PAC NO. 713

# PUBLIC ACCOUNTS COMMITTEE (1978-79)

(SIXTH LOK SABHA)

## HUNDRED AND FORTY-SEVENTH REPORT

## LEVY OF WEALTH TAX ON BIG AGRICULTURAL LAND HOLDINGS AND INCORRECT VALUATION OF UNQUOTED EQUITY SHARES

## MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)

[Paragraph 71 and 74 (iii) of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes]

*Presented in Lok Sabha on 30 April, 1979*
*Laid in Rajya Sabha on 30 April, 1979*

LOK SABHA SECRETARIAT
NEW DELHI
*April, 1979/Vaisakha, 1901 (S)*

# CORRIGENDA TO 147TH REPORT OF PUBLIC ACCOUNTS COMMITTEE(SIXTH LOK SABHA) ON LEVY OF WEALTH TAX ON BIG AGRICULTURAL LAND HOLDINGS AND INCORRECT VALUATION OF UNQUOTED EQUITY SHARES.

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| 2 | 1.3 | 2 | mplemnts | implements |
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| 8 | 1.11 | 6 | Delete "of the" | |
| 10 | 1.13(3) | 11 | After 'showing', add 'the action taken by' | |
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| 11 | 1.13(5) | 10 | dates | rates |
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| 27 | 1.76 | 6 | reduce | reduced |
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| 31 | 1.87 | 7 | provied | proved |
| 31 | 1.88 | 14 | end | tend |
| 32 | - | 7 | 1.39 | 1.89 |
| 33 | 1.94 | 7-8 | distribution | distributive |
| 35 | 1.97 | 10 | load | lead |
| 35 | 1.98 | 3 | work | woke |
| 37 | 1.102 | 15 | S.T.T. | C.I.T |
| 40 | 2.10 | 4 | base | based |
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| 55 | | 2 | pleased to | Madras |
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| 57 | - | 7 | FIR | GIR |
| 63 | 1.94 | 4 | so far as | so far. As |
| 63 | 1.94 | 7-8 | distribution | distributive |
| 67 | 1.97 | 9 | The desire | They desire |
| 69 | 1.102 | 8 | Income-as | Income-tax |
| 70 | 1.102 | 12 | After 'Raghavan' | add C.I.T. |

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## PUBLIC ACCOUNTS COMMITTEE (1978-79)

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2. Shri D. C. Pande—*Chief Financial Committee Officer.*
3. Shri Bipin Behari—*Senior Financial Committee Officer.*

## INDRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Forty-Seventh Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraphs 71 and 74(iii) of the Report of the Comptroller and Auditor General of India for the year 1976-77. Union Government (Civil) Revenue Receipts, Vol. II relating to Ministry of Finance.

2. The Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil) Revenue Receipts, Vol. II, Direct Taxes was laid on the Table of the House on 12 April, 1978. The Public Accounts Committee (1978-79) examined the paragraph 71 at their sittings held on 25 October, 1978 (AN) and 7 February, 1979 (AN). The Public Accounts Committee (1978-79) considered and finalised this Report at their sitting held on 28 April, 1979. The Minutes of the sittings form part II of the Report.

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

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

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

NEW DELHI;
*April* 28, 1979
*Vaisakha* 8, 1901 (*S*)

P. V. NARASIMHA RAO,
*Chairman,*
*Public Accounts Committee.*

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# REPORT

## CHAPTER I

### *Levy of Wealth-tax on big Agricultural Landholdings*

*Audit Paragraph.*

1.1. The Finance Act, 1969 brought agricultural lands (except those situated in the State of Jammu and Kashmir) within the charge of wealth-tax with effect from the 1st April, 1970. Small holdings were, however, exempt. Thus, upto the assessment year 1974-75, the value of agricultural land, by itself or along with the value of an urban house was exempt upto Rs. 1.50 lakhs. From the assessment year 1975-76 onwards, the exemption in respect of agricultural land is combined with certain investments like Government securities, shares in companies, bank deposits, etc. upto Rs. 1.50 lakhs.

1.2. On the introduction of levy of wealth-tax on agricultural lands, the Central Board of Direct Taxes issued executive instructions in December, 1969 directing the Commissioners of Income-tax to arrange urgent survey by reference to the records maintained by State revenue authorities, registering officers, agricultural income-tax officers, land mortage banks, agricultural marketing cooperative societies and bulk sellers and purchasers of agricultural produce and implements, etc. to locate potential wealth-tax assessees holding agricultural lands valuing above Rs. 1.50 lakhs. The data so collected were to be posted on prescribed survey cards. These instructions were repeated in May 1970 when the need for expeditious completion of survey and collection of data regarding location, nature, area, value on the basis of recorded sales and capitalised value of net agricultural income of large agricultural holdings and the posting of these data on the prescribed survey cards were emphasised. In April, 1975 the Central Board of Direct Taxes directed the Wealth-tax Officers to examine the returns filed by big landholders under the State Land Ceiling Acts for their liability to direct taxes. The results of these exercises have not yet been intimated (March 1978).

1.3. While introducing the Finance Bill, 1969 in Parliament, the then Finance Minister had stated, "Agricultural wealth has so far been exempted from wealth-tax. This has encouraged purchase of such land by the rich professional and business classes....Accordingly I propose to provide in the Wealth-tax Act for the levy of wealth-tax on the value of agricultural land including buildings

situated on or in the immediate vicinity of such land. Standing crops, tools, mpleemnts and equipment such as tractors will, however, be exempt. Agricultural wealth will be added to the other wealth for the purposes of the tax at the existing rate with effect from the assessment year 1970-71. This measure will yield additional revenue of Rs. 5 crores in a full year....It is my intention to pass on the net proceeds of the revenue of wealth-tax on agricultural property to the States as grants-in-aid."

1.4. The following table indicates the budget estimates and the actual collections from wealth-tax on agricultural property for the years 1970-71 to 1976-77:

| Year | Budget estimates | Actuals |
|---|---|---|
| | (Figures in lakhs) | |
| 1970-71 | 400 | 3 |
| 1971-72 | 725 | 33 |
| 1972-73 | 925 | 55 |
| 1973-74 | | 124 |
| 1974-75 | | 278 |
| 1975-76 | | 459 |
| 1976-77 | | 877 (Provisional) |

1.5. In 1970-71, a budget provision of Rs. 4 crores was made for passing on the net proceeds of wealth-tax on agricultural property to the States. This provision was, however, deleted in the revised estimates as no collections were anticipated in that year. In 1971-72, a provision of Rs. 7.25 crores was made but, in the revised estimates, it was reduced to Rs. 3.50 crores. Again in 1972-73, a budget provision of Rs. 9.25 crores was made but, in the revised estimates, it was deleted altogether in view of small collections. Thereafter in the budgets for the years 1973-74 to 1976-77, no provision was made for payment of grants-in-aid to States on this account.

1.6. For the computation of net wealth under the Wealth-tax Act, 1957, the value of any property is the price that the property will fetch in a free sale in an open market on the relevant valuation date. It has been judicially held that the existence of a free market for this purpose is always assumed.

1.7. The Board have not issued any detailed instructions or guidelines on the valuation of agricultural lands for wealth-tax purposes. In April 1959, however, they had issued instructions on the valuation of agricultural lands for estate duty purposes. According to these instructions land values should be fixed on the basis of actual recorded sales and independent check should be made on the market sale by comparing the sale price with the net income derived from land, the value being determined at 12 to 20 times the net yield of the land arrived at after allowing a deduction of 50 per cent from the gross yield towards expenses.

1.8. A test check conducted by Audit in a few districts in some states disclosed instances of surveys having not been conducted, of defective surveys and follow-up action, and of omissions to correlate with details available in the State Government records. In none of the wealth-tax wards covered in test check, survey cards were found posted and maintained. Some of the important omissions noticed are detailed in the succeeding paragraphs.

1.9. It was noticed, in general, that the wealth-tax returns did not disclose the extent, nature, location and mode of valuation of agricultural lands. The returned values were either accepted or valuation was done on *ad hoc* basis in the absence of necessary data which were required to be collected by the Wealth-tax Officer on a proper survey by correlation with the records mentioned in various instructions of the Board.

(i) In two districts in Bihar, the land revenue records indicated that out of 1,171 land holdings of 25 acres and above, the holdings of 13 persons were in excess of 500 acres each, those of 262 persons were between 100 and 500 acres and those of 400 were between 50 and 100 acres each. However, no wealth-tax proceedings had been initiated in any of these 1,171 cases.

(ii) In three districts in Gujarat in 240 cases of agricultural holdings valued, on the basis of actual sales and/or yield, above Rs. 2.50 lakhs each, no wealth-tax proceedings had been initiated. There was evidence in the revenue records that a number of these landowners had other chargeable assets also. The value of agricultural lands alone escaping wealth-tax assessment aggregated Rs. 9.44 crores in a single assessment year. Out of these 240 cases, 37 cases accounted for escapement of aggregate wealth of Rs. 2.46 crores.

(iii) The cost of cultivation of a rubber plantation, being the capital outlay in rearing the rubber trees from the planting stage to yield

stage (7 years), has been worked out by the Rubber Board at Rs. 6,000 per acre. Together with the cost of land, other inter-crops and development of roads, coolie sheds etc., the cost of development per acre of rubber plantation would not be less than Rs. 10,000 per acre. Based on this value, a rubber plantation comprising 10 hectares and above would attract levy of wealth-tax.

According to district-wise classification of rubber estates in Kerala at the end of the year 1970-71, prepared by the Government of Kerala, there were in one district, 115 rubber estates of more than 10 hectares of land, 19 comprising land above 40 hectares and 96 comprising land upto 40 hectares. Out of these 115 cases, only 3 estate-holders were assessed to wealth-tax in respect of their rubber plantations.

Similarly, out of 67 cardamom states (comprising 6,879 acres) and 50 coffee estates (26 comprising 20 hectares and above each) shown in the classification of area prepared by the Government of Kerala, only 2 cardamom estates (308 acres) and 2 coffee estates were found assessed to wealth-tax in one district.

(iv) In Tamil Nadu, comparison of records of agricultural income-tax offices in four centres with wealth-tax records of the connected income-tax wards revealed that, out of 165 cases relating to three centres where agricultural holdings exceeded 50 acres each, 90 cases related to private and public trusts which were liable to wealth-tax. In 5 such cases alone the value of agricultural holdings, computed at Rs. 2,500 per acre of dry land and Rs. 5,000 per acre of wet land, which escaped assessment in any one of the assessment years 1970-71 to 1974-75 was Rs. 1.13 crores, in the aggregate.

(v) A test check in two districts in Madhya Pradesh revealed that out of 140 cases of agricultural holdings valued above Rs. 1.50 lakhs, only 55 were borne on wealth-tax records. In 10 cases, where the values of landholdings ranged between Rs. 3,61,776 and Rs. 13,48,731 there was an escapement of wealth of Rs. 73,32,141 in the aggregate, in the assessment year 1974-75.

(vi) A scrutiny of land revenue records of four districts in Rajasthan disclosed that in 980 cases, according to the valuation done by the land revenue authorities, the value of agricultural lands was in excess of Rs. 1.50 lakhs each. These included land values of over Rs. 10 lakhs in 8 cases and of over Rs. 5 lakhs but below Rs. 10 lakhs in 72 cases. No wealth-tax proceedings had been initiated in any of these 980 cases.

In 3 cases notices calling for wealth tax returns were issued to persons holding land of the aggregate value of Rs. 19.42 lakhs but the notices remained unserved on the ground that whereabouts of the assessees were not known. Instead of particulars from land records being collected, the procedings were later on dropped, resulting in escapement of total wealth of Rs. 19.42 lakhs in the assessment year 1970-71 in these three cases.

In the case of 2 Hindu undivided families, 7,011 bighas of agricultural land valued by revenue authorities at Rs. 21.03 lakhs were not brought to charge of wealth tax from the assessment year 1970-71 onwards.

(vii) In one district in West Bengal, out of 1,844 persons assessed to agricultural income-tax by the State Government, 64 persons had net agricultural income of over Rs. 10,000 per annum. None of these persons was considered for assessment to wealth-tax for the assessment years 1970-71 and 1971-72, while only 4 persons were assessed from the assessment year 1972-73 onwards. Forty persons held agricultural lands in excess of 30 acres and, based on the value according to the yield method and the comparable sale prices, the value of agricultural wealth held by each of them was over Rs. 3 lakhs. These 40 persons were, however, not assessed to wealth-tax, resulting in escapement of wealth aggregating Rs. 6.44 crores for the assessment years 1970-71 to 1974-75.

In another district in West Bengal, there were 142 assessees who, according to the agricultural income-tax records, held more than 20 acres of land each. Based on the value of land worked out on the yield method (Rs. 9,500 per acre for irrigated land and Rs. 7,800 per acre for non-irrigated land), these assessees were potential wealth-tax assessees. However, only 27 persons could be located in the wealth-tax records. In the remaining 115 cases, no enquiries appeared to have been made. Out of 8 individuals who held land in excess of 30 acres each, 7 individuals were not seen assessed to wealth-tax at all. Based on the values on yield method, wealth escaping assessment in these 7 cases would be Rs. 30.83 lakhs for the assessment years 1970-71 to 1974-75. In the remaining case, the assessee returned the value of 12.34 acres of agricultural land as Rs. 25.520 and this was accepted by the Wealth-tax Officer. According to the agricultural income-tax records, however, the assessee was in possession of 38.22 acres of agricultural land.

