WEALTH TAX ACT UNIT 1

The Wealth Tax Act came into force on April 1, 1957 and it extends to whole of India including the State of Jammu and Kashmir. [sec. 1]
Wealth tax is a direct tax, which is charged on the net wealth of the assessee. The unit of wealth tax has been divided into two lessons. In this lesson we shall be studying the chargeability and computation of wealth tax and in the next lesson we will be studying the valuation of assets and provisions relating to filing of return and assessment.

WHAT SHALL WE LEARN IN THIS UNIT?

1. Understand the charging of Wealth Tax
2. Identify the various items of assets included in wealth
3. Describe the deemed assets, exempted assets, deductible debts
4. Compute Net Wealth and Wealth Tax

CHARGEABILITY

The Wealth Tax is charged for every assessment year in respect of the net wealth of the corresponding valuation date of every individual, Hindu Undivided Family,and company, @1% of the amount by which net wealth exceeds Rs.15 lakh. By virtue of section 45, no wealth tax is chargeable in respect of net wealth of the following persons:
1. Any company registered under section 25 of Companies Act 1956
2. Any co-operative society
3. Any social club
4. Any political party
5. A Mutual Fund specified under section 10(23D) of the Income Tax Act

DEFINITIONS AND CONCEPTS

ASSESSMENT YEAR [AY] SEC 2 (d)

Assessment year means a period of 12 months commencing from 1st day of April every year falling immediately after valuation date Thus, for the year 2006, A.Y. is from1st April2006 to 31st March 2007.

VALUATION DATE SEC 2 (q)

Valuation date is 31st March immediately preceding the assessment year. Thus, for assessment year 1st April 2006 to 31st March2007 valuation date is 31st March 2006. Valuation date is very important because:
1. It is the tax base for the charge of wealth tax
2. The residential status of an assessee is determined with reference to the year ending on valuation date
3. The value of an asset is determined on valuation date.
4. The wealth as on the last moment of the valuation date is taken to be the net wealth for Taxation purposes

INCIDENCE OF TAX

Incidence of tax depends on residential status and nationality of the assessee:

In case of	Resident and ordinary resident in India [or resident in case of a Company]	Resident but not ordinarily resident in India	Non-Resident
1. Individual who is a citizen of India 2. Every Hindu Undivided Family 3. Company	Taxable Wealth =(A-B)+(CD)	Taxable Wealth =(A-B)	Taxable Wealth =(A-B)
individual who is not a citizen of India	Taxable Wealth =(A-B)	Taxable Wealth =(A-B)	Taxable Wealth =(A-B)
'A' = all assets located in India; 'B' = all debts owed on valuation date which have been incurred in relation to the assets included above; 'C' = all assets located outside India; 'D' = all debts owed on valuation date in relation to the assets included Above			

NET WEALTH

Net Wealth represents the amount by which the total value of all assets including deemed assets but excluding exempt assets, belonging to the assessee on the valuation date exceeds the value of all debts owed by the assessee on the valuation date incurred in relation to the taxable assets.

ASSETS SEC.2 (ea)

The term assets include the followings:

I. **Building Sec.2 (ea) (i)**

Any building or land appurtenant thereto u/s2 (ea) (i) is treated as an asset and it includes:

1. Commercial building
2. Residential building
3. Any guest house
4. A farmhouse situated within 25 kilometers from the local limits of a local authority

However following buildings are not treated as assets

1. A house meant for residential purposes is allotted by a company to an employee or an
2. officer or a whole time director, having a gross annual salary of less than Rs.5Lakh
3. Any house for residential or commercial purposes, which forms part of stock-in-trade
4. Any house occupied by assessee for the purposes of his own business or profession
5. Any residential property that has been let out for a minimum period of 300days in the previous year
6. Any property in the nature of commercial establishments or complexes

II. **Motor Cars Sec.2 (ea) (ii)**

Any motorcar is an asset except the following

1. Motor cars used by the assessee in the business of running them on hire
2. Motor cars held as stock- in- trade

III. **Jewellery, Bullion, Utensils Of Gold, Silver etc. Sec. 2(ea) (iii)**

Jewellery, bullion furniture, utensils or any other article made wholly or partly of gold, silver, platinum, or any other precious metal of any alloy containing one or more of such precious metals are treated as an asset For this purpose, the term jewellery includes

1. Ornaments made of gold, silver, platinum or any other precious metal of any alloy containing one or more of such precious metals, whether or not containing any precious or semi precious stone, whether or not set in any furniture, utensils, or other articles or worked or sewn into any wearing apparel.
2. Precious or semi precious stones, whether or not set in any furniture, utensils or other articles or worked or sewn into any wearing apparel However, the term jewelry shall not include the Gold Deposit Bonds issued under Gold Deposit Scheme, 1999 notified by the Central Government However, if any of the above stated assets are held by the assessee as stock-in trade, then it is not treated as an asset

IV. **Yachts, Boats and Aircrafts Sec 2(ea) (iv)**

Yachts, boats and aircrafts are treated as “assets” excluding yachts boats and aircrafts used by assessee for commercial purposes.

