

# TWELFTH REPORT

## PUBLIC ACCOUNTS COMMITTEE (1980-81)

(SEVENTH LOK SABHA)

VOLUNTARY DISCLOSURE OF INCOME AND WEALTH  
SCHEME, 1975

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

[Action Taken on 123rd Report (Sixth Lok Sabha)]



PARLIAMENT LIBRARY  
DIGITIZED

*Presented in Lok Sabha on* ... 9. APR 1981

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

LOK SABHA SECRETARIAT  
NEW DELHI

*March* 1981/*Phalguna* 1902 (*Saka*)

Price : Rs. 2.00

CORRIGENDA TO THE TWELFTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (SEVENTH LOK SABHA) PRESENTED TO LOK SABHA ON 9 APRIL 1981.

...

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
2		17	introduced	introduced
2		2nd from bottom	reapprise	reappraise
5		5 from below	required	require
7		12	The	We
10		13	an.	and
14		5	The recommen- dation....should keep	The Committee find that challens of payments made by the declarants
19		18 7 from below	forest all dismaye	forestall dismade
20		6 12 12 3 from bottom	investigation entvasion intomants importing	investigating evasion informants imparting
21		7 from below	abandonment	abandonment
26		10	unprecedented	unprecedented
35		18 from bottom	mimor	minor
35		5	Add "which" after "through"	

# CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE 1980-81	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Conclusions or Recommendations that have been accepted by Government	6
CHAPTER III Conclusions or Recommendations which the Committee do not desire to pursue in view of the replies of Government	15
CHAPTER IV Conclusions or Recommendations replies to which have not been accepted by the Committee and which require reiteration	33
CHAPTER V Conclusions or Recommendations in respect of which Government have given interim replies	37
APPENDIX Statement of conclusions or recommendations	38

**PUBLIC ACCOUNTS COMMITTEE**

**(1980-81)**

**CHAIRMAN**

**1. Shri Chandrajit Yadav**

**MEMBERS**

*Lok Sabha*

2. Shri Satish Agarwal
3. Shri Subhash Chandra Bose Alluri
4. Shri Tridib Chaudhuri
5. Shri K. P. Singh Deo
6. Shri V. N. Gadgil
7. Shri Ashok Gehlot
8. Shri Sunil Maitra
9. Shri Gargi Shankar Mishra
10. Shri M. V. Chandrashekara Murthy
11. Shri Ahmed Mohammed Patel
12. Shri Hari Krishna Shashtri
13. Shri Satish Prasad Singh
14. Shri Jagdish Tytler
15. Shri K. P. Unnikrishnan

*Rajya Sabha*

16. Smt. Purabi Mukhopadhyay
17. Shri N. K. P. Salve
18. Shri Tirath Ram Amla
19. Smt. Maimoona Sultan
20. Shri Patitpaban Pradhan
21. Prof. Rasheeduddin Khan
22. Shri Indradeep Sinha

**SECRETARIAT**

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

**(iii)**

## INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Twelfth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Hundred and Twenty Third Report (Sixth Lok Sabha) on Voluntary Disclosure of Income and Wealth Scheme, 1975.

2. On 20 August, 1980, the following 'Action taken Sub-Committee' was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Public Accounts Committee in their earlier Reports :

1. Shri Chandrajit Yadav—*Chairman*
2. Shri K.P. Unnikrishnan
3. Shri K.P. Singh Deo

### *Members*

4. Shri V. N. Gadgil
5. Shri Satish Agarwal
6. Shri N. K. P. Salve

3. The Action Taken Sub-Committee of the Public Accounts Committee (1980-81) considered and adopted the Report at their sitting held on 19 March, 1981. The Report was finally adopted by the Public Accounts Committee (1980-81) on 29 March, 1981.

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

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

NEW DELHI ;

March 29, 1981

*Chaitra 9, 1903(s)*

**CHANDRAJIT YADAV,**  
*Chairman,*  
*Public Accounts Committee.*

## CHAPTER I

### REPORT

1.1 This Report of the Committee deals with the action taken by Government on the recommendations and observations of the Committee contained in their 123rd Report (Sixth Lok Sabha) which was presented to the Lok Sabha on 4 April, 1979 on paragraph 47 relating to Voluntary Disclosure of Income and Wealth Scheme, 1975 included in the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes.

1. Action Taken Notes in respect of all the 19 recommendations and observations contained in the Report have been received from the Government and they have been categorised as follows :

- (i) Recommendations/observations that have been accepted by Government.  
Sl. Nos. 4, 6—8, 12, 15, 18 and 19.
- (ii) Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government :  
Sl. Nos. 1,3, 5, 10, 11, 14 16 and 17.
- (iii) Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration :  
Sl. Nos. 2, 9 and 13.
- (iv) Recommendations/observations in respect of which Government have furnished interim replies :  
Nil

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

*Delay in examining the recommendations of Choksi Committee on Direct Tax Laws.*

(Paragraph 198—Sl. No. 2)

1.4 Stressing the need for re-appraising the taxation policy in view of the recommendations made by various Committees and in the light of the visible trend in the collection of revenue, the Committee in paragraph 198 of their 123rd Report (Sixth Lok Sabha) had recommended :

“The Committee would like to invite attention of Government to the fact that as far as back as 1967-68 the Public Accounts Committee had, in their 17th Report (4th Lok Sabha) after referring to the fact that the rates of taxation on Corporate as well as non-corporate income in India were generally higher than in foreign countries, opined that “the Committee do not think that, in their effort to raise adequate resources for developmental purposes, Government are justified in creating a situation where partly, as a result of excessive rates of taxation large amounts of unaccounted money are found floating and the entire economic atmosphere gets vitiated and in the process the growth in the rate of collection of Direct Taxes is adversely affected.” The Committee had also expressed the feeling that the present system of levy of taxes was “onerous and complicated” and that the collection of taxes has not been efficient. Otherwise there would, the committee had pointed out, be no need to introduced Voluntary Disclosure Schemes. The Committee had, therefore, strongly urged that “the entire tax structure of the country should be critically examined in the light of the evils that have resulted from the present excessive rates of taxation and that the practice of advanced countries should be followed in order to avoid further provocation and temptation to assesseees to evade their obligations to the public exchequer.” In 1977, Government set up a Committee of Experts known as the Direct Taxes Laws Committee (Chokshi Committee) to recommend measures to simplify and rationalise the direct tax laws with a view to making them readily comprehensible to tax payers, reducing litigation and thus subserving the interests of the national economy. The Report of Chokshi Committee has been submitted to Government in October, 1978. The Committee observe that despite the recommendations of the Public Accounts Committee in their earlier reports cautioning the Government against the high rates of taxation, the budgetary policy of the Government has, since last year, shown a reverse trend. It is known fact that during 1974 when the maximum rate of income-tax was reduced, the proposed revenue in that year went up by about Rs. 200 crores. Similarly, in 1976, when the maximum rate was further reduced, the proposed revenue went up further by about Rs. 240 crores. The Committee have also observed that after the increase in the maximum rate of income-tax in the Budget for 1978-79, the revenue yield during that year was comparatively less. The results of the budgetary proposals for a further increase in the maximum rate of income-tax during 1979-80 are hardly likely to be any different. The recommendations of the Public Accounts Committee regarding lowering of the maximum rate of income-tax were supported by the committees appointed by the Government, such as the Direct Taxation Enquiry Committee (Wanchoo Committee) and the Direct Tax Laws Committee (Chokshi Committee). The Committee hope that the Government would take note of this trend in the collection of revenue directly resulting from the taxation policy of Government and reappraise the taxation policy in the light of the aforesaid recommendations of the Public Accounts

Committee and other committees appointed by Government in the past. They would like to be apprised of the action taken by Government on each of the recommendation of the Choksi Committee."

1.5 In their Action Taken Note dated 5 July, 1979, the Ministry of Finance (Department of Revenue) have stated :

"The recommendation made by the Public Accounts Committee for reducing the rates of income-tax is under consideration of the Government.

2. As regards the action taken on the recommendations made by the Choksi Committee in the Interim and Final Reports, some of the recommendations have been implemented through the Finance Act, 1978 and the Finance Act 1979, the details of which are given in the annexure. The other recommendations are under consideration of the Government\* (Annexure)

1.6 In their recommendations in paragraph 198, the Committee had pointed out that the past experience in fiscal management was that high rates of taxation had proved counter-productive resulting in lower recovery of revenue and had expressed the hope that the Government would take note of this trend in the collection of revenue and re-appraise the taxation policy. The Committee had also desired to be apprised of the action taken by Government on each recommendation of the Choksi Committee on Direct Tax Laws. In their Action Taken Note, the Department of revenue have assured that the recommendation of the Committee for reducing the Income-tax is under consideration of the Government. Further, it has been stated that 13 of the recommendations of the Choksi Committee have been accepted and implemented so far and the other recommendations are under consideration of the Government. Considering the fact that the Report of the Choksi Committee was presented to the Government as far back as October, 1978, the Committee would like the Government to take final decisions on the various recommendations of the Choksi Committee expeditiously.

*Loss of revenue due to incorrect acceptance of declarations (Paragraph 205—Sl. No. 9).*

1.7 Dealing with the incorrect acceptance of voluntary disclosure, the Committee in paragraph 205 of their 123rd Report (Sixth Lok Sabha) had observed :

"Audit Paragraph has pointed out the case of a registered firm where declaration filed on 29-12-1975 disclosing a concealed income of Rs. 20.68 lakhs was accepted even though the ITO had already issued notices to the assessee under Section 148 of the Act on 15-11-1975 and 17-11-1975. In their reply to Audit, the Department has contended that as the notices in this case were served on the assessee firm after commencement of the scheme, it could make declarations under section 3(1) for these assessment years. The Committee feel that since the taxable income of the assessee was already known to the

\*Reproduced in chapter IV



Department for which notice was served on him, his declaration under the Scheme could not be deemed as "Voluntary disclosure." If a declaration made under these circumstances was not vitiated and was held valid, it defeats the very purpose of the Scheme itself."

1.8 In their Action Taken Note dated 18 October, 1979, the Ministry of Finance (Department of Revenue) have stated :

"The acceptability or otherwise of the declaration filed on 29-12-1975 was to be decided only with reference to the provisions of Voluntary Disclosure of Income and Wealth Act, 1976. This declaration could be made under sub-section (1) of Section 3 of the said Act and was not hit by sub-section (2) thereof."