(viii) In Orissa, in one district, three persons assessed to net agricultural income-tax ranging between Rs. 15,776 and Rs. 42,258 per

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annum were not assessed to wealth-tax, though the values of their agricultural holdings at 20 times the net yield were between Rs. 3,15,520 and Rs. 8,45,060 for the assessment year 1974-75.

1.10 (i) The net agricultural income that is being assessed to agricultural income-tax by the State Government authorities is computed after allowing from the gross income certain permissible expenses and this net agricultural income corresponds to net yield. The value of agricultural land should be at least 12 times the net yield. However, in seven cases in Tamil Nadu, it was noticed that the values adopted in wealth-tax assessments worked out to less than 8 times the net agricultural income. In one of these cases in Tamil Nadu, the net agricultural income (Rs. 3.56 lakhs) was more than the net wealth (Rs. 2.26 lakhs). In six cases out of these seven cases, the undervaluation of land (computed at 20 times the net agricultural income) aggregated Rs. 1.01 crores in the assessment year 1974-75.

(ii) In the case of an assessee, wealth-tax assessments for the assessment years 1970-71 to 1974-75 were completed in March, 1976, adopting the value of agricultural lands as ranging between Rs. 1,40,000 and Rs. 1,75,000. The agricultural income arising from these lands was Rs. 60,000 (approximate) in each of these assessment years. The net agricultural income (determined only for the assessment year 1974-75) was Rs. 33,534. Capitalising this net income even at the yield rate of 10 per cent, the value of the lands approximated Rs. 3,35,000 in each of these assessment years. The under-valuation of the lands resulted in total undercharge of tax of Rs. 33,175 for all the assessment years 1970-71 to 1974-75.

(iii) In the cases of 2 assessed in Haryana, the values of agricultural measuring 357.5 acres and 340 acres were adopted by the Wealth-tax Officer for the assessment year 1970-71 as Rs. 3,75,000 and Rs. 3,85,000 respectively on an *ad hoc* basis, as against the values of Rs. 3,01,652 and Rs. 3,66,246 certified by an approved valuer. The values as estimated by the land revenue authorities were Rs. 10,49,800 and Rs. 9,52,600 respectively. It was also noticed that, in respect of transfer of a portion of the lands belonging to these assessees to the tenants under the State Land Tenure Act, the compensation paid by the Government was at the rate of Rs. 2,700 per acre, being 75 per cent of the average rate of sale of land in that locality during the preceding 10 years. Even on this apparently low estimate, the values of lands worked out to Rs. 9.65,000 and Rs. 9,18,000 respectively. Incorrect valuation in these two cases resulted in short computation of net wealth aggregating Rs. 31.32 lakhs for the assessment years 1970-71 to 1972-73.

(iv) In 3 cases, in one district in West Bengal the assessees mentioned in their wealth-tax returns that they possessed agricultural lands whose value was below the exemption limit without furnishing details of area of lands and their value and this was accepted by the Wealth-tax Officer without making any enquiries. On the net yield method of valuation, the value of lands held by them, as shown in the agricultural income-tax records, exceeded Rs. 3 lakhs in each case. Total wealth escaping assessment due to incorrect valuation was Rs. 23.63 lakhs in the assessment years 1970-71 to 1974-75.

(v) In the case of an ex-ruler in Rajasthan, the wealth-tax return for the year 1970-71 showed agricultural holding of 1,342 bighas valued at Rs. 56,348. The assessee according to land revenue records, possessed 4,815 bighas of land in Kota City and its vicinity valued by revenue authorities at Rs. 47.43 lakhs. The wealth-tax assessments in his case had been pending (June, 1976) from the assessment year 1965-66.

The paragraph was sent to the Ministry of Finance in September, 1977; they have stated (December 1977) that these objections are under consideration.

Paragraph 71 of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes].

## A. Historical Background

1.11. The Committee on Taxation on Agricultural Wealth and Income (Raj Committee) had recommended levy of Agricultural Holdings Tax. In paragraphs 4.1 and 4.2 of their Report (October 1972) they stated:

> "4.1 Exclusion of agricultural income from the tax-base of income-tax has come in for criticism from time to time as a source of grave inequity in the tax system. As early as 1924-25 the Taxation Enquiry Committee felt that "on grounds on equity there is no reason why the surplus of the larger and holder should be exempt". More recently, it has been adversely commented upon for the disparate treatment of these two broad categories of income and for the opportunities it offers "for camouflaging black money." Reference has been made in this context to the acquisition of "agricultural farms, vine yards and orchards" by persons with high non-agricultural incomes merely as a means of evading income-tax. To prevent such tax evasion, and also for "equity and distributive

justice", the Wanchoo Committee felt that agricultural income should be "subjected to a uniform tax more or less on par with the tax on other income, so as to eliminate the scope for evasion of direct taxes imposed by the Union Government." The Committee has accordingly suggested that "in the interest of uniformity and stability of the Central Government should assume the power to levy and administer a tax on agricultural income."

However, for reasons mentioned in Chapter 2, we are of the view that complete integration of agricultural and non-agricultural incomes would not be a satisfactory solution to the problems of inequity and evasion. The Agricultural Holdings Tax outlined in Chapter 3 would secure more effectively the objective of realising for the States the revenue considered justly due from the better-off sections of the rural population, with much less scope for harassment of the assessees than is likely to result from extension of the Central income-tax to farm incomes."

1.12. A statement showing action taken by State Governments regarding implementation of recommendations of Raj Committee on Agricultural Land holding tax furnished by the Ministry of Finance is appended (Appendix I).

1.13. The Ministry of Finance in a Note (as vetted by Plan Finance Division), intimated that the progress made in implementation of Raj Committee recommendations is as under:

(1) The Report of the Committee on Taxation of Agricultural Wealth and Income (Raj Committee) was forwarded to the State Governments in November, 1972 for examination and processing the recommendations for implementation. The then Finance Minister wrote a D.O. letter on 17 November, 1972 to all the Chief Ministers of the States requesting them to take necessary steps immediately for completing the study and examination of the report expeditiously so that these recommendations might be processed for implementation.

(2) Only two states viz. Haryana and Himachal Pradesh decided to implement the modified version of the agricultural holdings tax suggested by the Raj Committee. The Government of Haryana enforced *w.e.f.* 16 June, 1973 the Haryana Land Holdings Tax Act, 1973 with the main object of augmenting the resources of the State and doing

away with the multiplicity of levies/charges. In accordance with this Act, all the land has been divided into five classes, depending upon the kind of soil. Land holdings of various classes are subject to specified rates of tax which increases with the size of the holdings. The unit of assessment is the family. The Haryana legislation does club holdings by different members of the family into one holding for the purpose of levy of the tax but the rate of tax has been fixed on the basis of soil classification only and not in relation to the value of the product which is the basis of the agricultural holdings tax recommended by the Raj Committee. The Haryana LHT is, therefore, not the same as the agricultural holdings tax recommended by the Raj Committee. At best, it can be termed as a modified version of the agricultural holdings tax. The Government of Haryana intimated to us in May 1978 that replacement of land revenue and other levies by the Haryana Land Holdings tax Act, 1973 has mobilised additional resources of over Rs. 4 crores for the State per annum. The Government of Himachal Pradesh intimated to us in June 1977 that two Acts, viz. the HP Land Holdings Tax and HP Land Revenue Surcharge Act were enacted in 1974 following acceptance of the Raj Committee recommendations by the State. It was further intimated that the land holdings tax was proposed to be repealed consequent upon enactment of HIMACHAL PRADESH (Taxation on certain goods carried by road) Act, since more revenue was likely to accrue to the Government by the new Act and that recovery of the land holdings tax had been suspended. It has been ascertained from the Finance Secretary, Himachal Pradesh on telephone that the position remains the same as reported in June 1977.

The Government of West Bengal intimated to us some time back that it was introducing the West Bengal (Farm holding) Revenue Bill, 1978, in the State Assembly. It is stated in the Statement of Objects and Reasons of the Bill that it is considered necessary by the State Government to bring about a radical change in the existing land law by relating assessment and levy of land revenue to the situation of land in different agro-climatic areas, general productivity or the productive potential of land held by a riyat. It is also stated that, to bring about progression in the land revenue pattern, it is proposed to exempt small owners of land with lesser production potential altogether

from revenue burden and to assess at an increasingly graduated scale the revenue on holdings with rateable value exceeding the exemption limit. It is further stated that it is proposed to provide for Regional Rating Boards and a State Rating Board for periodical assessment of the rateable value, an appeal against assessment and remission of farm holding revenue either wholly or in part on account of drought, flood or other natural calamities. Thus, it appears that the legislation proposed by the Government of West Bengal is a modified and simplified version of the AHT recommended by Raj Committee.

(3) Some States viz. Assam, Karnataka, Kerala, Madhya pradesh, Manipur, Meghalaya, Nagaland, Orissa, Punjab, Tamil Nadu and Uttar Pradesh have not accepted the recommendations of the Raj Committee, for imposition of the agricultural holdings tax. The reasons given are that the methodology of the agricultural holdings tax proposed by the Raj Committee is very cumbersome and bristles with administrative difficulties or alternative methods have been devised to tax the agricultural incomes suitably. The other States are still examining the recommendations have not taken a final decision. A statement showing the State Governments regarding implemention of the recommendations of the Raj Committee for imposition of Agricultural Holdings tax computed on the basis of the information at present available in the Ministry of Finance is enclosed at Annexure I to this note. The telex messages have been sent by Plan Finance Division to Andhra Pradesh, Bihar, H.P., M.P. Manipur, Meghalaya, Karnataka, Nagaland, Punjab, Rajasthan, Tripura, Sikkim and West Bengal requesting them to intimate the latest position.

(4) The Raj Committee's recommendations regarding Agricultural Holdings Tax were considered in the Planning Commission on the 23rd March, 1973. The consensus of opinion was that the agricultural holdings tax involved administrative and legal complexities and might be difficult to implement. Ministry of Agriculture also did not favour immediate introduction of Agricultural Holdings Tax but preferred a simpler system of raising resources from agriculture till such time the States had built up elaborate administrative arrangements necessary for levying of agricultural holdings tax.

(5) The Draft Five Year Plan 1978-83 states that agricultural production and income have risen considerably due partly to large public sector investment in agricultural research, extension, irrigation credit, fertilizers, etc. under successive plans the level of agricultural taxation continues to be relatively low. It is further stated that a major share of higher agricultural incomes must have accured to a small proportion of cultivators constituting the upper strata of the rural society. It has been urged that these incomes should be taxed at progressive dates comparable to those payable by non-farm earners in order to secure horizontal equity in taxation between agriculturists and non-agriculturists and to reduce the disparity of the rural community. It has been recommended that the State Governments should once again consider reimposition 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.

**B. Proceeds from Wealth-tax on big Agricultural land holdings**

1.14. The total proceeds from Direct Taxes for the year 1976-77 amounted to Rs. 2327.74 crores out of which a sum of Rs. 661.76 crores was assigned to the States. The figures for the three years 1974-75, 1975-76 and 1976-77 are given below:

(In crores of Rs.)

| | | 1974-75 | 1975-76 | 1976-77 |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 020 | Corporation Tax | 709·48 | 861·70 | 984·23 |
| 021 | Taxes on Income other than Corporation tax | 878·25 | 1214·36 | 1194·40 |
| 028 | Other Taxes on Income and Expenditure | 10·99 | 58·36 | 71·27 |
| 031 | Estate Duty | 10·94 | 11·65 | 11·78 |
| 032 | Taxes on Wealth | 39·23 | 53·73 | 60·44 |
| 033 | Gift Tax | 5·06 | 5·11 | 5·67 |
| | GROSS TOTAL | 1653·95 | 2204·93 | 2327·74 |

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Less share of net proceeds assigned to the States: | | | | |
| | Income-tax . . . . | 516·16 | 734·10 | 652·24 |
| | Estate Duty | 10·03 | 8·21 | 9·52 |
| | Total . . . | 526·19 | 742·31 | 661·76 |
| Net receipts | . . . . . | 1127·76 | 1462·62 | 1665·98 |

1.15. Agricultural lands were brought within the charge of wealth tax w.e.f. 1-4-1970. The value of agricultural land by itself or alongwith the value of an urban house, was exempt upto Rs. 1.50 lakhs. From the assessment year 1975-76 onwards, the exemption in respect of agricultural lands was combined with certain investments like Government securities, share in companies, bank deposits etc. upto Rs. 1.50 lakhs.

