, action is taken in accordance with the Act including imposition of penalties and sending certificates to the TROs. Information regarding the tax actually collected from such assessees is not presently available."

3.82 There has been a phenomenal increase in the price of real property. A survey published in the Fortnightly 'India Today' dated July 1-15, 1981 reveals the following trends :

"In Defence Colony, one of South Delhi's oldest residential areas, a three bedroom single storey house on a 270 square metre plot

is today worth Rs. 18 lakhs as compared to Rs. 12 lakhs a year ago. In more prestigious residential areas like Sunder Nagar and Vasant Vihar houses built on 750 square metre plots and of indifferent construction demand prices ranging from Rs. 30 to Rs. 35 lakhs.

Exclusive luxury duplex apartments—carpet area 4,000 square foot—are being planned for the ridge on Malabar Hill each costs, as present Rs. 40 to 50 lakhs, by the time they are complete, the flats would have a market value of Rs. 1.50 crores. In other prestigious residential areas of the city like Warden Road and Nepean Sea Road, a well constructed flat is available at the rate of Rs. 1,200 to Rs. 1,600 per square ft. On Marine Drive, the long and winding road that skirts the breakers of the Arabian Sea, a pugree of Rs. 10 lakhs is expected for a 2,000 square foot flat."

3.83 The position is not dissimilar in other important cities like Calcutta, Madras, Bangalore, Ahmedabad etc., where also unprecedented escalation in real property prices can be noticed.

3.84 An idea of the range of prices of land obtained in Delhi in the auctions of residential and commercial plots by the Delhi Development Authority may be had from the following :

	Date of auction	Area/locality	Average rate per sq. metre
Residential	6-7-1981	East Delhi/Yamunapuri (Ghonda)	407/-
	6-5-1981	West Delhi/Paschim Puri Vikas Puri.	1005/-
	26-5-1981	Vikas Puri.	569/-
	26-6-1981	North Delhi/Pitampura	827/-
	22-6-1981	Shalimar Bagh	1106/-
	29-4-1981	South Delhi/Safdarjung Enc.	2996/-
Commercial	20-5-1981	West Delhi/Naraina Indl. Area	6225/-
	27-2-1981	South Delhi/Bhikaji Cama Place	34143/-

3.85 The Committee called for information on the range of cost of land and construction per sq. yard and per sq. ft. respectively in urban areas like Delhi, Bombay, Calcutta and Madras. The Ministry of Finance (Department of Revenue) have furnished the following information :

	Bombay	Calcutta	Delhi	Madras
Range of cost of land per sq. yard .	Rs. 150 to Rs. 4,000.	Rs. 350 to Rs. 3,660.	Rs. 300 to Rs. 4,400.	Rs. 35 to Rs. 1,100.
Range of cost of construction per sq. foot	Rs. 86 to Rs. 121.	Rs. 88 to Rs. 135.	Rs. 69 to Rs. 100.	Rs. 75 to Rs. 106.

3.86 The Committee had been repeatedly expressing concern about the extent to which property values were manipulated in tax returns. The survey by special squads was suspended in December, 1976. Thereafter the Central Board of Direct Taxes issued instructions on 5 October, 1977 to the Commissioners of Income-tax to arrange their programme of survey in such a manner that all the areas in their respective charges get fully covered by survey by the end of the financial year 1979-80; priority being given to posh localities/new localities and important markets. A further circular letter dated 7-8-1979 emphasized the need for intensifying survey operations, but shifted the target date for covering all important localities from 31-3-80 to 31-3-82.

3.87 The Committee enquired whether survey operations particularly in metropolitan cities to cover all properties valued over Rs. 5 lakhs have been carried out. The Chairman, C.B.D.T. stated :

"It is only 5% of the assessees who have wealth above Rs. 5 lakhs.

The number of people having 10 lakhs to 20 lakhs is very small. It will have to be seen that the Wealth Tax Act itself allows lots of exemptions, and deductions. The basic exemption is now Rs. 1.50 lakhs. After considering all these exemptions and deductions, a person who has a net wealth of Rs. 5 lakhs would in effect have about Rs. 8 to 9 lakhs. May be some people are not disclosing correct wealth and they may not be on our register, but in this connection, I would like to draw the attention of the Hon. Committee to the survey and our efforts in setting up a permanent survey organisation. We had decided three or four years back that there should be a permanent survey machinery, or Branch which should go about and discover income tax and wealth tax assessees. Very recently we have augmented it and we have created a post of Commissioner of Survey in the metropolitan towns. We have also at the centre created a post of Director of Inspection, Survey. With these efforts we are also augmenting the strength of Inspectors (Survey). We have created 500 posts. They will go about in a systematic manner to find out new tax assessees—both wealth tax and income-tax.....we are going to augment and strengthen our survey machinery and we hoped to cover the entire country over a period of four to five years and then start action so that we are able to trace out those people who have a taxable income or taxable wealth. This is about external survey. We have strengthened our machinery for internal survey. Internal survey is carried on the basis of the records of the Municipal Committee—House Building Societies, Housing Corporations and others. On that basis also we are trying to strengthen our wing in the Commissioner's Office. Every Commissioner has got a cell which is called as the Central Investigation Branch. That Branch is working under the Commissioners and its job is to extract information from various sources and pass on the same to the Wealth-tax Officer and Income-tax Officer. With these steps taken to strengthen the internal and external survey we do hope that we should be able to detect in future all those people who have taxable wealth."

3.88 Asked to state the results of survey operations in the posh localities of Delhi/New Delhi, the Commissioner of Income-tax, Delhi-III, New Delhi stated :

"In 1979-80 South Delhi over 3,000 new houses were surveyed. About 916 new wealth-tax assessees were added to our list. In 1980-81 as per commitment to the PAC, this work of shop to shop survey is being undertaken which will have to be completed by 31 March, 1982."

3.89 He added :

"....The localities surveyed were some parts of Greater Kailash I and II, Green Park, Sarvodaya Enclave, Panch Sheel Park, Hauz Khas, Malviya Nagar, Press locality i.e., Gul Mohar Park and a few other. The survey was from house to house. The number of business premises covered by survey operations last year were 20007. In 1981-82 upto October they were 14052."

3.90 In reply to a further question whether census of all properties had been completed in Delhi, the Commissioner of Income-tax, Delhi-III stated :

"We are in touch with the Municipal authorities to obtain information from them in regard to the completion certificates applied for. That is an indication that the property has been completed."

3.91 The Committee sought to be informed of the arrangements that existed for data on sale/auctions of land/houses/flats, available with the land and building development authorities, Housing Boards in States, Municipal Corporations etc., being made available by the department systematically to assessing and valuation officers. The Ministry of Finance (Dept. of Revenue) have, in a note, stated :

"In the light of the circumstances prevailing in their respective charges the Commissioners of Income-tax collect/collate and disseminate informations by Central Information Branches functioning under them. The information is gathered from various sources such as municipal authorities, Improvement Trusts, Housing Boards etc.