**1.9 The Committee had observed that the disclosure of an assessee whose taxable income was already known to the Department for which notice was served on him could not be deemed as 'Voluntary Disclosure' and by doing so, the very purpose of the scheme was defeated. The Department of Revenue have maintained that the acceptability of the declaration was to be decided with reference to the provisions of Voluntary Disclosure of Income and Wealth Act, 1976 which allowed such disclosures. At this stage the Committee can only regret that a rather loose wording of the provisions of the Act was taken advantage of by unscrupulous persons who had concealed their income but on receipt of notice of reopening of past assessment, made disclosure (though in spirit not Voluntary) under this Act, thus defeating the very purpose of the Voluntary Disclosure Scheme.**

*Need for intensifying surveys*

**(Paragraph 209-SI. No. 13).** . .

1.10 Emphasising the need for intensifying the survey operations in one and all localities, the Committee in paragraph 2.09 of their 123rd Report (Sixth Lok Sabha) had observed :

"The Committee have been assured that "it is the aim of the Department to survey one and all the localities over a period of five years ending with March, 1981. The Commissioners are stated to have been advised to take stock of the survey operations and arrange this programme accordingly. In this connection the Committee recall that various aspects of survey work were also discussed at the last Conference of the Commissioners of Income-tax held at New Delhi in May 1978. The Conference had stressed the need to deploy adequate number of inspectors for outdoor survey, and maintain in each charges a premises wise Directory of Assesseees. It was also decided that a complete list of houses should be obtained from the municipalities in order to check that no premises were left out. The Committee would like to be apprised of the progress made in this direction."

1.12 In their Action Taken Note dated 18 October, 1979, the Ministry of Finance (Deptt. of Revenue) have stated :

“The need for intensifying survey has been taken note of by the Govt. and for this purpose, the Government have recently sanctioned 500 additional posts of Income-tax Inspectors for survey operations. In addition, some of the Inspectors hitherto attached to Tax Recovery Officers are also being withdrawn and utilised for survey work.

2. In their Circular F. N. 415|3|79-II(Inv.) dated 7-8-1979, the CBDT have enjoined upon the Commissioners the need for intensifying survey operations. The Commissioners have also been told that a census of high cost houses which have come up in various posh localities in big towns by a house to house survey is necessary for proper assessments of the owners for wealth tax purposes, and to unearth concealed income|wealth. Commissioners have been informed that useful information can also be gathered from various agencies such as Housing Boards, Cooperative Societies etc.”

**1.12** The Committee had desired to be apprised of the progress in implementing the decisions taken at the Conference of Commissioners of Income-tax held in May, 1978 regarding deployment of adequate number of Inspectors for out-door survey, maintaining premises-wise Directory of Assesseees and obtaining of a complete list of houses from the municipalities. While the Committee note that additional posts of Inspectors have since been sanctioned for the purpose of intensifying the outdoor survey, they are constrained to point out that the Action Taken Note does not specifically indicate the progress made in implementing the other two decisions. Moreover, the circular dated 7 August, 1979 referred to in the Action Taken Note, does not specifically required the maintenance of a premises-wise Directory of Assesseees and obtaining a complete list of houses from the municipalities. The Committee desire that suitable instructions should be issued to the Commissioners in this behalf so that the survey work is done methodically.

## CHAPTER II

### CONCLUSIONS OR RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT.

#### Recommendation

The Committee note that a study of the declarations u/s 3(1) of the Voluntary Disclosure of Income and Wealth Ordinance 1975 was made by the Directorate of Inspection (Research Statistics and Publications) in March, 1977. The conclusions which have emerged from that study provide an insight as to how different sections of society had responded to the 1975 scheme. The study has revealed that nearly half the declarations of Income u/s 3(1) came from persons not assessed earlier. However, their (1,17,357) contribution to the amount disclosed was only 39.3 per cent and the tax payable about 34.7 per cent indicating that the declarations fell mostly in the lower income ranges. 49.2 per cent of the declarants who were not assessed earlier consisted of ladies and minors. Their proportion was the highest in the lowest range and lower in the high income range. Out of a total of 1,17,357 declarations made by persons not assessed earlier, 1,14,552 declarations show income below Rs. 50,001. 2226 show income between Rs. 50,001 and Rs. 1 lakh and 597 show income exceeding Rs. 1 lakh. Declaration of Income was to be made under Section 3(1), disclosure of income in cases of search and seizure under Section 14(1) and declaration of wealth under Section 15(1). The Committee have been informed by the Department of Revenue that total income/wealth disclosed all over India except Bombay City and Delhi (Central charges) under Sections 3(1), 14(1) and 15(1) was Rs. 46.67 crores and Rs. 706.89 crores respectively. The Department had circulated a list of 74 big industrial houses. Reports received in this regard from the Commissioners have shown that 37 declarations made by big industrial houses under Sections 3(1), 24 under Section 14(1) and 34 under Section 15(1) had disclosed income/wealth of Rs. 86.18 lakhs, Rs. 61.90 lakhs and Rs. 668.36 lakhs respectively. Viewed against the total amount of income/wealth disclosed under the Scheme, the disclosures made by big industrial houses (*vide* para 55) are woefully low, thus indicating that big industrial houses had failed to respond even to the Voluntary Disclosure in fair measure.

[S. No. 4 (Para 200) of the Appendix IV to the 123rd Report of the Public Accounts Committee (1978-79) (Sixth Lok Sabha)]

#### Action Taken

The observations of the Honourable Committee have been noted.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-A&PAC—IL dated 15-1-81]

### Recommendation

Though a declaration in respect of income or wealth detected as a result of a search can hardly be regarded as a disclosure and that too a voluntary one, yet the Voluntary Disclosure Scheme of 1975 provided that a declaration in respect of any income relating to previous year in which search was made or any earlier year could be made u/s 14(1) where any books of accounts, other documents, money or bullion, or other valuable articles or things belonging to a person had been seized as a result of a search u/s 132 of the Income Tax Act or Section 37A of the Wealth Tax Act.

Calling this extraordinary provision of the Voluntary Disclosure Scheme 1975, as "a sort of an "amnesty before a blitzkrieg", the representative of the Department of Revenue said "the father of the idea is not available from the records . . . . The found a foundling at our door".

The Committee cannot but view with grave concern the fact that instead of allowing the law to take its course against tax evaders whose income/wealth had already been detected as a result of searches conducted before the introduction of this scheme, provision was made in Section 14 of the Scheme which accommodated such tax evaders to such an extent that they not only escaped from the follow up action of searches and seizures conducted but even availed themselves of the benefits of the Scheme. This provision was clearly detrimental to the interests of revenue.

[S. No. 6 (Para 202) of the Appendix IV to the 123rd Report of the PAC (Sixth Lok Sabha) (1978-79)]

### Action Taken

The observation of the Committee has been noted by the Ministry.

[Ministry of Finance (Department of Revenue) OM. No. 241/2/79-A&PAC-II dated 16-11-79]

### Recommendation

What has perturbed the Committee more is that Floating of one Voluntary Disclosure Scheme after another has helped in the creation of a class of tax evaders who not only kept on concealing their income and wealth but had been taking advantage of immunities and concessions available in these Schemes. The number of such tax evaders is not small. In fact the representative of the Department of Revenue informed the Committee during evidence that a test check made by them had revealed that "a large number of people had availed themselves of both the 1965 Schemes and the 1975 Scheme." In the circumstances, the Committee feel that a far more prudent course for Government would have been to provide in the 1975 Scheme of Voluntary Disclosure that a person who had already made a disclosure of his income and wealth under any earlier Scheme of Voluntary Disclosure will not be eligible to make a declaration.

[S. No. 7 (Para 203) of the Appendix IV to the 123rd Report of the PAC (Sixth Lok Sabha) (1978-79)]

### **Action Taken**

The observation of the Committee has been noted by the Ministry.

[Ministry of Finance (Department of Revenue) OM. No. 241/2/79-  
A&PAC-II dated 16-11-79]

### **Recommendation**

The Committee note that copies of declarations made under Section 3(1) of the Voluntary Disclosure Schemes, 1975 involving income exceeding Rs. 50,000 were made available to the officers dealing with or having jurisdiction over the income-tax or wealth-tax assessments of the declarants. Income-tax Officers were asked to ensure that new assesseees were brought on the Income-tax registers and the current market value of the assets disclosed by the declarants was taken into consideration for 1976-77 and subsequent years. Clarifications/instructions are also stated to have been issued from time to time pointing out that the income-tax authorities were not debarred from enquiring into the sources of funds invested or disclosed under section 15(1) and that acceptance of a disclosure made by declarants under section 3(1) did not preclude appropriate action against any other party if it was found that the declarant has merely lent his name to the party for his income and/or assets. Important declaration under Section 3(1) as well as 15(1) were subjects to internal audit scrutiny in 1977-78. Since the Voluntary Disclosure Scheme, 1975 had generated high hopes that tax evaders would realise their civic responsibility and return to the path of rectitude, the Committee trust that Government would keep eye on the future assessments of these declarants to see whether this hope had really materialised and if so to what extent.

[S. No. 8 (Para 204) of the Appendix IV to the 123rd Report of the Public Accounts Committee (1978-79) (Sixth Lok Sabha)]

### **Action Taken**

The assessing Officers are being suitably advised in the matter.

[Ministry of Finance (Department of Revenue) OM No. 241/2/79-  
A&PAC-II dated 15-1-80]

### **Recommendation**

Apart from introduction of Voluntary Disclosure Scheme, Government had launched special squad surveys in Metropolitan and other big cities for effectively countering tax evasion. Report received by the Department from the Commissioners in August—October, 1978 show that in the first phase of such surveys conducted from July to September, 1975, 5218 premises of 5,362 assesseees were surveyed revealing an estimated undisclosed investment/under-valuation of Rs. 2,985 lakhs on which extra tax of Rs. 50.28 lakhs and penalty of Rs. 0.51 lakh were levied upto 31-3-78. As against this, the aforesaid Reports indicate that surveys conducted in the second phase from June 1976 to 24 December, 1976, covered 3,762 premises revealing an estimated undisclosed investments or under-valuation of Rs. 4032.14 lakhs. The Committee feel that if the work of general survey is taken up on continuing basis and earnestly, the need for organising special squad surveys may not arise.

