

FIFTY-EIGHTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1981 82)

(SEVENTH LOK SABHA)

**LEVY OF WEALTH TAX ON BIG AGRICUL-
TURAL LAND HOLDINGS AND INCORRECT
VALUATION OF UNQUOTED EQUITY
SHARES**

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[Action taken on 147th Report (Sixth Lok Sabha)]



Presented in Lok Sabha on _____
Laid in Rajya Sabha on _____

LOK SABHA SECRETARIAT
NEW DELHI

September, 1981/Bhadra, 1903 (Saka)

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Corrigenda to the Fifty-Eighth Report of
the Public Accounts Committee (1981-82).

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
1	1.6	2	'wealth'	'Weelth'
2	1.6	19 from bottom	'it'	'is'
2	1.6	2 from bottom	'year'	'years'
5	3	5	'the recommen- dations of the Public Accounts Committee'	'if you could extend your full cooperation to them.'
7	--	11	'recommen- ded'	'recommend'

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PUBLIC ACCOUNTS COMMITTEE
(1981-82)

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1. Shri H. G. Paranjpe—*Joint Secretary*
2. Shri D. C. Pande—*Chief Financial Committee Officer*
3. Shri K. C. Rastogi—*Senior Financial Committee Officer*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this 58th Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Hundred and Forty-seventh Report (Sixth Lok Sabha) on levy of Wealth Tax on big agricultural land holdings and incorrect valuation of unquoted equity shares. In the 147th Report, the Committee had, inter alia, observed that there was no rule under the Wealth-Tax Act, 1957 providing for the manner in which the market value of unquoted equity shares of an investment company was to be determined. The Committee had recommended that the Department of Revenue should draw up a rule in this regard and notify it at the earliest. Since the proposals for notification of fresh rules for valuation of shares are still under consideration of the Government, the Committee in this Action Taken Report have asked the Government to expedite the matter and intimate the final decision taken in this regard.

2. On 1 July, 1981, the following 'Action Taken Sub-Committee' was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Public Accounts Committee in their earlier Reports:—

1. Shri Satish Agarwal—*Chairman*.

Members

2. Shri K. P. Unnikrishnan
3. Shri K. P. Singh Deo
4. Shri Sunil Maitra
5. Shri Hari Krishna Shastri
6. Shri N. K. P. Salve

3. The Action Taken Sub-Committee of the Public Accounts Committee (1981-82) considered and adopted the Report at their sitting held on 1 September, 1981. The Report was finally adopted by the Public Accounts Committee (1981-82) on 8 September, 1981.

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

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

NEW DELHI;

September 8, 1981.

Bhadra 17, 1903 (S).

SATISH AGARWAL,

Chairman,

Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the Committee's conclusions and recommendations contained in their 147th Report (Sixth Lok Sabha) on Levy of Wealth Tax on big agricultural land holdings and incorrect valuation of unquoted equity shares.

1.2. Replies to all the conclusions and recommendations contained in the Report have been received from Government.

1.3. The Action Taken notes on the conclusions and recommendations of the Committee contained in the Report have been categorised under the following heads:

- (i) Conclusions and Recommendations that have been accepted by Government:
Sl. Nos. 8, 9, 10.
- (ii) Conclusions and Recommendations which the Committee do not like to pursue in view of the replies of Government:
Sl. Nos. 2, 3, 4, 5, 6, 7.
- (iii) Conclusions and Recommendations replies to which have not been accepted by the Committee and which require reiteration:
Sl. Nos. 11, 12.
- (iv) Conclusions and Recommendations in respect of which Government have given interim replies:
Sl. No. 1.

1.4. The Committee expect that final reply to the recommendation in respect of which only interim reply has so far been furnished will be submitted soon, after getting it vetted by Audit.