V. **Urban Land Sec 2(ea) (v)**

Urban land is treated as an “asset” and urban land means land situated a) in any area which is comprised within the jurisdiction of local authority and which has a population of not less than ten thousand according to the last preceding figures of census of which the relevant figures have been published before the valuation date; or b) is any area within such distance, not being more than 8 kilometer from the local limits of the local authority as the central government may, having regard to the extent, and scope for urbanization of that area and other relevant considerations, specified in this behalf by notification in the official gazette. However land is not treated as “asset” in the following cases:

1. Land on which construction of a building is not permissible under any law for the time being
2. in force in the area in which such land is situated;
3. Land occupied by any building which has been constructed with approval of the appropriate authority;

4. Any unused land held by the assessee for industrial purposes for a period of two years from the date of acquisition by him
5. Land held by an assessee as stock-in-trade for a period of 10 years from the date of its acquisition by him.

VI. Cash-in-hand Sec 2(ea) (vi)

Following is treated as an “assets”:

1. In case of any individual and HUF, cash in hand on the last moment of the valuation date in excess of 50,000 shall be treated as “asset”
2. In case of any other person any amount not recorded in the books of accounts shall be treated as “asset”.

Illustration 1

ABC Ltd. owns following assets. State whether these assets are chargeable to wealth tax for assessment year 2005-06

a) Stock in trade
b) Residential flats given to employees by the company with annual salary of Rs 3,00,000 each
c) Shares in Indian Companies.
d) Cars used by directors for company’s business purpose.
e) Land acquired in 1992 on which construction of building is not permitted.

Solution 1

a) Stock in trade is not an asset under section 2 (ea)
b) Since the residential flats have been given to the employees with annual salary of less than Rs. 5,00,000, so these are not to be treated as assets under section 2 (ea) (i)]
c) Shares in Indian companies are not treated as assets under section 2(ea)
d) Since cars are not being used by the assessee for the business of running them on hire or being held as stock-in-trade, hence cars are to be treated as assets under Section [2(ea)(ii)].
e) Since the construction of the building is not permitted on the land hence it is not to be treated as asset under section [2 (ea) (v)]

Illustration 2

Discuss whether the following are assets:

a) A residential house property given on rent by X for a period of 320 days.
b) A commercial house property used by Mr. Y for his business purposes.
c) Mr. A was having cash of Rs. 1, 20,000 on 31st March 2006, out of which he deposited Rs. 40,000 in bank on the same day.
d) Aircrafts owned by Sahara Airlines
e) Amount held by Mr. Z in fixed deposits in bank

Solution 2

a) Since the residential house or property has been given for rent on more than 300 days in previous year, hence it is not be treated as an asset under section [2 (ea) (i)].
b) Since commercial house or property is being used by assessee for his own business purposes hence it is not be treated as an asset.
c) Since on the last moment of valuation date i.e. 31st March’2006, Mr. A is having cash of Rs 80,000 and out of which Rs. 50,000 is not an asset under section [2 (ea) (vi)], thus remaining Rs 30,000 is taken as an asset.
d) Under section 2 (ea) (iv) aircrafts used by assessee for commercial purposes is not an asset.
e) Amount held by Mr. Z in fixed deposit is not an asset under section 2 (ea).

DEEMED ASSETS SEC. 4

Deemed assets represent those assets, which belong to some other person but for the purpose of calculation of wealth tax, these are included in the wealth of the assessee. (transferor), it is because at time an individual may transfer his assets without adequate consideration to persons in whom he may be interested. Thus to prevent avoidance of wealth tax in this manner, wealth tax Act provides that assets transferred by an individual after 31-03-1956 (in case of Dadra Nagar Havely, Goa, Daman and Diu and Pondicherry on after 01-04-1963) shall be included in the net wealth of the transferor, provided following conditions are satisfied.

1. The individual must be the owner of these assets.

2. The assets must be transferred without adequate consideration in money or money is worth. In case of inadequate consideration, difference between adequate consideration and inadequate consideration shall be included in the net wealth of the transferor.
3. The asset must be held by the transferor on the valuation date whether in the same form or in converted form.

If assets have been lost, destroyed, transferred by the transferee to a third party and it is not held by transferee on the valuation date. Then the value of the assets shall not be included in the net wealth of the transferor, further the form of asset has been changed by transfer then value of substituted asset is included in the wealth of transferor if it is taxable u/s 2 (ea). If the asset transferred by an individual to the spouse without adequate consideration was not an asset u/s 2 (ea) but on the valuation date, it has been substituted by an asset taxable u/s 2 (ea) then value of such asset shall be included in the net wealth of transferor.

Deemed assets u/s 4 (i) are as follows.