The Committee, however, regret to note that in recent years the number of effective cases out of those reported on the basis of survey of newly constructed properties and other premises has gone down. Out of 60,259 cases reported in 1974-75, 2,260 company cases and 47197 other cases were effective. In 1977-78, out of 39,192 cases reported, only 278 company cases and 26,215 other cases were effective. The Committee recommend that causes of this downward trend may be analysed and effective steps taken to arrest it.

[S. No. 12 (Para No. 208) of the Appendix IV to the 123rd Report of the PAC (Sixth Lok Sabha) (1978-79)]

#### Action Taken

In order to expedite survey operations and to derive the maximum benefit therefrom the CBDT appointed a Committee on General Survey (Outdoor operations), which were assigned the following tasks :—

- (a) to draw-up standardised survey proformae for use in respect of house to house, shop to shop and rural surveys;
- (b) to indicate the guidelines for filling up the proformae;
- (c) to suggest any modifications that may be necessary in the instructions on the subject of survey contained in the Inspectors' Manual, and
- (d) to make any other suggestions in order to make the survey derive a success in all respects.

The Committee has since given its report to the Board. On the basis of the recommendations made by this Committee, new proformae have been drawn up and the instructions contained in the Inspectors' Manual have been modified.

3. The CBDT vide its Circular F. No. 415/3/79-IT(Inv.) dated 7-8-1979 (copy enclosed) have stressed the need to accord high priority to survey operations. The Commissioners have been asked by the Board to ensure that the Inspectors deployed on survey work give maximum possible output.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-A&PAC dated 16-11-79]

O. V. Kuruvilla

Member (Investigation)

D.O. F. No. 415/3/79-IT(Inv.)

Govt. of India

Ministry of Finance

(Department of Revenue)

Central Board of Direct Taxes

New Delhi the 7th August, 1979

My dear

Sub : General Survey—Strengthening the machinery and stepping up the survey operations.

As you are aware, in his speech, while presenting the Union Budget for the year 1979-80, the Deputy Prime Minister and Minister for Finance, had stated that the scourge of black-money has to be fought through effective implementation of our tax Laws and this task has to be attended to with utmost zeal and vigour. The Public Accounts Committee in its 7th Report: (6th Lok Sabha) observed that survey should be the continuing part of the normal operation of a revenue collection system in the country and reiterated that a time bound programme should be drawn-up for this purpose by the Department so as to cover, in the shortest possible time, as many posh areas in Metropolitan cities as are possible.

2. Various development plans of the Government have generated considerable volume of economic activity all over the country. Employment, including self-employment, has increased and incomes have risen. As a result, not only the affluent class has gained but even the incomes earned by persons in ordinary trades have shown a marked increase. However, most of them have not come in the tax net yet. The need for intensifying survey operations for spotting such persons has become imperative. Similarly, high cost houses have come up in various posh localities in big towns in which substantial unaccounted income has been invested. A census of such constructions by a house to house survey is necessary for proper assessment of the owners for wealth-tax purposes and to unearth concealed income/wealth. Useful information can also be gathered from various agencies, like motor registration/licensing authorities, Banks, L.I.C., U.T.I. and other financial institutions, as well as from Housing Board, Cooperative Societies, etc. Besides, information available in the assessment records of the existing assesseees about the payments of rent interest etc. to other persons, can be collected and made use of. All this is part of survey, whether it is called External Survey or Internal Survey.

3. The need for intensifying surveys has been taken note of by the Government and for that purpose the Government have recently sanctioned 500 additional posts of Income-tax Inspectors for survey operations. The sanction of the posts and their chargewise allocation has been communicated under Board's letter F. No. A-11019/95/77-Ad. VII dated the 30th June, 1979. The sanction of these posts has been given on the assurance that there will be substantial benefit to the revenue on account of survey operation. In view of the mandate that we should show substantial additional revenue by survey operations the Board desires that this item of work should be given a high priority and should be personally supervised by the Commissioners of Income-tax.

4. The sanctioned strength of Inspectors per Tax Recovery Officer was earlier three. As a result of Work Study undertaken by a Work Study Unit of the D.O.M.S., the strength now fixed is two Inspectors per Tax Recovery Officer. Accordingly, the Inspectors now surplus with the T.R.Os should be immediately withdrawn and utilised for survey work. If these Inspectors are working in the offices of the CIT/IAC attending to non-survey work

viz. vigilance and judicial matters etc. they may be immediately relieved and deployed on survey work exclusively. The Board have decided that this set-up for Survey Work should be a permanent organisation to be utilised exclusively for survey work. The Inspectors deployed on survey work should be designated as "Inspector of Income-tax (Survey)". The mobility of Survey Inspectors, *inter-se* should be far as possible be between external survey and internal survey. This survey work to be undertaken would be quite distinct from "agricultural survey". When the Wealth Tax on Agricultural lands was levied, a certain number of Inspectors was sanctioned for each CIT's Charge. These Inspectors wherever utilised at present, should be withdrawn and utilised for survey of agricultural lands.

5. Each CIT would be responsible for the survey work in his Charge. In multi-Commissioners Charges this work will be coordinated by CIT-1.

6. On receipt of this letter you should, in consultation with your Range I.A.Cs and ITOs. Survey Circle draw up a plan for the systematic survey of the entire area in your Charge, so that all important areas in your Charge are surveyed by 31-3-1982. [The target date of 31-3-1980 fixed in Board's F. No. 415/7/77-IT(Inv.) dated 5-10-1977 Instruction No. 1106 may be taken as extended upto 31-3-1982]. Year wise programme i.e. programme for 1979-80, 1980-81 and 1981-82 should also be drawn up

7. The programme so drawn up may be sent to the Zonal Member, a copy thereof may please be endorsed to me and the D.I. (I.T.). The programme should be drawn up without delay so that no time is lost on deploying the Inspectors on this job. I would expect to receive a copy of the programme drawn up by you, and the number of Inspectors deployed on this job, by 31-8-1979.

8. I am very unhappily to find from the Monthly review of survey operations for the Month of April, 1979 circulated to all Commissioners of Income-tax under D.I. (IT&R), New Delhi's F. No. 1-41/April 79 dated the 2nd August, 1979, that the average output of Inspectors per day in respect of premises surveyed/extracts taken is only 1.38, which is extremely poor. This shows that the work of the Inspectors is not properly supervised and the Inspectors responsible for poor output are not pulled-up. I hope the Commissioners will ensure that the Inspectors deployed on survey work give maximum possible output.

9. I am hopeful that with your cooperation we will be able to give a good account of ourselves in the field of survey.

The receipt of this letter may please be acknowledged to Shri V. K. Jagdhari.

With regards,

Yours sincerely,

Sd.-

(O. V. Kuruvilla)



Copy for information to :—

1. Chairman/All Members, Central Board of Direct Taxes.
2. All Officers/Sections in Central Board of Direct Taxes.
3. All Directors of Inspection/All Directors in the Directorates of Inspection/D.O.M.S.
4. All Commissioners of Income-tax (Central).

Sd/-

V. K. JADGHARI,  
Secretary

*Central Board of Direct Taxes.*

### **Recommendation**

The Committee find that under the Income-tax Act, 1961, a firm and its partners are separate 'Persons'. In the case of Voluntary Disclosure Scheme, 1975, however, the Central Board of Direct Taxes issued a circular on 25-10-1975 to the effect that where a firm had concealed any income, the declaration would be filed by the firm and the partners of the firm need not make separate declarations. Audit have pointed out that in 380 of these cases in Andhra Pradesh and Tamil Nadu charges, the additional taxes recoverable from the partners would be Rs. 30,39,130. The representative of the Department pleaded during evidence that (i) under an explanation inserted in the ordinance in November, 1975, the interest of the partner in the firm to the extent of his undisclosed share is not taken into account even for wealth-tax purposes; (ii) it could not have been the intention that if the firm declares more than Rs. 2 lakhs, the partners and the firm together shared more tax than the income of the firm; (iii) a partner is not liable for penalty on the income concealed by a firm, and (iv) what is not includable in the income of a firm cannot be included in the partner's assessment especially when a firm is subjected to tax at a block rate on the full income it declares.

As far as the Committee can see, this question was one of interpretation of law. Moreover, it had revenue implications too. The Committee, therefore, feel that this was a fit case in which opinion of the Ministry of Law should have been obtained before the aforesaid instructions of the Board dated the 25th October, 1975 were issued.

[S. No. 15 (Para 211) of the Appendix IV to the 123rd Report of the Public Accounts Committee (1978-79) (Sixth Lok Sabha)]

### **Action Taken**

The Committee's advice that the Law Ministry should be consulted before issue of any instruction on a question involving interpretation of Law with revenue implications has been noted for future guidance.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-  
A&PAC dated 16-11-79]

### **Recommendation**

The Committee were assured during evidence that the Department maintained a list of suspect officers. If an officer's honesty was open to question, he was, it was stated, not posted to circles where he was open to temptation. One of the functions of the Director of Inspection was to keep a watch over the conduct of officers. The scrutiny was stated to be tighter in the Income-tax Department because of the sensitive nature of the work they had to handle. The Committee, however, find that despite this elaborate mechanism to check corruption, cases of corruption continue to occur. In one such case, the Income-tax Officer who had made tax assessment of a firm belonging to a particular Group resigned his post and was rewarded by the same Group with a post carrying much higher salary. The Committee have been informed that enquiries in this particular case are still in progress. The Committee have no doubt that deterrent action will be taken in this case against delinquent officers of what ever level, so as to serve as a warning to others. Meanwhile the Committee would like to be apprised whether the report of the cases has since been sent to the CBI and of the progress of the case against the delinquent official. They further recommend that the Department should keep a watch on all officers in whose jurisdiction cases of evasion are found to be appreciably large.

[S. No. 18 (Para 214) of the Appendix IV to the 123rd Report of the  
PAC (1978-79) (Sixth Lok Sabha)]

### **Action Taken**

A review of the cases of Raunaq Group where assessments were made by the then Income-tax Officer, Shri M. L. Gupta, was got conducted by the Commissioner of Income-tax (Central) Delhi. A copy of his report has been forwarded to the CBI. The Directorate of Inspection (Vigilance) also examined from vigilance angle eight cases other than those relating to the Raunaq Group, where assessments were completed by Shri M. L. Gupta, the then Income-tax Officer. The Scrutiny notes prepared in the Directorate of Vigilance in these eight cases have also been forwarded to the CBI. Neither the DI (Vig.) nor the CIT (Central), Delhi, has come across any incriminating material against Shri M. L. Gupta or any other officer of the Department in the cases gone through by him.