1.5. The Committee will now deal with the action taken by Government on one of the recommendations.

Incorrect Valuation of Unquoted Equity Shares (Paragraphs 2.16 & 2.17—Sl. Nos. 11 & 12)

1.6. While observing that no rule had been framed under the wealth-tax Act, 1957 providing for the manner in which the market value of unquoted shares of an investment company is to be determined whereas the manner of valuation of such shares as laid down

in Board Circular No. 2(WT) of 67 dated 31 October, 1967 was detrimental to revenue, the Committee had, in the paragraphs mentioned above, recommended as under:

"The Committee find that Rule 1D of the Wealth-tax Rules, 1957 (brought into force w.e.f. 6-10-1967) provide for the manner in which the market value of unquoted equity shares of a company other than an investment company or a managing agency company is to be determined. The Committee fail to understand as to why the manner in which the market value of unquoted equity shares of an investment company was then not provided for in that rule. The position as stands at present is that there is no rule framed under the Wealth-tax Act, 1957 providing for the manner in which the market value of unquoted shares of an investment company is to be determined. The Committee recommend that the Department of Revenue should draw up a rule in this regard and notify it at the earliest so as to provide a legal basis to the procedure of valuation of unquoted shares of investment companies.

The Committee note that the manner of valuation of unquoted equity shares of various types of companies (including investment companies) is laid down in the Board's circular No. 2(WT) of 67 dated 31 October, 1967. According to this circular, the valuation of unquoted shares of companies (including investment companies) it to be done by working out the average of (a) the break-up value of shares based on the book value of the assets and liabilities disclosed in the balance sheet; and (b) the capitalised value arrived at by applying a rate of yield of 9 percent of its maintainable profits. Audit has pointed out that non-adoption of market values, or the adoption of average value where the break-up value itself is more than the average value computed under the instructions of October 1967, would be detrimental to revenue. The Committee feel that the market price worked out by the method of 'average' will be largely notional and in many cases it may well be much below the "open market price". For example, in the instant case pointed out in the Audit para, the equity shares held by the assessee in an investment company were valued, in accordance with the instruction of October, 1967, at Rs. 485 and Rs. 484 per share for the assessment year 1973-74 and 1974-75 respectively whereas the break-up value of shares based on

the book value of the assets of the company was Rs. 1165 per share for these assessment years. Thus, in certain cases, the application of instruction of October 1967 may, have the effect of valuation, for the purpose of wealth tax; at a level substantially lower than the value admitted by the assessee himself in the balance sheet. This is clearly to the detriment of revenue and against the spirit of section 7(1) of the Act. The Committee would not like to hazard a definite suggestion as to how the valuation should actually be done. The Committee would, however, like the Department to re-examine the method of valuation of unquoted shares of investment companies and if necessary, amend it suitably so as to safeguard the interest of revenue."

1.7. In their action taken note dated 11 March 1981 the Department of Revenue have stated:

"Proposals for notification of fresh rules for valuation of shares are under consideration of Government."*

1.8. In the 147th Report (Sixth Lok Sabha), the Public Accounts Committee had pointed out that there was no rule under the Wealth-tax Act, 1957 providing for the manner in which the market value of unquoted shares of an investment company was to be determined. The Committee had further pointed out that the procedure being followed in this regard as laid down in the Board's circular No. 2(WT) dated 31 October, 1967 could in certain cases be detrimental to revenue. The Committee had therefore desired the Department of Revenue to frame rules in this regard and notify it at the earliest so as to provide a legal basis to the procedure of valuation of unquoted shares of investment companies. The Committee have now been informed that proposals for notification of fresh rules for valuation of shares are under consideration of the Government. The Committee would like the matter to be expedited and the final decision taken in this regard intimated to them.

*In their further Action Taken Note dated 31-8-1981, the Department of Revenue have stated as follows :—

"The draft rules for valuation of unquoted equity shares have been vetted by the Ministry of Law, Justice and Company Affairs (Legislative Department) and they would soon be notified for the general information of persons likely to be affected thereby. The rules will be finalised after considering the comments, if any, received in this regard."

CHAPTER II

CONCLUSIONS AND RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

- Recommendations

The Committee are surprised to note that there is no formal or informal joint machinery to ensure coordination with State Governments in survey work. It is, therefore, no wonder that survey operations conducted by the Income-tax Department in most of the States were no successful operation. The Committee cannot over emphasise the need to enlist the cooperation of and ensure coordination with State Governments in this gigantic task in the interest of revenue.