The Inspecting Assistant Commissioner (Acquisition) passes on the information contained in the form No. 37.G. received by him from the registering authority to the Wealth-tax Officer/Gift Tax Officer/Income-tax Officer for its utilisation in the course of relevant assessment (Instruction No. 842 dated 12-6-75 F. No. 328/123/73-WT)."

3.92 The Committee enquired whether the Board had compiled any census of substantial urban properties in large metropolitan areas with reference to municipal records or the records of Housing Development Boards or authorities. The Ministry of Finance have replied in the negative and stated :

"Though instructions have been issued to those engaged in survey together 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 compiled census of substantial urban properties."

3.93 Asked whether the Department could furnish information regarding the number of houses constructed in posh localities in Delhi during the last 10 years for which permission had been granted by the local bodies, the Chairman, C.B.D.T. replied :

"This is the very job of our Survey squads who are doing the survey. They are getting information about the new construction, about the buildup area of the land, etc., so as to arrive at some reasonable value of the house and then to bring to book such assessees."

3.94 He added :

"We had conducted a survey of posh localities in 1975 and at that time, we had collected some statistics. But, as a matter of policy, this job is entrusted to the survey organisation so as to find out new assessees in respect of new constructions and whether their income is above the taxable limit etc."

3.95 The Committee desired to know if any sample study of immovable properties had been conducted in recent years in the metropolitan cities, and if so, what the findings were. The Ministry of Finance have replied :

"No sample study has been conducted on the results of survey of immovable properties in the metropolitan cities. However, the Survey Range in Delhi had discovered 916 new Wealth-tax assessees during the year 1979-80. At that time the Survey Range did not have assessment jurisdiction and as such the notices to these assessees were got issued through the territorial assessing officers. According to information gathered by CIT (Inv.), Delhi these cases are scattered in different Commissioner Charges in Delhi and no assessments in these cases had until recently been completed. The Board have asked all the Commissioners in Delhi to immediately take steps to identify these cases and to have their assessments finalised."

3.96 The number of wealth-tax assessees in the range, above Rs. 5 lakhs on the registers of the Department as at the end of March 1979 was 70% only. The Committee pointed out that in South Delhi alone, where the value of the houses was fantastic, the number of immovable properties valuing over Rs. 5 lakhs would easily exceed the above figure. The Chairman, C.B.D.T. replied :

"There may be certain houses in Delhi which may be having value of more than Rs. 5 lakhs. But I would draw the attention of the Committee to Rule 1 BB of Wealth tax Act which we had introduced. According to this Rule, where the house is occupied by a person, we take a certain multiplier of the notional annual value. In the case of property which has been let out, we estimate the capital value of the property according to the prescribed multiplier. The intrinsic value of the property may be more than Rs. 5 lakhs but according to the Rule 1 BB, the value comes much less. That is one of the reasons that the number of tax payers is not as large as it should be. In view of Rule 1 BB and other concessions which we allow, the number of tax payers is not very large."

3.97 He added :

"There may be four owners of the property. The property might have been constructed against the loan. The loan will have to be adjusted against the value of the property which is to be estimated. Though some of the houses appear to be very costly When we probe into the details, we find that the income or the wealth of an individual may not reach the taxable limit."

3.98 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'.

3.99 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 assessees were added. As stated earlier, the total number of assessees in the wealth group of above Rs. 5 lakhs brought in the tax net in the entire country was 16,707 only as on 31 March, 1980.

3.100 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/Safdarjung 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. 3,660 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 varles 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 assessees borne on the registers of the Department does not reveal a true picture with regard to the potential taxable wealth in the country.

3.101 The Committee were informed that in terms of Instruction No. 842 dated 12-6-75 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.

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 operations 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, 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.

(d) VALUATION OF UNQUOTED EQUITY SHARES

3.106 Rule 10 of the Wealth Tax Rules, 1957 framed under Section 7(1) of the Act provides that the market value of an unquoted equity share of any company, other than an investment company or a managing agency company shall be determined as follows :

"The value of all the liabilities as shown in the balance-sheet of such company shall be deducted from the value of all its assets shown in that balance-sheet. The net amount so arrived at shall be divided by the total amount of its paid-up equity share capital as shown in the balance-sheet. The resultant amount multiplied by the paid-up value of each equity share shall be the *break up value* of each unquoted equity share. The market value of each such share shall be 85 per cent of the break-up value so determined...."

3.107 The Committee desired to know whether any studies had been undertaken prior to prescribing the break-up value method for valuation of unquoted equity shares in preference to the capitalisation of the yield method. The Chairman, CBDT replied:

"When this Rule 1-D was framed which is at present on the Statute Book. I was a member of a Committee which was set up at that time for this purpose. It was a departmental committee constituted by the Board in 1976. We had scrutinised the balance-sheets of about 200 companies and we came to a conclusion, after analysing the break-up values and the quoted values, that the break-up value method was a better method. But in most of the cases, it gave a slightly higher value than the quoted value. But the Rule 1-D gives a discount of 15%. In respect of those companies which have not declared dividends for the last three or more years, we had to give a discount upto 10% over and above this 15%. So, 75% to 85% of the break-up value was to be taken as the market value of the shares. Thereafter we found that in certain groups of cases, they were trying to so arrange their affairs that these rules were to their advantage. Now the Board again constituted a Study Team. We have studied not only the Reserve Bank of India

figures or the balance sheets of about two thousand companies but we have studied and analysed as to what would be a simple method. Considering all these complications as such it should be uniformly applicable to all the companies—we have come to this conclusion, although there was a case for taking the market value of the assets. Now, the second question was whether we should take capitalised value or break-up value. Ultimately after weighing the *pros and cons*, we thought that the break-up value was a better alternative. The main reason for this is that for adopting the capitalised value We have to find not only the yield in a particular year but also maintainable profits. There may be some sort of abnormal profit or loss and we have to exclude that. We have to take up an average of 3—5 years of maintainable profit and then capitalise it. If the concept of self-assessment for wealth-tax is there and if a person has got unquoted shares of ten companies he will have to have 10 balance sheets and determine what should be the maintainable profits. We thought that the simpler and the better method would be to do it on the break-up value method."

3.108 The Chairman, C.B.D.T. further stated:

"I submit that of the two recognised methods, capitalisation of the yield method or the break-up method, capitalisation of the yield method is better, but in view of the practical difficulties, which I have pointed out involved in making self-assessment and the Wealth-tax being an annual tax, we have come to the conclusion that it would be better if we adopt the break-up method."