The recommendation of the Committee that the Department should keep a watch on all officers in whose jurisdiction cases of evasion are found to be appreciable large, has been noted.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-A&PAC dated 11-2-80]

### Recommendation

The recommendation of the Committee that the Department should keep under the Voluntary Disclosure Scheme, 1975 were not entered in the Registers of the Department with the result that it was difficult to ascertain whether as stipulated in the Scheme the declarant had made the payment of tax and interest thereon, if any, by the specified date. While agreeing that "delays in posting of challans in departmental registers result in avoidable harassment to assesseees", the Central Board of Direct Taxes has stated that "they do not necessarily give rise to corruption in all cases". The Board is stated to have issued instructions on 16-5-78 urging the Commissioners to ensure that "challan counterfoils for the payments made upto March 1978 were entered in the Demand and Collection Registers by 30-6-1978". The Committee would like to be assured that the requisite entries have been made in the Demand and Collection Register.

[S. No. 19 (Para 215) of the Appendix IV to the 123rd Report of the PAC (1978-79) (Sixth Lok Sabha)]

### Action Taken

Instructions were issued to all Commissioners of Income-tax asking them to ensure that the challan counterfoils for payments made upto 31-3-78 are entered in the Demand and Collection Registers by 30-6-1978 *vide* Board's letter F. No. 385/39/78-IT(B) dated 16-5-78. Later, the Commissioners were again requested to ensure that the challans received upto the end of December, 1978 should be distributed among the Income-tax Officers and posted in the Demand and Collection Registers by the 15th of January, 1979 *vide* Instruction No. 1223 dated the 13th December, 1978 (copy enclosed). They were required to send a certificate to the Board in this regard in the following form :—

"Certified that the challans received from the focal point bank branches upto 31-12-78 have been distributed to the respective ITOs. Wherever required, they have been posted in the Demand and Collection Registers of the ITOs by 15th January, 1979 and all the challans have been placed on the respective files of taxpayers".

2. The aforesaid certificates have been received from all the Commissioners. It would be seen that not only the challans received upto 31-3-78 have been posted in the Demand and Collection Registers but the challans received upto 31-12-1978 have also been entered in the Demand and Collection Registers.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-A&PAC dated 11-2-80]

## CHAPTER III

### CONCLUSIONS OR RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES OF GOVERNMENT

#### Recommendation

The working Group of the Administrative Reforms Commission (January 1968) had stated that "An idea of the dimensions of the problem (of black money) can be had if we look into the figures of concealed income detected by and disclosed to the Department during the past two decades." The Group recalled that Income-tax Investigation Commission which investigated the concealed income of the years 1940 to 1946 had, in respect of the cases referred to it, found out a concealment of Rs. 48 crores on which tax evaded was Rs. 30 crores. Under the Voluntary Disclosure Scheme of 1951, Rs. 70 crores were further disclosed by the assessees (20,912) and they paid tax and penalty of Rs. 11 crores. These figures by themselves give a total concealed income of Rs. 118 crores and evaded tax of Rs. 41 crores for a period of about 11 years (1940 to 1951). In the years 1963-64 to 1966-67, a total amount of Rs. 80.76 crores of concealed income was detected by the Department on which total tax and penalty amounted to Rs. 30.44 crores. The working Group on Central Direct Taxes Administration (January 1968) had pointed out that these figures indicated that tax evasion is a "perennial problem" and that it has to be fought by spotting out the sectors where this evasion is concentrated. The Committee have been informed by Government that "while it was not possible to give any precise estimate of black money in circulation, it could be safely stated that the extent of such money is very large." According to Government, the concealed money detected by the Income-tax Department, "represented only the tip of ice-berg." The Committee need not dilate upon the devastating role of black money in the country's economy nor does the need of a concerted action to contain its growth requires any emphasis from the Committee. The Committee are greatly disappointed to observe that despite the appointment of many committees and working groups to study the problem of black money and suggest measures to contain it, and the steps taken by the Government in pursuance of the recommendations of those committees etc., the problem has, instead of showing any improvement, shown signs of escalation to very serious proportions." The Committee strongly recommend that Government should evolve a concrete plan of action on urgent basis to contain the growth of black money.

[S. No. 1 (Para No. 197) of the Appendix IV to the 123rd Report of the Public Accounts Committee (Sixth Lok Sabha) (1978-79)]

#### Action taken

In Government's view black money is unquestionably evil. The problem, however, is very complex and not amenable to control through fiscal or

monetary policy alone. As pointed out by the Wanchoo Committee various factors contribute to the generation of black money e.g., economy of shortages, corrupt business practices, deterioration in moral standards, ineffective enforcement of tax laws as well as excessively heavy taxation. While the problem needs to be tackled on several fronts, Government has been making every endeavour to unearth unaccounted incomes and wealth which are generally described as 'black money'—and contain their proliferation. The tax laws as well as the administrative machinery have been strengthened considerably to deal with the evaders and bring to book smugglers and others who make money through illegal means.

Following are some of the legislative measures taken from time to time to check tax evasion and generation of block money :—

- (i) Section 69A was inserted in the Income-tax Act, by Act 5 of 1964, to bring to tax unaccounted money, bullion, jewellery or other valuable articles. Section 69B was inserted in the said Act by Act 10 of 1965 to bring to tax investments etc., not fully disclosed in the books of accounts.
- (ii) The powers of search and seizure and the power of entry and survey exercised by the Income-tax authorities were enlarged by amendment of section 132 in 1965 and insertion of 133A in the Income-tax Act, 1961 in the year 1964. Section 133A was substituted by a new section by Taxation Laws (Amendment) Act, 1975 with effect from 1-10-1975. The new section confers wider powers of survey on business premises to Income-tax officials than what were available earlier. It also confers on the Income-tax officials power to collect information and record statements of the assessee or any other person regarding the expenditure incurred in connection with any functions, ceremony or event.
- (iii) Insertion of section 40A(3) providing for the disallowance of expenditure exceeding Rs. 2,500/- if payment is made otherwise than by a crossed cheque drawn on a bank or by a crossed bank draft.
- (iv) Insertion of section 230A with effect from 6-10-1964 laying down the requirement of prior certificate from the ITO before transfer of any property of a value exceeding Rs. 50,000/-.
- (v) Provision has been made in the tax laws for acquisition of immovable properties, where these have been under valued at the time of transfer, as such under valuation facilities generation and circulation of black money.
- (vi) Provision has been made in the law barring enforcement of any right in respect of any property held in 'berami' unless, the property has been disclosed to the Income-tax Department.
- (vii) Provision has been made for compulsory maintenance of accounts in respect of specified professions and above certain prescribed limits of income/turn-over for business and other professions.

- (viii) Under certain circumstances the Income-tax Officer is empowered to direct a tax-payer (including a company) to get his/its accounts audited by an accountant nominated by the Commissioner.
- (ix) Every person who earns taxable income or carries on a business with annual turnover exceeding Rs. 50,000 has to apply to the ITO for the allotment of a permanent account number.
- (x) To ensure thorough investigation and proper assessment, Asstt. Commissioners have been empowered to issue directions in individual cases for guidance of Income-tax Officers.
- (xi) The provision relating to prosecution for tax offences have been tightened up so as to be really deterrent. The discretion vested in courts to award monetary punishment as an alternative to rigorous imprisonment or to reduce the terms of imprisonment below the prescribed limit has been taken away. On conviction, a minimum term of rigorous imprisonment will now be unavoidable.
- (xii) An Income-tax/Wealth-tax Settlement Commission has been set up for settlement of tax cases. Once an assessee applies for settlement to the Commission, he is debarred from withdrawing his application subsequently and when the application is entertained by the Commission, its orders thereon will be final and non-justiciable.
- (xiii) The power of the Commissioner of Income-tax for reduction and waiver of penalties in cases of voluntary disclosure have been widened to encourage voluntary disclosures of concealed income/wealth.
- (xiv) The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 provides for forfeiture of illegally acquired properties of smugglers and foreign exchange manipulators.
- (xv) Demonetisation of high denomination bank notes brought out by "High-denomination Bank Notes (Demonetisation) Act, 1978." The inquiries made till the end of December 1978 indicates that in respect of 1604 declarations of the value of Rs. 360 lakhs, the source of amount tendered is not fully and satisfactorily explained and the statements made with regard thereto in the respective declarations cannot be accepted. Exact amount of concealed income in these cases will be known after completion of the relevant assessments.

Legislative measures have been reinforced by steps to strengthen the administrative and investigating machinery. An integrated approach is now being made to counter tax evasion through collection of intelligence, investigation, scrutiny of accounts, and searches. Some of the notable aspects of the Income-tax Department's drive against black money are indicated below :—

- (i) The Commissioners of Income-tax have been directed to make full use of the Intelligence Units to plan and carry out searches in their charges. They have also been directed to develop other methods of gathering information about tax evasion, apart from informants.
- (ii) The Commissioners of Income-tax have been asked to follow-up market reports about the collection of on-money on sale of scarce commodities, large investments in the acquisition of properties, malpractices in dealing with scarce imported materials etc., with a view to gathering specific information for taking further action by way of search or investigation as the facts may warrant. The Intelligence Units have been asked to keep special watch on transactions in real estate in which considerable black money generally passes.
- (iii) Powers of survey of the Income-tax Authorities have been enlarged to enable them to check cash, stock etc., and record statements. In this connection, the Commissioners of Income-tax have been directed to order surprise checking of stocks in the possession of manufacturers and trading concerns in order to detect unaccounted stocks which are built up with the help of black money.
- (iv) In order to expedite the completion of assessments in cases involving detailed investigations, including search and seizure cases, Special Investigations Circles are being set up in each Commissioner of Income-tax Charge. These Circles will be manned by IACS (Assessment) and Senior and experienced Income-tax Officers who have a flair for investigations.
- (v) Survey operations are being intensified. In this connection, 500 Additional Posts of Inspectors have been recently sanctioned for survey. The Cs. I.T. have been directed to utilise these Inspectors exclusively for survey.
- (vi) The Cs.I.T. have also asked to prepare a list of such cases in their charges which should be transferred to the Central Charges for intensive investigation. The number of Charges of CIT (Central) has been increased from 5 to 11 in Financial year 1978-79.
- (vii) The drive for educating the tax-payers has been intensified. Short courses for imparting training to the Officers in search operations and in processing prosecution cases are being held at various places.
- (viii) The machinery for collection, collation and dissemination of useful information both for discovering new assesseees and for locating concealment in the cases of already existing assesseees is being streamlined.