[Sl. No. 8 (Para 1.101) of Appendix V to 147th Report of the PAC
(1978-79) (Sixth Lok Sabha)]

Action Taken

The Chief Secretaries of the State Governments have again been requested to issue suitable instructions for extending active co-operation to our officers to enable the Income-tax Department to comply with the recommendation made by the Hon'ble Committee. A copy of the letter addressed to the Chief Secretaries is annexed. (Annexure)

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/7/79-A
& PAC-I dated 17-5-1980]

ANNEXURE

V. R. Bapat
Additional Secretary
& Member (WT)

D.O. F. No. 326/18/79-WT
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes
New Delhi, the 12th June, 1979

Dear Shri

Attention is invited to Shri K. E. Johnson's D.O. letter F. No. 328/31/70-WT dated 12-11-1971 intimating the provisions relating to

the levy of Wealth-tax on agricultural lands with effect from assessment year 1970-71 and requesting you to issue appropriate instructions to concerned subordinate formations to render adequate assistance as may be solicited by the officers of our Department.

2. The subject matter of levy of Wealth-tax on agricultural lands came into sharp focus because of the introduction of para 71 in the Report of the Comptroller & Auditor General of India for 1976-77 and discussion of the same in meeting of the Public Accounts Committee (Sixth Lok Sabha) held in February, 1979. While the Committee in their recommendations contained in 147th Report have adversely commented on the low-yield from this source of revenue, they have specifically recommended a comprehensive and intensive survey with a view to finding out the potential agricultural Wealth-tax assesseees and for a need to establish a close and effective liaison with the State Governments for the purpose. I have, therefore, to request you to issue suitable instructions in your State for extending active co-operation to our officers to enable us to comply with the recommendations of the Public Accounts Committee.

3. It is possible that difficulties faced by our officers may be peculiar to a particular State. I am, therefore, asking the Commissioners of Income-tax to call on you personally and/or the Secretary concerned to sort out problems in this regard. I shall be grateful the recommendations of the Public Accounts Committee.

Yours sincerely,
Sd/-
(V. R. Bapat)

Shri

Chief Secretary to the Government,

Copy to all Commissioners of Income-tax, for information and necessary action as mentioned in para 3 above.

Sd/-
(S. R. Gupta)
Under Secretary
Central Board of Direct Taxes

Recommendations

The Committee are perturbed to find that though levy of wealth tax on big agricultural land holdings was introduced in April 1970, Government did not lay down any uniform criteria for valuation of

agricultural properties and thereby left a vacuum all those years. Prior to introduction of this levy, a criteria for determination of land value was already in vogue for estate duty purposes but that was not extended to agricultural wealth-tax. The Conference of Income-tax Commissioners held in May 1970 had decided three preferential choices for this purpose. These were (i) rates at which acquisition of lands was made by State Governments (ii) rates at which actual sales of lands took place in the recent past and (iii) rate adopted by land mortgage and other Banks. However, as a last resort, valuation of lands could be made by income capitalisation method. At its meeting held on 6 August, 1970, the Direct Taxes Advisory Committee suggested issue of guidelines on this subject. A recent study made by the Central Board of Direct Taxes on the basis of Reports received from various Commissioners is stated to have shown that the income capitalisation method cannot be taken as a safe guide because (i) agriculturists do not generally maintain accounts, (ii) vagaries of weather do not allow application of a uniform standard of estimation of income, (iii) yield from agricultural lands depends on varieties of factors which vary from village to village and even from plot to plot and farmer to farmer (iv) Supreme Court had laid down that income capitalisation method should be resorted to only when no other alternative method is available. In 1978, Government, therefore, constituted a Committee on Valuation of Agricultural Lands (Shri K. R. Raghavan, S.T.T. Delhi Convener) to draw up objective guidelines for valuation of agricultural lands. The Committee recommend that objective criteria/guidelines for valuation of agricultural lands may be laid down without any further loss of time, to end the prevailing uncertainty.

