28. Wealth Tax Act, 1957

Chargeability-Sec.3: Wealth tax is charged for every assessment year in respect of the net wealth on the corresponding valuation date of every Individual; Hindu Undivided Family and Company at the rate of 1% of the amount by which the net wealth exceeds Rs.15 Lakhs.

Education Cess of 3% is **not leviable** on the amount of Wealth Tax.

Applicability of wealth tax:

1. **Individual**:

   The following persons treated as 'individual' u/s 3 of the wealth tax.

   a) Legal hires of an Individual.
   b) Holder of an impartible estate.
   c) Hindu deities (it means formal a god/goddess)
   d) Trustees of a trust who are liable u/s 21A.
   e) Trade unions

2. **HUF**
3. **Company**
4. **AOP chargeable u/s 21AA :**

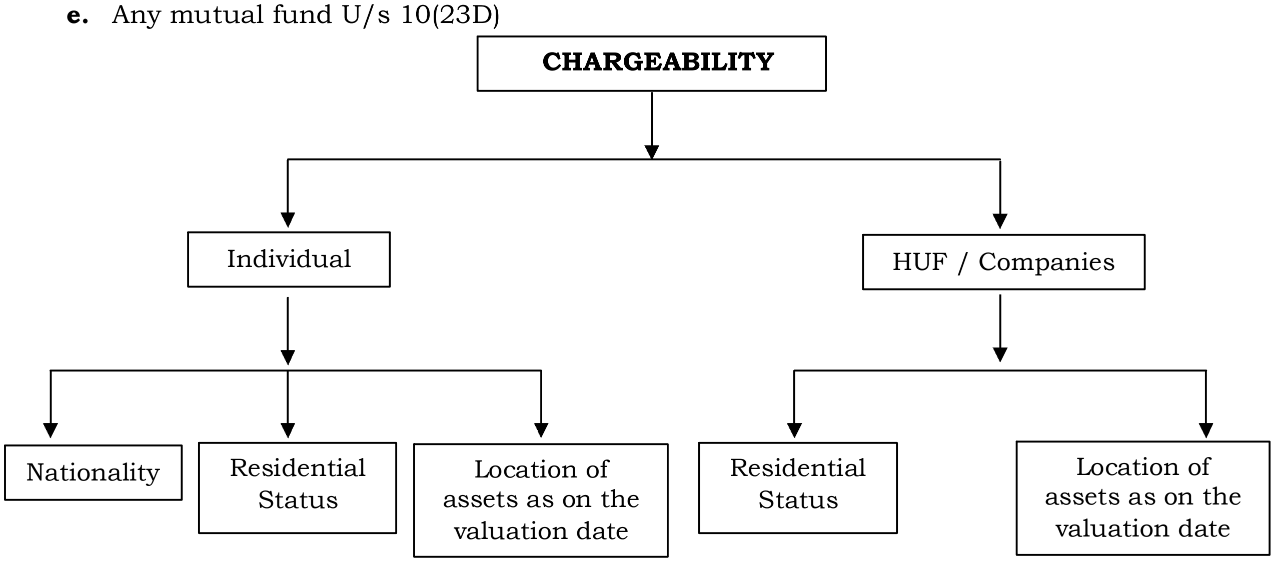
Situation	Wealth Tax assessment
Shares of members of an AOP are determinate or known.	Interest of members in the assets of the AOP shall be valued as per Rule 16 and 17 of Schedule III.
Shares of members of an AOP are indeterminate or unknown.	Wealth tax is levied on the AOP. It is liable to tax at the rate leviable upon and recoverable from an individual who is any Indian citizen and resident.

Valuation Date:

Sec.2 (q): It refers to the 31^{st} March immediately preceeding the assessment year.

This provision does not apply to –

a. Company registered U/s 25 of the companies Act, 1956
b. Co-operative society and
c. Any social club
d. Any political party
e. Any mutual fund U/s 10(23D)



Citizenship / Residential Status of the assessee in India	Assets Located		Debts incurred on assets	
	In India	Outside India	In India	Outside India
1. Individual who is an Indian National and HUF				
a) Resident and ordinarily resident	Taxable	Taxable	Deductible	Deductible
b) Resident but not ordinarily resident	Taxable	Not Taxable	Deductible	Not Deductible
c) Non-resident	Taxable	Not Taxable	Deductible	Not Deductible
2. Individual who is a Foreign National	Taxable	Not Taxable	Deductible	Not Deductible
3. a) Resident company:	Taxable	Taxable	Deductible	Deductible
b) Non-resident company.	Taxable	Not Taxable	Deductible	Not Deductible

Nature of property or debts and identification of its location

Nature of property / Debts	Location
Any immovable property or any rights or interest on immovable property.	Property lies in India
Movable property or any rights or interest on movable property.	Property located in India
Debts, Secured or Unsecured	Repayment in India or debtors is residing in India
Boats or Air craft or Motor Car or Vehicle	Registered in India

Computation of Net wealth:

Particulars	Rs.
Assets specified in Sec. 2(ea) chargeable in the hands of assessee	xxxx
Add: Deemed asset in the assessee's hands u/s 4	xxxx
Less: Aggregate value of all the debts owed by the assessee on the valuation date incurred **in relation to** the above said assets	(xxxx)
Less: Assets exempt u/s 5	(xxxx)
Net wealth as per Wealth Tax Act	xxxx

Rounding off Tax-Sec.44D:

The amount of wealth tax, interest, penalty, fine or any other some payable under the Wealth Tax Act shall be rounded off to the nearest rupee.

1. **ASSET - Sec. 2(ea):**

   "Asset", in relation to the assessment year commencing on the 1st day of April, 1993, or any subsequent assessment year, means: -

   a) **Building :**

   Any building or land appurtenant thereto, whether used for

   - Residential purpose or

   - Commercial purposes or

   - For the purpose of maintaining a guest house [including a farm house situated within twenty-five kilometers from the local limits of any municipality)

   But does not include -

   ➢ Residential house is allotted by a company to

   - an employee or

   - an officer or

   - a director who is in whole-time employment, having a gross annual salary of less than five lakh rupees;

- any house for residential or commercial purposes which forms part of stock-in-trade:
- any house which is occupied by the assessee for the purposes of any business or profession carried on by him;
- any residential property which is let out for a minimum period of 300 days in the previous year;
- any property in the nature of commercial establishments or complexes.

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Building owned by partners but used in firms business is deemed to be used by the assessee for his own business or profession – Not an asset chargeable to tax.

b) Motor Cars:

Motor cars other than those used by the assessee in the business of running them on hire or as stock-in-trade

Southern Roadways Ltd (Mad.)
Motor Cars covers all motor vehicle other than heavy vehicles. Hence, buses, trucks, tempos are not considered as Motor Cars, However, Jeep, Sport Utility Vehicle (SUV), Multi Utility Vehicle (MUV), are classifiable as Motor Car.

c) Jewellery:

Jewellery, bullion, furniture, utensils or any other article made wholly or partly of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals;

Exclude:
Provided that where any of the said assets is used by the assessee as stock-in-trade, the gold deposit bonds issued under the Gold Deposit Scheme, 1999 notified by the Central Government.

d) Yachts, Boats and Air crafts:

Yachts, boats and aircrafts other than those used by the assessee for commercial purposes;

Gareware Wall Ropes Ltd. Vs. CIT (Mum.)
Aircraft used by the Assessee for its own business shall be treated as commercial purpose. For example, aircrafts used for transporting goods of the assessee, or carrying its Directors of Executives of Employees, shall not be treated as used for commercial purpose.

e) Urban Land:

Urban land situated in specified area 'specified area' definition given u/s.2(1A) of Income-tax Act applies

- Situated within municipality, etc. which has a population of not less than 10,000 as per latest census on the first day of previous year.
- Situated within 8 kilometers from the notified local limts.