The fight against black money is a continuous one and no single or once-for-all step can be a substitute for sustained and vigorous effort to prevent tax evasion. As may be seen from what is stated above there has been no let-up in the drive against black money.

[Ministry of Finance (Department of Revenue) O.M. No. 241|2|79—A&PAC dated 16-11-79].

### Recommendation

In paragraph 2.28 of its Report (December 1971), the Direct Taxes Enquiry Committee (Wanchoo Committee) had pointed out that the total income disclosed in all the three Voluntary Disclosure Schemes put together was a mere Rs. 267 crores. Total tax yield thereon was stated to be Rs. 61.23 crores. In paragraph 2.31 of their Report, the Wanchoo Committee had strongly opposed the idea of the introduction of any general scheme of disclosure of concealed income "either now or in the future" because they were convinced that "any more disclosure schemes would not only fail to achieve the intended purpose of unearthing black money but would have deleterious effect on the level of compliance among the tax paying public and on the morale of the administration. Government decided to accept this recommendation. Earlier, the Public Accounts Committee too had felt that these schemes had not gone far in achieving the objectives and had, in paragraph 1.69 of their 17th Report (Fourth Lok Sabha), recommended that "while adopting adequate administrative safeguards to arrest tax evasion, it would be well worthwhile to adopt measures which will make evasion unrewarding and unattractive." That, the Committee pointed out "would be to forest all the malady rather than to allow the malignancy of evasion to grow and seek its cure by voluntary disclosure schemes". These recommendations were either 'noted' or 'accepted' by the Government. In spite of Government noting or accepting the PAC's recommendations a new scheme of Voluntary Disclosure of Income and Wealth was launched by Government by promulgating a Presidential Ordinance on 8 October, 1975 with the twin objectives to "offer an opportunity to persons who had evaded tax in the past to declare their undisclosed income and wealth, pay tax thereon on a reasonable basis and return to the path of rectitude" and to secure "channelisation of black money secreted by tax evaders into productive fields in the overall interest of the economy". The Committee have been informed by the Ministry of Finance that the considerations which weighed with Government in introducing the Voluntary Disclosure of Income and Wealth Scheme, 1975 were (i) the instrument of searches can not, by itself, be effective in dealing with the problem of black money, (ii) cases unearthed as a result of searches had to be processed according to various assessment and appellate procedures which are time consuming and often involve prolonged litigation, (iii) tempo of searches cannot be kept up indefinitely as this puts very severe strain on tax administration resulting in neglect of other important work. The Taxation Laws (Amendment) Act 1975, conferred wider powers on the Department to conduct searches and seizures. Punishment for taxoffences was made more stringent. The Finance Secretary stating during evidence that "circumstances were thus propitious for the introduction of voluntary disclosure scheme." Government have, however, admitted that they have no means of evaluating the extent to which Voluntary Disclosure Schemes of 1951, 1965 and 1975 have served to mop up black money."

The Committee are dismayed that the problem of black money in the country has not been tackled effectively. They recommend that Government should take suitable drastic measures to tone up Direct Tax Administration rather than lean on schemes of voluntary disclosure which are of dubious value to revenue while they have a distinct demoralising effect on the honest tax-payer.

[S. No. 3 (Para No. 199) of the Appendix IV to the 123rd Report of the PAC (Sixth Lok Sabha) (1978-79)].



### Action Taken

The fight against black-money is a continuous one and no single or once for all step can be a substitute for sustained and vigorous effort to prevent tax evasion. The Government have been taking various legislative measures from time to time to check tax evasion and generation of black money. These legislative measures have been reinforced by steps to strengthen the administrative and investigation machinery. Some of the administrative measures taken by the Income-tax Department in its drive against black money are indicated below :—

- (i) The CsIT have been directed to make full use of the Intelligence Units to plan and carry out searches in their Charges. They have also been directed to develop other methods of gathering information about tax evasion, apart from informants.
- (ii) The CsIT have been asked to follow-up market reports about the collection of on-money on sale of scarce commodities, large investments in the acquisition of properties, mal-practices in dealing with scarce imported materials etc., with a view to gathering specific information for taking further action by way of search or investigations as the facts may warrant. The Intelligence Units have been asked to keep special watch on transactions in real estate in which considerable black money generally passes.
- (iii) Powers of survey of the Income-tax Authorities have been enlarged to enable them to check cash, stock etc., and record statements. In this connection, the CsIT have been directed to order surprise checking of stocks in the possession of manufacturers and trading concerns in order to detect unaccounted stocks which are built up with the help of black money.
- (iv) In order to expedite the completion of assessments in cases involving detailed investigations, including search and seizure cases, Special Investigations Circles are being set up in each CIT charge. These Circles will be manned by IAC (Assessment) and Senior and experienced ITOs who have a flair for investigations.
- (v) Survey operations are being intensified. In this connection 500 Additional posts of Inspectors have been directed to utilise these Inspectors exclusively for survey so that the survey operations can be conducted effectively.
- (vi) The CsIT have also been asked to prepare a list of cases in their charges which should be transferred to the Central Charges for intensive investigation. The number of charges of CIT (Central) has been increased from 5 to 11 in Financial Year 1978-79.
- (vii) The drive for educating the tax-payers has been intensified. Short courses for imparting training to the Officer in search operations and in processing prosecution cases are being held at various places.

- (viii) The machinery for collection, collation and dissemination of useful information both for discovering new assesseees and for locating concealment in the case of existing assesseees is being streamlined.

[Ministry of Finance (Department of Revenue) O.M. No. 241|2|79—A&PAC dated 16-11-79].

### **Recommendation**

The Committee also understand that in Bombay, only 5 Architects, 12 Engineers, 36 Lawyers, 64 film artists and 278 doctors had filed declarations under section 3(1) of the Voluntary Disclosure Scheme, 1975 disclosing an income of only Rs. 2.74 crores. On the basis of these facts, the Committee cannot but conclude that the Voluntary Disclosure Scheme, 1975 had woefully failed to attract big industrial houses and even professionals, who are in high income brackets.

[S. No. 5 (Para 201) of the Appendix IV to the 123rd Report of the PAC (1978-79) (Sixth Lok Sabha)].

### **Action Taken**

Kind attention of the Committee is invited in this regard to the Ministry's replies to paras 197 and 199 of this Report which were sent to them vide O.M. of even number dated the 16th November, 1979. As brought out therein, the Government have been taking various legislative and administrative measures from time to time to check tax evasion.

[Ministry of Finance (Department of Revenue) O.M. No. 241|2|79—A&PAC dated 15-1-1980].

### **Recommendation**

The Committee note that while passing an order under section 132(5) of the Income-tax Act, 1961 in a case in Madhya Pradesh where Cash amounting to Rs. 2.72 lakhs was seized in February 1974 from one of searched premises of an assessee, the income-tax officer determined the income from undisclosed sources at Rs. 2.86 lakhs and the amount of tax payable thereon as Rs. 2.36 lakhs. In pursuance of this Notice, the assessee filed (March 1974) revised returns of income including therein the aforesaid undisclosed income. Later the assessee filed declaration on 31-12-1975 under the Voluntary Disclosure Scheme, 1975. The declarations are open to question because these were in respect of income which was already known to the Department. Audit have pointed out that incorrect acceptance of these declarations has resulted in abandonment of tax of Rs. 1.92 lakhs, interest of Rs. 7,990 and penalty of Rs. 2.58 lakhs (total Rs. 4.58 lakhs).

The Committee have been informed that this case is being further examined. The Committee would like to be apprised of the outcome.

The Committee would also like to know whether there are any more cases of this type meriting reconsideration and, if so, whether suitable action has been initiated in all such cases.

[S. No. 10 (Para 206) of the Appendix IV to the 123rd Report of the PAC (1978-79) (Sixth Lok Sabha)].

### Action Taken

The recommendation of the Committee is under consideration of the Ministry. Further reply may kindly be awaited.

[Ministry of Finance (Department of Revenue) O.M. No. 241|2|79—A&PAC dated 22-2-1980]

### Further Information

Kind attention of the Committee is invited to the Ministry's Office Memorandum of even number dated the 22nd February, 1980.

2. The amount of 'abandonment of tax' of Rs. 1.92 lakhs seems to have been arrived at by deducting Rs. 79,492 being the tax shown in the declaration under Section 14(1), from Rs. 2,72,180 cash seized in this case. This is not quite appropriate, as the cash seized cannot be equated with the tax chargeable.

3. In this case, a seizure of money and valuables was made in February, 1974 as a result of a search under Section 132 of the Income-tax Act. The assessee maintains accounts on financial year basis. He could, therefore, make a declaration under section 14(1) of the Voluntary Disclosure of Income and Wealth Ordinance, 1975 (now, Voluntary Disclosure of Income and Wealth Act, 1976) in respect of any income relating to the financial year 1973-74 or any earlier previous year i.e. for and upto the assessment year 1974-75 provided the conditions specified in Section 14(1) were satisfied. A declaration purporting to be one under section 14(1) was actually made in December, 1975 for the assessment years 1965-66 to 1971-72 and 1973-74 for income aggregating to Rs. 2.31 lakhs. This income had been included in the returns of income filed earlier in compliance with notices issued under section 148 for assessment years 1965-66 to 1971-72 and under section 139(5) for the assessment year 1973-74. In view of clause (b) of sub-section (1) of Section 14 of Voluntary Disclosure of Income and Wealth Act, the said income could not form the subject matter of a declaration under section 14(1) and the declarant was accordingly not entitled to the immunities available under Section 14 with respect to payment of penal interest and imposition of penalty etc.