1. **Assets transferred to spouse Sec. 4(1) (a) (ii**).
   If the assessee has transferred an asset to his/her spouse without adequate consideration or in connection with in an agreement to live apart, then value of such asset in included in the wealth of assessee provided their relationship exists both on the date of transfer and on the date of valuation.
2. **Assets held by minor child Sec. 4 (1) (a) (ii)**
   The value of assets held by minor child including step child and adopted child, excluding a married daughter, a handicapped child, illegitimate child and grandchild of an individual is included in the wealth of a parent.
   If marriage of parents subsists, then in the wealth of that parent whose net wealth is more.
   If marriage of parents does not subsist, then in the wealth of that parent who maintains the minor child in the previous year.
   However there are certain exceptions to it.
   i) Assets acquired by the minor child out of his income arising on account of his manual work or activities involving application of his specialized knowledge and experience shall not be included in the net wealth of a parent.
   ii) Assets held by a disabled minor child shall not be included in the wealth of the parent.
   In these cases, net wealth of the child shall be determined separately and assessed in his hands.
3. **Assets transferred to a person or to AOP's, Sec. 4 (1) (a) (iii)**
   If an individual transfers his assets to another person or AOP's without adequate consideration, directly or indirectly, for the immediate or deferred benefit of the individual or his spouse then these assets are included in the wealth of the individual provided their relationship exists on valuation date.
4. **Revocable transfer of asset Sec. 4(1) (a) (iv)**
   Revocable transfer means a transfer which can be revoked at any time by the transferor. Thus, if an individual has transferred any assets to another person or AOP under revocable transfer then value of such assets is included in the wealth of the individual.
5. **Assets transferred to son's wife Sec. 4(1) (a) (v)**
   If an individual transferred an asset to his son's wife directly or indirectly after 31-05-1973 without adequate consideration then the value of such assets is included in the net wealth of the individual.
6. **Assets transferred to a person/AOP for the benefit of son's wife Sec. 4(1)(a) (vi)**
   If an assessee has transferred his asset to another person or AOP directly or indirectly after 31-05-1993 without adequate consideration for the immediate or deferred benefit of his son's wife then value of such assets shall be included in wealth of the individual.
7. **Interest in a Firm or AOP Sec. 4(1) (b)**
   If the assessee is a partner in a firm or a member of an AOP (not being a cooperative housing society), then value of his interest in the assets of firm or association shall be included in his net wealth. Where a Karta of H.U.F. is a partner in a firm, his interest in the firm's assets is includible in the net wealth of the H.U.F.
8. **Converted Property Sec. 4(1A)**
   If an individual who is a member of an HUF converts his individual property after 31-12-1969 into Joint family property either by throwing it into the common stock or by making gifts of separate property or through act of impressing such separate property with the character of property belonging to family without adequate consideration, such properly is called converted property. In

this case value of the converted property or any part of it held by the family on valuation date is included in the net wealth of the individual.
However in case the converted property becomes the subject matter of partition among the members, then the part of the property received by the individual and his spouse is includible in his net wealth.

9. **Transfer by means of book entry [Sec.4 (5A)]**
Where a person makes a gift of money to another person by means of entries in the books of account maintained by the donor or an individual or HUF or firm or AOP or body of individuals with which the done has business or other relationship. Then value of such gift is includible in the net wealth of donor unless the donor satisfies the Assessing officer that the money was actually delivered to the done at the time of making the entries.

10. **Impartible Estate Sec. 4(6)**
Impartible estate of an H.U.F. is that estate which by special law or custom descend to one member of the family though it is a Joint property belonging equality to all, Value of impartible estate is included in the net wealth of such holder, so far wealth tax purposes. He is the deemed owner of the impartible estate.

11. **House from a Co-operative Housing society etc. Sec. 4(7)**
If the assessee is a member of a co-operative Housing Society, company or AOP's and he is allotted a building a part thereof or leased under a house building scheme of the society, company or association, as the case may be then he is the deemed owner of that building part thereof and hence value of such building shall be included in his net wealth.

12. **Building in part performance of a contract Sec. 4(8) (a)**
If a person is allowed to take or retain possession of any building in part performance of a contract of the nature referred u/s 53 A of Transfer of Property Act, 1882 then he is the deemed owner of that building or part thereof and hence value of such building shall be included in his net wealth.

13. **Building on lease Sec. 4(8) (b)**
If an assessee acquires any right by way of lease with respect to a building by virtue of any transaction to a building by virtue of any transaction referred to in clause (f) of Sec. 269 U A. shall be the deemed owner of the building or part thereof and its value shall be included in his net wealth, however it excludes any right by way of a lease from month to month of for a period not exceeding 1 year.

Illustration 3: Explain the taxability of the following in the net wealth computation of Mr. A
1. Gifts of jewellery made to wife Rs 60,000, Market value on valuation date is Rs 2,00,000.
2. He gifted cash Rs. 2, 00,000 to his son's wife without consideration, which she deposited in bank.
3. Urban land transferred by him to his minor handicapped child
4. A minor son of Mr. A receives income by acting in films. Out of this income, he purchased a Car and a residential house; value of these on valuation date is Rs 50 Lakh.
5. He transferred a house valued at Rs 20 Lakh to his married daughter but he has reserved the right to live in that house for whole life.