Urban land does not include -

- land on which construction of a building is not permissible under any law for the time being in force in the area in which such land is situated; or
- land occupied by any building which has been constructed with the approval of the appropriate authority; or
- any unused land held by the assessee for industrial purposes for a period of two years from the date of its acquisition by him; or
- Any land held by the assessee as stock-in-trade for a period of ten years from the date of its acquisition by him.

f) Cash in Hand:
Cash in hand, in excess of Rs. 50,000/- for individuals and Hindu undivided families and in the case of other persons, any amount not recorded in the books of account.

Deemed Assets:

a) Transfer to spouse/son's wife - Sec. 4(1)(a):

Assets transferred by the assessee in the following circumstances for inadequate consideration to the persons mentioned below shall be deemed as assets belonging to him for computation of net wealth.

- Assets transferred to spouse not in connection with an agreement to live apart.
- Assets transferred to a person or association of persons for immediate or deferred benefit of the transferor or transferor's spouse.
- Assets transferred to the son's wife.
- Assets transferred to a person or an AOP for immediate or deferred benefit of the son's wife.

The above assets shall be deemed to be assets of the transferor even if they are not held in the form in which they were transferred.

b) Clubbing of minor's wealth:

Assets held by minor child. [Sec. 4(1)(a)(ii)]

The assets held by the minor child will be clubbed in the hands of parent as indicated below.

- **If the marriage subsist:** In the hands of the parent whose net wealth is greater before including the minor's asset,
- **If the marriage does not subsist**: In the hands of the parent who maintains the minor child in the relevant previous year.

Exception:

a. Assets held by a minor child who is suffering from any disability as specified U/s 80U of the Income Tax Act, 1961.

b. Assets held by a minor married daughter

c. Assets acquired by a minor child out of the Income from manual work done by him or income from activity involving application of his skill, knowledge or experience.

d. Child means legitimate child and includes adopted children.

c) Interest in the assets of firm or AOP - Sec. 4(1)(b):

Where the assessee is a partner in a firm or a member of an AOP, the value of interest the assets of the firm or the AOP is included in the net wealth of the assessee. Where a minor is admitted to the benefits of partnership in a firm, the value of the interest of such minor in the firm shall be included in the net wealth of the parent of the minor in the manner stated above.

d) Transfer or conversion by member of HUF - Sec. 4(1A):

Where an individual converts his self-acquired property into property belonging to family or transfers the property to the family for inadequate consideration, it shall deemed to be the asset of the individual. If partition takes place, the converted property as received by the spouse shall be deemed to be the assets of the individual.

e) Assets transferred under a revocable transfer - Sec. 4(5):

The value of any assets transferred under an irrevocable transfer shall be liable to be included in computing the net wealth of the transferor as and when the power to revoke - arises to him. This implies that the value of any asset transferred under a revocable transfer shall be liable to be included in computing the net wealth.

Revocable transfer means the following transfers in accordance with explanations sec.4:

- Transfers revocable within a period of 6 years.
- Transfers revocable during the lifetime of the transferee.
- Transfers where the transferor continues to derive the benefit from the asset, directly or indirectly.
- Transfer of an asset where the transfer deed provides for the retransfer of either the income or the asset to the assessee.
- Transfer of an asset where the transfer deed gives the transferor assessee a right to reassume power over the asset or the income.

f) Gift by book entries - Sec. 4(5A):

Gifts of money by book entries made in the books maintained by the assessee to any other - person with whom he has business relationship or any other relationship it shall be deemed to be his asset unless the Assessing Officer is satisfied that money has actually been delivered to the other person at the time the entries were made.

g) Impartible Estate - Sec. 4(6):

Holder of an impartible estate shall be deemed to be the individual owner of all the properties comprised in the estate.

h) Building allotted by Housing Society - Sec. 4(7):

Where the assessee is a member of a co-operative housing society or a company or any association of persons to whom a building or part thereof is allotted or leased to him under a house building scheme, the assessee is deemed to be the owner of such building or part thereof. In determining the value of such building any outstanding installments payable by the assessee to the society towards the cost of such building or part thereof shall be deductible as debts owed by the assessee.

Exemption in respect of certain assets - Sec.5:

Wealth-tax shall not be payable by an assessee in respect of the following assets and such assets shall not be included in the net wealth of the assessee:

1. **Charitable / Religious institutions / fund / trust:**

   Property held under trust for public purpose of charitable/religious nature in India - (excluding assets of business other than business carried on by an institution/fund, etc referred to in Sec.s 10 (23B), and (23C) and business referred to in Sec. 11 (4A) (a)/(b) of the Income-tax Act;

2. **Member of HUF:** Interest in coparcenary property of HUF;

3. **Ex - Ruler:**

   a) **Building:**

   Any one building (being official residence) in the occupation of a Ex- Ruler; However let out building are not entitled for exemption.

   b) **Jewellery:**

   Jewellery in possession of Ruler, recognised as his heirloom subject to the following conditions.

   - The jewellery shall be permanently kept in India and shall not be remove outside India except for purpose and period approved by the Board;
   - Reasonable steps shall be taken for keeping the jewellery substantially in its original shape;
   - Reasonable facility shall be allowed to any Officer of Government authorize by Board to examine such jewellery.

   In case any of the above conditions are not fulfilled the Board may retrospectively withdraw the recognition after recording the reasons in writing.

4. **NRIs returning to India for permanent residence:**

   Money/assets brought by person of Indian origin/citizen of India (returning from abroad for permanent residence) into India and assets acquired out of such money within one year preceding date of return and at any time later. Such exemption is available for **7 successive assessment years** from the date of his arrival in India. The money standing to the credit of such person in NR(E) account would also be eligible for such exemption. Assets acquired out of such balance in NR(E) account gets exempted is the same manner;

5. **Individual / HUF:**

   In case of an **Individual** or a **HUF-**

   a) a house or a part of house; or

   b) a plot of land not exceeding 500 sq.meters in area.

Valuation of Immovable Property

Step- I: Gross maintainable rent:		
If property is not let out then annual value assessed; if no such assessment then annual rent (fair value) (or) If the property is let out then annual rent or annual value assessed by local authority whichever is higher;		XXX
The Annual rent shall be computed as below.		
Actual rent received or receivable	XX	
Add:		
a. The amount of taxes borne by the tenant, if any	XX	
b. If the repairs are borne by tenant; 1/9th of actual rent.	XX	
c. If any deposit is accepted (not being rental advance; if any, for 3 months or less) amount calculated at 15% per annum as reduced by actual interest paid.	XX	
d. If premium for leasing of the property is received – amount obtained by dividing the premium by the number of years of the period of lease.	XX	
e. The value of any benefit or perquisite derived as consideration for leasing of the property.	XX	
f. Any sum paid by a tenant or occupier in respect of any obligation payable by the owner.	XX	
Annual Rent.(GMR)	XXX	
Step -II Net maintainable rent:		
Gross maintainable rent		XX
Less:		
a. Municipal tax levied by local authority	XX	
b. A sum equal to 15% of the gross maintainable rent	XX	XXX
Net maintainable rent (NMR)		XXX
Step III – Valuation by capitalization:		
A. If the property is constructed on free hold land then the value = NMR x 12.5		XXX
B. If such property is constructed on lease hold land, then		
i. Where the unexpired lease period is 50 years or more, the value is equal to NMR x 10.0		XXX
ii. Where the unexpired lease period is less than 50 years, the value is equal to NMR x 8.0		XXX

Step IV – Further adjustments to be made:

To the value arrived at in step III, the following adjustments shall have to be made:

Value as computed under step III		XXX
a) If the unbuilt area of the plot of land on which the property is constructed exceeds the specified area, addition is to be made on the following basis i.e., (UBA- SA)		
If the excess is –	Addition to be made,	
above 5% upto 10%	20% of the above value	
above 10% upto 15%	30% of the above value	
above 15% upto 20%	40% of the above value	
Above 20% of the aggregate area	This rule is not applicable	XXX
b) Adjusted NMR		XXX

Step V: Deduction of unearned increase:

Particulars	Rs.	Rs.
Adjusted Net Maintainable Rent		XXX
Deduct the least of the following: **1.** Amount liable to be claimed and recovered as unearned increase or **2.** An amount equal to 50% of the value arrived in SNMR	 XXX XXX	 XXX
Value of immovable property as per Wealth Tax Act.		XXX

Conditions for deduction:

1. The property should be constructed on a leasehold land and the lease is obtained from the Government or local authority referred in Sec. 10(20A) of Income Tax Act.
2. The term of the lease provides entitled to claim and recover a specified part of the unearned increase in the value of the land at the time of transfer of the property.