4. In the order under section 132(5) made on 17-3-1974 in the assessee's case, the income from undisclosed sources was estimated in a summary manner at Rs. 2.86 lakhs; the amount of tax payable thereon at the rates in force in the financial year 1973-74 (the financial year in which the assets were seized) being Rs. 2.36 lakhs. Subsequently, after discussion with the Commissioner of Income Tax, the assessee offered income aggregating to Rs. 5.84 lakhs for assessment in the assessment years 1965-66 to 1974-75 which included Rs. 2.86 lakhs income from undisclosed sources estimated earlier in his case under section 132(5) besides other undisclosed income and filed returns of income accordingly in March/April, 1974. Assessments for the Assessment Years 1965-66 to 1974-75 were made on the basis of these returns and tax realised thereon. There was, therefore, no abandonment of tax as such by the incorrect acceptance of the declaration, vis-a-vis the revised returns.

5. In February, 1980 the Income-tax Officer has passed orders under section 154 charging requisite penal interest and initiating penal proceedings. The assessee has appealed against the said orders.

6. As regards other cases of this type, it may be stated that Internal Audit pointed out some instances in which declarations made under the Voluntary Disclosure of Income and Wealth Act, 1976 after the issue of statutory notices, were accepted. The Commissioners of Income-tax were advised to take appropriate remedial action in such cases.

[Ministry of Finance (Department of Revenue) O.M. No. 241|2|79- A&PAC dated 7-5-1980].

### **Recommendation**

The Committee are unable to accept the claim of Government that the total amount of wealth disclosed under the Voluntary Disclosure Scheme of 1975 amounted to Rs. 841.72 crores. As pointed out in the Audit paragraph, "in returning the amount of net wealth declared the amount disclosed in a declaration against different assessment years was multiplied by the number of assessment years." The representative of the Department of Revenue also conceded in evidence that "actual addition to economy or net wealth is not Rs. 841 crores but it may be of the order of Rs. 200 crores". Though the Committee were assured in evidence that "there was no intention to misdirect or misinform," the Committee are unable to dispel their suspicion that a deliberate attempt was made to magnify the achievements of this scheme nearly four times and thereby mislead Parliament and the people. The Committee recommend that an independent enquiry should be conducted to fix responsibility for this wilful distortion of facts.

[S. No. 11 (Para 207) of Appendix IV to the 123rd Report of the Public Accounts Committee (1978-79) (Sixth Lok Sabha)].

### **Action Taken**

The requisite enquiry was entrusted to Shri J. P. Kacker (formerly, Secretary, Department of Expenditure and now Member of the Commission on Public Expenditure). As the matter has since been referred to the Committee of Privileges of the Rajya Sabha for examination, investigation and report, the Rajya Sabha Secretariat have been requested to advise if it would be in order for Shri Kacker to go ahead with the completion of his report, furnish it to the Government and for this Ministry to forward the same to the Lok Sabha Secretariat with its comments, if any, and that this would not involve breach of privilege|contempt of the Rajya Sabha|Rajya Sabha Committee of Privileges. The Rajya Sabha Secretariat have intimated that the matter will be placed before the Chairman of the Committee of Privileges for his consideration.

Further action will be taken on receipt of a advice from the Rajya Sabha Secretariat.

[Ministry of Finance (Department of Revenue) O.M. No. 241|2|79—A&PAC dated 16-11-79]

### Further Information

Kind attention of the Committee is invited to the Ministry's reply sent vide O.M. of even number dated the 16th November, 1979 wherein they were informed that the requisite enquiry had been entrusted to Shri J. P. Kacker formerly Secretary, Department of Expenditure and later, Member of the Commission on Public Expenditure.

2. After detailed examination, Shri Kacker has found inter alia, that the method of computation of net wealth adopted was in consonance with the practice followed by Audit, and that there was no evidence in the files to show that there was any pressure to present inflated figures. He has reached the conclusion that there is no ground for suspecting any mala fides in the computation of figures for presentation to the Parliament.

3. The Government have accepted Shri Kacker's findings. This issues with the approval of the Secretary to the Govt. of India.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79—A&PAC —II, dated 2nd April, 1980].

### Recommendation

The Committee note that special squad survey had disclosed a number of cases where unaccounted investment in costly and luxurious construction, decoration or ornamental fittings, fixtures, furnishings and modern gadgets were noticed. The Committee understand that the question whether air-conditioners, geysers and other fixtures which cannot be moved about from place to place and from room to room by hand come within the ambit of Section 5(1)(viii) of the Wealth-tax Act or not is under consideration in the Central Board of Direct Taxes. The Committee would like an early decision being taken in this matter.

[S. No. 14 (Para 210) of the Appendix IV to the 123rd Report of PAC (1978-79) (Sixth Lok Sabha)].

### Action Taken

The question whether air-conditioners, geysers and other fixtures which cannot be moved about from place to place and room to room by hand come within the ambit of Section 5(1)(viii) was referred to Law Ministry for advice. The Law Ministry have advised that these would be entitled to exemption under section 5(1)(viii) of the Wealth-tax Act, 1957.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79—A&PAC dated 29-1-80].

### Recommendation

Yet another matter of concern to the Committee is that declarations of even those persons who failed to invest 5 per cent of the disclosed income in notified Government securities within the statutory limit of 30 days from the date of making the declaration, stipulated in Section 5(k) of the Scheme were accepted. A circular issued by the Central Board of Direct Taxes on 15-10-1975 made it clear that investment will have to be made in all cases within 30 days from the date of making the declaration and that no relaxation in this behalf will be permitted. In reply to Unstarred Question

No. 1092, the then Deputy Minister in the Ministry of Finance on 23-1-1976 informed the Lok Sabha inter-alia that "under Section 5(4) of the said Ordinance, investment in these Bonds is to be made by a declarant within 30 days from the date on which the declaration is made". But when a question was posed by some Commissioners that if the investment was made in approved Govt. securities after the lapse of 30 days from the date of declaration or the payment of tax was made beyond the time allowed, would it invalidate the declaration or not, in reply, the Board issued instructions in their Circular dated 10-2-1976 that such a declaration would not be invalidated. The Committee have been informed that Finance Minister's approval for the issue of these instructions was not obtained as "it was not considered necessary". What is even more surprising is that though the question was apparently one of the interpretation of law, the Board did not seek the advice of the Ministry of Law before the issue of the circular dated 10-2-1976. It was only subsequently that legal implications of this matter were examined in consultation with the Ministry of Law, Justice and Company Affairs.

Giving his opinion on the question, the Law Secretary stated that Section 8 of the Voluntary Disclosure of Income and Wealth Act, 1976 "does not state that the payment (of tax) should be made or the investments made within the time limit fixed for that purpose under Section 5. A payment does not cease to be a payment merely because it is beyond the time. The position is the same with regard to investment". In regard to this question, during evidence the representative of the Department of Revenue stated: "Unfortunately either the Act itself has left a lacuna, or this is the deliberate intention and deliberate decision of the legislature". It is difficult to understand how this lacuna was allowed to remain in the Act which defeated the very spirit of the Scheme.

[S. No. 16 (Para 212) of the Appendix IV to the 123rd Report of the PAC (Sixth Lok Sabha) (1978-79)].

#### **Action Taken**

The Hon'ble Committee have noted the Law Secretary's opinion that Section 8 of the Voluntary Disclosure of Income and Wealth Act, 1976 does not state that the payment (of tax) should be made or the investments made within the time limit fixed for that purpose under Section 5. A payment does not cease to be a payment merely because it is beyond the time. The position is the same with regard to investment.

2. However, as advised by Audit the ex-post-facto approval of the Minister of State (Direct Taxes) to the issue of the relevant instruction of the Board has been obtained.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79—  
A&PAC dated 16-11-79].

#### **Recommendation**

The Committee note the Government's gesture in issuing orders in January, 1976 for payment of one month's pay as reward to income tax

personnel in appreciation of the meritorious work stated to have been done by them for the success of the Voluntary Disclosure of Income and Wealth Scheme of 1975, the Committee also note that the reward was granted even to those categories of personnel who were not even remotely concerned with the implementation of this scheme as, for example, the Directorate of Inspection, Directorate of O&M Services, and the Indian Revenue Services (Direct Taxes) Staff College, Nagpur, Regional Training Institutes at Calcutta, Bombay, Bangalore and Lucknow and Hindi Officers. According to the Report of the Comptroller and Auditor General of India for the year 1976-77, Union Government (Civil) the total amount of reward granted is Rs. 1.46 crores. The Committee fail to appreciate the rationale of the reward scheme and particularly of the decision to reward even those who were not connected with the working of the Voluntary Disclosure Scheme of 1975.

[S. No. 17 (Para 213) of the Appendix IV to the 123rd Report (1978-79) (Sixth Lok Sabha)].

#### **Action Taken**

Consequent to the unprecedented success achieved under the Voluntary Disclosure Scheme in December, 1975 resulting in unearthing of the black money, the then Finance Minister made a spontaneous announcement on 1-1-1976 for the grant of rewards to all officers and staff of the Income-tax Department, as a gesture of appreciation of untiring work put in by them. Formal orders for the grant of reward equal to one month's basic pay were issued on 16-1-1976 copy enclosed as Annexure 'A'. Another letter was issued on 6-2-1976 (copy enclosed as Annexure 'B') extending the benefit of reward to the officers and staff serving in the Central Board of Direct Taxes and those wholly concerned with the administration of Direct Taxes in the Department of Revenue & Insurance (excluding the Insurance Wing).

The reward was sanctioned to the personnel of the Income-tax Department including the Central Board of Direct Taxes as a whole. It was a reward for team work and not in recognition of the services of any particular individual(s). It was immaterial whether the personnel were engaged directly or indirectly in the working of the Scheme. Any attempt to assess the individual contribution to success of the Voluntary Disclosure Scheme would have been unwarranted and futile. It would also have been unfair to deny the benefit of reward to a certain section of employees or the sole ground that they were not directly engaged in the working of the Voluntary Disclosure Scheme. Had any attempt been made to distinguish personnel who were directly engaged in the working of the Voluntary Disclosure Scheme from those who were not so directly engaged and if the reward had been given only to the former and not to the latter, the attempt would have led to unnecessary resentment and controversy and would, thus, have been a total failure. In these circumstances, there was no alternative but to grant the reward to all officers and staff of the Department as a whole.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79—  
A&PAC dated 16-11-70].