1.16. The Ministry of Finance (Department of Revenue) have intimated that assessment (demand raised) of wealth-tax on Agricultural Properties for the years 1972-73 to 1976-77 was as under:—

| Year | Amount of wealth tax on Agricultural Properties |
|---|---|
| | (Rs. in lakhs) |
| 1972-73 . | 59·38 |
| 1973-74 . | 68·67 |
| 1974-75 . | 87·68 |
| 1975-76 . . | 131·06 |
| 1976-77 . . . . . | 132·30 |

1.17. During evidence the Committee pointed out that during 1976-77, while proceeds from other direct taxes viz. corporation tax, income tax, Estate Duty, Gift-tax etc. had been as high as Rs. 2327.74 crores, the yield from the wealth tax levied on big agricultural land holdings was Rs. 1.32 crores only. Explaining the reasons for this low realisation the Finance Secretary said:

> "When this tax was introduced in 1969, high expectations were entertained of the possible yield from this revenue. It was conceived of as a means of tapping the increasing agri-

cultural prosperity of the rural areas in the wake of the green revolution. Immediately thereafter, the Department issued a series of instructions, held conferences and attempts were made to lay down the guidelines for valuation of lands and to identify the potential assessees and so on. But before these instructions could be implemented came the battle in the courts. The matter was taken right to the Supreme Court and it took a couple of years for the matter to be finally settled in favour of the Government. In 1971-72 the national guidelines on land ceilings came to be issued. There was a spate of legislation on land ceiling in different States, which considerably abridged the scope for mobilisation of resources from those sources.

Secondly, the exemption limit was high and the various other concessions built into the scheme of wealth taxation also considerably narrowed the scope for raising resources from this source of revenue. In most cases the bigger landlords could also declare themselves as Hindu undivided family, in whose case the exemption limit is higher. Agricultural tools and implements are exempt from taxation; the farm house is exempt from taxation. When you make allowances for all these, the number of assessees who would become in any case liable to wealth tax after the implementation of the ceiling laws would be relatively small.

Then, I also do not deny the fact that the surveys carried out by the Department may not have been very intensive and, therefore, quite a large number of people might have remained out of the net."

1.18. The Committee wanted to know that if the surveys that were carried out in terms of Board's instructions of December 1969 (repeated in May, 1970) had been more intensive, would it have been possible to collect much more amount of wealth tax on big agricultural land holdings. In reply, the Finance Secretary/confided in evidence that:

"We seem to be caught up in a vicious circle because the Department has not carried out the surveys intensively. We might have lost some revenue which we would have got. And because the revenue from this source is hardly a crore of rupees, the Department also had not been pur-

suing the process of identification of potential revenue with such vigour as it ought to have. The Income-tax officer is faced with a possibility of looking into one company's assessment, one big assessee's assessment and see whether he will be able to get the revenue he wants."

1.19. The Committee enquired what has been the cost of collection of new levy of wealth tax on bbig agricultural land holdings. In reply, the Finance Secretary said in evidence.

"It (i.e. new levy) is not separately accounted....I think the cost of collection in this case will definitely be high in relation to the other taxes which the Central Government today is administering today."

1.20. Asked that if the cost of collection was abnormally high, was the futility of this levy brought to the notice of the Government at any stage, the witness stated:

"It has been brought to the notice of Government....in the course of the discussion during our general budgetary exercises.....Even the last Finance Commission which went into the question of distribution of proceeds of this tax among the States, in fact, pointed out that the amount derived from this tax was so little that they were not taking credit for any amount as the share of the states in their projection of the resources for the succeeding five-year period. Government is aware of the fact that the revenue from this source is negligible."

1.21. The Committee wanted to know that the revenue from this levy was negligible, would it not be advisable for Government to abolish this levy. Finance Secretary pleaded during evidence that:

"There are some taxes which are retained on the statute book for egalitarion and other considerations. You know about the expenditure tax. You know the history of the tax. Take even a tax like the Estate Duty. What is it that you are getting out of it? Hardly Rs. 12 crores. One can argue that after all we are getting Rs. 2500 crores out of the direct taxes like income tax and corporation tax put together. In relation to that this is relatively an insignificant source of revenue. But revenue is not the only consideration for the government to retain this. Take the Gift Tax. The yield is relatively low but it serves a purpose. Likewise by retaining the Wealth Tax on

agricultural property one can also argue that it prevents black money getting into agricultural property. One can always find an argument for retaining a tax despite its low yield".

1.22. The Committee enquired whether the new levy was accorded the priority it deserved and tax collect on machinery was geared to maximise the yield on this account. In reply, the Chairman, Central Board of Direct Taxes said in evidence:

"It has been accepted that this became a low priority piece of legislation. In fact, this is one piece of legislation in which case lot of circulars were issued initially but later on attention of the Department unfortunately diverted itself to other fields.

Sir, I am not trying to make any excuses that we were right in doing so as I accepted frankly the implementation of the instructions particularly in regard to survey were not carried out. What I am trying to say is that as a tax gathering Department the energies were spent on other fields but this one of those suffered."

## C. Surveys

1.23. A group discussion of Commissioners of Income-tax from various important charges was held on 17th and 18th December, 1969 at New Delhi with a view to examining and evolving necessary steps for implementing the provisions regarding this new levy. The decisions taken in this Conference were conveyed to all the Commissioners of Income-tax by the Central Board of Direct Taxes on 26 December, 1967 (Annexere 'A') by forwarding a copy of the Minutes of the said Group. As per these minutes, the main directions/suggestions regarding survey were as under :

(a) The Inspectors to be detailed for survey work should be in position by 1-3-1970.

(b) A list of various sources of State Governments and other agencies which could be tapped to find out the assessees liable to agricultural wealth-tax, as compiled by the Commissioner of Income-tax, Andhra Pradesh, was circulated amongst the various Commissioners of Income-tax and it was pointed out that since the available sources might very from State to State, each Commissioner should make out a list of sources to be tackled for the benefit of the survey units in his charge.

(c) The Commissioners of Income-tax were intimated that survey cards for Inspectors would be supplied to them by the end of January, 1970.

(d) It was suggested that, in the first instance, information should be collected only in respect of assessees having agricultural lands worth Rs. 1.15 lakhs and above.

1.24. On 10.2.1970 a specimen copy of the survey card for collection of information of relevant data was forwarded by the Board to all the Cs. I.T.

1.25. One of the decisions taken in the aforesaid Group Discussion of Commissioners was that the Inspectors should collect information, in the first instance, in respect of assessees having agricultural lands worth Rs. 1.5 lakhs and above. In modification of this decision, however, the Member (WT) in the Board addressed a D.O. on 16.4.1970 to all the Commissioners of income tax to the effect that information should be collected during the survey only in respect of assessees having agricultural lands worth Rs. 2.5 lakhs and above because of the taxable limit including the normal exemption limit being Rs. 1.5 lakhs plus Rs. 1 lakh. The Commissioners were further instructed that to begin with, no notices u/s 14(2) of the Wealth-tax should be issued to agriculturists unless there was information to show that they possessed agricultural lands worth more than Rs. 2,50,000.

1.26. On 14.5.1970 it was pointed out by the Board that the Inspectors would need a short training before they were put on survey work and for that purpose a copy of the "model instructions" issued by the Commissioners of Income-tax, Madras, for the guidance of Inspectors was enclosed for necessary action.

1.27. On 6.2.1973, the Commissioners of Income-tax were asked by the Board, *inter alia,* for systematic collection of information regarding farmers who might be *prima facie* liable to agricultural wealth-tax especially those who were irrigators *i.e.* having private facilities for irrigation like tube-wells, who were owners of orchards and who had purchased extensive agricultural machinery such as tractors.

1.28. On 27-3-1973 Board reiterated, *inter alia,* their earlier instructions relating to various aspects of survey work.

1.29. On 16-4-1975 the Cs. I.T. were directed by the Board to scrutinise the returns filed by big land holders under ceiling laws and intimate the number of assessees liable to wealth-tax.

1.30. On 12-10-1978 the Board have issued instructions to Cs.I.T. reiterating the various instructions on the subject issued from time to time, pointing out that the Board in the light of the replies received by them on C&AG's report for the year 1976-77 are inclined to feel that the instructions on the subject of survey issued so far have not been followed thoroughly, and that the Cs.I.T. should be now their personal attention on this aspect of the matter, Commissioners were also asked to ensure that action, wherever necessary, is initiated in respect of assessment year 1970-71 which gets time-barred on 31-3-1979. The attention of the Cs.I.T. was also invited to the fact that with a view to booking new potential assessees, enquiries are necssary not only regarding their agricultural holdings but also other assets which have to be taken into account to determine the maximum amount not taxable under the wealth-tax Act, 1957.

1.31. A statement showing all agricultural wealth-tax assessees as updated upto 4-2-1979 is appended to this Report (Appendix II).

1.32. A test check conducted by Audit in a few districts in some States disclosed instances of surveys having not been conducted, of defective surveys and follow up action, and of omissions to corelate with details available in the State Government records. In some of the wealth-tax wards covered in test check, survey cards were not found posted and maintained. Some of the important omissions noticed by Audit have been enumerated in the Audit Paragraph. In this connection, Department of Revenue have furnished a detailed note (Appendix I). They have also intimated that:—

> "necessary enquiries by the Commissioners of Income tax regarding the omissions pointed out by the Audit have yet to be carried on and the exact escapement of wealth or the tax effect thereof yet to be ascertained...."

1.33. The Committee have, in a Note furnished by the Department of Revenue, been informed that:—

> "The surveys to locate potential wealth-tax assessees and for collection of data necessary for valuation of land were conducted as per instructions issued by the Board in December, 1969/May, 1970. From the reports received from most of the Commissioners it appears that new potential assessees were located in most of the charges. Regarding the maintenance of survey cards, it appears that whereas in some charges they were maintained properly, in others it was not so. The non-maintenance of

survey cards, however, does not imply that survey for the purpose as not conducted at all. The survey is a continuous process and new potential assessees are reported to have been found out year after year."

1.34. During evidence the Committee recalled that according to the Annual Report of the Ministry of Agriculture for the year 1970-71 the number of potential assessees was estimated to be Rs. 2,50,000. The Commissioners of Income-tax had estimated the potential assessees as Rs. 1,43,000. But the number of assessees actually brought on G.I.R. was 11,386 only on 31-3-1977. According to the statistical information supplied to the Committee the number of potential assessees of agricultural wealth-tax discovered each year since 1971 as a result of surveys ranged between 10766 and 13,210 only. In fact, the number had been going down each year since 1972. The Committee enquired whether this decrease in location of potential assessees reflected slackening of survey work, and lowering of the efficiency of the Department. In reply, the Chairman, Central Board of Direct Taxes pointed out:

"This is a peculiar situation, where agricultural tax and agricultural wealth tax is concerned. In fact, there can be, as time goes by, a reduction in the number of assessees because nobody would be purchasing land. Ultimately, a survey would show that the number can only go down and not increase as in the case of other tax-payers."

1.35. The Committee enquired if the aim of survey was to locate new assessees, how could the number of such assessees decrease. In reply, the witness conceded:

"We have already accepted the position that with regard to survey, the directions which went from the Board have not been implemented fully or even partially at the field level."

1.36. The Committee wanted to know whether before detailing the Inspectors for survey work, any training was imparted to them. In reply, the Committee have been informed, in a Note that in their letter No. 328/32/70-W.T. dated 14-5-1970, the Central Board had pointed out to the Commissioners that the Inspectors would need a short training before they were put on survey work and for that purpose a copy of the "model instructions" issued by the Commissioners of Income-tax Madras, for the guidance of Inspectors was enclosed for necessary action.

1.37. Asked what system was actually followed for conducting such surveys, the Department of Revenue have intimated:

> "The system generally in force, in practice, is to depute Inspectors to collect information from registration offices and other offices etc. keeping in view the local conditions and circumstances. In some charges, collection of necessary data is also reported to have been made on the basis of scrutiny of applications under Section 230A of the Income-tax Act, 1961 and 37G Forms received under Section 269P of the Income-tax Act, 1961."

1.38. The Committee desired to know if any survey of lands which might have been converted from agricultural to non-agricultural use around important urban centres in the recent past has been conducted. In reply, Department of Revenue have, in a Note, stated:

> "No survey, as such, has been recently conducted of lands around important, urban centres converted from agricultural use to non-agricultural use. Government, agree, however, that such a survey will be useful."

1.39. The Department of Revenue have intimated that "the main difficulty experienced in this regard by the Commissioners is the inadequacy of the number of Inspectors available with them."

1.40. Asked if requirement of Inspectors had not been assessed, the Chairman, Central Board of Direct Taxes said in evidence:

> "At the moment, we are wanting sanction for the appointment of 700 Inspectors. That is the minimum requirement."

1.41. The Finance Secretary assured the Committee:

> "Whatever reasonable requirements are there, will be met."

1.42. The Committee enquired whether the Central Board of Direct Taxes was aware that large scale investments in posh houses in rural areas and agricultural lands were being made in India especially in Punjab and Kerala from increasing volume of remittances from abroad and if so whether the Board had issued any instructions to conduct surveys for bringing to tax such cases. In reply, the Department of Revenue have stated:

> "No specific instructions have been issued by the Board to conduct surveys for bringing to tax investment in posh houses in rural areas and agricultural lands made from remittances from abroad, especially in Punjab and Kerala."