Solution 3:
1. Since the gift has been made without adequate consideration, hence the value of jewellery on valuation date will be included in wealth of Mr. X.
2. Although the gift has been made without any adequate consideration but as on valuation date it is in form of fixed deposits, which is not an asset under section 2 (ea), hence it is not an asset.
3. Assets held by minor handicapped child are not taxable in the hands of parents, hence the value of urban land is not to be included in wealth of Mr. X, but it is chargeable in hands of the child.
4. The assets acquired by the minor child out of his income arising on account of any manual work done by him or activity involving application of his specialized knowledge or skill is not included in the wealth tax of parents, hence the assets valued at Rs 50 Lakh will be included in the wealth of the child.
5. Mr. A transferred his house to his married daughter. Hence he does not remain the owner of the house on the valuation date, but he has reserved the right to live in that house for whole life, hence it is a revocable transfer u/s 4 (1) (a) (iv) thus value of the house will be included in wealth of Mr. A

EXEMPT ASSETS SEC 5

The following assets are exempt from wealth tax

1. **Property held under trust Sec. 5(i)**
   Any property held under trust or other legal obligations by the assessee for any public purpose of a charitable or religious nature in India is exempt.
2. **Interest in the coparcener property Sec. 5(ii)**
   if the assessee is a member of H.U.F., he is not liable to pay tax on his share in the joint property, so long as the property remains joint and he continues as the member of that family.
3. **One building in the occupation of former Ruler Sec. 5(iii)**
   any one building which is in the occupation of a Ruler and which has been declared as his official residence by the Central Govt .is totally exempt from tax. However the exemption available only to the Ruler during his life time.
4. **Jewellery in possession of a former Rule Sec. 5(iv)**
   Jewellery in possession of a former Ruler not being his personal property which has been recognized by the Central Govt. as his heirloom, before commencement of Wealth Tax Act or by the board after that shall be exempt. However this exemption is subject to fulfillment of certain conditions like keeping of jewellery in India, in its original shape, allowing authorized person to examine the jewellery as and when necessary
5. **Assets of Indian repatriate Sec. 5 (v)**
   Indian repatriate means a person of Indian origin or a citizen of India who was residing in a foreign country and on leaving such country assessee has returned to India with the intention of permanently residing therein. In this case his following assets shall be exempt for 7 successive assessment years, commencing with the assessment year following the date of his return to India.
   i) Money brought by him in India.
   ii) Assets brought by him in India.
   iii) Any balance in Non-Resident External Accounts in India on the date of his return
   iv) Assets acquired by him out of money in his Non-resident External Account or by
   v) sending money from foreign country within 1 year immediately preceding the date of his return to India.
   vi) Any assets acquired by him out of money brought in by him in India or out of the balance in NRE account after his arrival in India.
6. **House [Sec 5 (vi)]**
   One house or part of a house or a plot of land belonging to an individual or HUF is exempt provided size of plot is not bigger than 500 square meters.

Illustration 4: How would you treat the following items under the wealth tax act?

i) Mr. Gupta is a managing trustee of an educational society. The society is a public charitable trust. The value of trust property is Rs 50 Lakh, which is held by Mr. Gupta in his name as Managing director.
ii) Mr. G, an Indian repatriate came to India on 1st Oct'2005, The balance in his nonresident external account is Rs 10 Lakh on that day, out of which he purchased a car for Rs 4 Lakh
iii) Mr. X is a former ruler; his jewellery was recognized by Central Govt. as his heirloom in 1956.
iv) Interest of Mr. Z in the HUF to which he is a member
v) Mr. Shyam owns only one house valued at Rs. 12 Lakh, the house has been build on a land area of 450 sq. meter.

Solution 4:

i) Any property held by assessee under trust for any public purposes of charitable nature in India is exempt u/s 5 (I, hence value of trust property is neither includable in the wealth of Mr. Gupta nor the society is liable to pay wealth tax on it.
ii) Balance on Non-resident external account is exempt u/s 5 (v), further Car acquired by him out of that balance is also exempt.
iii) Jewellery in procession of a former ruler that has been recognized as an heirloom by central govt. is exempt u/s 5 (iv).
iv) As Mr. Z is a member of HUF so his interest in family property is totally exempt from tax u/s 5 (ii)
v) Since the land area does not exceed 500 sq. meters. , Thus the value of house is exempt from wealth tax as value of one house is exempt u/s 5 (vi)

State True or False:

i) Motor car held as stock-in-trade is a taxable asset. ------

ii) Investment into shares of a company is non-taxable asset. -----
iii) Assets transferred to a minor child are taxable in the hands of the parents. ----
iv) Property transferred to a trust for the benefit of the spouse is exempt. -----
v) All residential buildings of a former ruler are exempt. ------
vi) The only house owned by the assessee built on the area of 600sq. meters is exempt. ---

DEBT OWED

Debt owed represents an obligation to pay an amount either in present or in future. In the computation of net wealth, from the total of all assets value of debts owed by an assessee is deductible provided following conditions are satisfied

1. Debt is owed by assessee on valuation date
2. Debt should have been incurred in relation to acquisition or creation of nay asset, which is taxable for Wealth Tax in the hands of assessee.

State whether following debts are deductible in the calculation of Net Wealth:

1. Loan taken for the marriage of the daughter.
2. Loan taken to buy jewellery.
3. Loan taken to buy shares of a company.

COMPUTATION OF NET WEALTH AND WEALTH TAX

PROCEDURE FOR COMPUTATION OF NET WEALTH IS AS FOLLOWS:

Computation of Net wealth of the assessee	**Rupees**
Assets owned by assessee on valuation date including deemed assets but excluding exempt assets	**X**
Less Deductible debts owed by assessee on the valuation date.	**(Y)**
Net Wealth	**X - Y**

PROCEDURE FOR COMPUTATION OF WEALTH TAX.