3.109 Referring to the judgement of the Supreme Court in Commissioner of Gift Tax, Bombay Vs. Kusumben D. Mahadevia wherein it was held that the profit earning method was the only method which could properly be applied for arriving at the valuation of shares in that case, the Committee desired to know whether Rule 1-D which provided for the break-up value method/equity share of a company, did not call for amendment and whether the same was mandatory or directory. Member of the Central Board of Direct Taxes stated :

"In Commissioner of Gift-tax, Bombay Vs. Kusumben D. Mahadevia [ITR 122 (1980)], it was held that in the case of a company which is a going concern and whose shares are not quoted on the stock exchange, the profits which the company has been making and should be capable of making, or in other words, the profit-earning capacity of the company would ordinarily determine the value of its shares."

The case is that of Bombay High Court. The question came up before the Bombay High Court in the case of Kusumben D. Mahadevia (1980) (124 ITR 799). That Court decided that Rule 1-D is not mandatory but is directory."

3.110 Asked whether in view of the rulings of the Court, the Board contemplated evolving revised rules for valuation of shares the Chairman, C.B.D.T. replied:

"So far the valuation of shares is concerned, there is no problem for quoted shares, but it is the area of unquoted shares which leads to disputes. Firstly, for them there would not be any quotation; secondly, rigging of shares values also takes place."

3.111 He added :

"We had framed draft rules for public comments. Comments have been received and we are now examining them. We want to frame rules in substitution of Rule 1-D.

According to the rules framed under Rule 1-D, the valuation of unquoted shares is to be determined only for companies other than the managing agency and investment companies.

The proposed rules cover all types of companies. Secondly, under the present rule 1-D, we have to take the break-up value of the shares on the basis of the book values as reflected in the balance sheet. In the proposed rules in certain circumstances, say, where the company is a subsidiary company, we propose that we should take the market value of the assets and determine the value which will be substituted in the share holding. In respect of the investment companies also, we have proposed that we will have the market value of the assets held by the company. We find that if we take the break-up value, it will lead to a very low valuation. We found that in certain places, some people have formed a company where all the share holders have transferred their jewellery to the company and thereby are avoiding the payment of wealth tax on jewellery.

The proposed rules take into consideration all these matters. Wherever possible, we have tried to introduce the capitalised value concept in the rules. It is not possible to resort to capitalisation in all the cases. Despite the Supreme Court decision, we cannot completely give up the break-up value concept. We will have to depend upon that also. 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.

In so far as the rigging is concerned, we have added a proviso that where the break-up value obtained by applying this rule is less than the two-thirds of its quoted value, even in the case of quoted shares, we can apply this rule. Sometimes the market value is supposed to be artificially fixed by rigging or certain transactions which are not at all correct."

3.112 He further added:

"These are in the hands of limited companies. The properties are used by the shareholders. This is done to escape tax liability. I have nothing to say about that. But that can be duly taken care of by inserting proper provision in the rule.

Now, there are certain Tribunal decisions which also say that rules are directory and mandatory. But we have not accepted that. We are seeking the advice of the Law Ministry in that matter. But we have to make a rule whether that is made under the rule-making power of the Government or whether by way of a substantive provision in the Act so that the rule is mandatory and not directory, because not only a tax collector should be able to assess the concrete value according to the rule but also we should see that it is

beneficial to the assessee. The tax payer has to make self-assessment. He has unquoted shares, he will have to make the valuation. We have to see that the interest of the assessee is safeguarded. Otherwise the very objective of this rule will be defeated."

3.113 Under Rule I-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 Rule 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 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) in 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 therefore framed draft rules in substitution of Rule ID 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 ID 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 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.

(e) INCORRECT VALUATION OF JEWELLERY

Audit Paragraph:

3.120 The value of jewellery and silver articles, owned by an individual, was assessed at Rs. 4,00,000 and Rs. 1,00,000 for the assessment years 1972-73 and 1973-74 and at Rs. 4,25,000 and Rs. 1,20,000 for the subsequent assessment year 1974-75. However, as the rates of gold and silver which were Rs. 202.75 per 10 grams and Rs. 534.50 per Kg. on 31-3-1972 had risen to Rs. 506 per 10 grams and Rs. 1260 per Kg. respectively on 31-3-1974, the value of jewellery and silver articles on the relevant valuation dates 31-3-1973 and 31-3-1974 would be Rs. 5,50,000 and Rs. 1,16,000 and Rs. 9,98,000 and Rs. 2,35,700 respectively. The under-valuation of jewellery and silver articles resulted in total under-assessment of wealth of Rs. 8,54,700 with consequent short levy of tax of Rs. 63,040 in the assessment years 1973-74 and 1974-75.

3.121 The Ministry of Finance have accepted the audit objection in principle.

[Paragraph 4.09 of the Report of the Comptroller and Auditor General of India for the year 1979-80, Union Government (Civil) Revenue Receipts Vol. II—Direct Taxes p. 126].

Facts of the case

3.122 The assessee referred to in this para is Shri Martend Singh of Rewa. The property which is the subject matter of valuation is gold ornaments and silver articles in personal possession.

The relevant details relating to the assessments in question are given in the chart below :

Asstt. Year	Date of filing return	Date of completion of assessment	Value of gold ornaments returned	Value of silver articles returned
			assessed	assessed
1973-74	5-9-1973	20-1-1978	Rs. 2,36,334	Rs. 79,607
1974-75	14-8-1974	25-1-1978	4,00,000 2,36,334	1,00,000 79,607
			4,25,000	1,20,000

3.123 The Revenue Audit pointed out that the rates of gold and silver were Rs. 202.75 per ten grams and Rs. 534.50 per kg. respectively on 31-3-72 and had risen to Rs. 506 per ten grams and Rs. 1,260 per kg. respectively on 31-3-74 and thus taking the valuation of gold ornaments and silver articles at Rs. 5 lakhs as the base for assessment year 1972-73 and taking proportionate increase in the rate, the valuation of gold ornaments and silver articles should have been at Rs. 6,66,000/- for the assessment year 1973-74 and Rs. 12,23,700 for the assessment year 1974-75. The assessments for both the years were re-opened U/S 17(1)(a) of the Wealth Tax Act. The re-assessments are still pending.

3.124 The latest position about completion of re-assessments as furnished by the Ministry of Finance is given below :

"The assessment for Assessment Year 1974-75 has been completed on 11-2-82, and the additional demand raised has also been collected by way of adjustment."

The Ministry have further stated that the assessments for the assessment years 1975-76 and 1976-77 were liable to be checked but could not be checked by Internal Audit.

3.125 Jewellery being one of the assets, the valuation is to be made according to the provision of section 7 of WT Act, 1957.