1.43. However, the Commissioner of Income-tax Kerala is reported to have undertaken a survey of posh houses and agricultural properties at Chavakkad, where there is concentration of non-residents. It has been admitted that "due to non-residents remittances there is a steady rise in the value of agricultural and other properties in the area of Chavakkad."

1.44. During evidence, the Chairman, Central Board of Direct Taxes disclosed that such a survey was also going on in Haryana and Punjab.

1.45. When the Committee pointed out that non-residents remittances come through the Reserve Bank of India and unless there were instructions or guidelines for carrying out surveys to find out how and where such moneys were being invested, things may not improve, the Chairman, Central Board of Direct Taxes replied:—

"I quite appreciate your point. I take this advice."

1.46. The Committee drew attention to the instructions issued by the Central Board of Direct Taxes as early as December 1969. These instructions *inter alia* stipulated that "investments in agricultural lands made by persons living in urban areas would, of course, have to be enquired into." Explaining the position in this regard, the Department of Revenue have stated in a note:—

> "Enquiry regarding investment of any asset is the basis and normal procedure in the completion of income tax assessment and has necessarily to be undertaken. It appears that the above instructions primarily were to the effect that the source of investments should not be enquired into in the case of pure agriculturists. Out of abundant caution, and lest it might be misunderstood, it was added, however, that investments in the case of persons living in urban areas would be enquired into. In any case, on the basis of reports from most of the Cs. I.T. it is found out that this is being done."

**D. Results of Survey of Wealth-tax Returns**

1.47. Audit Paragraph states that it was noticed in general that the Wealth tax returns did not disclose the extent, nature, location and mode of valuation of agricultural lands, The returned values were either accepted or valuation was done on *ad hoc* basis in the absence of necessary data which were required to be collected by the Wealth-tax Officer on a proper survey by corolation with the records mentioned in various instructions of the Board.

1.48. The Department of Revenue have in a Note, explained:—

> "the return of wealth tax does not require the assessee to indicate the 'mode of valuation'. Again even when the assessee illiterate or semi-literate as many of them are, do not even furnish particulars required to be done as per return, the Department generally does not take too serious or technical a view of the matter and the information is collected by the Wealth-tax officers during the course of assessment proceedings."

1.49. On 16-4-1975, the Central Board of Direct Taxes asked the Commissioners of Income-tax to get in touch with the specified State authorities and find out the number of returns filed by land owners under the land ceiling laws of the respective States with a view to locating assessees liable to pay agricultural wealth-tax. A statement showing the results of surveys conducted by the Commissioners is appended (Appendix II). It will be seen from this statement. The position in brief is as under:—

| | |
|---|---|
| (*i*) No. of returns filed upto 31-3-75 by land owners in compliance with the provisions of revised ceiling laws of States . . . . . | 6,89,645 |
| (*ii*) No. of persons who may *prima facie* be, liable to pay agricultural wealth tax on the basis of the returns filed by them under the land ceiling laws . . . . . | 20,306 |
| (*iii*) No. of persons who are already borne on the registers of the I. T. Department . . . . . | 8,192 |
| (*iv*) No. of persons in whose cases action under the Wealth Tax Act became necessary after this survey . . . . . | 12,099 |
| (v) No. in which action has has been taken so far . . . | 10,399 |
| (vi) Approx. amount of wealth-tax (in thousands) involved . | 5,886 |

1.50. In a note furnished to the Committee the Department of Revenue have intimated that in 1970 out of 10,399 cases referred to above, action was taken by the Department between June, 1975 to July, 1977 and in the balance 429 cases between August, 1977 and September, 1978.

1.51. The Committee noticed from the aforesaid statement that out of 6,89,645 returns filed upto 31-3-1975 by agricultural land holders, 3,65,834 returns related to Andhra Pradesh alone. Out of these only 4582 persons were found liable to pay agricultural wealth tax. The Committee, therefore, enquired if each and every return filed was not scrutinised by the Department to determine whether

or not agricultural wealth tax was leviable. The Department have intimated, in a Note, that this was not done.

1.52. In this connection, the Commissioner of Income-tax, Andhra Pradesh, is, however, stated to have reported that the State Government was requested to issue instructions to the field formations to make available copies of the declarations under land Ceiling Laws. In response to the CIT's letter, the State Government informed that although about 4 lakh returns had been filed, the anticipated number of declarations with surplus land holdings was of the order of about 60,000 only. On this basis, instructions were issued to the field staff of the Department regarding the nature of survey to be carried out. It was indicated that for the purpose of survey, declarations which *prima facie* yielded surplus lands to the State Governments need only be covered.

1.53. Information from the returns filed under the Land Ceiling laws stated to have been extracted at the level of Inspectors.

1.54. During evidence, the representative of the Department explained to the Committee:—

> "We had with the assistance of the State Government Department concerned taken the figure of the National Sample survey. At that time approximately 14,000 cases were supposed to be liable to agricultural wealth tax. On the limits that were then prevailing and we tried to book all these 14,000 cases."

1.55. Asked how could the data compiled by the National Sample Survey be relied upon in determining the number of potential assessees, the witness said "that was the only reliable data that was then available."

**E. Sources of Information**

1.56. On 26-12-1969, the Central Board of Direct Taxes forwarded to the Commissioner of Income-tax a copy of the minutes of the Group discussion. It was indicated therein, *inter alia*, that the C.I.T. Andhra Pradesh, had listed out the following sources of State Governments/Agencies which could be tapped:—

(a) agricultural Income-tax records in the States where such taxation was in force.

(b) Sub-Registrar's office.

(c) Land Mortage Banks.

(d) Agricultural Marketing Cooperative Societies through which branches, agricultural implements, seeds etc. are distributed to agriculturists.

(e) records relating to procurement levy.

(f) retail agents of leading business houses dealing in tractor, Water pumping sets, etc.

(g) records of rice mills, tobacco companies, sugar mills etc., who make bulk purchase from cultivators.

(h) the Estate Duty records which may give an idea about the holdings of the family.

(i) Income-tax records of assessees whose assessments of total wealth are called for with the previous approval of the Inspecting Assistant Commissioner of Income-tax.

1.57. It was also pointed out by the Board in the aforesaid circular that as available sources might vary from State to State, each Commissioner should make out a list of sources to be checked.

1.58. While agreeing that tapping of various sources like state land revenue offices, registering offices land acquisition offices and succession Courts, agriculture and irrgiation departments etc. of the State Government are not doubt helpful, the Department of Revenue have expressed the view that:—

> "It is ultimately the local officers who have to judge in the context of local circumstances as to what would be the most useful source for obtaining the relevant information for of proceedings as well as completion of the source. For example, in the State of Kerala Rubber Board and Cardamom Board could be tapped for this purpose. The placement of this item of work in the relative priorities of the income tax officer, the time which can be consumed for the purpose and whether the results achieved would be commensurate with the time and labour spent are some of the factors which have to be taken into consideration."

**F. Liasion with State Governments**

1.59. On 12-11-1971, the Central Board of Direct Taxes addressed a letter to all the Chief Secretaries of the State Governments, appreciating the assistance already given by State Governments from time to

time to the officers of the Department and requesting them to issue appropriate instructions so that such further assistance as may be solicited by the officers of the Department could be rendered unhesitatingly by the State Governments. They were also informed that the Commissioners of Income-tax would be calling on them to discuss the various problems connected with the implementation of this new levy.

1.60. On 23-12-1971, the Central Board, of Direct Taxes addressed to Commissioners of Wealth-tax, advising *inter alia,* that it would be worthwhile establishing with the concerned Agricultural Income-tax authorities of different states an early liaison which may be a continuous process benefiting both the income-tax Department and the State Authorities, asking them to get in touch with the State Government Authorities and evolve a system of mutual exchange of useful information.

1.61. On 15-4-1974 the Board addressed to all Commissioners of Income-tax, asking them, *inter alia*, to make necessary arrangements in their respective Charges for periodically collecting information from the State Authorities regarding the cases of land acquisition and compensation payable.

1.61. During evidence, the Committee pointed out that since under the Constitution agricultural land fell within the domain of States had far greater experties in matters of land holdings, valuation and taxation, would it not be better to forge a greater degree of coordination with State Governments in making the new levy a success. Agreeing with this view, the Finance Secretary said:—

> "Having served in States also, I have no difficulty in agreeing with you that there is far greater expertise available with the State Governments in dealing with matters related to land, land tenure, land valuation etc. and that close liaison arrangements have to be maintained between the income-tax department and the state if we want to make a success of this measure. I have no doubt about that."

1.63. Asked if the instructions envisaging close liaison with State Governments were implemented and if so to what extent, the representative of the Department of Revenue stated:—

> "We have their replies. What they do varies from place to place....They (instructions) might not have been perfectly followed in all cases."

1.64. The Committee wanted to know if any joint machinery on formal or informal basis was set up to ensure coordination. In reply, the representative of the Department said:—

> "No formal machinery was set up, but the revenue inspectors who were deputed for survey went to the district revenue officer because all the records were centralised with him. An initial survey was made with the help of the Revenue Officers' records corroborated by whatever the Department of Economics and Statistics could give. The other agencies were also tapped. Whether it was completely a successful operation or not is a different matter altogether."

1.65. Giving an illustration, the representative of the Department said:—

> "I can give one or two illustrations. In Kerala charge, we have carried out a survey. The Commissioners have conducted a survey of posh houses and Buildings and constructions coming up in the rural areas. They have already drawn up a list of 602 such cases over Rs. 1 lakh. I am not talking of those below Rs. 1 lakh. They have already brought on record nearly 58 cases. It is going on."

1.66. When the Comptroller and Auditor General of India asked if the Department was, on the basis of survey conducted in Kerala, convinced that there was no escapement of wealth tax on big agricultural land holdings, the witness clarified:—

> "I am not suggesting that."

## G. PUBLICITY

1.67. One of the items discussed in the Commissioners' Conference held in December, 1969, the minutes of which were circulated by the Board on 26-12-1969, was the manner in which the main features of the new levy of wealth-tax on agricultural property should be made known to the general public. In this connection, it was decided that the Board should furnish to the Commissioners a draft "Layman's guide" for the benefit of agricultural wealth-tax assessees and that the same should be translated into regional languages and then published. The Board was also to examine the question of utilising the All India Farmers' Forum and the Field publicity Organisation for giving publicity to this levy. It was also decided that the publicity material could be supplied to the Tahsildars' Offices for being exhibited on their Notice Boards. These measures were to supplement the usual publicity in local Newspapers.

1.68. The matter was further discussed in the Conference of Commissioners held in New Delhi from 14th to 16th May, 1970 and it was decided that:—

(a) there should be a Cell either in Commissioner's Office or in the Inspecting Assistant Commissioner's office to assist the farmers in filling up of forms and giving such guidance as may be sought by the farmers.

(b) a hand-out printed in the regional languages should be given with the return of net wealth and the same should explain the provisions of Wealth-tax Act including, *inter alia*, those relating to wealth-tax on agricultural lands etc; and

(c) that publicity should be done at local level through Radio talks, interviews to the Press etc. The idea was not to give out the law but to allay the fears of the farmers.

1.69. On 11-8-1970 the attention of the Commissioners of Income-tax was drawn by the Board to the aforesaid decisions of May 1970 Conference and they were asked to intimate the progress made in the said matter.

1.70. The Committee desired to know if it would be correct to say that large scale escapements of Wealth tax on big agricultural land holdings were partly due to ignorance of agriculturists about their liability to direct taxes. In reply, Department of Revenue, have stated in a Note that:—

"The fact that the agricultural sector was well aware of this new levy is clear from representations received, from time to time, from various associations and organisations of farmers against the justification for this levy and the difficulties experienced by the farmers in the matter of assessment of their agricultural holdings. All the same, since the scope and range of mass media in our country is limited, it is possible that the new provisions might have escaped the notice of some illiterate farmers living in the far interior of rural areas. In view of the foregoing, it is felt that the escapement due to ignorance of the agriculturists about their liability to the tax would be rather marginal."

1.71. During evidence the Committee observed that as far as wealth tax on big agricultural land holdings was concerned, effective publicity did not appear to have been given especially in the country-side. The representative of the Department stated in evidence:—

"A plan has been prepared and the same is under print."

1.72. On being asked if the printing of publicity plan was undertaken in 1970 itself and if so whether it had not been printed and circulated by now, the witness replied:—

"I presume it would have been done."

1.73. The witness recalled that on 30 July, 1970 there was a Broadcast about the new levy under the head 'Farm News'. This was followed by such broadcast on 20 August, 1970 A.I.R. and T.V.

1.74. When the Committee asked if any publicity programmes over A.I.R. and T.V. were undertaken after 1970 also, the witness replied:

"I do not think so," but added "Initially a lot was done."

## H. Grant-in-Aid to States

1.75. While introducing the Finance Bill 1969 in Parliament, the then Finance Minister had stated, *inter-alia,* that:

> "It is my intention to pass on the net proceeds of the Revenue of wealth-tax on agricultural property to the States as grants-in-aid."