The definitions which are relevant for the purpose of calculating premium on the basis of excess un built area are as follows:

'Aggregate area' in relation to the plot of land on which the property is constructed, means the aggregate of the area on which the property is constructed and the un built area.

'Un-built area' in relation to the aggregate area of the plot of land on which the property is constructed, means that part of such aggregate area on which no building has been erected.

'Specified area' is determined as follows:

Location of Property	Specified Area
a. Mumbai, Calcutta, Delhi or Chennai	60% of the aggregate area
b. Agra, Ahmedabad, Allahabad, Amritsar, Bangalore, Bhopal, Cochin, Hyderabad, Indore, Jabalpur, Jamshedpur, Kanpur, Lucknow, Ludhiana, Madurai, Nagpur, Patna, Pune, Salem, Sholapur, Srinagar, Surat, Tiruchirapalli, Trivandrum, Vodadara (Baroda) or Varanasi (Benaras)	65% of the aggregate area
c. Any other place	70% of the aggregate area

Where, under any law inforce, the minimum area of the plot of land required to be kept as open space for the enjoyment of the property exceeds the specified area, such minimum area shall be deemed to be the specified area.

'**Unearned increase**' means the difference between the value of such land on the valuation date as determined by the Government or such authority for the purpose of calculating such increase and the amount of the premium paid or payable to the Government or such authority for the lease of the land.

BUILDINGS

Only one house property self-occupied throughout the 12 months

Property acquired before 01.04.74

Schedule III value as on 31.3.71 or as on the first valuation date after the assessee has assessee has become the owner, whichever is later shall be adopted as the value for wealth tax purposes for all the assessment years. (This is known as pegging down of value).

Property acquired after 31.03.74

The benefit of pegging down the value is permissible only if the cost of acquisition together with improve-ment does not exceed–

a. Rs.50 lakhs if it is Delhi, Bombay, Calcutta, Madras.

b. Rs. 25 lakhs if it is in other places.

Otherwise, it shall be treated at par with other properties.

Other Properties

Property acquired before 01.04.74

Schedule III Value as on the relevant valuation date shall be adopted.

Property acquired after 31.03.74

Schedule III value as on the relevant valuation date (or) the cost of acquisition together with improvement, whichever is higher shall be adopted.

Rule 14 – Assets of Business:

a. Where the assessee is carrying on business for which accounts are maintained by him regularly, the net value of the assets of the business as a whole, having regard to the balance sheet of such business on the valuation date, shall be taken for wealth tax purposes. For this purpose of valuation, the value of any asset as disclosed in the balance sheet shall be taken to be as follows:

i. Depreciable asset (eg. Motor Car): WDV value

ii. Non depreciable asset (eg. Urban Land) : Book value

iii. Closing stock (e.g Urban Land held as stock-in-trade beyond 10 years after purchase): Value adopted for IT purpose.

However, if the value of any of these assets determined in accordance with the relevant Rule of Schedule III which is applicable to that asset and if no Rule is applicable, the fair market value determined in accordance with Rule 20, exceeds the above value by more than 20%, then the higher value shall be taken to be the value of that asset.

The above provision is summarized as follows:

Steps	Particulars	Amount
I.	Value of assets as per Balance Sheet **1.** Depreciable Assets – WDV **2.** Non-Depreciable Assets – Book Value **3.** Closing Stock – Value as per I.T Act	Step I value
II.	Add 20% to the value determined in step I	Step II value
III.	Value as per Schedule 13 Rules **1.** House Property – Rule 3 **2.** Life Interest – Rule 17 **3.** Jewellery – Rule 18 & 19	Step III Value

	4. Other Assets – Rule 20 & 21	
IV.	Compare step III with step II **1.** If Step III > Step II **2.** If Step II > Step III	Value as per Step III Value as per Step I.

b. The value of an asset not disclosed in the balance sheet shall be taken to the value determined in accordance with the provisions of Schedule III as applicable to that asset.

c. The value of the following assets, which are disclosed in the balance sheet, shall not be taken into account:

i. Advance tax paid;

ii. Bad debt allowed as a deduction under Income-tax Act;

iii. Assets on which wealth-tax is not payable;

iv. Debit balance of profit and loss account;

v. Any asset not relating to the business.

d. The following amounts shown as liabilities in the balance sheet shall not be taken into account.

i. Capital employed other than borrowed fund

ii. Reserves

iii. Any provisions for meeting future or contingent liability

iv. Liability not pertaining to the business

v. Liability to the extent it is utilized for acquiring an asset exempt from wealth –tax.

Rule 15 & 16: Interest in firm and association of persons:

a. Net wealth of the firm or association of persons on the valuation date shall be first determined as if it were the assessee. Consequently, Rule 16 would apply.

b. The net wealth determined in hands of the firm or association of persons shall be without considering exemptions u/s.5(1).

c. The net wealth equivalent to the capital contribution shall be allocated among the partners in proportion to capital contribution. The residue of the net wealth shall be allocated in accordance with the agreement for distribution of assets in the event of dissolution and in the absence of such agreement, in proportion of their sharing of profits.

d. The assets in respect of which exemptions u/s.5(1) is available shall be deemed to be included in the value of interest of the partner or member in the profit & loss sharing ratio and the provisions of sec.5(1) shall apply to him accordingly.

According to Rule 17 of Schedule III to the Wealth-tax Act, the step by step working is as follows:

a. The average of the annual gross income for the last three years is to be computed.

b. From the average of the gross income reduce the average of the expenses incurred on the collection of such income in each of those three years subject to the limit of 5 per cent of the average of the annual gross income.

c. Multiply the average annual income so arrived at with the value factor given in the Appendix against the age of the assessee which will give the value of life interest as on the valuation date.

d. The value factors are arrived at on the basis of formula based on annual premium for a whole life insurance, without profits.

e. Where the life tenant cannot be insured at normal premium rates but only at higher premium rates, then the Assessing Officer may vary the valuation suitably.

f. The value of life-interest shall, in no case, exceed the market value of the trust corpus on the valuation date.

Rule 18 & 19 – valuation of Jewellery

a. The value of jewellery shall be estimated to be the price which it would fetch if sold in the open market on the valuation date.

b. The return of wealth shall be supported by -

i. Where the value of jewellery does not exceed Rs. 5 lakhs on the valuation date, a statement in prescribed form (Form No.O-8A)

ii. Where the value of jewellery exceeds Rs. 5 lakhs, a report of a registered valuer in the prescribed form.

c. If the Assessing Officer is of the opinion that the fair market value as estimated by the assessee based on a registered valuers report is less than the fair market value or where the Assessing Officer is of the opinion that the value declared is less than the fair market value by 33-1/3% or Rs. 50,000 he may refer the valuation of such jewellery to a Valuation Officer. The value determined by the Valuation Officer shall be the fair market value of such jewellery.

d. If the value of jewellery is determined by the Valuation Officer, such value shall be taken to be the value of such jewellery for the subsequent 4 assessment years subject to following adjustments:

i. Where the jewellery includes gold or silver or any alloy of these, then the value of the metal as on the valuation date relevant to that assessment year shall be substituted for the value as on the valuation date on which the Valuation Officer determined the value.

ii. Where any jewellery is sold or otherwise disposed off or where jewellery is acquired, the value of jewellery as determined shall be reduced or increased to the extent of such deletions or additions to the jewellery

Rule 20 & 21 – Residuary Assets:

a. In the case of an asset which is not covered by rules 3 to 19, the value for wealth tax purposes shall be estimated to be price which in the opinion of the Assessing Officer it would fetch if sold in the open market on the valuation date.

b. If the Assessing Officer has referred the valuation of any asset to the Valuation Officer u/s. 16A, the value of such asset shall be the value as determined by the Valuation Officer. (Rule 20)

c. The price or other consideration for which any property may be acquired by or transferred to any person under the terms of a deed or trust or through any restrictive covenant in any instrument of transfer shall be ignored for the purpose of determining the price such property would fetch if sold in the open market on the valuation date (Rule 21).