Wealth tax is chargeable @1% of the amount by which net wealth exceeds 15 lac rupees, hence If net wealth is up to Rs. 15 lac, there will not be any wealth tax. If net wealth exceeds Rs.15 lac, wealth tax is calculated as: Wealth Tax = 1% [Net Wealth – Rs 15 Lac]

Illustration 5: Mr. Gupta has the following assets and liabilities on the valuation date:

Details	**Rs.**
Residential House	40,00,000
Cars for personal use	10,00,000
Jewellery	16,00,000
Aircrafts and boats for personal use	1,30,00,000
Farm house 15 Kms away from local limits of Mumbai	12,00,000
Cash in hand	2,20,000
Shops given on rent	12,00,000
Loan taken to purchase aircrafts	50,00,000
Loan taken to purchase residential house	22,00,000

Compute Net Wealth and Wealth Tax?

Solution 5:

Details	**Rs.**
Residential House (exempt u/s 5 (vi))	-
Cars for personal use	10,00,000
Jewellery	16,00,000
Aircrafts and boats for personal use	1,30,00,000
Farm house 15 Kms away from local limits of Mumbai	12,00,000
Cash in hand (In excess of Rs. 50,000 is an asset)	1,70,000
Shops given on rent (Commercial establishment not anasset u/s 2 (ea))	-
Less-Loan taken to purchase aircrafts	(50,00,000)
Loan taken to purchase residential house (Not deductible since residential house is exempt)	-

Net Wealth	**1,19,70,000**

Wealth Tax = 1% of [Net Wealth – Rs. 15 Lakh] = 1% (1, 04, 70,000) = Rs. 1,04,700

Illustration 6: An Indian company has the following assets and liabilities on the valuation date:

Details	Rs
Stock in trade	200000
Business premises occupied for own business purposes	3800000
Residential houses given to employees [gross salary of each employee is less than Rs 500000]	2200000
Residential house for full time director with gross annualsalary of Rs 720000	1200000
Cars held as stock in trade	1800000
Cars for use of officers of the company	1000000
Bank Balance	1200000
Cash in hand recorded in books	200000
Guest House	1500000
Loan taken for construction of house	1000000
Loan taken for construction of residential houses of employees	1700000

Compute the net wealth and wealth tax of the company?

Solution 6: Computation of net wealth and wealth tax of the company:

Details	Rs.
Stock in trade [Not an asset u/s 2 (ea)]	-
Business premises occupied for own business purposes [Not an asset u/s 2 (ea)]	-
Residential houses given to employees [Not an asset u/s 2 (ea) as gross salary of employees is less than Rs 500000]	-
Residential house for full time director with gross annual salary of Rs 720000 [Since gross annual salary exceed Rs 500000 hence an asset u/s 2 (ea)]	1200000
Cars held as stock in trade [Not an asset u/s 2 (ea)]	-
Cars for use of officers of the company	1000000
Bank Balance [Not an asset u/s 2 (ea)]	-
Cash in hand recorded in books books [Not an asset u/s 2 (ea) since its recorded]	-
Guest House	1500000
Less - Loan taken for construction of house	(1000000)
Less - Loan taken for construction of residential houses of employees	(1700000)
Net Wealth	**2700000**

Wealth Tax @1% [2700000 – 1500000] = Rs. 120000

Illustration 7: Mr. Monty is in the business of construction and sale of residential flats. From the given information compute the Net Wealth and wealth tax.

Details	Amount
Land in Rural Area	1500000
Land in urban area [construction is not permitted as per municipal laws]	2500000
Land in urban area [held as stock in trade since 2000]	4200000
Motor Cars [Not held as stock in trade]	1250000
Jewellery [Not held as stock in trade]	1500000
Bank Balance	800000
Cash in hand	150000
Flats constructed and remaining unsold [not being held as stock in trade]	4200000
Residence provided to 5 employees with one employee's gross annual salary exceeding Rs 500000	2500000
Loan taken to acquire land	1200000
Loan taken to acquire jewellery	1100000
Loan taken for construction of flats	3000000

Solution 7: Computation of net wealth and wealth tax of Mr. Monty

Details	Amount
Land in Rural Area [Not an asset u/s 2 (ea)]	-
Land in urban area [Not an asset u/s 2 (ea) as construction is not permitted]	-

Land in urban area [land held as stock in trade is not taxable for 10 years]	-
Motor Cars [Not held as stock in trade]	1250000
Jewellery [Not held as stock in trade]	1500000
Bank Balance [Not an asset u/s 2 (ea)]	-
Cash in hand [In excess of Rs 50000 is taxable u/s 2 (ea)]	100000
Flats constructed and remaining unsold [not being held as stock in trade, hence an asset]	4200000
Residence provided to 5 employees [Exempt for 4 whose salary less than Rs 500000 taxable for one]	500000
Total	**7550000**
Less debts	
Loan taken to acquire land (not deductible as land is not - taxable asset)	-
Loan taken to acquire jewellery	(1100000)
Loan taken for construction of flats	(3000000)
Total	**(4100000)**
Net Wealth	**3450000**

Wealth tax @1% (3450000 – 1500000) = Rs 19500

Mr. Gupta has following assets and liabilities on the valuation date

i) Gold and Silver	4000000
ii) Share on Indian companies (not an asset u/s 2(ea))	200000
iii) Residential house - A	3000000
iv) Residential house - B	4000000
v) Commercial building used for own business	5000000
vi) Jewellary	200000
vii) Boat	400000
viii) Cars for personal use	1200000
ix) Bank Deposits	100000
x) Cash in Hand	350000
xi) Loan taken to purchase gold	500000
xii) Loan taken to purchase houses A	1200000
xiii) Loan taken to purchase houses B	2500000
xiv) Loan taken to purchase Boat	300000
xv) Loan taken to purchase Jewellary	800000

(out of which Rs. 300000 used to pay personal expenses)
Calculate his wealth tax?