[Sl. No. 9 (Para 1.102) of Appendix to the 147th Report of the P.C. (1978-79) Sixth Lok Sabha]

Action Taken

The Committee desire that the objective criteria/guidelines for valuation of agricultural land may be laid down without any further loss of time to end prevailing uncertainties.

2. The report of the Committee on Valuation of Agricultural lands was considered by the Board earlier and again after the amendment of section 2 of the Wealth-tax Act, by Finance (No. 2) Act, 1980. It has been decided to frame rules regarding the valuation of land comprised in specified plantations.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A&PAC-I, dated 7th October, 1980]

Recommendation

The Committee are unable to appreciate the amendment made in 1964 by adding to the section 7(1) of Wealth-tax Act, 1957, the opening words "subject to any rules made in this behalf" particularly when there was already a provision in section 46 (2) of the Act empowering the Board to make rules providing for the manner in which the market value of any assets may be determined. Section 7(1) of the Act as at present worded could lend itself to an interpretation patently erroneous in law that any rules made under section 7(1) or 46(2) of the Act could supersede the basic provision of section 7(1). The Committee recommended that the advice of the Ministry of Law should be obtained by the Department on the point whether the use of the words "subject to any rules made in this behalf" in Section 7(1) of the Wealth-tax Act, 1957 is necessary and desirable, particularly in view of the specific provisions of section 46(2) of the Act.

[Sl. No. 10 (Para 2.15) of Appendix to the 147th Report of the PAC (1978-79) (Sixth Lok Sabha)]

Action Taken

The Committee has recommended that the advice of the Ministry of Law should be obtained by the Department on the point whether the use of the words "subject to any rules made in this behalf" in section 7(1) of the W.T. Act, 1957 is necessary and desirable, particularly in view of the specific provisions of section 46(2) of the Act.

2. Reference, as recommended by the Hon'ble Committee, has already been made to the Ministry of Law.

3. This has the approval of the Additional Secretary to the Government of India.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A&PAC-I, dated 7th October, 1980]

Further Reply

Kind attention of the Hon'ble Committee is invited to this Ministry's Office Memorandum F. No. 241/11/79-A&PAC-I dated 7th October, 1980.

2. Advice of Ministry of Law, as recommended by the Hon'ble Committee, has been obtained and the views conveyed by them are contained in the relevant extract reproduced below:—

“Section 46(2) confers power in the Central Government to make rules for the purpose of determining the market value of asset whereas section 7(1) of the Act provides for determining the market value in accordance with the rules framed in exercise of the power conferred under section 46(2) of the Act. The nature and scope of section 7(1) is different from the nature and scope of section 46(2). Section 7(1) provides the method to be adopted while determining the value of the assets whereas section 46(2) confers power on the Central Government to frame rules. Each are independent provisions, one can exist without the other. Further the Supreme Court has also upheld the validity of section 7(1) in *Sudhir Chandra Nawan Vs. Wealth-tax Officer* (69 ITR 897 SC).”

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A&PAC-I, dated 15th January, 1981]

CHAPTER III

CONCLUSIONS AND RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT.

Recommendation

The Committee find that a levy of wealth-tax on big agricultural lands was introduced by Government from 1st April, 1970 but if the value of agricultural land, by itself or alongwith the value of an urban house, was Rs. 1.50 lakhs or less it was exempted from wealth-tax. From the assessment year 1975-76 onwards, the exemption in respect of agricultural lands was combined with certain investments like Government securities, shares in companies, bank deposits etc. upto that limit. Though the amount of wealth tax on agricultural properties realised by Government has been steadily rising each year, it has in 1976-77 reached Rs. 1.32 crores only. When viewed against the total proceeds of Rs. 2327.74 crores on account of Direct Taxes (i.e. Income-tax, Corporation tax, Estate Duty, Wealth tax and Gift-tax), the amount realised on account of the Wealth-tax on agricultural holdings is woefully low. Precise figures of cost of collection of this levy are not available as it is not separately accounted for. However, during evidence the Finance Secretary frankly admitted that in the case of agricultural wealth tax, cost of collection "will definitely be high in relation to other taxes which the Central Government is administering today", but pleaded that "there are some taxes which are retained on the statute book for egalitarian and other consideration". The Committee recommend that Government may undertake a sample survey of agricultural land holding (covering *inter alia* such land in urban areas and that under cash crops) with a view to find out the number of potential assesseees to wealth-tax and, on the basis of their findings in regard to the extent of escapement from this levy and the potentialities for increase in the tax collections from this source, consider the economic justification for continuing this tax.