Reference to Valuation Offer – Sec.16A

a) The Assessing Officer may refer the valuation of any asset to a valuation Officer only if the following two requirements are fulfilled.

(i) The valuation is necessary for the purpose of making an assessment.

(ii) The market value of the asset is required to be adopted while making such assessment.

The Assessing may refer valuation of any asset under the following circumstances:

(i) In a case where the value of the asset is returned (adopted) on the basis of the estimate by a registered valuer which in the opinion of the Assessing Officer is less than the fair market value(FMV).

(ii) In any other case, if the Assessing Officer is of the opinion:

- That the fair market value of the asset exceeds by 33 1/3% or Rs. 50,000/- over the value of such asset as adopted by the assessee; or
- That having regard to the nature of the asset and the other relevant circumstances, it is necessary to make a reference.

b) For the purpose of estimating the value of an asset, the Valuation Officer shall serve a notice on the assessee requiring him to produce the relevant records and documents.

c) If the Valuation Officer is of the opinion that the value returned by the assessee is correct, then he shall pass an order in writing to that effect and send a copy of his order to the Assessing Officer and to the assessee.

d) Where the Valuation Officer is of the opinion that the value of the asset is higher than the value declared by the assessee or where the asset is not disclosed, the assessee shall be served with a notice intimating the value proposed to be estimated by the Valuation Officer. The notice shall give an opportunity to the assessee to state his objections and to produce on the specified date such evidence as the assessee may rely in support of his objections.

e) The Valuation Officer, after hearing the assessee and the evidence furnished by him in support of his objections, shall pass an order in writing, determining the value of the assert and forward a copy to the Assessing Officer and the assessee.

f) On receipt of the report from the Valuation Officer, the Assessing Officer shall adopt the value determined by the Valuation Officer while making the assessment.

Illustrative examples – To have a better understanding of meaning of "assets"U/s. 2(ea), the following examples are given:

Different properties owned on the valuation date (i.e., March 31, 2009)	**Whether "assets" U/s 2(ea)**
1. Guest house held as stock-in-trade by a property dealer	No
2. Guest house (not held as stock-in-trade) for entertaining personal guests	Yes
3. Farm house which is not situated within 25 kilometres of any municipality or a cantonment board.	No
4. Farm house which is situated 30 kilometres from local limits of Delhi but within 6 kilometres from Faridabad.	Yes
5. Factory building, office building and godown building used for the purpose of carrying on own business or profession.	No
6. Factory building and godown building given on rent.	Yes
7. Residential house owned by an individual (or Hindu undivided family) and allotted to one of his full-time employees whose salary (including commission, bonus and allowances) is Rs.41,665 per month	Yes
8. Residential house owned by a company and allotted to a part-time director whose salary is Rs.1,00,000 per annum	Yes
9. Residential house owned by a company and allotted to one of its officers/ employees/ full-time directors whose salary (including commission, bonus and allowances) is:	
a. Rs.41,666.66 per month	No
b. Rs.41,666.67 per month	Yes
10. A residential or commercial building held as stock-in-trade	No
11. Residential house owned by a company and allotted to an employees/full-time directory (or managing director) whose salary is less than Rs.5,00,000 per annum and who owns 90 per cent equity share capital in the company.	No
12. A commercial complex having 20 offices given on rent by the owner	No
13. A multi-storey office complex given on rent	No
14. A residential house given on rent for 300 days during 2008-09	No
15. Motor car (Indian as well as foreign) held as:	
a. Stock-in-trade	No
b. Fixed assets	Yes
c. Personal assets by a salaried employees	Yes
d. Personal asset by a businessman	Yes
e. Fixed asset by a company and given for business use to full-time-employee or a director drawing less tan Rs.5,00,000 per annum	Yes
16. Motor cars used by a person in the business of running them on hire to tourists (Indian or foreign citizens) or to other persons.	No
17. Silver, gold, jewellery, bullion, etc., owned by a jeweller (as stock-in-trade)	No
18. Gold owned by an individual (not as stock-in-trade)	Yes
19. Gold/silver furniture held by a company (not as stock-in-trade)	Yes
20. Aircraft used by a manufacturing company having turnover of Rs.400 crore for use by its directors	No
21. Aircraft held by Air India	No
22. Aircraft owned by an individual (not as stock-in-trade) for giving it on lease to others	No

23. Urban land on which a building (residential or commercial) is constructed:	
a. With the approval of an appropriate authority	No
b. Without the approval of an appropriate authority	Yes
24. Urban land on which construction is not permitted	No
25. Vacant urban land (on which construction is permissible) owned by a person since 1960	Yes
26. Urban land held as stock-in-trade and which was acquired –	
a. On June 1, 1998	Yes
b. On June 1, 1999	No
27. Urban unused land held by an assessee, for industrial purposes (whether or not construction is started) and which was acquired:	
a. On April 1, 2007	No
b. On March 31, 2007	Yes
28. Urban land held by an assessee for industrial purposes (as construction of factory will be started during November 2009, it is used for agricultural purposes on temporary basis) and it was acquired on –	
a. April 1, 2007	Yes
b. March 31, 2007	Yes
29. Land acquired in 1965 (it may be used for construction of any building-residential or commercial) and	
a. Situated within the jurisdiction of a municipality having population of less than 10,000	No
b. Situated within the jurisdiction of a municipality have population of 10,000 or more	Yes
c. Situated within 6 kilometres [i.e., the notified distance vide Notification No.SO 871(E)] from Amristar	Yes
30. Shares, debentures, fixed deposits in bank, plant and machinery, units of a mutual fund, amount recoverable from Government, sundry debtors, goodwill, stock-in-trade	No
31. In the cash book of an individual/HUF opening balance on March 31, 2009 is Rs.1,85,000, out of which the assessee deposits Rs.1,35,000 in his current account with Citibank before the close of banking hours on March 31, 2009 (no other inflow or outflow of cash during March 31, 2009)	No

PROBLEM – 1 Discuss whether the following are “assets” –

1. A commercial multi-storeyed building given on rent by X (note being held as stock-in-trade)
2. A commercial house property used by a Hindu undivided family for the purpose of carrying on own business.
3. Y own a house property which is occupied by a firm in which he is a partner for its business purposes.
4. Z owns a residential house property. It is given by him as rent-free house to his general manager A who looks after the business of Z. Annual salary of A is Rs.4,80,000. Z claim that since the house is used for business purposes, it comes in Sec. 2(ea)(i)(3) and it is not an asset.

PROBLEM -2: X, an Indian citizen, was ordinarily residing in Canada. He comes, to India every year during September for 3 weeks. He comes to India permanently on July 9, 2008. He owns the following assets:

1. A residential house (not being let out) at Bombay gifted by his father-in-law.
2. A self-occupied house at Calcutta purchased out of money remitted from Canada on April 6, 2007 (this house is sold on August 7, 2009 to purchase debentures and silver utensils).
3. A house at Bangalore purchased out of money remitted from Canada on August 3, 2007.
4. Two kilograms gold brought at the time of transfer of residence on July 9, 2008.
5. Out of money brought into India at the time of return and out of his Non-resident (External) Account, he acquires the following during July-September 2008: two cars, air-conditioners and shares in companies.
6. On December 10, 2008, after selling one kilogram of gold, he purchases a boat.