3.126 An exemption for personal jewellery subject to the maximum value of Rs 25,000 was provided for in clause (xv) of sub-section (1) of Section 5 of Finance Act, 1963 and it was available for the assessment years from 1957-58 to 1962-63 only. The exemption of personal jewellery from levy of Wealth tax was withdrawn with effect from 1-4-1963 by amendment of clause (viii) of sub-section (1) of Section 5 by Finance (No. 2) Act, 1971, after an earlier amendment by Section 20 of Finance Act, 1963 by which clause (xv) of Sub-section (1) of Section 5 was deleted with effect from 31-3-1963.

3.127 The relevant provisions of the Gold Control Act in regard to holding and declaration of gold jewellery are reproduced hereunder :

"In relation to any ornaments, or both articles and ornaments, where both articles and ornaments are owned, possessed, held or controlled, unless the total weight of such ornaments or both articles and ornaments as the case may be, owned, possessed, held or controlled by—

(1) an individual who is not a member of a family, exceeds two thousand grammes.

(i) a family, exceeds four thousand grammes;

Section 16(6) defines the family as:

"For the purpose of this Section, 'family' shall be deemed to consist of:

(i) The husband, wife and one or more minor children, or

(ii) any two or more of them, but shall not be deemed to include any other person."

3.128 Asked about the rationale for subjecting personal jewellery to Wealth-tax, the Chairman, C.B.D.T. stated in evidence:

"We thought that this would lead to many loopholes and to plug them, we decided that we should not exempt any amount of jewellery possessed by a person. But that brings us to the general question as to whether jewellery should be exempt."

3.129 The Committee enquired whether any special principles has been laid down by the Board for valuation of jewellery. In reply, the Ministry of Finance (Department of Revenue) have stated:

"The valuation of jewellery is done by experts. (For valuation of gold and silver articles, the board criteria appears to be the prevailing rates of gold and silver and the weight of the articles). C.B.D.T. do not seem to have issued any instructions laying down the special principles for valuation of jewellery. The purity and content of the precious metal in a piece of jewellery would appear to be broad criteria for valuation."

3.130 Asked to indicate the official price of gold and silver, as on a particular reference date, the Ministry of Finance have stated :

"We have been informed by the Economic Adviser, Department of Economic Affairs, Ministry of Finance that "there is no official price for gold or silver. The prices are determined by demand and supply factors in the market and show almost daily variations. Data regarding market price of gold and silver are published by the Reserve Bank of India in its publications like Report on Currency and Finance, Reserve Bank of India Bulletin.....". The average price of gold and silver for the period 1971-72 to 1979-80 as per

Report on Currency and Finance published by the Reserve Bank of India was as under:

Statement of price of gold and silver at Bombay

Year (April--March)	Gold per 10 grammes average price	Silver per 1 kg. average price
1970-71 . . .	184.96	Rs. 336.08
1971-72 . . .	206.30	Not given in the Bulletin
(July—June)		
1972-73 . . .	273.03	" "
(July—June)		
1973-74 . . .	480.00	" "
(July—June)		
1974-75 . . .	* 519.10	1121.65
1975-76 . . .	544.99	1169.36
1976-77 . . .	549.50	1248.66
1977-78 . . .	637.92	1240.52
1978-79 . . .	791.22	1501.2
1979-80 . . .	1158.78	2297.80

3.133 The Committee desired to know whether in view of the rising jewellery companies, the Chairman, C.B.D.T. stated :

"There are certain companies in Ahmedabad which are only known as jewellery companies, or gold companies. I am talking of the year 1976 when I was studying this problem. I was a member of this 2-man study team. We came across certain cases where the assessees, with great ingenuity had transferred things. It had become a company of 12 share-holders, including ladies. They transferred all their jewellerys. Whenever they wanted to wear them, they took them back, on hire. The wealth-tax assessee thus does not pay wealth tax. Rule 1 D says that we have taken the break-up value of the shares, according to the balance sheet figures. Suppose an item of jewellery was transferred 5 or 6 years ago, the balance sheet of that period will reflect its value at the time of transfer. Thus, the share holders will escape wealth tax and proper assessment under I D. Hiring out jewellery is a business. It is allowed. They can convert such firms into companies, i.e. from a partnership firm. It is not a case of evasion, but of lawful avoidance."

3.132 Asked whether any person was prosecuted ever since the exemption of personal jewellery was withdrawn in 1963 for concealment of such wealth, the Chairman, CBDT replied:

"We have not prosecuted any body. But I would like to add that it may be on account of certain circumstances beyond control.... some persons may not be conscious also that they have become wealth-tax assessees, because the prices of gold have risen so high."

3.133 The Committee desired to know whether in view of the rising prices of gold and other items of jewellery it would be appropriate to frame

suitable rules for valuation of jewellery. The Chairman, CBDT stated in reply :

"We can certainly make a rule regarding jewellery. We have the draft rules. We are considering them and will certainly take these things into account."

3.134 Under the Gold Control Act, a declaration is required to be made if an individual possesses gold jewellery exceeding 2000 grammes and a family more than 4000 grammes. 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 grammes 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 assessee into the wealth-tax net. The Committee were informed in evidence that nobody has 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.

3.138 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.

CHAPTER IV

MISCELLANEOUS MATTERS

Review of assessments made in 1978-79

4.1 As stated earlier the Taxation Laws (Amendment) Act, 1975 imposed a time limit of 4 years for completion of wealth-tax assessments. Therefore, all pending assessments pertaining to the assessment year 1974-75 and earlier years had to be completed by 31 March, 1979.

4.2 The number of assessments made in rush during January, February and March, 1979 and the demands raised in these months compared to the performance during the year as a whole are given in the following table:

Months	Number of WT assets completed	Amount of demand of WT raised (in 000) Rs.
January, 1979	47355	8,51,92
February, 1979	64953	18,55,94
March, 1979	1447728	1,39,99,92

4.3 The Audit Report mentions a large number of cases of mistakes/omissions resulting from rush in completion of such pending assessments near the end of the period of limitation. At the instance of Revenue Audit, the Department carried out a special review of the assessments completed in a rush before the expiry of statutory limitation on 31 March 1979. The Ministry of Finance informed the Committee (March, 1982) as follows:

" . . . The review 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 computation of net wealth in 422 cases, in all 821 mistakes with estimated tax effect of Rs. 89,00,340, Remedial action has already been initiated in 115 cases."

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.