The Committee would like this work to be completed within six month's time.

[S. No. 2 (Para 1.95) of Appendix to 147th Report of the PAC (1978-79) (Sixth Lok Sabha)]

Action Taken

The Committee have desired the Government to undertake a sample survey of agricultural land holdings with a view to finding out the number of potential assesseees to Wealth-tax and on the basis of the finding in regard to the extent of escapement from this levy and the potentialities for increase in the tax collection from this source, consider the justification for continuing this tax.

2. In compliance with the recommendations of the Committee, a comprehensive sample survey was conducted.

The position now needs to be viewed in the light of amendment of section 2 of the Wealth-tax Act brought about by Finance (No. 2) Act, 1980 whereby for the assessment year 1981-82 and onwards "asset" will not include agricultural land other than land comprised in tea, coffee, rubber or cardamom plantations. In this context, the relevant extract of the Finance Minister's speech while presenting the Budget for 1980-81 is reproduced hereunder:—

"At present, agricultural property is included in the taxable wealth for the purposes of the levy of wealth-tax. At the time when agricultural property was brought within the tax net, it was hoped that it would be a potent instrument for mobilising resources from the affluent section of agriculturists. But our experience of over the last decade has been most disappointing. The amount realised as Wealth-tax on agricultural property has generally been less than Rs. 1 crore per annum. The valuation of agricultural land has posed difficulties leading to complaints of harassment. As this tax has clearly failed to achieve its original objective, I propose to discontinue the levy of wealth-tax on agricultural property except in the case of owners of tea, coffee, rubber and cardamom plantations. I am sure that this measure will be widely welcomed by our farmers."

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-
A&PAC-I, dated 7th October, 1980]

Recommendation

It is difficult for the Committee to believe that a saturation point has been reached and that realisation from levy of agricultural wealth tax cannot go beyond Rupees one or two crores. The Committee are convinced that the low level of realisation of this levy

was mainly due to the fact that the Department of Revenue treated this levy as a "low priority piece of legislation" and did not implement in letter and spirit their own instructions issued on 26 December, 1969 (reiterated in May 1970) on the subject of surveys to locate potential agricultural wealth tax assessees. A test check conducted by audit in a few districts in some states has disclosed instances of surveys having not been conducted, of defective surveys and lack of follow up action, and of omissions to correlate with details available in State Govt. records. The Finance Secretary admitted to the Committee during evidence that the Department of Revenue was caught up in a "vicious circle" because the revenue from this source is hardly a crore of rupees and therefore it had not been pursuing the process of identification of potential assessees with such vigour as it ought to have. The Committee strongly recommend that if Government decide to continue this levy, they must give up this lukewarm attitude and organise surveys in all the States to locate potential assessees with a view to increase revenue earnings from this levy.

[Sl. No. 3 (Para 1.96) of Appendix to the 147th Report of the PAC (1978-79) (Sixth Lok Sabha)]

Action Taken

No action is necessary in view of this Ministry's Action Taken Note on Para 1.95 of the same Report.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A&PAC-I, dated 7th October, 1980]

Recommendation

The Committee note that though the Central Board of Direct Taxes had not issued any specified instructions, the Commissioner of Income-tax, Kerala took the initiative in surveying posh houses and agricultural properties at Chvakkad because it was felt that due to non-residents' remittances, there is a steady rise in the value of agricultural and other properties there. During evidence, the Chairman, Central Board of Direct Taxes disclosed that such a survey was also going on in Haryana and Punjab. The Committee feel that by not issuing any instructions on this aspect, the Central Board of Direct Taxes failed to give a positive lead to the field formations. They desire that suitable instructions on the subject should be issued without further delay to all the Commissioners under intimation to this Committee.