*ANNEXURE 'A'*

F. No. I-11013/1/76-Ad. IX

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Revenue & Insurance)

Dated, New Delhi, the 16th Jan., 1976

To,

All Accountants General  
including the—GCR

SUBJECT : Reward—Payment of Officers and staff of the Income-tax  
Department—

Sir,

I am directed to say that in appreciation of the meritorious work done by the Income-tax personnel for the success of the Voluntary Disclosure Scheme put into operation under the provisions of the Voluntary Disclosure of Income and Wealth Ordinance, 1975, the Government have decided to grant them reward of an amount equal to one month's basic pay. Accordingly, I am directed to convey the sanction of the President to the payment of reward equal to one month's basic pay to—

- (a) the officers belonging to I.R.S. (Income-tax), the Income-tax Service (Class II), and the staff of the Income-tax Department, serving in the Central Board of Direct Taxes and the Ministry of Finance, Department of Revenue & Insurance (but excluding the Insurance Wing); and
- (b) the officers and staff, of the grades specified in the Annexure, who were holding posts in the following offices during the entire period from 1-10-1975 to 31-12-1975 including the period spent on leave other than leave of the kind mentioned in para 3 below :
  - (i) All charges of Commissioner of Income-tax.
  - (ii) The Directorate of Inspection (Income-tax), New Delhi.
  - (iii) The Directorate of Inspection (Investigation), New Delhi.
  - (iv) The Directorate of Inspection (Research, Statistics & Publications), New Delhi.
  - (v) The Directorate of Organisation & Management Services, New Delhi.



(vi) I.R.S. (Direct Taxes) Staff College, Nagpur and the Regional Training Institutes at Calcutta, Bombay, Bangalore and Lucknow.

2. For this purpose, basic pay means the pay, as defined in F.R. 9(21)(a)(i), drawn by the officers/staff on 1-1-1976.

3. This sanction does not cover officers and staff—

- (i) who were under suspension during any part of the period from 1-10-1975 to 31-12-1975 ;
- (ii) in respect of whom orders giving notice of retirement under FR 56(j) had been passed on any date prior to 1-1-1976 ;
- (iii) who had proceeded on leave after giving notice under F.R. 56(k) during the period from 1-10-1975 to 31-12-1975 ; and
- (iv) who were on leave preparatory to retirement during any part of the aforesaid period.

4. The expenditure involved during the current financial year will be met out of the grant of which the pay and allowances of the officers/staff are debitable.

5. This sanction issues in exercise of the powers conferred on this Ministry.

Yours faithfully,

Sd/-

(T. DUTT)

*Deputy Secretary to the Govt. of India.*

Copy forwarded to :

1. All Commissioners of Income-tax/The Director of Inspection (IT)/Inv./(RS&P), New Delhi/Director of O&M Services, New Delhi/The Director, IRS (Direct Taxes) Staff College, Nagpur.
2. I.F.A., Ministry of Finance (D/Rev. & Ins.), New Delhi.
3. P.S. to F.M./M(R&B)/FS|Chairman, CBOT|Members, CBOT|AS(A), JS(FTD), OSD, Min. of Finance (D/Rev. & Ins.), New Delhi.
4. DS(H.Q.), Min. of Finance (D/Rev. & Ins.), New Delhi.
5. S.O. (Ad. I/Cash/Ad. VI/Ad. VII).

Sd/-

(T. DUTT)

*Deputy Secretary to the Govt. of India.*

## ANNEXURE

(i) In the charges of Commissioners of Income-tax

Commissioners of Income-tax (Level-I)  
Commissioners of Income-tax (Level-II)  
Additional Commissioner of Income-tax  
Assistant Commissioners of Income-tax  
Income-tax Officers, Class I (Sr. Scale)  
Income-tax Officers, Class I (Jr. Scale)  
Income-tax Officers, Class II

which terms will include all officers of the Income-tax Department in the grades mentioned above having different functional designations,

Hindi Officers.

(ii) In the offices other than the charges of Commissioners of Income-tax, mentioned in para 1 of the sanction letter.

Directors  
Deputy Directors  
Inspecting Assistant Commissioner  
Officer on Special Duty (Legal)  
Specialist in Management Systems and Forms Design  
Assistant Directors (Class I other than those in the Directorate of O&M services)  
Assistant Director (Class II)  
Lecturers  
Hindi Officers  
Assistant Statistician (Income-tax)  
Assistant Directors  
Additional Assistant Directors  
Programmer

} In the Dte. of O&M Services  
} who are on deputation from the  
} I.T. Deptt. or from any of the  
} Directorates under the CBDT.

(iii) Non-gazetted staff of all grades in the charges of the Commissioners of Income-tax and in the other offices mentioned in para 1 of the sanction letter, excepting those on deputation to the Dte. of O&M Services from Departments other than the charges of the Commissioners or the Directorates under the C.B.D.T.

F. No. I-11013|1|76-Ad. IX

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

**(Department of Revenue & Insurance)**

*New Delhi, the 6th February, 1976*

To

The Accountant General,  
Central Revenues,  
New Delhi.

**Subject :—Reward—Payment of—Officers and staff of the Central Board of Direct Taxes and the Department of Revenue & Insurance dealing with matters concerning direct taxes administration**

Sir,

In continuation of this Ministry's sanction of even number dated 16-1-1976 granting reward to Income-tax personnel for the success of the Voluntary Disclosure Scheme, the Government have, for the same reasons, decided to grant reward, equal to one month's basic pay, also to the officers and staff, not already covered under para I(a) of the aforesaid sanction, serving in the Central Board of Direct Taxes and those wholly concerned with the administration of Direct Taxes in the Ministry of Finance, Department of Revenue and Insurance (excluding the Insurance Wing). Accordingly, I am directed to convey the sanction of the President to the payment of reward equal to one month's basic pay to the officers and staff as specified in the Annexure to this sanction letter, who were serving in the Central Board of Direct Taxes and the Department of Revenue and Insurance (excluding the Insurance Wing) in connection with the administration of direct taxes during the entire period from 1-10-1975 to 31-12-1975 (including the period spent on leave other than leave of the kind mentioned in paragraph 3 below).

2. For this purpose, basic pay means the amount of monthly pay to which a Government servant is entitled as on 1-1-1976 in term of FR.9(21) (a)(i). In respect of persons who were on leave on 1-1-1976, basic pay means the amount of monthly pay to which they would have been entitled in terms of FR.9(21)(a)(i) as on 1-1-1976 had they not been on leave.

3. This sanction does not cover officers and staff—

(i) who were under suspension during any part of the period from 1-10-1975 to 31-12-1975 ;

- (ii) in respect of whom orders giving notice of retirement under FR 56(j) had been passed on any date prior to 1-1-1976.
- (iii) who had proceeded on leave after giving notice under FR 56(k) during the period from 1-10-1975 to 31-12-1975; and
- (iv) who were on leave preparatory to retirement during any part of the aforesaid period.

4. The expenditure involved during the current financial year will be met out of the grant to which the pay and allowances of the officers|staff are debitable.

5. This sanction issues in exercise of the powers conferred on this Ministry.

Yours faithfully,

Sd/-

(T. Dutt)

*Deputy Secretary to the Govt. of India*

Copy forwarded to :

1. PS to A.S. (Admn.)|EFA|DS(HQ)|SO(Cash)|SO(Ad. I)
2. All officers|staff as specified in the Annexure.

Sd/-

(T Dutt)

*Deputy Secretary to the Govt. of India*

**Annexure to Letter F. No. I-11013/1/76-AD. IX**  
**DATED THE 6TH FEBRUARY, 1976**

1. Deputy Secretary (Administration) VI.
2. Deputy Secretary (Administration) VII.
3. Under Secretary (Administration) VI.
4. Under Secretary (Administration) VII.
5. Section Officers and staff of the following Sections :—
  - Administration VI.
  - Administration VI-A.
  - Administration VII.
  - Administration IX.
  - \* { Career Management. \* } Income-tax (Assessment-I)
  - { Income-tax (Judicial) } Income-tax (Assessment-II)
  - Income-tax (Budget)
  - Estate Duty
  - Wealth Tax
  - Income-tax (Coordination Cell)
  - Tax, Planning and Legislation
  - Income-tax (Investigation-I)
  - Income-tax (Investigation-II)
  - Income-tax (Investigation-III)
  - Income-tax (Audit & PAC-I)
  - Income-tax (Audit & PAC-II)
  - Foreign Tax Division
  - Direct Taxes (Implementation Cell) and 80 MM Cell.
6. Private Secretaries, Senior Personal Assistants, Personal Assistants, Stenographers and Class III/IV staff working with the officers specified in Para 1(a) of the sanction F. No. I-11013/1/76-Ad. IX, dated 16-1-1976, and the officers specified at Sl. Nos. (1) to (4) above.
7. Staff Car Driver attached to the Chairman, Central Board of Direct Taxes.
8. Section Officer and staff dealing with Direct Taxes administration in the Personnel Section.

## CHAPTER IV

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

#### Recommendation

The Committee would like to invite attention of Government to the fact that as far as back as 1967-68 the Public Accounts Committee had, in their 17th Report (4th L.S.) after referring to the fact that the rates of taxation on Corporate as well as non-corporate income in India were generally higher than in foreign countries, opined that "the Committee do not think that, in their effort to raise adequate resources for developmental purposes, Government are justified in creating a situation where partly, as a result of excessive rates of taxation large amounts of unaccounted money are found floating and the entire economic atmosphere gets vitiated and in the process the growth in the rate of collection of Direct Taxes is adversely affected". The Committee had also expressed the feeling that the present system of levy of taxes was "onerous and complicated" and that the collection to taxes has not been efficient. Otherwise there would, the Committee had pointed out, be no need to introduce Voluntary Disclosure Schemes. The Committee had, therefore, strongly urged that "the entire tax structure of the country should be critically examined in the light of the evils that have resulted from the present excessive rates of taxation and that the practice of advanced countries should be followed in order to avoid further provocation and temptation to assessees to evade their obligations to the public exchequer." In 1977, Government set up a Committee of Experts known as the Direct Taxes Laws Committee (Choksi Committee) to recommend measures to simplify and rationalise the direct tax laws with a view to making them readily comprehensible to tax payers, reducing litigation and thus subserving the interests of the national economy. The Report of Choksi Committee has been submitted to Government in October, 1978. The Committee observe that despite the recommendations of the Public Accounts Committee in their earlier reports cautioning the Government against the high rates of taxation, the budgetary policy of the Government has, since last year, shown a reverse trend. It is known fact that during 1974 when the maximum rate of income-tax was reduced, the proposed revenue in that year went up by about Rs. 200 crores. Similarly, in 1976, when the maximum rate was further reduced, the proposed revenue went up further by about Rs. 240 crores. The Committee have also observed that after the increase in the maximum rate of income-tax in the Budget for 1978-79, the revenue yield during that year was comparatively less. The results of the budgetary proposals for a further increase in the maximum rate of income-tax during 1979-80 are hardly likely to be any different. The recommendations of the Public Accounts Committee regarding lowering of the maximum rate of income-tax were supported by the committees

appointed by the Government, such as the Direct Taxes Enquiry Committee (Wanchoo Committee) and the Direct Tax Laws Committee (Choksi Committee). The Committee hope that the Government would take note of this trend in the collection of revenue directly resulting from the taxation policy of Government and re-appraise the taxation policy in the light of the aforesaid recommendations of the Public Accounts Committee and other committees appointed by Government in the past. They would like to be apprised of the action taken by Government on each of the recommendation of the Choksi Committee.