PROBLEM – 3: Discuss the following:

1. X wants to claim deduction of outstanding income-tax and wealth-tax liabilities of preceding years of Rs.1,76,000.
2. Y owns three cars and silver/gold furniture (value of these assts being Rs.24 lakh). He takes a loan of Rs. 3 lakh by pledging these to invest in shares of companies.
3. By taking a bank overdraft of Rs.20 lakh, Z purchases diamonds on April 10, 2008 (fair market value of diamonds on March 31, 2009 is Rs.24 lakh).
4. A has the following assets on March 31, 2009:

Asset	Market value on March 31, 2009(Rs.)	Loan outstanding on March 31, 2009 (Rs.)	Security
Gold and silver	80 lakh	6 lakh	Shares
Shares	10 lakh	3 lakh	House B
Residential House A	50 lakh	4 lakh	Gold
Residential House B	42 lakh	38 lakh	Personal
Commercial House C [used for carrying on own business]	95 lakh	5 lakh	Personal
Boat	8 lakh	12 lakh	Gold
Motor cars	11 lakh	1 lakh	Silver
Bank deposit	1 lakh	1 lakh	House C
Let out (throughout 2008-09) residential House D	55 lakh	40 lakh	House D
Commercial complex (having 20 offices)	190 lakh	100 lakh	Commercial complex

Besides A took a loan of Rs.75,000 from his bank (against security of his car) for his friend's marriage. Moreover, out of loan of Rs.12 lakh taken by him for purchasing boat, he utilized Rs.1 lakh for financing expenses on his foreign visit.

PROBLEM– 4: X owns a commercial house property which is situated at Pune. While annual value of the property as per municipal records is Rs.80,000, rent received from the tenant is Rs.70,000. Municipal taxes are paid partly by X (Rs.2,000) and partly by the tenant (Rs.3,500). Repair expenses are, however, borne by the tenant (Rs.2,600). The tenant has deposited Rs.50,000 with X as refundable security. It does not carry any interest. The difference between "unbuilt area" and "specified area" does not exceed 5 per cent. Determine the value of the property on March 31, 2009, being the valuation date of X for the assessment year 2009-10, on the assumption that the house is built on: (a) freehold land, (b) leasehold land (unexpired period of lease of such lands is more than 50 years). Find out the value on the two assumptions: (a) the property is acquired on May 10, 1989 for Rs.12,50,000, (b) the property is acquired on March 10, 1974.

PROBLEM-5: Continuing Problem 4, what will be the valuation to the properly if area of plot on which the house is built in 800 sq. metres. FSI permissible is 1.4 and FSI utilized is 1,088 sq. metres (i.e., 136 metres × 8 storeys.)

PROBLEM–6: Continuing Problem 5, what will be the valuation in the case of property built on leasehold land if 40 per cent of unearned increase is payable to the Government. Assume, for the purpose of calculating unearned income, that lease rent capitalization rate is 7 per cent, annual lease rent is Rs.1,000, the original lease was for 99 years, out of which 27 years have expired on the valuation date, and the present net maintainable rent of the land is Rs.35,000.

PROBLEM–7:–The following assets are taken from the balance sheet of X Ltd. as on March 31,2009 –

Assets (1)	Step one –Balance sheet amount (2)	Individual asset value as per Schedule III (3)
Building I	30	29
Building II	40	48
Car	5	4
Building III	50	61
Gold	100	147
Urban Land	90	106

PROBLEM-8: X,Y and Z are three partners (1:2:3) of a firm engaged in manufacturing activities. The following is the balance sheet of the firm as on March 31, 2009:

Liabilities		Assets	Book Value	Value as per Schedule III to WT Act
Capital:		Land (1000 sq.met.) situated in a rual area	6	90
X	16			
Y	28	Land (1260 sq. mt.) situated in an urban area outside India (purchased in 1980 for factory which is yet to be constructed)	20	29
Z	21			
Loan against security of gold for working capital	2			
Loan for paying sales tax	1	Motor cars (WDV: Rs.5Lakh)	8	3
Loan for purchasing gold	3	Plant and machinery (WDV: Rs.14 lakh)	16	--
Loan for purchasing residential house	6	Office building (WDV: Rs.34 lakh)	30	--
Loan for purchasing rural land	4			
Provisions for loss	1	Residential house (not being let out) (WDV: Rs.3 lakh)	7	18
Provisions for tax	6			
Sundry creditors	30	Gold and Silver	8	62
		Shares	13	--
		Sundry debtors	6	--
		Advance tax for the assessment year 2008-09	3	--
		pre-incorporation expenses	1	-
	118		118	

Residential house is provided to a production manager whose gross salary is Rs.1.50 lakh per annum.

As per partnership deed in the event of dissolution of firm, the assets shall be distributed among X,Y and Z in the ratio of 7:8:5

Value of personal assets (as per Schedule III) and amount of "debt owned" of X, Y and Z on March 31, 2009 are as follows:

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
<u>Assets</u>			
Residential house	-	20,000	13,40,000
Car	71,000	--	1,45,000
Gold	26,00,000	12,00,000	10,00,000
Cash in hand	81,000	50,000	10,000
<u>Debts</u>			
Loan taken a purchase car	10,000	--	30,000
Loan taken on security of gold for investing in firm	16,00,000	2,00,000	--
Loan taken on personal security for purchasing residential house	--	6,000	60,000

Find out the net wealth of X,Y and Z on March 31, 2009 for the assessment year 2009-10.

SOLUTION: Valuation of assets of the firm

Particulars	**Rs. (in Lakh)**
Land situated in rural area (not an "asset")	-
Urban land [book value Rs. 20 lakh; as Schedule III valuation is higher than Rs. 24 lakh (i.e., Rs. 20 lakh plus 20% of it), Schedule III valuation is taken]	29
Motor cars [WDV : Rs. 5 lakh; as Schedule III valuation is not more than Rs. 6 lakh (i.e., Rs. 5 lakh plus 20% of it), written down value is taken]	5
Plant and machinery	-
Office building	-
Residential house [written down value : Rs. 3 lakh ; as Schedule III valuation is higher than Rs. 3.60 lakh (i.e., Rs. 3 lakh plus 20% of it), Schedule III valuation is adopted]	18
Gold and silver [Schedule III valuation is taken as it is higher than Rs. 9.60 lakh (Rs. 8 lakh plus 20% of it)]	62
Shares (not an "asset")	-
Sundry debtors (not an "asset")	-
Gross Wealth	114
Less :	
Loan for purchasing gold	3
Loan for purchasing residential house	6
Net wealth of the firm	105

Allocation of the net wealth among the partners.

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
Net wealth to the extent of share capital	16,00,000	28,00,000	21,00,000
Remaining net wealth (i.e., Rs. 40 lakh) in the ratio of 7 : 8 : 5	14,00,000	16,00,000	10,00,000
Share of partners in the net wealth of firm (a)	30,00,000	44,00,000	31,00,000
[Out of which proportionate value of residential house, i.e., 12/105 of (a)]	(3,42,857)	(5,02,857)	(3,54,286)
Computation of the net wealth of partners :			
Share in net wealth of firm (excluding share in residential house of the firm)	26,57,143	38,97,143	27,45,714
Share in residential house of the firm	3,42,857	5,02,857	3,54,286
Personal residential house	-	20,000	13,40,000
Car	71,000	-	1,45,000
Gold	26,00,000	12,00,000	10,00,000
Cash in hand	31,000	-	-
Total	57,02,000	56,20,000	55,85,000
Less: Exemption U/s 5 (vi) in respect of one residential house property	3,42,857	5,02,857	13,40,000
Grass wealth	53,59,143	51,17,143	42,45,000
Less : Debt owed			
Loan for purchasing car	10,000	-	30,000
Loan for investing in firm	16,00,000	2,00,000	-
Loan for purchasing personal residential house	-	6,000	-
Net wealth (rounded off)	37,49,100	49,11,100	42,15,000

PROBLEM- 9: In Problem 8, assume that X is a non-resident for the assessment year 2009-10.