4.6 In response to an earlier recommendation of the Committee contained in their Seventh Report (Sixth Lok Sabha), the Central Board of Direct Taxes had, in the instructions issued in April 1979, reiterated that omissions/lapses in not referring liable cases to the Valuation Cells should be seriously viewed by the Commissioners of Income-tax. Nevertheless, the review of the assessments made in the last six months of the year 1978-79, where the assessed wealth was over Rs. 5 lakhs, revealed as many as 141 cases of such omissions. Some of the major reasons for failure to make reference to the Valuation Officers, according to the assessment of the Board, 'appear to be pressure and rush of work' and 'varying human temperament'. The Committee are concerned to note that the provisions of the law have been rendered nugatory by such omissions. The Board has asked the Commissioners to issue instructions to the Inspecting Assistant Commissioners to carry out necessary inspections and to check the register of references made to Valuation Officers. The IACs are also required to send at the end of each financial year a certificate to the Commissioner of having done so. Apparently these instructions are not being followed. The Committee take serious note of such repetitive lapses and urge that strict action should be taken against the erring officials. The Committee would also like to be apprised whether adequate institutional arrangements have since been made to ensure that the instructions issued in this behalf are strictly given effect to by the field staff especially by IACs and assessing officers.

CHAPTER V

GENERAL

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 on the suggestion of Prof. Kaldor, was to cut out all escape routes for the taxpayer 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 for 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 assessees, some times 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. Paragraphs 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

*Statement of Objects and Reasons.

**Para 62 of the Budget Speech, 1957-58.

@Para 43 of the Budget speech, 1966-67.

*@Para 1.89 of 117th Report (4th Lok Sabha).

&Para 1.21 of 25th Report (5th Lok Sabha).

Para 1.12 of 65th Report (6th Lok Sabha).

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 instruction 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 notions of integrated tax structure providing a barrier against 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 to companies, rigging of shares, etc. Valuation of unquoted shares has been the subject of comment by this Committee on many an occasion in the 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 & 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 shareholders, 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 assessees on the books of the department as on 31-3-1980, those assessed to a wealth of over Rs. 5 lakhs each constitute only five per cent. In absolute terms the number of such assessees 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 mere 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, such 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 notional 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 assessee's 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 a house property whose value, by virtue of application of Rule IBB, 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 differentially, the Chairman, Central Board of Direct Taxes stated that...there are 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 crisis 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 IBB 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 inequitable but are also unworkable.

5.10 As for the administration of the Wealth-tax Act, the less said the better. Although the officers' cadres 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 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 crores 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.

5.11 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 the 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

*Paras 1.88 and 2.7 of 117th Report (4th Lok Sabha).

Paras 1.18 and 1.23 of 25th Report (5th Lok Sabha).

Paras 209 and 210 of 123rd Report (6th Lok Sabha).

Para 3.93 of 7th Report (6th Lok Sabha).

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.

NEW DELHI

April 28, 1982

Vaisakha 8, 1940 (S)

SATISH AGARWAL

Chairman

Public Accounts Committee

APPENDICES

APPENDIX I

Charge-wise break-up of the arrears of Rs. 180.54 crores as on 31 March, 1980
(*vide* paragraph 2.17)

C. I. T. Charge	Gross arrears	C. I. T. Charge	Gross arrears
Agra	6823	Kerala	23433
Allahabad	18037	Lucknow	9888
Amritsar	10554	Ludhiana (C)	2883
Andhra	38560	M. P. Bhopal	68687
Assam	21763	Madras (C)	16173
Baroda	16612	Meerut	16663
Bihar-I	16962	Nagpur	17610
Bihar-II	7891	Nasik	5437
Bombay	280332	Orissa	5691
Bombay (C)	77385	Patiala	19036
Calcutta (C)	40195	Pune	20381
Delhi	196856	Rajkot	25253
Delhi (C)	107435	Jaipur	28720
Gujarat	57990	Jodhpur	18875
Gujarat (C)	61904	Tamilnadu	98579
Haryana	2202	West Bengal	245527
Jullundur	9954		
Kaipur	20795	TOTAL	1805315
Kanpur (C)	18215		
Karnataka-I	28311		
Karnataka-II	39963		
Karnataka (C)	103740		

APPENDIX II

S. No.	CTT Charge !	Name of Assessee	(Rs. in Lakhs) Gross
1.	Kar (C)	Nawab Mir Barket Ali Khan	547.62
2.	Guj (C)	F. P. Gaekwad (Baroda)	392.91
3.	Delhi (C)-I	Shri Bhawani Singh	135.06
4.	B(C)-II	Madhavrao J. Scindia	241.04
5.	B. C. IV	Estate of late R. H. Wadia (AOP)	193.90
6.	W. B.-XI	Shri Hari Das Mundra	187.30
7.	Delhi-I	J. Dharma Teja.	175.98
8.	B(C)-II	HUF of late Sir, J. M. Scindia	168.41
9.	Delhi (C)-I	Shri Bhawani Singhji Karta of late Sir Swaiman Singhji	369.49
10.	Do.	Sh. Jagat Singh	120.71
11.	Do.	Sh. Jai Singh	118.33
12.	Rajkot	S. D. Jadeja (Jamnagar)	116.87
13.	Kar (C)	Trustees of HEH Nizam Jewellery Trust	107.99
14.	Cal (C)	A. K. Jain & others	98.23
15.	Delhi (C)-I	Smt. Gaitri Devi	91.72
16.	Cal (C)-I	Raja Baldeodas Birla	89.93
17.	B. C.-IV	Bilasrai Joharmal	89.32
18.	W. B.-VI	M/s. Prem Raj Daulat Ram	65.73
19.	Delhi (C)-I	Sh. Prithvi Raj (HUF)	64.42
20.	Do.	Sh. Prithvi Raj	62.55
21.	M. P.-I	Shiv Singh Tamloak Gwalior	61.84
22.	Do.	Virender Singh Balia	61.47
23.	W. B.-I	Sh. M. M. P. De'Souza	61.45
24.	Jaipur	Smt. Urvashi Devi	58.92
25.	M. P.-I	M/s Meghji Girdhari Lal	57.01
26.	Kar (C)	Trustees of HEH the Nizam Supplemental Jewellery Trust.	52.49
27.	Cochin.	K. S. R. T. Pension & Gratuity Fund Trust.	51.94
28.	B. C.-III	S. N. Desai Topiwala	51.24
29.	M. P.-I	Sh. N. C. Zamindar	47.77
30.	B. C.-IV	Raja Dhan Raj Giri.	44.64
31.	Cal (C)-I	L. N. Dalmia	41.00
32.	B. C.-VIII	Shiv Sagar Estate (AOP)	40.45
33.	W. B.-III	Sh. Aahit Kumar Ghosh	36.64
34.	T. N.-IV	Sh. J. H. Tarapoli	36.44
35.	Shillong	Rai Chand Kuthari.	35.93
36.	Kar-II	Sh. Madhu Liblo Marga	33.98
37.	Guj. (C)	Bhanabhai Khalpabhai Patel	33.14
38.	Delhi-I	J. R. Jain	32.37
39.	Do.	Sh. R. N. Jain.	32.37
40.	Do.	Smt. Satya Dharman	31.97
41.	Baroda	Sh. Pratap Singhji Ram Singhji and others.	31.97
42.	Delhi-I	N. L. Jain	31.22

