

June 2, 1992.

Shri C.P.Ramaswamy  
Deputy Director of Income-Tax (Inv.),  
Head Quarter,  
Aaykar Bhavan,  
Bombay.

Dear Sir,

Sub : Action U/S 132 of I.T.Act 1961 - myself & my group  
Re : Disclosure of Income

This is further to my meeting on 01/06/92 with you and Shri S.N.L.Agarwala, Director of Income-Tax (Inv.) wherein I have stated my desire to co-operate on all pending matters with your department.

Since the time action was initiated by your department on 28/02/92, I and my group companies and family members have undergone a traumatic business situation wherein the following has happened :

(a) Stock Exchange Membership suspension

My and my wife Jyoti H. Mehta and my brother Ashwin S. Mehta are members of the Bombay Stock Exchange. Due to matters arising out of my money - market business, I have run into great difficulties. As a sequel to that, all the above memberships have been suspended by the exchange and no operations are permitted.

(b) Central Bureau of Investigation Probe

There were paper reports to suggest that CBI has initiated a probe into the affairs of NHB and SBI in money-market transactions with my firm. The CBI has under section 102 of Criminal Procedure Code froze all my Bank Accounts and those of my family members and group companies thereby paralysing day-to-day activities. The CBI has also seized shares and monies lying with the Bombay Stock Exchange pertaining to above three memberships. I have approached CBI and met Shri K. Madhavan, Dy. Director, assuring my full co-operation to them in the matter.

(c) Company Law

The Registrar of Companies has served my group companies with notices under section 209 A and also filed prosecution proceedings in the Metropolitan Court Bombay against my five companies and the Directors for not filing audited accounts under section 210 & 220 of the Companies Act, 1956.

(d) Loss of Business

Due to above events I and my group of companies have gone out of business. Besides, as you may be aware the main source of income in my group is under the head "capital gains" arising out of investment in shares. In last 40 days, the Stock Market has fallen drastically from an index level of 4500 to 3000 and the Stocks where our investments are large have taken a much higher beating thereby resulting in a total erosion in value of investments.

(e) Business Reputation

In the last 40 days due to developments I have suffered a great loss in my business reputation and the morals of my staff and family members have fallen causing great anxiety and effect on my health. Most of my staff members are likely to desert me.

As regards your departments is concerned, I have been expressing difficulties about breakdown in my accounting system creating huge backlog and arrears of work. There has been lapses in the maintainance of accounts and filing of returns due to this. While we were in the process of creating an accounting system to enable us to comply with the requirements and complete all arrears we had a search from your department and whole system got dislocated. This was the reason that when confronted with the inquiries made by your team I had no alternative but to plead for some more time to update our accounts. Today since I am giving explanation to so many departments, it will be difficult despite my best efforts and intentions to draw books of accounts to arrive at my assets and liabilities in a short period.

I sincerely request you to understand my position and guide me properly. On a preliminary estimate made by me without the aid of computers and my accounts, the income for the assessment years 1991-92 & 1992-93 of myself, all my family members and the group entities may workout to roughly Rs.100 Crores in excess of what has been the income equivalent to the advance tax of Rs.14.87 Crores paid for the assessment year 1991-92 & 1992-93. I would, therefore, like to give your department Rs. 100 Crores as estimate of additional income of group entities based only on estimates and offer that income for taxation under section 32 (4). The above income has been earned by us from Stock Market, Money Market operations, Interest, Dividends, etcetra and capital gains on long term investments.

Please favour me by guiding me on payment of taxes. I propose to make arrangement for payment of taxes despite all the difficulties being faced by me. My brother, Ashwin, will sit in your office and he may be allowed to go through all the documents and records seized as well as backup of my computer data. I hereby state that I have no intention of running away from the department. I am very grateful for the understanding of my problem as shown by you and your team in the course of search. I would like to furnish all the particulars as you may need with the assistance at your end by release of my computers.

Notwithstanding the problem, the difficulties and unfortunate situation being faced by me, I have decided to make serious efforts to rebuild my business and have decided to solve the problems on a war footing. I seek your guidance and advice in the matter.

In the meantime if you wish to seek clarification in any area, please let me know and I shall do my best possible.

Despite all my best efforts and intentions it will be difficult to draw books of accounts in a short period of time to arrive at true state of assets and liabilities and income. In a total spirit of co-operation I would therefore like to give your department an estimate of income based only on mental impressions and offer that income for taxation under section 132(4).

I also propose to make the payment of taxes immediately despite the above situations and get down to the task of clearing the backlog of accounts to comply with requirements at the earliest possible. For the purpose of early payment of taxes I propose to request CBI to defreeze my group accounts.

I would like to furnish all the particulars as you may need with the assistance at your end after release of my computers.

In the meantime if you wish to seek clarification, in any area, please let me know and I shall do my best possible.

Thanking you,  
Yours Faithfully,

SD/-

(Harshad S. Mehta)