1.76. As stated in the Audit Paragraph a budget provision of Rs. 4 crores was made for passing on the net proceeds of wealth tax on agricultural properties to the States. This provision was, however, deleted in the revised estimates as no collections were anticipated in that year. In 1971-72, a provision of Rs. 7.25 crores was made but, in the revised estimates, it was reduce to Rs. 3.50 crores. Again in 1972-73, a budget provision of Rs. 9.25 crores was made but, in the revised estimates, it was deleted altogether in view of small collections. Thereafter, in the budgets for the years 1973-74 to 1976-77, no provision was made for payment of grant-in-aids to States on this account.

1.77. During evidence, the Finance Secretary clarified that:

> "It has always been our intention and it continues to be the position, that the entire net collection under this tax is to be made over to the States.....If I remember right, some amounts were released to the States in the earlier years; since the actual collection fell short of budget estimates on the basis of which funds had been released to the States, the question of release of fresh instalments to the State Governments did not arise. ....Pending adjustments of the earlier years, no provision was made."

I. *Valuation of Agricultural lands*

1.78. In April, 1959, the Board issued instructions that it was stipulated that for estate duty purposes, land value should be fixed on the basis of actual recorded sales and independent check should be made on the market sale by comparing the sale price with the net income derived from land, the value being determind at 12 to 20 times the net yield of the land arrived at after allowing a deduction of 50 per cent from the gross yield towards expenses. The Commissioners of Income-tax have reported that the sort of checking envisaged is not being done.

1.79. In this connection, the Board have, in a note submitted that:

> "It appears that the object for the levy of agricultural wealth-tax, and climate and conditions in which it was levied were different from those in which the estate duty was done. Accordingly, the criteria and instructions for valuation of agricultural lands for wealth-tax purposes were also different. That is, probably, the reason that the estate duty circular of 1959 was not even referred to much less reiterated, in any of the Boards Instructions ever-since agricultural wealth-tax levled."

1.80. The following decision was taken by the Commissioner's Conference held in May, 1970, soon after the enactment of levy of agricultural land regarding the valuation of agricultural land:

> "It was generally agreed that instead of applying a multiple of land revenue or yield, etc., it would be better if a rate were applied to the acreage. For this purpose, it was felt that the guidelines and the preferential choices mentioned by the Finance Secretary in the methods of valuation would be most appropriate. Thus, the first choice would be of the rates at which acquisitions of agricultural lands may have been made by the State Governments in the recent past. If this information were not available, the rates at which actual sales of lands may have taken place in the recent past could be relied upon. The third choice would be the rate adopted for valuation of lands by land mortgage and other banks. It was emphasised that in all these modes of valuation, the valuation would have to be made on acreage basis and it will not be necessary to be very meticulous in the valuation of the different lands and minor variations in the same types of land could be ignored. *It*

*was only as a last resort that valuation of lands should be made by capitalisation of the agricultural incomes as per agricultural income-tax records or of the yield etc.* One of the Commissioners suggested that it may be desirable categorise different kinds of lands into 4 or 5 classifications and same rates per acre may be applied to these types of lands wherever they are situated. It was decided that no hard and fast rules could be laid down in this regard and the question of classification of lands into four or more categories should be left to be examined by each Commissioners according to the circumstances prevailing in his charge. It was however, recognised that it *would be desirable to take as diberal a view as possible in the matter of levy and collection of wealth-tax on agricultural lands.*"

1.81. No specific guidelines have been laid down by the Board so far for the valuation of agricultural lands for wealth-tax purposes. The 15th Meeting of the Direct Taxes Advisory Committee held on 6th August, 1970 which dealt with "wealth-tax on agricultural lands problems of valuation" stated:—

"A suggestion was made by the Committee that a large class of assessees are not able to engage the services of approved valuers and may have to make their own valuation, some guidelines for valuation should be issued by the Central Board of Direct Taxes so that these persons may avoid the penal provisions".

1.82. That Committee was informed that the suggestion would be examined and the guidelines would be published to the extent feasible.

1.83. The Committee pointed out that as settlement operations in tehsils of various revenue districts of States were in arrears in a large number of cases, classification of land would be shown as 'dry' even when it may be "wet". The Committee wanted to know the procedure followed in such cases. In reply, Department of Revenue have explained:—

"Revenue Offices are not the only source tapped for the purpose of correct valuation of agricultural lands. The difficulty of the nature mentioned would not arise, for instance, where the valuation is made on the basis of comparable sales or compensation paid on comparable lands acquired. As to the specific query posed, however, whereas some Cs. I.T.

have reported that they have no set procedure for getting the requisite information regarding classification of lands from the revenue offices, the others have informed that, though in their States settlement operations may be in arrears the same does not pose much of a difficulty in making correct assessments. That is because the W.T.Os make local enquiries in such cases, wherever necessary. Besides, there are other revenue records, such as, 'Khasra', khasra girdawari and 'Khatauni' etc. which indicate the category of land at the time of each sowing season. Again, it is not out of place to mention that where the valuation is supported by the certificate of the registered valuers, the same is expected to have been made after taking into account all the relevant factors and after making a personal inspection of the lands. The same applies to the valution made by the departmental Valuation Officers as well".

1.84. On 1-12-1971 all the Commissioners of Income-tax were asked by the Central Board of Direct Taxes to furnish certain information with a view determining the question as to whether any guidelines, either on All India basis or on the basis of the different Commissioners' charges could be drawn up as to facilitate the valuation of agricultural lands by the Wealth-tax Officers.

1.85. The decision taken by the Board in the light of the replies received from various Commissioners of Income-tax was that no common guidelines could be issued for valuation of agricultural lands.

1.86. When the above matter was being considered a reference was also made to a leaflet issued on 2-5-1972. The relevant extract therefrom is reproduced below:

"Under the provisions contained in section 7 of the W.T. Act, the value of any asset, other than cash, shall be estimated to be the price which in the opinion of the Wealth Tax Officer it would fetch if sold in the open market on the valuation date. Therefore, the value of the agricultural property to be declared in the return of net wealth is its estimated market value as on the valuation date. The value of agricultural land depends on various factors, e.g. the size of the holdings, its location, the facilities available for its irrigation, fertility of the soil, the type of crops which can be grown on the land, its proximity to places for marketing the agricultural produce, etc. However, an easier method of valuation of agricultural lands which can be adopted in large number of cases, is to estimate its value at an amount

which is more or less in conformity with the following, namely:—

(a) The rates at which similar agricultural land has been acquired or purchased by the State Government in the recent past.

(b) The rate at which similar agricultural land has been sold in the recent past to parties other than the State Government.

(c) Rates adopted for the valuation of similar agricultural lands by Land Mortgage Banks and other banks."

1.87. Department of Revenue have intimated that the exact circumstances under which a reference was made in the aforesaid circular of 1959 to under-statement in the value of properties in the transfer deeds are not known and that circular was issued long before the provisions of Chapter XVA of the Income-tax Act, 1961 came into force. The Cs.I.T. are stated to have reported that where understatement is provied or established, necessary action under section 52(2) of the I.T. Act 1961 and gift tax under section 4(1) (a( of the Gift Tax Act is taken. However, they have also pointed out difficulties encountered in practice in this regard in view of the decisions of various High Courts.

1.88. A recent study made by the Board on the basis of reports received from various Commissioners shows that income capitalisation method cannot, because of the following limitations, be usefully employed for the purpose of valuation:

(i) That agriculturists generally do not maintain accounts.

(ii) That vagaries of weather do not allow a uniform standard of estimated income to be applied in each case.

(iii) That yield from agriculture depends upon variety of factors which differ from village to village and even from plot to plot and from farmer to farmer. A piece of land in the hands of an enterprising farmer can give excellant yield whereas the same piece of land can result in loss in the hands of another farmer.

(iv) The Appellate Authorities invariably end to accept the documentary evidence in preference to other circumstances which may throw a doubt regarding the correctness of the sale price in the deed. The Supreme Court decisions in the case of Raghuvans Narayan Singh vs. State of Uttar Pra-

desh A.I.R. 1967 S.C. 465 and State of Gujarat vs. V.V. Vaghela and others (A.I.R. 1969 SC 271) lay down that income capitalisation method should be resorted to only when no other alternative method is available. The decisions of the S.Cs though given under Land Acquisition and Tenancy Acts are equally applicable under the Wealth-tax Act.

1.39. According to the Board apart from the fact that the income capitalisation method cannot be taken as a safe guide as to the correct valuation of land, it is extremely difficult to establish under-statement of sale price in the case of a transfer of agricultural land unlike urban properties. The Board have, however, conceded that with the introduction of Chapter XXA of the I.T. Act, 1961 which came into force from 15-11-1972 the problem of under-statement in respect of sale of immovable property including agricultural lands, the market value of which Rs. 25,000/- or more seems to have been taken care of. Moreover, under section 269 P of the Income-tax Act, Registering Officers are required to send extracts of transactions above Rs. 10,000/- to the IACs (Asq.) and as per Board's instructions, these extracts are passed on to assessing officers for necessary action.

1.90. In June, 1978, a Committee on Valuation of Agricultural Lands was constituted. Its composition is as under:—

| | |
|---|---|
| 1. Shri K. R. Raghavan, Commissioner of Income-tax, Delhi. | Convener. |
| 2. Shri B. R. Abrol, Commissioner of Income-tax Amritsar. | Member (Since Retired) |
| 3. Shri R. N. Bose, Commissioner of Income-tax, Calcutta. | Member |
| 4. Shri S. T. Tirumalachari, Commissioner of Income-tax, Hyderabad. | Member |
| 5. Shri G. S. Sampath, Commissioner of Income-tax, Bangalore. | Member |
| 6. Shri L. R. Vyas, Inspecting Assistant Commissioner of Income Tax, Delhi. | Member-Secretary |

1.91. The terms of reference of the aforesaid Committee were:—

(i) To draw up objective criteria/guidelines for valuation of Agricultural lands and further to evolve to the extent possible suitable Rules which may be incorporated for the purpose of eliminating/reducing the prevailing uncer-

tainty regarding valuation of Agricultural Lands and also for bringing about ease and uniformity in the administration of Wealth-tax Act.

(ii) To examine various representations received from the farmers regarding simplified procedures for the valuation of Agricultural Lands for Wealth-tax purpose.

Later on, the Committee's terms of reference were extended so as to include the laying down of guidelines/framing draft rules for:—

(i) Valuation of all the lands within municipal limits; and

(ii) Valuation of orchards and standing trees etc. (if not already under consideration by them).

1.92. The Committee had earlier been asked to submit its report by December, 1978. It was, however, represented to the Board that because of the various complications and diversities of approaches involved in the matter of valuation of agricultural lands etc. it would not be possible for them to adhere to the time-schedule. As things stand, the Report is expected by February/March 1979.

1.93. No specific guidelines have been issued by the Board so far, for the valuation of agricultural lands for wealth-tax purposes.

**1.94. 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 (1978-79) 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 equitous sharing of social burdens by affluent sections from all sectors of economic activity.

1.95. The Committee find that a levy of wealth-tax on big agricultural lands was introduced by Government from 1st Aril, 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 assessees 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 months' time.

1.96. 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 Government 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.

1.97. The Committee note that though the Central Board of Direct Taxes had not issued any specific instructions, the Commissioner of Income-tax, Kerala took the initiative in surveying posh houses and agricultural properties at Chavakkad because it was felt that due to non-resident's 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 load 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.

1.98. The Committee are surprised to note that though levy of wealth tax on agricultural lands was introduced as early as April, 1970, the Central Board of Direct Taxes work 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.

1.99. 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 became 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 assessees do not escape payment of tax.

1.100. 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 assessees, 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.

1.101. 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 not a 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.

1.102. 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 these 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 creteria/guidelines for valuation of agricultural lands may be laid down without any further loss of time, to end the prevailing uncertainty.

## CHAPTER II

### *Incorrect Valuation of Unquoted Equity Shares*

2.1. In the wealth-tax assessments of an individual for the assessment years 1973-74 and 1974-75, completed on 15-1-1976, the unquoted equity shares held by her in an investment company on the respective valuation dates were valued at Rs. 485 and Rs. 484 per share, adopting the average rate under the aforesaid executive instructions when the break-up value, even based on the book value of the assets of company, was Rs. 1,165 per share for these assessment years. The incorrect valuation of shares led to under assessment of wealth by Rs. 2,49,400 and Rs. 2,49,830 for the assessment years 1973-74 and 1974-75 leading to total tax undercharge of Rs. 39,938 for the two years.

2.2. The paragraph was sent to the Ministry of Finance in September 1977; they have stated (December 1977) that the objection is under consideration.

[Paragraph 74(iii) of the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil), Revenue Receipts, Volume II,, Direct Taxes].

2.3. Section 7(1) of the Wealth-tax Act, 1957 provides that "*subject to any rules made in this behalf,* the value of any asset, other than cash for the purposes of this Act, shall be estimated to be the price which in the opinion of the Wealth-tax Officer, it would fetch, if sold in the open market on the valuation date."

2.4. The words "subject to any rules made in this behalf" were inserted by the Wealth-tax (Amendment) Act, 1964 *w.e.f.* 1 April 1965. The Department of Revenue were asked to state whether any change was intended in the substantive position of law as given in section 7(1). In reply they have stated that while substantive position of law in section 7(1) before and after its amendment *w.e.f.* 1 April 1965 "appears to be the same, the concept of market value.... of the assets with regard to which rules have been made seems to have been circumscribed after the amendment by making it "subject to any rules made in this behalf."