S. No.	CIT Charge	Name of Assessee	(Rs. in Lakhs) Gross
43. Delhi-1		Sh. S. R. Jain	31.03
44. Shillong		K. B. Dev Barman Ex-Mahraj	30.96
45. B. C. IV		B. H. Bhiwandiwala	30.05
46. Delhi-III		Executor of Estate of late Shri R. B. Narain Singh	29.98
47. Kar (C)		Prince Muffakraja	29.60
48. Delhi-III		Sardarni Mohinder Jaspal Singh	29.56
Guj. (C)		Lalubhai Jogabhai	29.09
B. C.-VII		C. S. Goenka	28.97

APPENDIX III

Statement showing Assessment Years in which the Outstanding Wealth-tax Demands as on 31-3-1980 were raised in respect of the 13 top cases. (Vide paragraph 2-32)

Sr. No.	Name of the case	Asstt. Year in which demand raised	Demand (raised in lakhs)	Steps taken to recover the tax arrears
1	2	3	4	5
1.	Nawab Mir Bar-kat Ali Khan	Prior to 1-4-1978 1978-79 1979-80	6.58 427.45 113.59 547.62	The demands are disputed in appeals. These appeals were accorded priority for disposal by the Commissioner (Appeals). The appeals could not be disposed of earlier as apart from the pleas taken by the appellant, departmental contention on intricate point relating to exemption of a property is also under consideration of the appellate Authority. Commissioner of Wealth Tax will be instructed suitably, if necessary after obtaining advice of the Ministry of Law for expediting disposal.
2.	F.P. Gaekwad	1978-79 1979-80	311.22 81.69 392.91	Demands are disputed in appeals which are pending before CWT (Appeals). The demands are however, being collected in monthly instalments in which the assessee is paying.
3.	Shri Bhawani Singh Karta of HUF Sir Sawai Man Singh	1977-78 1978-79 1979-80	1.29 283.90 84.30 369.49	The entire demand relates to protective assessments. Recovery of such protective demand stands/stayed till the issue involved is finally decided. The dispute is on the point of status which the assessee claims to be of HUF and the department considers to be of Individual. The assessee's claim has been accepted by the Income tax Appellate Tribunal in appeals for earlier years but the decision of the Tribunal has taken further to High Court in reference by the department.
4.	Madhavrao J. Scindia	1976-77 1978-79 1979-80	79.80 114.10 47.05 241.04	The demand was in dispute in appeal and after receipt of appellate decision the Commissioner has instructed the Wealth Tax Officer to effect recovery expeditiously.
5.	Estate of Late A. H. Wadia (AOP)	1978-79	191.90 191.90	The recovery of demand in this case is stayed by Bombay High Court on a Writ petition filed by the assessee. Steps have been taken to get the disposal of Writ petition expedited by filing a miscellaneous petition before the High Court.

1	2	3	4	5
6.	Haridas Mundra	1962-63 1963-64 1978-79	3.20 3.77 180.33 <hr/> 187.30	The assessee was declared insolvent. The recovery of tax dues was pursued with official Assignee and the claim of the department lodged for payment. The assessee was found not to have filed the schedule of Affairs before the official Assignee and he was sentenced by the High Court to imprisonment for two years for the default. The department continues to keep in touch with the official Assignee.
7.	Dharma Teja	1972-73 and earlier 1978-79 1979-80	70.02 76.08 29.88 <hr/> 175.98	The defaulter left this country and all his known assets were attached and sold. Further, since the assessee left the country without clearance certificate, action has been taken against the Carrier Airline under the provisions of Section 230(2) & (3) of the I. T. Act, 1961.
8.	HUF of Late Sir J. M. Scindia	1976-77 1978-79 1979-80	0.29 120.78 47.34 <hr/> 168.41	The demand outstanding is in dispute in appeals, while the undisputed demand has been recovered. The Commissioner (Appeals) has been requested to accord priority to disposal of these appeals. Valuation of numerous properties/articles of jewellery which is much time consuming, is involved in the appeals.
9.	Shri Bhavani Singh	1977-78 1978-79 1979-80	8.12 92.04 34.90 <hr/> 135.06	Demands are disputed in appeals. Recovery of undisputed demand of Rs. 12.07 lakhs was enforced and accordingly Rs. 9.05 lakhs have been paid (receipt of challan awaited) and recovery of Rs. 3.02 lakhs continues to be pursued.
10.	Shri Jagat Singh	1977-78 1978-79 1979-80	4.92 72.05 43.74 <hr/> 120.71	The demand due is in dispute in appeals and the recovery is stayed till disposal of the appeals before Commissioner (Appeals). A request for disposal of the appeals on priority basis has been made.
11.	Shri Jai Singh	1977-78 1978-79 1979-80	7.28 85.97 25.08 <hr/> 118.33	The demand is disputed in appeal and recovery is stayed till disposal of appeals before O.N.T (Appeal) Penalties were levied and other coercive action taken in respect of amounts which were collectible and not stayed for enforcing recovery.
12.	S.D. Jadeja (Jammnagar)	1975-76 1976-77 1977-78 1978-79 1979-80	0.35 0.38 4.98 79.17 22.00 <hr/> 116.88	Revision and Settlement Petitions are pending in this case involving demands of about Rs. 89.5 lakhs. The Commissioner has been requested to expedite disposal of the petitions. The assessee has no liquid asset to pay the outstanding demands. Immoveable properties were attached and

1	2	3	4	5
				one of them sold by TRO for recovery of demands which were collectible.
13. Trustees of HEH Nizam Jewellery Trust.	1978-79	107.99	107.99	The bulk of the demand is disputed in appeals which have since been taken up on priority basis and are being heard. The trustees are unable to pay up the demands unless the jeweller is sold. They were awaiting permission of Govt. of India for effecting sale.