SOLUTION : Since X is a non-resident, assets located outside India (i.e., urban land) is not chargeable to tax in his case. Net wealth of x will be determined as under :

Particulars	Rs
Net wealth of X as determined earlier	37,49,140
Less : Share of X in the urban land situated outside India (Rs. 30,00,000 × Rs. 29 lakh ÷ Rs. 105 lakh)	8,28,571
Net wealth (rounded off)	29,20,600

PROBLEM- 10: X is aged 35 years. His father has settled a house property in trust giving whole life interest therein to X. The income from the property for the years 2005-06 to 2008-09 was Rs.70,000, Rs.84,000, Rs.80,000 and Rs.86,000 respectively. The expenses incurred each year were Rs.3,000, Rs.5,000, Rs.6,000 and Rs.16,000 respectively. Calculate the value of life interest of X in the property so settled on the valuation date March 31, 2009 on the assumption that the value of house as per Schedule III is (a) Rs.15 lakh, or (b) Rs.6 lakh.

PROBLEM- 11: Discuss the following:

1. X makes an agreement to sell his property for Rs.20 lakh on October 8, 2008. He receives Rs.2,00,000 as earnest money, the balance amount is received on March 27, 2009 but the conveyance deed is executed on April 10, 2009. The documents are registered on June 6, 2009. The property was shown and assessed at Rs.17,00,000 for the assessment year 2009-10.

   Advise X regarding the above transaction for submission of his return of net wealth for the assessment year 2009-10 [valuation date: March 31, 2009].

2. Y is aged 60 years. His father had settled a house property on trust giving life interest to Y. On Y's demise the trust property is to be divided between his two sons in equal shares. The market value of the property is Rs.30 lakh and the average annual income derived there from is Rs.90,000. How will the trust property be shown in the returns of net wealth of Y and his sons for the assessment year 2009-10?

3. The following are the particulars of a flat occupied for this personal residence by Z:

Assessment year	Value as returned (Rs.)	Value assessed (Rs.)
1974-75	80,000	80,000
1975-76	80,000	2,00,000
1076-77	80,000	1,10,000
1977-78	80,000	1,10,000
1978-79	80,000	1,20,000

What is the valuation to be adopted for the assessment year 2009-10?

PROBLEM- 12: While computing the net wealth of A, an Indian resident in India, for the assessment year 2009-10 (valuation date March 31, 2009), the following facts are noted:

1. Since his marriage in 1977, A had made gifts of jewellery and ornaments to his wife from time to time the value whereof at the material time aggregated to Rs.40,000 but now on the valuation date stands at Rs.2,00,000. Mrs. A had pledged the ornaments and jewellery to take loans for her personal use out of which loans of Rs.60,000 were outstanding on the valuation date.
2. A became a member of a co-operative housing society which under a house building scheme of the society allotted to him a flat in 1975 for a sum of Rs.8,50,000. The flat has throughout been used by A for his own residence. Its value on March 31, 2009 was Rs.13,00,000. The consideration was payable in installments and on the valuation date a sum of Rs.25,000 was still outstanding.
3. A became a member of a similar co-operative housing society in 1983 and made a deposit of Rs.2,00,000 with it for allotment to him of a flat (which is not allotted so far) under its house-building scheme in a multi-storeyed building. The deposit has been under the said scheme.

4. A took out a policy on his own life for sum of Rs.1,00,000 in the year 1991 the maturity being in 2009 or on earlier death. If he survives till 2009 eight annual premiums are payable.
5. A had two cars for his personal use each being of value of Rs.95,000.
6. By profession A is an architect and the value of the tools and instruments required by him for his professional use is Rs.70,000.

Discuss how the items are to be treated for purposes of assessment.

PROBLEM- 13: Discuss in respect of the following items, the manner of treatment for Mrs. X's wealth-tax assessment for the assessment year 2009-10.

1. A house property at Calcutta was given to her as a gift by her husband on October 1, 1965. She, with her husband and children, is living in the house for the last 15 years. Its value on March 31, 2009 was Rs.2,50,000.
2. She has another house property at Nainital given to her as a gift by her father on January 1, 1971 on the occasion of her birthday. This house is also used by her as her own residence where she lives during summer vacations only. The value of the house on March 31, 2009 was Rs.25,00,000.
3. Jewellery received from her father at the time of her marriage in 1956 was of the value of Rs.1,30,000 on March 31, 2009.

PROBLEM- 14: X made a gift of a house property to Mrs. X on April 1, 2008. The value of the house property as on the date of gift was Rs.21,50,000. Mrs. X, in her turn, made a gift of that property to her friend Mrs. Y on October 30, 2008. The valuation date for the purposes of wealth-tax assessments of both Mr. and Mrs. X happens to be March 31. In whose net wealth will the value of the house be included? What would have been the position if –

a. The house had been gifted by Mrs. X to her daughter-in-law; or

b. The house had been sold to her daughter-in-law for a sum of Rs.20,00,000 and she had lost the entire sale proceeds by gambling in horse races; or

c. The house had been sold by Mrs. X to her major son for Rs.21,50,000 and she had purchased another house property with the sale proceeds, the value of the new house property as on March 31, 2009 being Rs.21,95,000.

PROBLEM- 15: XYZ is a charitable society registered under the Societies Registration Act. On the ground that it was pursuing an objective that involved the carrying of an activity for profit, the Assessing Officer wants to levy wealth-tax on it. Is such a society liable to wealth-tax?

PROBLEM- 16: X furnishes the following particulars for the compilation of his wealth-tax return for assessment year 2009-10:

Particulars	Rs.
1. Gifts of jewellery made to wife from time to time aggregating Rs.60,000 market value on valuation date	2,00,000
2. Flat purchased under installment payment scheme in 1972 for Rs.7,50,000, used for purposes of his residence and market value as on March 31, 2009 (installment remaining unpaid: Rs.50,000)	10,00,000
3. Urban land transferred to minor handicapped child valued on March 31, 2009	5,00,000

Explain how you will deal with these items. Make suitable assumptions, if required.

PROBLEM- 17: Under what circumstances can the Assessing Officer make a reference to the Valuation Officer for the purpose of making an assessment under the Wealth-tax Act?

PROBLEM- 18: X Ltd. is a company carrying on business in the construction and sale of residential flats. It furnishes the following data and requests you to compile wealth-tax return and determine the tax payable for assessment year 2009-10.

Particulars	Market Value(Rs.)
1. Land in rural area (it is within 5 kilometres of Ajmer; construction is permissible; land was purchased in 1989)	92,78,600
2. Land in urban area (construction not permitted as per municipal laws)	23,00,000
3. Land in urban area (held as stock-in-trade since 2000, construction will be commenced during June 2009	49,50,000
4. Motor cars (one of them is imported; Rs.4,00,000; none of them is held as stock-in-trade)	11,30,000
5. Jewellery (not being held as stock-in-trade)	18,00,000
6. Aircraft for use of directors and auditors	1,58,00,000
7. Bank balance	3,10,000
8. Cash in hand as per cash book	1,70,000
9. Guest house and land appurtenant thereto situated in rural area	8,00,000
10. Residential flats of identical size provided to 6 employees for their use near factory which is situated in rural area (salary of two of them exceeds Rs.5,00,000)	15,00,000
11. Residence provided to Managing Director (Salary exceeds Rs.5,00,000)	10,00,000
12. Flats constructed and remaining unsold (not being held as stock-in-trade)	30,00,000
13. Residence provided to a whole-time director (salary: Rs.4,20,000, the directory owns 25 percent equity share capital)	17,00,000
14. Three let out residential houses given on rent(value of each being Rs.50 lakh, one of them is let out for only 50 days during 2008-09)	

The company has taken a loan of Rs.6,00,000, Rs.7,00,000, Rs.50,000 and Rs.90,000 for acquiring property numbers 5,6,12 and 13, respectively. Find out the wealth-tax liability of the company for the assessment year 2009-10

SOLUTION : Computation of net wealth and wealth-tax :