[Sl. No. 4 (Para 1.97) of Appendix V to 147th Report of PAC (1977-78) (Sixth Lok Sabha)]

Action Taken

Rise in the value of agricultural and other properties due to non-residents' remittances is a feature confined to a few particular Commissioners' charges only and is not an all India one. These Commissioners have been asked *vide* Board's letter F. No. 415/3/79-IT (Inv.) dated 17th December, 1979 (copy enclosed as annexure), to keep this aspect in view while conducting the survey of rural areas in their charges and to pay particular attention to survey of such areas as are generally known to be steadily receiving remittances from abroad.

2. The Income-tax Department is not in a position to give a comparatively high priority to survey of posh houses and agricultural lands in rural areas for several reasons e.g.:—

- (i) the survey of urban areas and bordering towns is considered to be of greater value and urgency. The Commissioners have already been asked to complete survey of all areas in their charges in accordance with a time-bound programme.
- (ii) residential houses are exempt from tax upto Rs. 1 lakh and most—almost all—houses in the rural areas are used for residential purposes. Houses exceeding Rs. 1 lakh in value are very few in rural areas. They cannot escape notice.
- (iii) the fair rental value of the houses outside urban areas may not be much, in view of their situation. Their importance from the taxation angle lies only in their potential for W.T. purposes. The sources of the funds invested in these houses would not ordinarily call for investigation if their owner had regular agricultural income or income abroad and no known source of income attracting income-tax. Since a W.T. assessee gets basic exemption of Rs. 1 lakh besides exemption upto Rs. 1 lakh for residential houses and Rs. 1.5 lakhs for agricultural land, bank deposits etc., the efforts and resources expended in an intensive survey of the essentially rural areas may not be commensurate with the possible revenue yield.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A&PAC-I, dated 17th May, 1980]

ANNEXURE

F. No. 415/3/79-IT(INV.)

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

Central Board of Direct Taxes

New Delhi dated the 17th Dec., 1979.

To

The Commissioner of Income-tax,
Amritsar|Patiala|Jullundur|Rohtak|Gujarat-I

II and III Ahmedabad/Baroda/Rajkot/Kerala-I and II Cochin.

SUB: *General Survey regarding—*

Sir,

As you may be aware, a large number of persons from rural areas in your Charge have, over the years, been going abroad for carrying business|seeking employment and have been remitting their savings to their home towns|home villages. Such remittances are believed to be generally invested in agricultural lands and residential houses, leading to a steady rise in the value of agricultural lands and other properties in such areas. You may, therefore, keep this aspect in view while conducting the survey of rural areas in your Charge and particular attention may be paid to survey of such areas as are generally known to be steadily receiving remittances from abroad.

Yours faithfully,

Sd|-

(V. K. Jagdhari)

Secretary,

Central Board of Direct Taxes.

Copy to:—

All other Commissioners of Income-tax
for information and necessary action

Sd|-

(V. K. Jagdhari)

Recommendation

The Committee are surprised to note that though levy of wealth on agricultural lands was introduced as early as April, 1970, the Central Board of Direct Taxes woke up to the need to examine the

returns filed by big land holders under the State Land Ceiling Acts for their liability to direct taxes only in April 1975. As pointed out by Audit, the Wealth Tax returns, it was found, did not disclose in all cases the extent, nature, location and mode of valuation of agricultural lands. Worse still, whatever values were shown in these returns were either accepted or valuation was done on *ad hoc* basis. The Committee feel that this situation is very unsatisfactory and that remedial measures should be taken in this behalf forthwith.

[Sl. No. 5 (Para 1.98) of Appendix to the 147th Report of the PAC (1978-79) (Sixth Lok Sabha)]

Action Taken

No action is necessary in view of this Ministry's Action Taken Note on para 1.95 of the same report.