APPENDIX IV A

Details of 20 cases involving the highest amounts of penalties in respect of outstanding demands exceeding Rs. 10 lakhs for the year ended 31 March 1979
(*vide* para 2-44)

S. No.	Name of the Case	Charge	Penalty (In lakhs)
1.	Mr. Prem Raj Daulat Ram	W.B. VI	62.84
2.	Sh. Rai Cahna Kuthari	Assam	30.68
3.	Sh. J. N. Jain	Delhi-I	30.66
4.	Sh. R. N. Jain	Delhi-I	30.66
5.	Sh. S. R. Jain	Delhi-I	29.57
6.	Sh. N. L. Jain	Delhi-I	29.56
7.	Sh. S. D. Jadeja	Rajkot	26.55
8.	Smt. Ginni Devi Jalen Co Prakash Cotton Mills	Bombay—C-I	23.15
9.	J. H. Rarapore	Madras (C)	22.87
10.	Smt. Satya Uhawan	Delhi-I	21.44
11.	Smt. Padmini Devi	Delhi—C-I	20.67
12.	N. R. Sirkar	Assam	19.93
13.	A. N. D. Haksar and others	W. B. IX	17.55
14.	P. R. Rishi	Delhi-I	16.42
15.	Ashit Kumar Ghosh	W. B. III	14.00
16.	M. S. Palavi	Nasik	13.11
17.	Krishna Nand Garg	Kanpur	12.62
18.	Shiv Kumar	Ludhiana (C)	11.39
19.	Sanwalram Jalan	Bombay—C-II	10.77
20.	K. Venkatswamy	Karnatak-I	10.00

APPENDIX IV B

Details of 20 cases involving the highest amounts of penalties in respect of outstanding demands exceeding Rs. 10 lakhs for the year ended 31 March 1980
(See paragraph 2-44)

S. No.	Name of the case	Charge	Penalty (In lakhs)
1.	Sh. Shanti Prasad Jain Rep. by Sh. A. K. Jain.	Cal(C)-I	90.00
2.	Mr. Prem Raj Daulat Ram	W. B.-VI	62.84
3.	Shiv Singh Tembak	M. P. I.	60.54
4.	Balram Prasad	Kanpur(C)	30.91
5.	Sh. Raichand Kuthari	Assam	30.59
6.	J. R. Jain	Delhi-I	26.82
7.	Sh. R. N. Jain	Delhi-I	26.82
8.	Sh. S. D. Jadeja	Rajkot	26.55
9.	Sh. Lallubhai Jogibhai	Ahmedabad (C)	26.43
10.	Sh. N. L. Jain	Delhi-I	25.67
11.	Sh. S. R. Jain	Delhi-I	25.48
12.	Smt. Ginni Devi Jalan C/o Prakash Cotton Mills	Bombay(C)-I	23.12
13.	Smt. Satya Uhawan	Delhi-I	21.44
14.	K. Venkataswamy	Karnataka-I	17.67
15.	A. N. D. Hakkar and Others	W. B. IX	17.65
16.	Padmini Devi	Delhi-I (C)	17.51
17.	P. K. Rishi	Delhi-I	16.42
18.	B. K. Bedi	Delhi-II	16.00
19.	M. S. Palavi	Nasik	13.09
20.	Krishna Nand Garg	Kanpur	12.62

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APPENDIX IV C

Details of 20 cases involving the highest amounts of penalties in respect of outstanding demands exceeding Rs. 10 lakhs for the year ended 31 March 1981
(vide paragraph 2-44)

S. No.	Name of the Case	Charge	Penalty (In lakhs)
1.	Smt. Jyotsna Kikraush	B.C.-VII	211.78
2.	K. Kalpana	T. N.-III	127.19
3.	Sh. Bhanabhai K. Patel	Ahmedabad(C)	93.93
4.	Sh. Shanti Prasad Jain Rep. by. A. K. Jain	Calcutta(C-I)	90.00
5.	Sh. Pratap S. Vallabhdas	B. C.-VII	87.79
6.	Sh. Chander Nath Baink	W. B.-II	75.96
7.	S. Gurcharan Singh	Delhi-V	71.49
8.	Ramashray Prasad Chowdhry	Patna	66.37
9.	Mhd. Suleman	Delhi IV	64.60
10.	Ms. Prem Raj Daulat Ram	W. B. VI	62.84
11.	Shiv Singh	M. P. I	52.85
12.	Puren Singh	Delhi-V	48.00
13.	Manna Lal Sooran	Jaipur	47.74
14.	Banarsi Das Kehta	Kanpur(C)	47.35
15.	Sh. Sayaljirao P. Gaekwad	Ahmedabad(C)	45.37
16.	Sh. S. D. Jadeja	Rajkot	37.36
17.	Bai Kishan	Delhi-IV	34.19
18.	Bairam Prasad	Kanpur(C)	30.91
19.	S. M. Wahi	Do.	29.03
20.	Manjeet Singh Sethi	Delhi-V	28.20

APPENDIX - V

(Vide Introduction)

STATEMENT OF CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry Concerned	Conclusions and Recommendations
1	2	3	4
1.	1-32	Finance (Revenue)	<p>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 <i>inter-alia</i> the avowed goal of attainment of a socialist pattern of society.</p>
2.	1-33	Do.	<p>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 resorted 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."</p>
3.	1-34	Do.	<p>The Committee find that while the number of wealth-tax assessees 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 has 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 assessees had 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 assessees. It is thus clearly established that the number of assessees 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."</p>

1	2	3	4
4.	1.35	Finance (Revenue)	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.
5.	1.36	Finance (Revenue)	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 Rs. 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 3.55, 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.

6. 1.37 Finance (Revenue) 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 effectively dealt with and the scope for tax evasion/avoidance is reduced to the maximum extent possible.

7. 2.58 Finance (Revenue) 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 2.80 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 remifications 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.

8. 2.59 Finance (Revenue) 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 inspite 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.

9. 2-60 Finance (Revenue)

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 of 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.

10. 2-61 Finance (Revenue)

The age-wise breakup 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 balance 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

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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.

11. 2-62 Finance (Revenue)

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.

12. 2-63 Finance (Revenue)

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

13. 2-64 Finance (Revenue)

The information furnished by the Ministry with regard to the number of wealth-tax assesses according to the size of their wealth shows that the number of assessees 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 assessees have net wealth below Rs. 5 lakhs. The Ministry have informed that "the number of wealth tax assesses 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	2	3	4
14.	2.65	Finance (Revenue)	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 assessee. 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 assessee between Rs. 5 lakhs to Rs. 10 lakhs reported for the entire country, are found in one big size city alone.
15.	2.66	Do	No data have been furnished to the Committee with regard to the arrears out-standing against assessee 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.
16.	2.67	Do	From the detailed particulars of the top 50 assessee against whom there are heavy arrears of wealth-tax the Committee find that the total arrears of wealth-tax against these assessee amounted to over Rs. 46 crores on 31 March, 1980. 13 of these assessee 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 on the order of Rs. 6.50 crores. The compensation payable to Shri Dharam Tej consequent upon the nationalisation of the Jayanti Shipping Company amounting to Rs. 3.32 crores (approx.) was attached.
17.	2.68	Do,	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

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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 CRDT with a view to ensuring that these are disposed of without much loss of time.

18. 2.69 Finance (Revenue)

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. 740.00 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.

19. 2.70 Do

Considering the large number of recovery certificates awaiting disposal year after year, the Committee consider that there is need to strengthen and streamline the 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.

20. 2.71 Do.

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 assessees. 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 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.