2.5. Quite independently of Section 7(1) of the Wealth-tax Act, the power to make rules under the Act is available to the Central Board of Direct Taxes under Section 46 of the Act. Section 46 of the Act inter alia reads as under:

> "46(1) The Board may, by notification in the Official Gazette, make rules for carrying out the purpose of this Act (2). In particular, and without prejudice to the generality of the foregoing power, rules made under this Section may provide for—
>
> (a) the number in which the market value of any assests may be determined;....."

2.6. Government have framed the following rules under Section 7(1) of the Act:

*Rules*

1 B—Valuation of life interest.

1 C—Market value of unquoted preference shares.

1 D—Market value of unquoted equity share of companies other than investment companies and managing agency companies.

2 —Valuation of interest in partnership of association of persons.

2 H—Valuation of assets forming part of industrial undertaking.

2 L—Valuation of interest in assets of industrial undertaking belonging to a firm or association of persons.

2.7. Thus, Government have not framed any rule providing for the manner in which the market value of unquoted shares of an "investment" company may be determined.

2.8. The Central Board of Direct Taxes (CBDT) has however, been issuing from time to time instructions on valuation of unquoted shares of companies. Circular No. 3-WT dated 28 September 1957 contained instructions in regard to valuation of most of the common types of assets. Para 1(c) of the circular contained instructions on valuation of unquoted shares of companies in general. Circular No. 5-D(WT) of 1958 dated 8 May 1958 for the first time communicated instructions for valuation of unquoted shares of "investment companies" whose assets consist predominantly of shares in other companies. Another circular issued in 1960—Circular

No. 6-D(WT) dated 8 August 1960 carried instruction as to the manner of valuing the unquoted ordinary shares of investment companies. These superseded the earlier instruction of 1958. Finally in 1967, another circular No. 2(WT) dated 31 October 1967 was issued. This was a composite circular containing instructions as to the method of valuation of unquoted equity shares of investment companies, holding companies and managing agency companies. Instructions contained in this circular which superseded all previous instruction on the subject, continue to be in force.

2.9. Since no rule has been made under Sections 7(1) or 46(2) of the Wealth Tax Act providing for the manner in which the market value of unquoted equity shares of an "Investment" company may be determined the instructions contained in the circular of 1967 insofar as they apply to investment companies hang loose without any basis in the Wealth-tax Rules.

2.10. According to the circular dated 31 October, 1967, the method of valuation of unquoted shares of investment companies, holding companies and managing agency companies is as follows:

> "The average of (a) the break-up value of shares base 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, will be taken to represent the fair market value of the shares of an investment company."

2.11. According to Audit, where the balance sheet of an investment company reflects the true market value of its investments and other assets or their market value can be ascertained, the non-adoption of market values or where the break-up value itself is more than the average value computed under the special methods prescribed in the circular of October, 1967, the adoption of average value would be detrimental to revenue.

2.12. It is learn that as early as January 1975, the Audit pointed out to the Department of Revenue, in the context of a particular case of valuation, that the Board's instructions of 31 October 1967 would work out to the detriment of revenue. In a communication dated 14 March 1977 to Audit the Department of Revenue maintained that "As long as circular dated 31-10-1967 held the field, the method adopted by the Wealth-tax Officer appears to be quite in order." On an enquiry being made whether the position was re-examined on the inaccuracy being pointed out by Audit and before sending the reply to Audit, the Department have stated: "The position was examined in detail.....before reply was sent to Audit."

2.13. The Committee had called for the extracts of relevant notes recorded on Board's file. The note recorded by Director (ED) explained the genesis of the circular of October 1967 as follows:—

> "It may not be out of place to mention that the intention of the circular dated 31-10-1967 does not appear to be any different from what it actually conveyes. A reference to file No. 2/2/65/-WT would show that a lot of study, effort and research work went into the relevant exercise before the said circular dated 31-10-1967 was finalised and that too after eliciting public opinion on the point. The intention behind issuing the said circular was to appreciate the value of the unquoted shares of various categories of companies (Investment companies being one of the categories) to those of the public limited companies. For this purpose, the balance-sheet of a few well-known public limited companies were studied and the break-up value of their shares ascertained therefrom and compared with their market quotations, with a view to finding out the proportion which the market quotation bore to the break-up value of their respective shares. The idea was that the average proportion of the market value of these shares and their break-up value ascertained from this study would be adopted as the basis for the valuation of unquoted shares of the companies. The circular which originated from this idea was ultimately issued in its existing form after taking into consideration the various relevant factors which came to notice during the course of study on this issue. In light of the matter, it appears that it was always intended that only circular dated 31-10-1967 should be applied while valuing the shares of such companies."

2.14. Paragraph 74(iii) of the Audit Report (Direct Taxes) was sent to the Board in September, 1977 in which the legal position regarding valuation of unquoted equity shares in companies (both investment companies and others) was pointed out by audit. In a communication dated 8 August 1978 to Audit, the Department restated the position indicated in the note the extracts from which are reproduced in the preceding para. The extracts from the notes in the Board's file leading to the issue of communication dated 8 August 1978 furnished to the Committee included a note of the DS(DPC) dated 2 May 1978 which reads as follows:

> "Board set up Study Group for study of various problems arising in the valuation of unquoted equity shares of

companies for the purposes of Wealth-tax and other Direct Taxes and submitting a report in the matter and making recommendations for dealing with these problems .....

Regarding valuation of unquoted equity shares of investment companies their comments/findings/and recommendations are as under:

(i) The market values of equity shares of investment companies derived under the procedure laid down in Circular No. 2-WT of 1967 are considerably higher than the market prices are reflected in the quotations of prices of equity shares of such companies in Stock Exchanges.

(ii) The objection underlying the procedure laid down in the Circular No. 2(WD) of 1967 of valuing unquoted equity shares of an investment company at the mean of the value of net assets of the company and the capitalised value of its maintainable profits, is to adjust the capitalised value aforesaid to the assets booking of the shares. This method combines the advantages of simplicity and uniformity with a broad fairness of approach.

(iii) The value of the net assets of the company should be worked out after making further adjustments as enumerated in para 6.16—Item Nos. 1 and 2 of the Report.

(iv) It will not be desirable or practicable to adopt the market price basis in evaluating the assets of an investment company.

(v) The rate of capitalisation should be taken at 10 per cent of the maintainable yield from the company. However, the rate of capitalisation of the maintainable yield in the case of an investment company which derives the major part of the income from house property, shall be 8.5 per cent."

**2.15. 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 inter-**

pretation 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 recommend 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.

2.16. The Committee find that Rule ID 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 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.

2.17. 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.**

NEW DELHI;
*April* 28, 1979.
*Vaisakha* 8, 1901 (*S*).

P. V. NARASIMHA RAO,
*Chairman,*
*Public Accounts Committee.*

## APPENDIX I

(*Vide* paragraph 1·12)

Statement showing action taken by the State Governments regarding implementation of recommendations of Raj Committees on Agricultural land Holdings Tax:—

| State | Position reported in | Whether accepted or not | Action taken |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. Andhra Pradesh. | June, 1977 | Under examination of the State Government. | The State Government is examining the recommendations of Raj Committee. |
| 2. Assam . . | April, 1978 | Not acceptable to the State Government. | Existing measures for rural taxation, including levy of a surcharge on land revenue and agricultural income-tax are in the State Government's opinion adequate to ensure reasonable taxation of rural sector. |
| 3. Bihar . | June, 1977 | Under consideration of the State Government. | The State Government do not think it feasible to implement the Raj Committee's recommendations on agricultural tax structure as they involve comprehensive amendment of the tenancy laws. However, the State Government are presently considering the recommendations of Raj Committee through a High level Commitee. |
| 4. Gujarat . . | May, 1978 | Decision not yet taken. Re-levy of land holding tax. | An official level Committee had examined Raj Committee report and was not in favour of levy of land holding tax. The State Government have not taken a final decision in the matter. |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| 5. Haryana . . | May, 1978 | Land holding tax enforced in the State in a modified from w.e.f. 16-6-1973. | Income which accrues to the State Government from land holding tax is about Rs. 5·76 crores per year. Replacement of land Revenue Act by the Haryana land Holdings Tax, 1973 has mobilised additional resources of well over Rs. 4·00 crores per annum for the State. |
| 6. Himachal Pradesh | June, 1977 | Accepted. | Two acts, viz., HP Land Holdings Tax Act and HP LR Surcharge Act were framed in 1974 following acceptance of Raj Committee's recommendations. Land Holding Tax Act is proposed to be repealed now, consequent on enactment of HP Taxation on certain goods carried by Road Act. Recovery of land holding act stayed for the present. |
| 7. Jammu & Kashmir | May, 1978 | Not implemented. | The State has enacted Agrarian Reforms Act for taxing Agricultural incomes. |
| 8. Karnataka: . | July, 1976 | Do. | The State Government have examined the relative merits of the scheme of taxation suggested by the Mysore Taxation & Resources enquiry Committee and Raj Committee. They have come to the conclusion that the scheme of agricultural holdings tax will not be administratively feasible. Consequent on examination of these reports the State Government have extended the Agricultural Income-tax to all crops w.e.f. 1-4-76 |
| 9. Kerala . . | April, 78 | State Government not implementing Raj Committee's Recommendations. | According to the State Goyernment, no specific advantage will accord to the State because of introduction of Agricultural land holding Tax. The State is levy |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| | | | ing basic tax at Rs. 4·94 per hectare on a land and plantation tax on plantations growing coconut, coconut, rubber, pepper, tea, coffee and cardamon at Rs. 50/- per hectare of plantation area in excess of one hectare and in addition agricultural income-tax at rate more or less equal to Central Income-tax rate. Besides, the State Government have introduced panchayat Cess at 1/16% of the capital value of the land. It is therefore considered that the balance of advantage will lie in continuance of existing levies on land. |
| 10. Madhya Pradesh | May, 76 | Not accepted. | The State Government have imposed a tax on agricultural immovable property vide the MP Krishik Sthawar Sampathi Kar Adhiniyam 1974. This act imposed tax on agricultural land holdings of value exceeding Rs. 20,000 only. In view of this, the State Government do not consider it necessary to implement the Recommendations of Raj Committee. Working Group set up to study the report of Raj Committee is under consideration. |
| 11. Maharashtra . | June, 77 | Under consideration. | |
| 12. Manipur . . | May, 76 | Not implemented | The size of averaged holding in the State is small. The State govt. have introduced improved agricultural practices. Any move for additional tax will curb the initiative at this early stage. |
| 13. Meghalaya . | June, 77 | Do. | Most areas in the State are yet to be surveyed and it is difficult to calculate rateable value of land-Implementation of Raj Committee's recommendation may act as a disincentive to increased production. |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| 14. Nagaland . . | May, 76 | Not accepted. | The State has peculiar agricultural and socio-economic conditions. Introduction of a direct tax on agricultural wealth and income is not feasible. Agriculture in the state is of shifting and subsistance nature. Very few holdings would be of rateable and hence there is no scope for levying the Agricultural Land Holding Tax. |
| 15. Orissa . . | April, 78 | Not accepted. | Raj Committee's recommendations involves culmbersome procedure for assessment of tax and prohibitive cost of collection. No representation has been made to the Centre for re-examintion of Raj Committee's recommendations. Alternative measures to mobilise additional resources for agricultural sector are under contemplation. |
| 16. Punjab . . | June, 77 | Do. | The State Govt. have a well-established system of revenue records and it was therefore considered best to use the existing methodology and organisation to raise resources from agricultural sector. The State Govt. enacted two legislations, *viz.*, (1) The Punjab Land Revenue Act, 1974 for enhancement of land revenue on progressive basis and (2) The Punjab Commercial Crops Act, 1974, for imposition of a cess on cash crops. |
| 17. Rajasthan . | June, 77 | However no final decision taken so far. | The State are levying surcharge of land revenue on slab basis. This system is preferred to Raj Committee's recommendations which involve complicated procedures and high costs. |
| 18. Sikkim . . | June, 77 | Do. | No agricultural tax is being levied. |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| 19. Tamil Nadu | May, 78 | Not accepted. | Due to enormous administrative and financial implications without appreciable increase in revenue, the State Govt. are not accepting the recommendations. The direct taxation of agricultural income is already subject to progressive agricultural income-tax. |
| 20. Tripura | June, 77 | Under examination. | Various problems are involved implementing Raj Committee's recommendations Character and composition of the population show special problems. Average yield from land is much below the all-India standard. |
| 21. Uttar Pradesh | May, 78 | Not implemented | The State Taxation Enquiry Committee headed by Sri Lakdawala found that imposition of land holding tax would not be suitable. Recommendation of Lakdawala Committee for re-imposing land revenue on holdings upto 6·4 acres and for raising rates of land development tax were accepted and implemented by the State Govt. in 1974. Rationalised land revenue along with the revised rate of land development tax was enforced. However, the Land Development tax has been abolished w.e.f. 1-7-1977. Cultivators having holdings upto 9·7 acres have been exempted from payment of revenue. |
| 22. West Bengal | Jan. 79 | A modified and simplified version of the AHT is proposed to be adopted. | The Govt. of W.B. intimated some time back that it was introducing the WB (farm holding) Revenue Bill, 1978 in the State Assembly. It is stated in the Statement of Objects and Reasons of the Bill that it is considered necessary by the State Govt. to bring about a radical chang[illegible] |