[Ministry of Finance (Department of Revenue) O.M. No. 241/7/79-A & PAC-I dated 7 October, 1980]

Recommendation

The Committee note that out of 6,89,645 wealth tax returns filed upto 31-3-1975 by land owners in compliance with the provision of revised ceiling laws of States, only 20,306 persons (of these, only 8,192 were already borne on the registers of the Income tax Department) were found to be *prima facie* liable to pay agricultural wealth tax. After survey, the number of persons in whose cases action under the Wealth Tax Act become necessary was found to be only 12,099, i.e. 18 per cent of the land owners who had filed wealth tax returns. The Committee are shocked at the disappointing result of the scrutiny of the land ceiling returns. This is an indication of the fact that either the scrutiny of land ceiling returns is perfunctory or the rich land holders are not filing their returns. The Committee desire the Central Board of Direct Taxes to issue instructions to the field officers to scrutinise the land ceiling returns thoroughly so that the potential assesseees do not escape payment of tax.

[S. No. 6 (para 1.99) of Appendix to the 147th Report of the PAC (1978-79) (Sixth Lok Sabha)]

Action Taken

No action is necessary in view of this Ministry's Action Taken Note on para 1.95 of the same report.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A & PAC—I dated 7 october 1980]

Recommendation

While the Committee concede that it is for field officers of the Income-tax Department to judge as to what would, in the context of local circumstances, be most useful source for obtaining information for locating potential assesseees, they are of the firm view that tapping of sources like States Land Revenue offices, Registering offices, Land Acquisition offices, Succession Courts, Agricultural and Irrigation Departments could throw up useful clues.

[S. No. 7 (para 1.100) of Appendix to the 147th Report of the P.A.C. (1978-79) (Sixth Lok Sabha)]

Action Taken

No action is necessarily in view of this Ministry's Action Taken Note on Para 1.95 of the same report.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/11/79-A & PAC—I dated 7 October, 1980]

CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COM- MITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee find that Rule 1D of the Wealth-tax Rules, 1957 (brought into force w.e.f. 6-10-1967) provides for the manner in which the market value of unquoted equity shares of a *company other than an investment company* or a managing agency company is to be determined. The Committee fail to understand as to why the manner in which the market value of unquoted equity shares of an investment company was then not provided for in that rule. The position as stands at present is that here is no rule framed under the Wealth-tax Act, 1957 providing for the manner in which the market value of unquoted shares of an investment company is to be determined. The Committee recommend that the Department of Revenue should draw up a rule in this regard and notify it at the earliest so as to provide a legal basis to the procedure of valuation of unquoted shares of investment companies. (Para 2.16)

The Committee note that the manner of valuation of unquoted equity shares of various types of companies (including investment companies) is laid down in the Board's circular No. 2(WT) of 67 dated 31 October, 1967. According to this circular, the valuation of unquoted shares of companies (including investment companies) is to be done by working out the average of (a) the break-up value of shares based on the book value of the assets and liabilities disclosed in the balance sheet; and (b) the capitalised value arrived at by applying a rate of yield of 9 per cent of its maintainable profits. Audit has pointed out that non-adoption of market values, or the adoption of average value where the break-up value itself is more than the average value computed under the instructions of October, 1967, would be detrimental to revenue. The Committee feel that the market price worked out by the method of 'average' will be largely notional and in many cases it may well be much below the "open market price." For example, in the instant case pointed out in the Audit para, the equity shares held by the assessee in an investment company were valued, in accordance with the instruction of October, 1967, at Rs. 485 and Rs. 484 per share for the assessment years 1973-74 and 1974-75 respectively whereas the break-up value of

shares based on the book value of the assets of the company was Rs. 1165 per share for these assessment years. Thus, in certain cases, the application of instructions of October 1967 may have the effect of valuation, for the purpose of wealth-tax; at a level substantially lower than the value admitted by the assessee himself in the balance sheet. This is clearly to the detriment of revenue and against the spirit of section 7(1) of the Act. The Committee would not like to hazard a definite suggestion as to how the valuation should actually be done. The Committee would, however, like the Department to re-examine the method of valuation of unquoted equity shares of investment companies and if necessary, amend it suitably so as to safeguard the interest of revenue. (Para 2.17)