[S. No. 2 (Para 198) of the Appendix IV to the 123rd Report of the PAC (1978-79) (Sixth Lok Sabha)].

#### **Action Taken**

The recommendation made by the Public Accounts Committee for reducing the rates of income-tax is under consideration of the Government.

2. As regards the action taken on the recommendations made by the Choksi Committee in the Interim and Final Reports, some of the recommendations have been implemented through the Finance Act, 1978 and the Finance Act, 1979, the details of which are given in the annexure. The other recommendations are under consideration of the Government.

[Ministry of Finance (Department of Revenue) O. M. No. 241|2|79-  
A&PAC dated 16-11-79]

## ANNEXURE

Recommendations contained in the Interim and Final Reports of the Direct Tax Laws Committee (Chokshi Committee) which have been accepted and implemented by the Government.

### I. Recommendations in the Interim Report.

Sl. No.	Recommendation No.	Subject in brief	Enactment through implemented
1	2	3	4
1.	52	Statutory provision for approval of schemes of amalgamation in advance for the purposes of section 72A of the I.T. Act.	Finance Act, 1978
2.	58	Provision for deduction of tax at source from horse race winnings.  [The Committee had recommended deduction of tax at source from all the items of income referred to in section 2(24)(ix) of the I.T. Act.]	Finance Act, 1978
3.	102	Voluntary payment of advance tax.	Finance Act, 1978
4.	122	Objection by C.I.T. under the second proviso to section 245D(1) of I.T. Act made subject to review by Settlement Commission. Similar provision also made in the Wealth-tax Act.	Finance Act, 1979
5.	122	Objection by C.I.T. under the second proviso to section 245D (1) of I.T. act made subject to review by Settlement Commission. Similar provision also made in the Wealth tax Act.	Finance Act, 1979

### II. Final Report—Part I.

6.	165	Extension of the clubbing provisions in section 64 of the I.T. Act to cases where a minor receives income from a trust, where the trustees carry on business in partnership with others.	Finance Act, 1979
7.	166	Extension of clubbing provisions in section 64 of the I.T. Act to cases where the spouse receives income from a trust, where the trustees carry on business in partnership with others.	Finance Act, 1979
8.	167	“Income” to also include “loss” for the purposes of section 64.	Finance Act, 1979
9.	168	Extension of section 64(2) to cases where the individual makes a direct gift to the Hindu undivided family.	Finance Act, 1979
10.	185	Deduction in respect of donations to approved scientific research institutions.	Finance Act, 1979
11.	186	Deduction in respect of donations to approved institutions for carrying out rural development programmes.	Finance Act, 1979



1	2	3	4
12.	238	Section 4(1A) of the Wealth-tax Act amended to include gifts by individuals to Hindu undivided families.	Finance Act, 1979
13.	239	Provisions of section 4(3) of the Wealth tax Act extended to cases falling under section 4(1A) of the Wealth-tax Act.	Finance Act, 1979

Note: Under the Wealth-tax (Amendment) Rules, 1979, notified by the Central Board of Direct Taxes on 30th March, 1979, a new rule 1 BB has been inserted in the Wealth-tax Rules, 1957 for the valuation of house properties wholly or mainly used for residential purposes. The said rule broadly follows the same method of valuation of house properties as has been recommended by the Chokshi Committee in chapter 14 of their Interim Report.

#### Recommendation

Audit Paragraph has pointed out the case of a registered firm where declaration filed on 29-12-75 disclosing a concealed income of Rs. 20.68 lakhs was accepted even though the ITO, had already issued notices to the assessee under Section 148 of the Act on 15-11-75 and 17-11-75. In their reply to Audit, the Department has contended that as the notices in this case were served on the assessee firm after commencement of the scheme, it could make declarations under section 3(1) for these assessment years. The Committee feel that since the taxable income of the assessee was already known to the Department for which notice was served on him, his declaration under the Scheme could not be deemed as "Voluntary disclosure". If a declaration made under these circumstances was not vitiated and was held valid, it defeats the very purpose of the Schemes itself.

[S.No. 9 (Para 205) of the Appendix IV to the 123rd Report of PAC (Sixth Lok Sabha) (1978-79)]

#### Action Taken

The acceptability or otherwise of the declaration filed on 29-12-75 was to be decided only with reference to the provisions of Voluntary Disclosure of Income and Wealth Act, 1976. This declaration could be made under sub-section (1) of Section 3 of the said Act and was not hit by sub-section (2) thereof.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-A&PAC-II dated 16-11-79]

#### Recommendation

The Committee have been assured that "it is the aim of the Department to survey one and all the localities over a period of five years ending with March, 1981. The Commissioners are stated to have been advised to take stock of the survey operations and arrange this programme accordingly. In this connection the Committee recall that various aspects of survey work were also discussed at the last conference of the Commissioners of Income-tax held at New Delhi in May 1978. The Conference had stressed the need to deploy adequate number of inspectors for outdoor survey, and maintain in each charge a premises-wise Directory of Assessee. It was also decided that a complete list of houses should be obtained from the municipalities in order to check that no premises were left out. The Committee would like to be apprised of the progress made in this direction.

[S.No. 13(Para No. 209) of the Appendix IV to the 123rd Report of the PAC (Sixth Lok Sabha) (1978-79)]

#### Action Taken

The need for intensifying survey has been taken note of by the Government and for this purpose, the Government have recently sanctioned 500 additional posts of Income-tax Inspectors for survey operations. In addition, some of the Inspectors hitherto attached to Tax Recovery Officers are also being withdrawn and utilised for survey work.

2. In their Circular F. No. 415/3/79-IT (Inv.) dated 7-8-1979, the CBDT have enjoined upon the Commissioners the need for intensifying survey operations. The Commissioners have also been told that a census of high cost houses which have come up in various posh localities in big towns by a house to house survey is necessary for proper assessments of the owners for wealth tax purposes, and to unearth concealed income/wealth. Commissioners have been informed that useful information can also be gathered from various agencies such as Housing Boards, Co-operative Societies etc.

[Ministry of Finance (Department of Revenue) O.M. No. 241/2/79-A&PAC-II dated 15-11-79]

**CHAPTER V**  
**CONCLUSIONS OR RECOMMENDATIONS IN RESPECT OF WHICH**  
**GOVERNMENT HAVE GIVEN INTERIM REPLIES**

—NIL—

**NEW DELHI;**  
**March, 29, 1981**  

---

**Chaitra 9, 1903(S)**

**CHANDRAJIT YADAV,**  
*Chairman,*  
*Public Accounts Committee.*

**APPENDIX**

*(Consolidated Statement of Conclusions and Recommendations.)*

Sl. No.	Para No.	Ministry/Deptt. concerned	Recommendation/Conclusion
1	2	3	4
1	1.6	Ministry of Finance (Deptt. of Revenue)	<p>In their recommendations in paragraph 198, the Committee had pointed out that the past experience in the fiscal management was that high rates of taxation had proved counter-productive resulting in lower recovery of revenue and had expressed the hope that the Government would take note of this trend in the collection of revenue and re-appraise the taxation policy. The Committee had also desired to be apprised of the action taken by Government on each recommendation of the Chokshi Committee on Direct Tax Laws. In their Action Taken Note, the Department of revenue have assured that the recommendation of the Committee for reducing the Income-tax is under consideration of the Government. Further, it has been stated that 13 of the recommendations of the Chokshi Committee have been accepted and implemented so far and the other recommendations are under consideration of the Government. Considering the fact that the Report of the Chokshi Committee was presented to the Government as far back as October, 1978, the Committee would like the Government to take final decisions on the various recommendations of the Chokshi Committee expeditiously.</p>
2	1.9	Ministry of Finance (Deptt. of Revenue)	<p>The Committee had observed that the disclosure of an assessee whose taxable income was already known to the Department for which notice was served on him could not be deemed as 'Voluntary Disclosure' and by doing so the very purpose of the scheme was defeated. The Department of Revenue have maintained that the acceptability of the declaration was to be decided with reference to the provisions of Voluntary Disclosure of Income and Wealth Act, 1976 which allowed such disclosures. At this stage the Committee can only regret that a rather loose working of the provisions of the Act was taken advantage of by uncrupulous persons who had concealed their income but on receipt of notice of reopening of past assessment,</p>

1	2	3	4
			made disclosure (though in spirit not Voluntary) under this Act, thus defeating very purpose of the Voluntary Disclosure Schemes.
3	1.12	Ministry of Finance (Deptt. of Revenue)	<p>The Committee had desired to be apprised of the progress in implementing the decisions taken at the Conference of Commissioners of Income-tax held in May, 1978 regarding deployment of adequate number of Inspectors for out-door survey, maintaining premises-wise Directory of Assesseees and obtaining of a complete list of houses from the municipalities. While the Committee note that additional posts of Inspectors have since been sanctioned for the purpose of intensifying the outdoor survey, they are constrained to point out that the Action Taken Note does not specifically indicate the progress made in implementing the other two decisions. Moreover, the circular dated 7 August, 1979 referred to in the Action Taken Note, does not specifically require the maintenance of a premises-wise Directory of Assesseees and obtaining a complete list of houses from the municipalities. The Committee desire that suitable instructions should be issued to the Commissioners in this behalf so that the survey work is done methodically.</p>