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| | | | in the existing land law by relating assessment and levy of land revenue to the situation of land in different agro-climatic areas, general productivity or in the productive potential of land held by a riyat. It is also stated that, to bring about progression in the land revenue, pattern, it is proposed to exempt small owners of land with lesser production potential altogether from revenue burden and to assess at an increasingly graduated scale the revenue on holdings with rateable value exceeding the exemption limit. It is further stated that it is proposed to provide for Regional Rating Boards and a State Rating Board for periodical assessment of the rateable value, an appeal against assessment and remission of farm holding revenue either wholly or in part on account of drought, flood or other natural calamities. Thus, it appears that the legislation proposed by the Govt. of West Bengal is a modified and simplified version of Agricultural Holding the Tax recommended by the Raj Committee. |

## APPENDIX II

(*Vide* paragraph 1·31)

*Statement showing all Agricultural Wealth-tax assessees (All India Figures) (As upto-date on the February,* 1979)

| | As on | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 31-3-71 | 31-3-72 | 31-3-73 | 31-3-74 | 31-3-75 | 31-3-76 | 31-3-77 | 31-3-78 | 31-10-78 |
| 1 No. of Potential assessees of Agricultural Wealth discovered as a result of Survey. . . . | 11004 | 13210 | 11363 | 11117 | 10766 | 12299 | 11386 | 11063 | 10556 |
| 2 No. *of cases on the GIR* (a) Out of (1) . . | 10038 | 10885 | 10945 | 10647 | 8976 | 10661 | 9377 | 8992 | 8949 |
| (b) As a result of Voluntary returns. | 1291 | 2009 | 4748 | 4522 | 4307 | 3925 | 4255 | 4488 | 3970 |
| 3 No. Out of (2) found taxable either on the basis of return filed or assessments completed. | 2838 | 2362 | 4625 | 4656 | 4323 | 4774 | 5063 | 6068 | 5252 |
| 4. No. out of (2) not found to be taxable either on the basis of assessment completed or because of proceedings dropped for any reasons. | 2108 | 3798 | 5693 | 6201 | 4851 | 5274 | 4281 | 3586 | 3137 |
| 5 No. out of (2) in which proceedings are pending i.e. cases other than those covered by (3) & (4) | 6383 | 6734 | 5735 | 4312 | 4109 | 4538 | 4288 | 3826 | 4538 |

NOTE 1: Th above chart does not include information in respect of some of the Commissioner's charges either because the same has not been received, or, if received, further clarification is required in respect of the same.

NOTE 2 : There is likely to be some-over clappping between (a) & (b) of 2 above .

NOTE 3 : Some further clarification may be necessary in respect of column 4.

## APPENDIX III

(*Vide* Paragraph 1.32)

Ministry of Finance (Department of Revenue) Comments on the case referred to in the Audit Paragraph.

*Para* 71.7 (*i*)—*BIHAR*:

The CIT concedes that survey was not conducted according to the relevant instructions of the Board in the two Districts in Bihar referred to in the sub-para. He has, however, reported that on receipt of particulars about 1171 holdings, the Income-tax Officers got necessary enquiries made through the Inspectors in respect of selected big cases. Inspectors' reports in respect of these cases indicate that the details of audit report regarding acreage of lands, value etc. are not based on latest records but on old ones. In particular, it has been revealed that the acreages held by the parties in many cases are much less than what is shown in the Audit Report. In this regard the data in the following table may please be noted:—

| Sl. No. of Audit Report | Name of the assessees. | Agricultural land possessed as per audit report (in acres) | Agricultural land actually possessed as ascertained by Inspectors from revenue records supplemented by local enquiries made in the office of Agriculture ITO. |
|---|---|---|---|
| 586 | Basudeo Dubey . . . | 39 | 6 |
| 525 | Brijbihari Rai . . | 125 | 15 |
| 473 | Awadh Bihari Rai . . . | 126 | 18 |
| 582 | Awadh Bihari Singh . . . . | 42 | 3 |

The CIT has further reported that enquiries have been conducted by the Inspectors in respect of all the 1171 cases. Priority was given to making enquiries in cases where persons were alleged to possess land exceeding 500 acres (even though in reality the holdings was found to be much less) and then to smaller holdings. Many cases are *prima facie* below taxable limit. The prevailing market rate was arrived at by taking into account the following factors:—

(a) The maximum compensation payable by the State Government was Rs. 1200 per acre.

(b) value shown in transactions in land in adjacent areas.

(c) Local conditions *e.g.* flood or drought prone areas, fertility of the soil, average produce, number of crops per year.

In short, the position in the light of CIT's report appears to be that whereas enquiries have been made in all the 1171 cases at the instance of the Audit, actual number of cases liable to agricultural wealth-tax or the decapement of tax is likely to be much less.

*Para* 71.7(*ii*)—*GUJARAT*:

It has been reported by the CIT that the survey for the levy of wealth-tax on agricultural holidings was conducted in the 3 Districts of Gujarat covered by the Audit's sub-para. The fact that many of the cases have now been brought on the GIR as a result of the follow-up action by Audit shows, however, the same was not done thoroughly. The position regarding the 240 cases mentioned in the sub-para, as reported by the CIT, is as under:—

| | |
|---|---|
| (a) Cases already on the GIR . . . . . | 15 |
| (b) Cases brought on the GIR as a result of follow-up action on Audit . | 156 |
| (c) Cases not found to be taxable . . . . . | 69 |
| Total . . . . . | 240 |

*Para* 71.7(*iii*)—*KERALA*:

The CIT reports that the survey was conducted in the District of Palghat which is covered by Audit sub-para, in pursuance of the Board's instructions.

The A.G., despite requests by the CIT, has not been able to furnish the list of 115 rubber estates and 50 coffee estates mentioned in the sub-para. The position with regard to 67 cardamom estates is as under:—

| | | | |
|---|---|---|---|
| 1. Companies and Firms which are not liable for wealth-tax . . | | | 11 |
| 2. Cases relating to other Charges . . . . . | | | 8 |
| 3. Cases already on G.I.R.: . . . . | Kottayam | 1 | |
| | Tiruvalla | 1 | |
| | Palghat | 8 | 10 |

4. Cases brought on G.I.R. as a result of the follow up action

| | | |
|---|---|---|
| Tiruvalla | 2 | |
| Calicut | 1 | |
| Palghat | 7 | 10 |
| 5. Cases not found to be taxable (since the holdings of these cases are small) . . . . . | | 28 |
| | | 67 |

The CIT, Kerala, had extensive discussions with the Chairman of the Cardamom Board regarding the valuation of cardamom lands in Kerala. The Chairman, Cardamom Board, stated that the value of about 98 per cent of the total holdings, which are categorised as small will not exceed minimum exemption limit and that it may not be advisable or prudent for the Income-tax Department to try to reach these people as it will cause undue harassment to these small growers. In the list given above where 10 cases are shown as brought on G.I.R. as a result of follow-up action, even marginal cases have been booked. It is likely that even some of these cases may ultimately be not found taxable.

It has been mentioned in the sub-para that the cost of cultivation of a rubber plantation has been worked out by the Rubber Board at Rs. 6,000 per acre. The CIT reported that, as per independent statistics obtained by him from the Rubber Board, the cost of new plantation in 1973 comes to only Rs. 4,500 per acre, which includes the cost of clearing forests trees on lands also. The data relied upon by the Audit appear to relate to 1970-71 when the cost would be much less as compared to that in 1973. In the light of the report received from the CII, it appears that whereas some cases might have escaped the survey net, the number thereof and the tax escapement as a result of this would be much less than indicated in the sub-para.

*Para* 71.7(*iv*)—*TAMIL NADU*:

The CIT reports that necessary survey in terms of various instructions of the Board was carried out throughout Tamil Nadu. The CIT has reiterated that 5 Trusts mentioned in the sub-para are exempt under section 5(1)(i) of the Wealth-tax Act in as much as all of them are dominantly for charitable purposes, were formed much earlier than 1-4-1962 and, as such, the provisions of section 21A of the wealth-tax retain the exemption in respect of these Trusts. All the same, the CIT has been asked to examine the matter once again.

The CIT has reported that lists of remaining 85 Trusts and 75 cases other than untrusts furnished to him by A.G., pleased to a couple of months back and that he has issued instructions for their review of the 160 cases.

*Para* 71.7(*v*)—*MADHYA PRADESH*:

The CIT reports that the charge of CIT, Madhya Pradesh, was created w.e.f. 1-6-1970 with headquarters at Bhopal by shifting part of the staff and relevant records from Nagpur. While he has asked the CIT, M.P., Nagpur and Bhandara (who was holding the unbifurcated charge) to specifically confirm the position in this regard, on the basis of information available with him, he has reported that necessary survey was conducted in the areas now forming the present Madhya Pradesh Charge.

The CIT has reported that in spite of repeated requests, the A.G. has not supplied the relevant details of all the 140 cases scrutinised by the Audit Party and, therefore, it is not possible for him to give a proper break-up regarding the cases already on the GIR, those brought on the GIR as a result of the follow-up action on Audit and those not likely to be taxable.

While the exact position would be known in due course, it appears in the light of the CIT's report that even though survey was undertaken, the same was probably not done in a fool-proof manner.

*Para* 71.7(*vi*)—*RAJASTHAN*:

It has been reported by the CIT that survey in terms of Board's circulars was extended over a greater part of Rajasthan and including the 4 Districts (Kota, Jaipur, Udaipur and Sriganganagar) covered by the Audit Review. The latest position regarding break-up of 980 cases, as communicated by Cs.I.T. in Rajasthan charge, is as under:—

| S. No. | Particulars | J.P.R. Charges | J.D.R. Charges | Total |
|---|---|---|---|---|
| 1 | Cases already on GIR . . . . . | 29 | 19 | 48 |
| 2 | Cases where no action was considered necessary . | 115 | 2 | 117 |
| 3 | Cases brought on GIR as a result of follow-up action . . . . . | 42 | 702 | 747 |
| 4 | Cases not borne on Revenue Records and as such enquiries to be made . . . . . | 13 | .. | 13 |
| 5 | Cases pertaining to Ahmedabad Charge . . | .. | 1 | 1 |
| 6 | Cases under enquiries . . . . . | 54 | .. | 54 |
| | | 256 | 724 | 980 |

The three cases mentioned are those of Bishan Singh, Jagu and Banwari Lal. In the case of Bishan Singh, the status was found to be HUF and for the assessment year 1970-71, the value of agricultural land (based on the comparable sale in the case of Shri Jagu) was estimated at Rs. 3,33,500 which was below the taxable limit. The proceedings were again started for the year 1972-73 by the issue of notice under section 14(2) on 7-9-1972 on the basis of survey. Since the notice could not be served, proceedings were dropped on 12-3-1973 to avoid the pendency of infructuous proceedings. At the same time, directions were given for the issue of notice under section 17. There was no necessity, however, to do so because it was found out that there was partition in the HUF of Shri Bishan Singh on 25-2-1971 as a result of which he got only 43 bighas and 19 biswas of land.

As per CIT's report, therefore, the Audit objection does not appear to be acceptable.

The position in the case of Jagu is more or less the same as in the case of Bishan Singh.

In the case of Banwari Lal, the assessments have been completed by the I.T.O. for the assessment years 1970-71 to 1977-78. The Audit objection, therefore, is correct. It may be mentioned, however, that final view in the matter could perhaps be taken only after the disposal of appeal at least at the AAC's stage. That is because the I.T.O. has assessed the entire land in the status of HUF in the hands of Shri Banwari Lal whereas it was claimed that the same belonged separately to the three brothers because of partition having taken place 25 years back.

The two cases of Hindu Undivided Families mentioned are those of Rao Manohar Singh and Khumman Singh. The Audit objection that these cases were not brought to charge of Wealth-tax is correct. The assessments have been completed and the results have been intimated to them. The assessments have, however, been completed *ex parte* under section 16(5) of the Wealth-tax Act. An idea about the exact tax effect can perhaps be only formed after the appellate stage.

*Para* 71.7(*vii*)—*WEST BENGAL*:

It has been reported that in all the charges of Commissioners of Income-tax, West Bengal (excluding Asansol) survey was extended over the entire area. Regarding the charge of CIT, Asansol (which only is covered by the Audit review), no proper survey is reported

to have been made upto 31-3-1975. The same is said to have been conducted only during the year ending on 31-3-1976 in some parts of Districts Burdwan and Birbhum only.

Regarding 64 persons having net agricultural income of over Rs. 10,000, the position is as under:—

| | |
|---|---|
| (a) No. of cases already on the GIR . . . . . | 7 |
| (b) No. of cases brought on the FIR as a result of follow-up action on Audit . . . . . | 10 |
| (c) No. not found to be taxable . . . . . | 23 |
| Total . . . . . | 40 |

Regarding the remaining 24 cases, the CIT has reported that local A.G. was contacted but relevant details are not available in his office.