Particulars	Rs.
Land in rural area within 5 kilometres of Ajmer	92,78,600
Land in urban area (not taxable as construction is not permited)	-
Land in urban area (not taxable for 10 years in case of stock-in-trade)	-
Motor cars	11,30,000
Jewellery	18,00,000
Aircraft-not taxable as per **Garware Wall Ropes Ltd**. V. **CIT** [2004] 89 ITD 221 (Mum.)	-
Guest house	8,00,000
Four residential flats given to the employees (salary not being in excess of Rs. 5,00,000)	Nil
Two residential flats given to the employees (whose annual salary exceeds Rs. 5,00,000)	5,00,000
Residential house given to the managing director	10,00,000
Flats remaining unsold	30,00,000
Residential house given to whole-time director (not taxable as salary exceeds Rs. 5,00,000)	Nil
One let out residential house given on rent for 50 days during 2008-09	50,00,000
Two let out residential houses given on rent throughout the year (not treated as "asset")	Nil
Gross wealth	2,25,08,600
Less : Loan taken to acquire properties numbers 5 and 12	6,50,000
Net wealth	2,18,58,600
Tax[i.e., 1% 0n the amount in excess of Rs. 15,00,000]	2,03,586

ROBLEM- 19: S gifted Rs.2,00,000 to his wife on 10.04.2008. His wife bought Gold Jewellery on 31.01.2009 out of the said sum of Rs.2,00,000. The fair market value of the Gold Jewellery as on 31.3.2009 was Rs.2,50,000. S claims that since his wife has not held on 31.03.2009 the sum of Rs.2,00,000 which he gifted to her, no amount is includible in his net wealth for the Assessment Year 2009-10. Examine the claim of S.

PROBLEM- 20: G furnishes the following particulars for the compilation of his Wealth Tax return for Assessment Year 2009-10

a. Gifts of jewellery made to wife from time to time aggregating Rs.60,000. Market value on valuation date	2,00,000
b. Flat purchased under installment payment scheme in 1973 for Rs.7,50,000. Used for purpose of his residence and market value as on 31.3.2009. (Installment remaining unpaid Rs.50,000)	10,00,000
c. Urban land transferred to minor handicapped child valued on 31.3.2009	5,00,000

Explain how you will deal with these items. Make suitable assumptions if required.

PROBLEM- 21: Computation of Net Wealth – Exemption for Building used for Business

a. Jayanthilal has gifted to a Trust a residential property situated at Chennai purchased 5 years back for Rs.10,00,000 for the benefit of the smaller HUF consisting of himself and his wife and let-out for 7 ½ months. Schedule-III, Rule 3 value as on 31.3.2009 is Rs.7 Lakhs.

b. He had transferred an urban house plot in February 1998 in favour of his niece which was not revocable during her life time. This niece died on 14.3.2008. Mr. Jayanthilal could get the title to the plot retransferred to his name only on 15.4.2008 despite sincere and honest efforts. The market value of the house as on 31.3.2009 is Rs.9,40,000.

PROBLEM- 22: Sudarshan Builders Ltd. a widely held company owns the following assets as on 31.3.2009 –

a. Land at Bangalore purchased in 2005 on which a residential complex consisting of 24 flats, to be sold on ownership basis, in under construction for last 18 months.

b. Two office flats at Calcutta purchased for resale in the year 2004

c. Cash at construction site Rs.3,20,000

d. Residential flat in occupation of company's whole-time director drawing a salary of Rs.1,80,000 per annum.

Which of the above assets will be liable for wealth? Give reason in brief.

PROBLEM- 23: ABC Ltd. is a company engaged in the construction and sale of buildings. It has the following assets as on 31.3.2009. You are required to compute the Net Wealth of the company, in respect of Assessment Year 2009-10.

Aircraft used by the officer for business purposes

PROBLEM- 24:D, an individual, has the following Assets and Liabilities as on 31.3.2009 –

Assets	**Rs. (in lakhs)**
1. Plot of land of Bhopal comprising an area of 1,200 squares metres on which building has been constructed without the approval of the appropriate authority.	25
2. Building constructed on land at Bhopal without the approval of the appropriate authority & used for his business purposes	10
3. Motor cars held as Stock-in-trade	60
4. Gold jewellery brought into India from Singapore, where he was residing on his return to India on 1.11.2005 for permanently residing in India	6
5. Jewellery made of Platinum	9

6. Interest in the coparcenary property of Hindu undivided family of which he is a member.	15
Assets	Rs.(in lakhs)
7. Fixed deposits in a co-operative Bank	10
8. Cash in hand recorded in the books of account	5
Liabilities	
9. Loan borrowed for marriage of daughter	6
10. Loan borrowed for construction of building at Bhopal	5

The minor married daughter of D holds a plot at Indore valued at Rs.20 lakhs.

The amounts stated against the assets, except cash in hand, are the values determined as per Sec. 7 of the Wealth – Tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of D for the Assessment Year 2009-10. State the reasons for inclusion or exclusion of the various items.

PROBLEM- 25: State with reasons whether the following constitute assets chargeable under Wealth Tax Act as the wealth of Raja, a former ruler? (Assume that there is taxable wealth as on valuation date 31.3.2009)

a. Jewellery transferred to a minor handicapped daughter on 31.12.2008.

b. 50% of the palace (occupied by him and declared by Government as his official residence) was rented out throughout the previous year ending 31.3.2009.]

PROBLEM- 26: Computation of Net Wealth – Individual Returning from Abroad.

Arvind, a person of Indian origin was working in Dubai from 1991. He returned to India for permanent settlement in May 2004 when he remitted the moneys into India. He furnished the following particulars of his wealth as on 31.3.2009. You are required to arrive at his wealth in respect of Assessment Year 2009-10 –

	Particulars	Rs.
a.	Market Value of Residential house in Chennai (let-out for residence) with Net Maintainable Rent p.a. of Rs.20,000	3,00,000
b.	Share in building owned by a firm in which Arvind is a Partner – used for business	2,50,000
c.	Motor – car purchased in April 2008, out of moneys remitted to India from Dubai	1,75,000
d.	Value of interest in Firm excluding item (b) above	3,00,000
e.	Shares in companies (quoted)	1,00,000
f.	Assets purchased out of amount remitted from Dubai –	
	Jewellery purchased in March 2001	1,50,000
	Vacant land purchased in December 2000	7,50,000
g.	Amount standing to the credit of NRE Account	5,00,000
h.	Cash in hand (out of sale proceeds of agricultural income)	75,000

PROBLEM- 27: Computation of Wealth Tax Liability –

New Era Construction Ltd. furnishes the following particulars of its wealth for the valuation date of 31.3.2009. Compute its net wealth and the wealth tax payable by it for the Asst. Year 2009-10

a. Aircraft for use of directors and auditors 1,58,00,000

b. Flats constructed remaining unsold (not held as stock) 30,00,000

PROBLEM- 28: A Private specific trust was created by 'Ramu' in the month of September 2003 setting an immovable assets from which rental income is derived. According to the Trust, Ramu's only Major son 'Raghu' is entitled to receive rental income up to 31.3.2009 and thereafter the income shall be received by Raghu's children. Ramu died in 2006. The capitalized value of the property as at 31.3.2009 is Rs.15 lakhs. The property is rented at an income of Rs.75,000 per year. In the Financial year 2008-09 there was unrealized rent of Rs.50,000. Discuss treatment for wealth tax as on valuation date 31.3.2009.

Ans.

- **a.** At the time of settlement of property by Ramu in favour of his son Raghu, and on the valuation date, the transfer vests a right on Raghu only for a period of less than 6 years.
- **b.** So the transfer is revocable transfer in his hands and he (Raghu) is not chargeable for Wealth Tax Assessment.
- **c.** The Private Trust is liable for tax to the extent of capitalized value of asset of Rs.15 Lakhs in the capacity of Individual.

PROBLEM- 29: Z made a cash gift of Rs.3 Lakhs to Mrs. Z in 2001. Mrs. Z bought jewellery with that money. The value of jewellery as on 31.3.2009 was Rs.5,20,000. What would be the implication of this in net wealth computation of Mr.Z for Assessment Year 2009-10?

Ans.