Solution: Net Wealth=Rs.51Lakh, Wealth Tax=Rs.36, 000.

LET US SUM UP

Thus the Wealth Tax is charged on six specified assets (excluding exempt assets) minus of deductible debts. However an assessee is not only chargeable in respect of the assets belonging to him on valuation date but also for his deemed assets. Wealth Tax is charged @1%of the amount by which Net Wealth exceeds Rs.15Lakh

EXERCISE

1. Write short notes on the following
   i) Valuation date
   ii) Net Wealth
2. Incidence of tax depends on residential status and nationality of an assessee, Explain
3. Define 'assets' under the Wealth Tax Act.
4. List out "deemed assets"
5. What items of Wealth are exempt from Wealth Tax?
6. How would you treat the following under Wealth Tax Act?
   i) Mr. Gupta gifted to his daughter-in-law jewellary worth Rs. 1 Lakh. The jewellary is held by her on valuation date and its value on this date is Rs. 5 Lakh.
   ii) Mr. Gupta gifted to his daughter-in-law jewellary in shares of some companies, value of the shares on the valuation date is Rs. 3 Lakh.

iii) Mr. Romy gifted a piece of land to his daughter in law after obtaining approval of the authorities constructed 5 shops as at and let out the same. The value of shops on valuation date is Rs. 50 Lakh.

iv) Mr. Kumar formed a trust for the benefit of his wife and transferred his urban land valued at Rs. 20 Lakh to the trust. Income of the land will be available to his wife throughout her whole life.

Hints

i) The asset transferred to daughter-in-law without adequate consideration is deemed to be the assets of the transferor

ii) The asset transferred to daughter-in-law without adequate consideration is deemed to be the asset of the transferor provided it is in the form of taxable asset.

iii) Same as (ii) above

iv) Property held under trust for the benefit of one's spouse is assessable in the hands of the transferor

7. Mr. Singh has following assets and liabilities on the valuation date

i)	Gold and Silver	2000000
ii)	Share on Indian companies (not an asset u/s 2(ea))	200000
iii)	Residential houses - A	3000000
	- B	4000000
iv)	Commercial building used for own business	5000000
v)	Jewellary	1200000
vi)	Boat	500000
vii)	Cars for personal use	1200000
viii)	Bank Deposits	500000
ix)	Cash in Hand	350000
x)	Loan taken to purchase gold	500000
xi)	Loan taken to purchase houses A	1200000
xii)	Loan taken to purchase houses B	2500000
xiii)	Loan taken to purchase Boat	300000
xiv)	Loan taken to purchase Jewellary (out of which Rs. 300000 used to pay personal expenses)	800000

Calculate his wealth tax?

Hint

Net Wealth=Rs.51Lakh, Wealth Tax=Rs.36000

8. From the following particulars of Mr. Sharma on the valuation date, calculate his Net Wealth and Wealth Tax Liability-

	Rs.
i) Agricultural land in Delhi	120000
ii) Agricultural land in village/ a place on the 8 km, From municipal limits of Delhi	200000
iii) Farm house at a distance of 6 km from Delhi	900000
iv) Crop on agricultural land	500000
v) Cars	250000
vi) Tools for agricultural	200000
vii) Jewellery	1500000
viii) Interest in HUF	300000
ix) Cash in hand	30000
x) Shares on Indian companies	500000
xi) Units of UTI	300000
xii) Loan for agricultural land	100000
xiii) Income Tax liability	20000
xiv) Wealth Tax Liability	12000

Hint

Net Wealth=Rs.17, 50,000. Wealth Tax=Rs.2, 500.

WEALTH TAX ACT UNIT 2

In the last lesson we have studied the chargeability of the wealth tax and its calculation. In this lesson we shall be studying the relevant provisions relating to the valuation of the assets for the purposes of calculation of net wealth and the assessment procedures.