It has been reported by the CIT that the value of land estimated by the Audit is more than what it should be as per the real market value. As far as District Burdwan is concerned, the Audit seem to have put a value of Rs. 12,800 per acre on the basis of 20 years' purchase of estimated net income of Rs. 640 per acre. The CIT reports that apart from the fact that agricultural income per acre is much less, it is more reasonable to adopt a multiple of 15. Over and above all this, it is significant that as per information collected from the Registration Authorities, the value per acre varies between Rs. 2,000 to Rs. 5,000. The AAC has also, more or less, confirmed the same valuation. As far as cases of District Birbhum are concerned, the Audit have estimated the value at Rs. 9,500 of irrigated land and Rs. 7,800 of non-irrigated land whereas, as per information extracted by the assessing officers, the Land Acquisition Officer estimated the value between Rs. 2,700 and Rs. 6,937 per acre depending upon the location and the quality of the land.

In the light of the report received from the CIT, the Audit objection appears to be partly acceptable in as much as the number of cases actually found to be taxable and the escapement of tax is likely to be much less than indicated in the sub-para.

*Para* 71.7(*viii*)—*ORISSA*:

It has been reported by the CIT that survey in pursuance of the Board's instructions was carried out in some of the Districts. Out of the 13 Districts, it was not conducted in Puri, Kalahandi, Bolangir Phulbani, Keonjhar, Ganjam and Sambalpur (to which District the

3 cases mentioned in the Audit para pertain). The CIT has reported that the disputes under the Land Ceiling Acts are pending adjudication in the 3 cases referred to in the sub-para and that there are also intra-family disputes for partition or for share in the family land. Assessment proceedings have been initiated. The exact position would, however, be known only after the assessments are completed.

*Para* 71.8(*i*)—*TAMIL NADU*:

The main difference between the value adopted by the Audit and that adopted in the wealth-tax assessments is on account of the fact that whereas the Audit have worked it out by capitalising the net agricultural income, the W.T.O. has not done the same. It has been stated in reply to point No. 17 below that income-capitalisation method is not a very safe guide for the purpose of valuation of agricultural lands and, as per Board's instructions, is to be adopted only as a last resort. The CIT, however, has put an emphasis on the guidelines for valuation for registration purposes issued by the State Government for each survey number in every village comprised in the Taluk. The position regarding the 6 cases (the name of the 7th case has only been recently supplied to the CIT and further report is awaited.) is as under:—

(a) In respect of R. Bala Kumar, R. K. Radhakrishna Chettiar and R. Kesavan, the value adopted by the W.T.O. is either equal to or more the value worked out as per State Government guidelines.

(b) In respect of V. Sathyanathan, the value adopted by the W.T.O. is as per approved valuer's report which agrees with the capital value fixed by the State Government.

(c) In respect of A. Krishnaswamy Wandiyar and H. H. Dharampuram Adheenam, final report has not been received from the GIT so far.

*Para* 71.8(*ii*)—*TAMIL NADU*:

The Audit objection is acceptable to the extent that having regard to the facts and circumstances of the case, the agricultural lands of the assessee have been under-valued. Remedial measures, wherever possible, have been taken and re-assessments are pending. The exact quantum of under-assessment or the tax effect thereof, however, can only be known after the relevant assessments have been re-framed.

*Para* 71.8(*iii*)—*HARYANA*:

The CIT has reported that survey in pursuance of the Board's instructions was carried out in the whole of Haryana. It has been mentioned by him that Receipt Audit had requisitioned 19 files of 'D' ward, Rohtak and 263 files of 'C' ward, Hissar, which were dealing with the cases of agricultural wealth-tax. The Audit sub-para, however, speaks of only the cases of Shri Mohan Lal and Shri Mani Ram, who are two brothers.

The only question in these two cases is regarding valuation of land. The Audit seem to have applied a flat rate of Rs. 2,700 per acre on the entire lands of the assessee. This rate was, however, in respect of irrigated lands transferred to the tenants on 23-7-1971. The Audit also took into account the original estimate of the value of land made by the Patwari at Rs. 10,49,800 and Rs. 9,52,600 respectively in the two cases. The W.T.O. on the other hand, adopted the value certified by the registered valuer which showed the break-up of the land in terms of self-cultivated, cultivated by the tenants, quality of land and irrigation facilities available, etc. Besides, the valuer also took into consideration the rights which the assessee had in different kinds of lands under different tenancies while valuing the lands.

The Patwari was called by the W.T.O. and his statement under section 37 of the Wealth-tax Act was recorded. The Patwari has now estimated the value at Rs. 3,54,000 as against the original estimate of Rs. 10,49,800. The CIT has further reported that the case was referred to Agricultural Valuation Officer as well and his value also does not differ much from the value shown by the registered valuer. B 7fseeoag(,y

*Para* 71.8(*iv*)—*WEST BENGAL*:

As per report of the CIT, the Audit objection does not appear to be acceptable.

In the Audit Para it has been stated that the assessees did not furnish "details of area of land and their value". In response to clarification sought from the C.I.T. on the point, it has been reported that all the 3 assessees in question did ffle details of agricultural lands giving areas, location and nature of land along with their wealth-tax return for the assessment year 1970-71. The valuation, however, had not been shown. The C.I.T. reports that the assessee, however, claimed exemption in Annexure Part IV of the return

which would mean that the total valuation of the land was claimed by the assessee at less than Rs. 1.50,000. The 3 assessees in question held agricultural land to the tune of 26,99, 24,96 and 24,74 acres respectively. The upper limit of valuation of land in the District concerned during the years under consideration was generally taken around Rs. 5,000 per acre which is in conformity with the sale of other comparable lands as per details collected from Registration Office. On this basis, the value of individual agricultural holdings of the 3 assessees concerned was accepted by the W.T.O. to be below taxable limit. The C.I.T. has further reported the W.T.O. concerned verified the assessed net agricultural income of the 3 persons ranged between Rs. 7,500 and 9,500 for the years 1970-71 to 1974-75 and taking the capital value at 15 times, the value of land of each of the 3 persons would be below taxable limit.

*Para* 71.8(*v*)—*RAJASTHAN*:

The objection relates to the ex-Ruler of Kota. Out of 3,473 bighas, allegedly not returned by the assessee in the wealth-tax return, 2,507 bighas are land appurtenant to Umed Bhawan Palace, Kota, which was declared as the official residence of the assessee and, as such, exempt under section 5(1)(iii) of the Wealth-tax Act. The balance of about 963 bighas was said to have been sold or given away in Bhoodan Yojana.

It has been reported by the CIT that the possession of land covering 963 bighas was taken by the transferees in almost all the cases before 31.3.70 and the sale-proceeds were also received by that date. Certain further information/clarification regarding the dates of registration etc., however, has been called from the C.I.T.

The fact that 2,507 bighas of land is surrounded by the boundary wall the Palace and because of Government of India Notification to the effect "Umed Bhawan including garden, Rari building etc. comprising the entire compound" the assessee's claim that the same was appurtenant to the palace seems to have been rightly conceded by the W.T.O. and Audit objection does not appear to be acceptable.

Regarding the valuation of land, the W.T.O. determined the same roughly at the rate of Rs. 505 per bigha. He based the valuation on the following:—

(i) The nature of land (ii) Some transaction about sale of land in financial year 1969-70 (iii) The value of agricultural land determined by the AAC in comparable cases.

As such, the valuation made by him appears to be reasonable as against the higher valuation placed by the Audit.

## APPENDIX IV

(*Vide* Parasraph 1·49)

*Statement showing the results of the Survey of returns of big land holding under Ceilling Laws*

| S.No. | Commissioner's Charge. | No. of returns filed up to 31-3-75 by land owners in compliance with the provisions of the revised land ceiling laws of your State. | No. of persons who may *prima facie* be liable to pay agri. W.T. on the basis of the returns filed by them under the land ceiling laws. | No. out of (b) who are already borne on the registers of the Income-tex Department. | No. of persons in whose cases action under the WT Act; became necessary after this survey. | No. in which action has been taken so far. | Approximate amount (Tn 000) of W.T. 000 involved. |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1 | Amritsar I & II | 18812 | 4619 | 2263 | 2356 | 1259 | 275 |
| 1 | Andhra Pradesh I—III | 36743 | 4582 | 1341 | 3241 | 3241 | 750 |
| 3 | Assam | 834 | 244 | 92 | 1052 | 152 | 136 |
| 4 | Bihar I—II | 30690 | 2708 | 745 | 1963 | 1963 | 933 |
| 5 | Bombay I—XI | 15 | 9 | 5 | 4 | 4 | .. |
| 6 | Delhi I—V | 117 | 117 | 56 | 61 | 61 | 105 |
| 7 | Gujarat I—V | .. | .. | .. | .. | .. | .. |
| 8 | Kanpur I—II | 1520 | 170 | 50 | 120 | 120 | 61 |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|
| 9 | Karnataka I—II | 73816 | 689 | 212 | 477 | 477 | 969 |
| 10 | Kerala I & II | 32732 | 1425 | 1041 | 384 | 280 | 470 |
| 11 | Lucknow I & II | 1943 | 74 | 18 | 56 | 21 | 32 |
| 12 | Madhya Pradesh | 58524 | 444 | 105 | 339 | 339 | 275 |
| 13 | Madhya Pradesh II | 35394 | 668 | 184 | 484 | 484 | 730 |
| 14 | Meerut | 411 | 125 | 116 | 9 | 9 | 10 |
| 15 | Orissa. | 1342 | 36 | 15 | 21 | 21 | 11 |
| 16 | Patiala I & II | 25891 | 2397 | 1221 | 1176 | 1176 | 442 |
| 17 | Poona I & II | 3021 | 546 | 83 | 463 | 296 | 400 |
| 18 | Rajasthan I & II | 7255 | 219 | 30 | 189 | 189 | 108 |
| 19 | Tamil Nadu I | .. | .. | .. | .. | .. | .. |
| 20 | Tamil Nadu II | 382 | 40 | 33 | 7 | 7 | 3 |
| 21 | Tamil Nadu III | 2557 | 71 | 40 | 25 | 13 | 15 |
| 22 | Tamil Nadu IV | 1939 | 566 | 297 | 269 | 17 | 52 |
| 23 | Tamil Nadu V | 1958 | 26 | 22 | 4 | 4 | 2 |
| 24 | V & M Nagpur | 5767 | 251 | 205 | 42 | 42 | 16 |
| 25 | West Bengal I—XIV | 18891 | 280 | 18 | 257 | 224 | 71 |
| | TOTAL | 689645 | 20306 | 8192 | 12099 | 10399 | 5886 |

Report of C. I. T. Kerala, Poona Tamil Nadu —III, IV and West Bengal are not complete.

X. In Amritsar Charge action withold in 1097 cases because of decision of Pubjab & Haryana High Court.

XX. In Lucknow 35 cases and Nagpur 4 cases found to be non-liable to Wealth-Tax.

## APPENDIX V

*Statement of Conclusions and Recommendations*

| S. No. | Para No. | Ministry/ Department | Conclusions / Recommendations |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 1. | 1 94 | Ministry of Finance Department of Revenu | 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 at 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 |

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| | | | 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 (1978-79) 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 equitous sharing of social burdens by affluent sections from all sectors of economic activity. |
| 2. | 1.95 | Ministry of Finance (Department of revenue) | 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 holdings (covering *inter alia* such land in urban areas and that under cash crops) with a view to find out the number of potential assessees 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 months' time.

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| 3. | 1.96 | Ministry of Finance (Department of Revenue) | 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 Deparment 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 Government 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. |
| 4. | 1.97 | -do- | The Committee note that though the Central Board of Direct Taxes had not issued any specific instructions, the Commissioner of |

Income-tax, Kerala took the initiative in surveying posh houses and agricultural properties at Chavakkad because it was felt that due to non-resident's 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. The desire that suitable instructions on the subject should be issued without further delay to all the Commissioners under intimation to this Committee.



1.98 -do- The Committee are surprised to note that though levy of wealth tax 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 unsatifactory and that remedial measures should be taken in this behalf forthwith.

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| 5. | 1.99 | Ministry of Finance (Department of Revenue) | The Committee note that out of 6,89,845 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 became 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 tax 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 throughly so that the potential assessees do not escape payment of tax. |
| 7. | 1.100 | -do- | 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 assessees, they are of the firm view that tapping of sources like States Land Revenue offices, Registering offices, Land Acquisition officers, Succession Courts, Agricultural and Irrigation Departments could throw up useful clues. |

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| 8. | 1.101 | Ministry of Finance Department of Finance | 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 not a 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. |
| 9. | 1.102 | " | 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 these 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. |

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| | | | 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,.....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. |
| 10. | 2 15 | Ministry of Finance Department of Revenue | 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 inter- |

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| | | | pretation patently erroneous in law that any rules made under secion 7(1) or 46(2) of the Act could supersede the basic provision of section 7(1). The Committee recommend 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. |
| 11. | 2.16 | " | The Committe find that Rule ID 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 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. |
| 12. | 2.17 | " | 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 |

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| | | | 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 8 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 acordance 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.



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