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21	2.72	Finance (Revenue)	The Committee further suggest that effective monitoring of the outstandings 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.
22.	3.8	Do.	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 WTO 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.
23.	3.9	Do.	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 <i>ab initio</i> 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.
24.	3.16	Do.	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 de-linking of papers pertaining to the valuation reference/report, the 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 scrupulously followed.
25.	3.23	Do.	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

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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.

26. 3-28 Finance (Revenue)

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 I. A. Cs so that such mistakes do not occur.

27. 3-66 Do.

Rule 1 BB 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 Kusumban 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 in Section 7(1) in respect of fully marketable assets like real property. Furthermore, Rule 1BB 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 1BB 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.

28. 3-67 Do.

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 for 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.

29 3.68 **Finance (Revenue)** The Committee find that the average time taken by the Valuation Cells for finalisation of valuation on a 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 percent 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.

30 3.69 **Do.** 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 assessee 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.

31 3.70 **Do.** 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 assessee to undervalue the properties, it is equally necessary that the valuation officers act in a judicious manner and be fair both to the assessee and the revenue. This underscores the need for proper selection and training of the personnel employed for this work.

32 3.71 **Do.** 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.

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33	3.72	Finance (Revenue)	The Committee have been informed that 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.'
34	3.73	Do.	The Committee consider that so long as the avowed object for which the Valuation Cells were set up <i>viz.</i> , 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.
35	3.74	Do.	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.
36	3.75	Do.	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.
37	3.76	Do.	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 officers is anywhere between 1 per cent in Shillong C.I.T. Charge to 76.43 in Tamil Nadu (Central) Charge.
38	3.77	Do.	The Charges where the percentage of cases questioned/disapproved by the assessing officers was high are Bombay C-I & II (66%), Andhra Pradesh I & II (54%), Gujarat-all Charges (56%), Meerut (50%), West Bengal I & II & (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 undervaluation noticed by the assessing officers/appellate authorities so as to find out to what extent the institution has subserved the objectives in view and what measures need to be devised to improve the system in the interest of revenue.

39 3.78 Finance (Revenue)

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 1 BB 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 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 re-

ports 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.

40 3.79 Finance (Revenue)

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 apply 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.

41 3.98 Do.

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 assessee 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, 34.79 lakhs and 7.77 lakhs during the respective years. Information regarding the tax actually collected from such assessee is stated to be 'not presently available'.

42 3.99 Do.

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

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43	3-100	Finance (Revenue)	<p>over 3,000 new houses that were surveyed only 916 new wealth tax assessees were added. As stated earlier, the total number of assessees in the wealth group of above Rs. 5 lakhs brought into the tax net in the entire country was 16,707 only as on 31 March, 1980.</p>
44	3-101	Do.	<p>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/Safdarjung 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 assessees borne on the registers of the Department does not reveal a true picture with regard to the potential taxable wealth in the country.</p>
45	3-102	Do.	<p>The Committee were informed that in terms of Instruction No. 842 dated 12-6-75 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.</p>
46	3-103	Do.	<p>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.</p>
			<p>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.</p>

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47	3.104	Finance (Revenue)	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 assessees 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 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.
48	3.105	Do.	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.
49	3.113	Do.	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.
50	3.114	Do.	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.
51	3.115	Do	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.
52	3.116	Do.	In <i>Kusumben D. Mahadevia Vs. Commissioner of Gift Tax</i> (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 4.80 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.

53 3.117 Finance (Revenue) 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.

54 3.118 Do. 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.

55 3.119 Do. 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

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			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.
56	3-130	Finance (Revenue)	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.
57	3-135	Do.	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.
58	3-136	Do.	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 assessees 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.
59	3-137	Do.	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.
60	4-4	Do.	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.
			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.
61	4.5	Finance (Revenue)	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.
62	4.6	Do.	In response to an earlier recommendation of the Committee contained in their Seventh Report (Sixth Lok Sabha), the Central Board of Direct Taxes had, in the instructions issued in April 1979, reiterated that omissions/lapses in not-referring liable cases to the Valuation Cells should be seriously viewed by the Commissioners of Income-tax. Nevertheless, the review of the assessments made in the last six months of the year 1978-79 where the assessed wealth was over Rs. 5 lakhs, revealed as many as 141 cases of such omissions. Some of the major reasons for failure to make reference to the valuation Officers, according to the assessment of the Board, 'appear to be pressure and rush of work' and 'varying human temperament'. The Committee are concerned to note that the provisions of the law have been rendered nugatory by such omissions. The Board had asked the Commissioners to issue instructions to the Inspecting Assistant Commissioners to carry out necessary inspections and to check the register of references made to Valuation Officers. The IACs are also required to send at the end of each financial year a certificate to the Commissioner of having done so. Apparently these instructions are not being followed. The Committee take serious note of such repetitive lapses and urge that strict action should be taken against the erring officials. The Committee would also like to be apprised whether adequate institutional arrangements have since been made to ensure that the instructions issued in this behalf are strictly given effect to by the field staff especially by IACs and assessing officers.
63	5.1	Do.	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'.*
64	5.2	Do.	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 the suggestion of Prof. Kaldor, was to cut out all escape

*Statement of Objects and Reasons.

routes for the taxpayer 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).

65 5.3 Finance (Revenue) 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 for 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.

66 5.4 Do. 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 bar-

†Para 62 of the Budget Speech, 1957-58.

@Para 43 of the Budget speech, 1966-67.

&*Para 1.89 of 117th Report (4th Lok Sabha)

Para 1.21 of 25th Report (5th Lok Sabha)

Para 1.12 of 65th Report (6th Lok Sabha)

rier against of escape routes has been found to be a myth, in actual working.

67 5.5 Finance (Revenue) 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."

68 5.6 Do. 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 roll 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 to companies, rigging of shares, etc. Valuation of unquoted shares has been the subject of comment by this Committee on many an occasion in the 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 & 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, those assessed to a wealth of over Rs. 5 lakhs each constitute only five percent. In absolute term the number of such assessees 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).

1	2	3	4
69	5.7	Finance (Revenue)	As for the revenue angle, after 25 years of its working, the wealth-tax contributed a mere 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.
70	5.8	Do.	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 notional 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 assessee's 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 1BB, 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 differentially, the Chairman, Central Board of Direct Taxes stated that "there are inequities like this. It is the policy of Government that more houses should be built....."
71	5.9	Do.	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.

72 5.10 Finance (Revenue)

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 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 crores 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

*Para 1.88 and 2.7 of 117th Report (4th Lok Sabha)

paras 1.18 and 1.23 of 25th Report (5th Lok Sabha)

Paras 209 and 210 of 123rd Report (6th Lok Sabha) Para 3.93 of 7th Report (6th Lok Sabha)

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			properties" (para 3.79 <i>ante</i>). 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.
73	5.11	Finance (Revenue)	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.

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