VALUATION OF ASSETS

In order to determine net wealth and wealth tax of an assessee, asset's value should be determined as on valuation date as per the manner given in schedule III

VALUATION OF A BUILDING [SCHEDULE 3, PART B]

Value of an immovable property i.e. a building or land apartment thereto or a part thereof is to be determined according to Part B of schedule III of wealth tax act. The procedure of valuation is:

STEP 1 CALCULATION OF GMR [GROSS MAINTAINABLE RENT]

GMR is calculated as

1. Where property is not let out: GMR means amount of annual rent assessed by the local authority or if property is not situated within local limits of a local authority then GMR is the amount which the owner can reasonably be expected to receive as an annual rent.
2. Where the property is let out, GMR is higher of the annual rent whether received or receivable by owner or annual value assessed by the local authority. Annual rent is the sum of actual rent and certain specified adjustments. Actual rent is defined as
   i) Actual rent received or receivable by owner in respect of such year if property is let out throughout the period of 12 months during the previous year.
   ii) Actual rent received or receivable proportionately where the property is let out for only the part of previous year

Illustration 1: A house or property is let out for a period of 6 months for Rs 1000 p.m and 4 months for Rs 1200 p.m and it remain vacant for 2 months. So the actual rent received for 10 months = 6 * 1000 + 4 * 1200 = 10800 Thus rent for full year = 10800/10 * 12 = 12960
Further amount of actual rent is to be increased for the following adjustments to calculate annual rent:

i) Municipal taxes borne by tenant
ii) 1/9 of actual rent if tenant bear the repair expenses
iii) Interest @15% p.a. on the amount of deposit (calculate outstanding amount on monthly basis) made by tenant provided deposit in not in nature of advance rent for 3 months or less
iv) Amount received as premium or otherwise for leasing the property as divided by the period of lease
v) Any other payment for the use of the property by whatever name called the value of benefits or perquisites, whether convertible to money or not, obtained from tenant in respect of any obligation of owner.

STEP 2 CALCULATION OF NMR [NET MAINTAINABLE RENT]

GMR		= X
Less	a) Taxes levied by local authority whether paid or not	=Y
	b) 15% GMR to cover other expenses	=Z
NMR		=(X-Y-Z)

STEP 3 CALCULATION OF CAPITALIZED VALUE OF NMR

1. When property is built on freehold land = NMR * 12.5
2. When property is built on leasehold land and unexpired period of lease is 50 years or more = NMR * 10
3. When property is built on leasehold land and unexpired period of lease is less than 50 years = NMR * 8

STEP 4 CALCULATION OF VALUE OF BUILDING UNDER RULE 3

1. When property is acquired or constructed before 31st March 1974 The value under rule 3 = capitalised value of NMR
2. When property is acquired or constructed after 31st March 1974 Value under rule 3 = higher of capitalised value of NMR or cost of acquisition/construction plus cost of any improvement.

STEP 5 CALCULATION OF VALUE OF BUILDING FOR CALCULATION OF NET WEALTH

Value under rule 3	= A
Add adjustment for the unbuilt area	= B
Less amount of unearned increase [in case of leasehold land property] [Least of specified % of unearned increase Or 50% of value after adjustment for un built area]	= C
Value of the house	=A+B-C

Explanation

1. Adjustment for un built area Wherein the un built area of property exceeds the specified area, the value as calculated under rule 3 shall be increased by the amount calculated as:
   D = difference between un built area and specified area

D = difference between un built area and specified area	Addition to value under Rule 3
D <= 5%	No adjustment
10% >= D >= 5%	20% of value under Rule 3
15% >= D >= 10%	30%
20% >= D>= 15%	40%

   Herein specified area is area as specified under wealth tax act.

2. Unearned increase means difference between value of land on valuation date as determined by govt. or such authority for purposes of calculation of such increase and the amount of premium actually paid/payable to Govt. /local authority for the lease of land.

Exceptions: In some cases the valuation of property shall not be computed according to the provisions of rule 3, these cases are:

1. Where the accessing officer, with the previous approval of the joint commission is of the opinion that it is not practicable to apply this rule to a case having regard to the facts and circumstances of the case.
2. Where the difference between the unbuilt area and specified area exceeds 20% of the aggregate area.
3. Where the property is built in leasehold land and unexpired period of lease does not exceed 15 years from relevant valuation date and the deed of lease does not provide an option to lessee for the renewal of lease.

Illustration 2: Mr. A owns a house built on a lease hold kind (unexpired period of lease is 60 years) in Mumbai which is let out to a tenant for Rs. 1200 p.m. other terms one Tenant pays all repair expenses Tenant has paid Rs. 300000 in advance refundable at the time of vacating the house. Tenant has paid Rs. 100000 on premium for taking sub-lease of property for 5 years.
The annual value assessed by local authority is Rs. 240000 and municipal tax is 20000. The tenant spent Rs. 15,000 on repairs of the house, difference between specified area and unbuilt area is 4 %. Compute value of house assuming. Cost of acquisition is Rs. 10, 00,000

Solution 2

Valuation of house

Step 1 Calculation of GMR

GMR = higher of annual rent orannual value

i) Annual value = Rs. 2, 40,000

ii) Calculation of annual rent

Rent of the year = Rs. 12000 x 12	= Rs.1,44,000
Repair borne by tenant (1/9 x 1, 44,000)	= Rs.16,000
Interest on advance (15% 300000)	= Rs.45,000
Premium paid (1/2 x 100000)	= Rs. 20,000
Annual rent	= Rs. 2,25,000
Thus GMR = higher of Rs. 240000 of Rs. 225000	= Rs.2,40,000

Step 2 Calculation of NMR

GMR	= Rs.240000
Less Municipal Tax	= Rs. 20000
15% repair of GMR for Rs. 36000	(Rs. 56000)
	NMR = Rs.184000

Step 3 Calculation of Value under Rule 3

Capitalised Value of NMR = NMR X10 (Rs.184000 X 100)	= Rs.1840000
Value of House = Higher of actual cost of acquisition or capitalised value of NMR.	
= Higher of Rs 10 Lac. or Rs.1840000	= Rs.1840000
Step4 Value under Rule 3	= Rs.1840000
Adjustment for unbuilt area	= NIL
Value of house	Rs.1840000

Illustration 3: A Ltd. is the owner of a house, which is constructed on a leasehold land. Unexpired period of lease is 40 years. It has been let out this house to X for Rs.21000 p.m, other terms one.