[S. No. 11 & 12 (Para 2.16 & 2.17) of Appendix V of the 147th Report of the Public Accounts Committee (Sixth Lok Sabha)]

Action Taken

Proposals for notification of fresh rules for valuation of shares are under consideration of the Government.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/10/79—
A & PAC—I dated 11 March, 1981]

.. Further Reply

“The draft rules for valuation of unquoted equity shares have been vetted by the Ministry of Law, Justice and Company Affairs (Legislative Department) and they would soon be notified for the general information of persons likely to be affected thereby. The rules will be finalised after considering the comments, if any, received in this regard.”

[Ministry of Finance (Deptt. of Finance) D.O.F. No. 236/695/72—
A & PAC I dated 31 August, 1981]

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS IN RESPECT OF WHICH GOVERNMENT HAVE GIVEN INTERIM REPLIES

Recommendation

The Committee note with concern the fact that though the question of bringing of agricultural income within the tax base of income tax has been studied by various Committees, Government's thinking on this issue has not crystalised so far. As early as 1924-25, the Taxation Enquiry Committee had felt that "on grounds of equity, there is no reason why the surplus of larger land holder should be exempt." To prevent tax evasion and also for "equity and distribution justice", the Wanchoo Committee (December, 1971) too felt that agricultural income should be subjected to a 'uniform tax' more or less on par with the tax on other income. The recommendation of the Committee on Taxation on Agricultural Wealth and Income (Raj Committee—October, 1972) for levy of Agricultural Holdings tax was considered in the Planning Commission in March, 1973 but the consensus of opinion was that such a tax would involve "administrative and legal complexities" and might be difficult to implement. The Draft Sixth Five Year Plan (1978-83) recommends that State Governments should once again consider re-imposition of a progressive agricultural holdings tax in the form recommended by the Raj Committee but, if this is not considered feasible, surcharges at graduated rates should be added to land revenue in all States in order to introduce progression in the system of agricultural taxation. Since it is believed that a major share of higher agricultural income has accrued to a small proportion of cultivators constituting the upper stratum of rural society, Government should formulate a national policy regarding tax on agricultural income without any further delay keeping in view the principle of equitable sharing of social burdens by affluent sections from all sectors of economic activity.

[Para 1.94 of the 147th report of the Public Accounts Committee
(6th Lok Sabha)]

Action Taken

The question of taxation of Agricultural income is being considered by the Planning Commission in the context of the formulation of

the Sixth Plan. The Commission has been requested to take into account the recommendation of the Public Accounts Committee. It is expected that the Government will be able to take a view regarding the policy in this area after Planning Commission's recommendations are available."

[Ministry of Finance (Department of Expenditure) D.O. No. 46(55) PFI/79 dated 11 November, 1980]

NEW DELHI;
September 8, 1981
Bhādrā 17, 1903 (S)

SATISH AGARWAL
Chairman
Public Accounts Committee

APPENDIX

STATEMENT OF CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No. of report	Ministry/Department concerned	Conclusion and Recommendation
1	2	3	4
1	1.4	Finance (Deptt. of Revenue)	The Committee expect that final reply to the recommendation in respect of which only interim reply has so far been furnished will be submitted soon, after getting it vetted by Audit.
2	1.8	Do.	In the 147th Report (Sixth Lok Sabha), the Public Accounts Committee had pointed out that there was no rule under the Wealth-tax Act, 1957 providing for the manner in which the market value of unquoted shares of an investment company was to be determined. The Committee had further pointed out that the procedure being followed in this regard as laid down in the Board's circular No. 2(WT) dated 31 October, 1967 could in certain cases be detrimental to revenue. The Committee had therefore desired the Department of Revenue to frame rules in this regard and notify it at the earliest so as to provide a legal basis to the procedure of valuation of unquoted shares of investment companies. The Committee have now been informed that proposals for notification of fresh rules for valuation of shares are under consideration of the Government. The Committee would like the matter to be expedited and the final decision taken in this regard intimated to them.