- **a.** In case the original asset transferred is converted into another asset, the value of the converted asset on the valuation date shall be clubbed in the hands of the transferor. Kishanlal Bupana 204 ITR 600 (SC).
- **b.** In view of the above, the value of the jewellery of Rs.5,20,000 shall be chargeable to Wealth Tax in the hands of Mr.Z for the Assessment Year 2009-10.

PROBLEM- 30: X enters into an agreement on 13.3.2009 to sell the house property for Rs.50 Lakhs purchased by him for Rs.20 lakhs and receives an advance of Rs.10 Lakhs. Further amount of Rs.15 Lakh is received by him on 22.3.2009 but the sale deed is executed on 21.4.2009. Whether in the hands of X the house constitutes an asset on the valuation date 31.3.2009.

Ans.

- **a.** U/s 4(8), when a person transfers an immovable property to another person, then such asset shall be taxable in the hands of the transferee if he has the right of possession of the property u/s 53A of the Transfer of Property Act.
- **b.** In the given case, if the buyer has taken the property or has the right to the property, the property shall not be taxable in the hands of X.
- **c.** Otherwise, the property shall be chargeable to Wealth Tax in the hands of X.

PROBLEM- 31: Vimal, Karta of HUF, from out of the HUF funds gifted to his nephew and niece an amount of Rs.2,00,000 each on 1.11.2008. The coparceners of the HUF challenged the gifts and as a consequence gifts were held to be void. Discuss whether the amount of Rs.2,00,000 is taxable as wealth of Vimal HUF for the valuation date 31.3.2009.

Ans.

- **a.** The amount of Rs.2,00,000 has actually been gifted by the HUF and hence the provisions of Sec. 4(5A) are not attracted.
- **b.** As on the valuation date the said amount of Rs.2,00,000 does not belong to the HUF.
- **c.** Therefore, the same cannot be charged to Wealth Tax in the hands of Vimal HUF.
- **d.** Challenging by the coparceners is of no consequence in the instant case.

PROBLEM- 32: The concept of partial partition is alien to the Wealth Tax Act. Discuss.

Ans.

- **a.** U/s 20A of the WT Act, partial partition after 31.12.1978 is not recognized for Wealth Tax purposes.
- **b.** If partial partition takes place, it will not be recognized and the assessment of the asset shall continue to be made only in the hands of the HUF for the Wealth Tax.
- **c.** Because of the above reason, partial partition is alien to the Wealth Tax Act.

PROBLEM- 33: Mrs. W, wife of a coparcener, unilaterally executed a release deed stating that she relinquished her status as a member of the HUF, but still maintaining her marital status. It was claimed by the HUF, that in view of this unilateral declaration by Mrs.W, her wealth should not be included in the wealth of the HUF. Discuss the validity of the claim.

Ans.

a. The share of the member of the HUF in the HUF's property is definite but not identifiable unless partition takes place.

b. Release of share by the member does not have any impact in the hands HUF.

c. In the given case, release of Mrs.W of her right in the HUF property have no impact in the hands of HUF and it shall not be excluded in the hands of HUF. **MAR Rajkumar 226 ITR 804**

PROBLEM- 34: Computation of Net Wealth of Not Ordinarily Resident -

Kamat a Not Ordinarily Resident in India seeks your advice with regard to the furnishing of his Wealth Tax Return. The value of Assets held on 31.3.2009 is indicated below.

You are requested to compute the Taxable Wealth of Kamat giving justification for the inclusion or exclusion of each item. The valuation date as indicated above is 31.3.2009 -

Particulars	Rs.
Motor cars of foreign make held as Fixed Assets	9,50,000
Gold bonds under Gold Deposit Scheme, 1999	15,00,000
Residential House Property at Pune let-out with effect from 5-3-08	11,00,000
Jewellery held	9,00,000
Lands purchased for industrial purpose on 1.1.2005	5,50,000
on 25.3.2008	7,50,000
Loan against the purchase of lands on 1.1.2005	2,75,000
on 25.3.2008	3,50,000
Wealth Tax Liability	9,000
Cash on Hand	75,000
Cash at Bank	1,25,000
Fixed Asset located in U/s	50,00,000
Value of Assets held by Mrs. Kamat acquired out of the gifts received from her husband:	
Shares and Securities	2,00,000
Residential House Property at Mumbai	9,00,000

Assessee: Kamat Valuation Date: 31.3.2008 **Assessment Year: 2009-10**

Computation of Net Wealth

Nature of Asset	Rs.	Reasons
Motor-cars	9,50,000	Motor-car other than those used in the business of hire or held as stock-in-trade is an asset U/s 2(ea)
Gold Bonds, 1999	Nil	Not an asset under WT Act.
Residential House Property	Nil	Any residential house property let-out for 300 days or more is not an asset
Jewellery	9,00,000	Jewellery other than those held as stock-in-trade is an asset.
Land purchased on 1.1.05 for Industrial Purpose	5,50,000	Land held beyond two years from the date of acquisition for industrial purposes is an asset
Land purchased 25.3.2008	Nil	Land held for first two years from the date of acquisition for industrial purposes is not an asset
Cash-in-Hand	25,000	Cash held beyond Rs.50,000 is an asset
Cash-at-Bank	Nil	
Fixed Asset located in U/s	Nil	Not an asset under WT Act.
		Not chargeable to tax for Not Ordinary Resident
Deemed Assets acquired and held by Mrs.kamat		
a. Shares and Securities	Nil	
b. Res. House Property at Mumbai (9,00,000)		Not an asset U/s 2(ea)
Less: Exemption U/s5(vi) (9,00,000)	Nil	Asset u/s 2(ea).

		One house or part of the house exempt U/s 5(vi)
Total Assets **Less: Debts incurred on Assets Taxable** On Land acquired on 1.1.2005	**24,25,000** (2,75,000)	Wealth Tax Liability and Debts incurred in relation to exempted assets are not deductible
Net Wealth **Less:** Basic Exemption	**21,50,000** 15,00,000	
Taxable Net Wealth **Tax Payable @ 1%**	**6,50,000** **6,500**	

PROBLEM- 35: Are charitable Trusts liable to pay Wealth Tax?

Ans. Assessment under Wealth Tax –

- **a.** For wealth tax purposes, the charitable or religious Trust shall be assessed in the capacity of individual.
- **b.** Any property held by the assessee under Trust or other legal obligation for any public purpose of a charitable or religious nature is exempt from tax – Sec. 5(i)
- **c.** The exemption shall not apply to any property forming part of any business except where the business is carried on by the Trust or institution U/s 11(4A) or10(23B)or 10(23C) of the IT Act, 1961.

PROBLEM- 36: The assessee was Trust, whose objects were wide-ranging including imparting education, running free library, to raise the status of humanity and also advancement of general public utility. The Trust was also conducting chits and collection of deposits from the public, but it was not its predominant or primary object. Is the Trust exempt from wealth tax?

Ans.

1. To claim exemption under WT Act, the Trust is one, which can be treated as public charitable Trust. There is no pre-condition that it shall be entitled for exemption under the **IT Act. CWT vs. P.Krishna Warrier, 238 ITR 79 (Ker.)**
2. If the main object of the Trust is charitable in nature and the chit business income is solely applied for charitable purpose, then the trust shall not be denied of exemption, **Dharmadeepthi 114 ITR 454 (SC)**
3. In the given case, the Charity is primary objective and if the trust applies the chit profit derived by it charitable purposes the trust is entitled for exemption.

PROBLEM- 37: State the situations, where Schedule III shall not apply for valuation of immovable property?

Ans. Rule 3 of Schedule III of the Wealth Tax Act shall not apply in the following situations – **(Rule 8):**

1. Where, having regard to the facts and circumstances of the case, the Assessing Officer with the previous approval of the Joint Commissioner, is of the opinion that is not practicable to apply the previous of the said rule to a particular case
2. Where the difference between the unbuilt area and the specified area exceeds 20% of the aggregate area.
3. Where the property is constructed on a leasehold land and the lease expires within a period of not exceeding 15 years from the relevant valuation date and the lease is not renewable at the option of the lessee.

In the above circumstances, the valuation shall be done in accordance with Rule 20.

The End