1. X is to pay 3/4th of municipal taxes and bear the cost of repairs.
2. X paid interest free advance of Rs. 1 lac. refundable at the time of vacating the house.

The annual value assessed by local authority is Rs. 2 Lakh and taxes levied are Rs. 24000, X spent Rs. 10000 on the repairs of the house. The difference between the 'unbuilt area' and 'specified area' is 8% of the aggregate area. Find value of house assuming cost of the building including land was Rs. 1200000. A Ltd. had paid Rs. 5 lakh to DDA for lease of land but now
value of land is Rs.5 lakh, DDA charges 50% of un-earned increase on transfer of house.

Solution 18.3

Valuation of House

Step 1 Computation of GMR	
GMR= Higher of annual rent/annual value	
Calculation of annual rent	
Repairs (1/9 of actual rent)	= 28000
Interest on advance (15% X Rs.1 lac)	= 15000
Municipal taxes borne by tenant(3/4 X 24000)	= 18000
Annual Rent	= 313000
Annual Value assessed by local authority	= Rs.200000
Thus GMR	= Rs. 313000
Step 2 Computation of NMR	
GMR	= Rs.313000
Less municipal taxes	= Rs.24000
15% of GMR Rs.46950	= Rs. 70950
NMR	= Rs. 242050
Step 3 Calculation of Value under Rule 3	
Capitalized value of NMR 242050 X8	=Rs.1736400
Actual cost of construction	=Rs. 1200000
Value under rule 3 = Higher of above two	=Rs. 1736400
Step 4 Calculation of value of house for wealth tax	
Value under rule 3	= Rs.1736400
Add adjustment for unbuilt Area 20% of value	= Rs. 347280
	= Rs.2083680
Less amount of unearned increase	
50% (1500000-500000) or 50% (2083680) Whichever is less	= Rs. 500000
Value of house	= Rs.1583680

Exercise Mr. Mahesh is the owner of a house which is constructed on freehold land. He has let out this house to a tenant for Rs.5800 p.m., The other terms are as under:-

i) Tenant will pay 3/4th the municipal taxes and bear the cost of repair
ii) He will pay Rs.50, 000 as interest free deposit.

The annual value as assessed by the local authority is Rs.100, 000 and taxes levied Rs. 12,000. Tenant spent Rs.16000 on the repairs of the hose. The difference between un-built and specified area is 8% of the aggregate area. Find out the value of the house for wealth tax purposes if cost of building including land in 1980 was Rs. 500000.

ANSWER Value of the house=Rs.8, 76,000

VALUATION OF SELF-RESIDENTIAL HOUSE. [SEC.7 (2)]

The value of one self occupied house belonging to the assessee and exclusively used him for residential purposes is determined as:

1. House acquired/constructed before 1.4.1971: Value determine under rule 3 as on 31.3.1971 shall be the value of the house for all coming assessment years.
2. House acquired/constructed between 1.4.1971 and 31.3.1974: Value determined under rule 3 as on the valuation date immediately following the date on which assessee became the owner shall be the value of house for all coming assessment years.
3. House acquired/constructed after 31.3.1974
   i) Where the cost of the acquired/constructed house including the cost of improvement does not exceed Rs 50 lac, if house is located in Mumbai, Kolkata, Chennai or Delhi [Rs 25 lac for any other place], the value as determined under rule 3 as on the valuation date immediately following the date on which the assessee became the owner shall be the value of the house for all coming assessment years.
   ii) Where the cost of the acquisition/construction including the cost of improvement exceeds Rs 50 lac, if house is located in Mumbai, Kolkata, Chennai or Delhi [Rs 25 lac for any other place], the higher of the value as determined under rule 3 on the valuation date immediately following the date on which the assessee became the owner or cost of acquisition/construction including cost of improvement shall be the value of the house for all coming assessment years.

Illustration 4: Mr. X is having a residential house in Pune which he was exclusively for his own residential purposes; he had acquired the house in 1969- 70 for Rs 200000. its value as per rule 3 as on 31.3.1971 is Rs 400000 and on 31.2.2006 as per rule 3 is Rs 500000

Solution 4: Since the residential house was acquired before 1.4.1971 so its value is as on 31.3.1971 thus value of house is Rs 400000

Illustration 5: Mr. Y is in Mumbai. He acquired a house in 1980-81 for Rs 1200000. Value as on 31.3.1981 is Rs 980000 and as on 31.3.2006 is Rs 1240000.

Solution 5: Since the self-residential house was acquired after 31.3.1974 and cost of acquired plus improvement does not exceed Rs 50 lac. Thus the value of the house shall be determined under rule 3 as on the valuation date immediately following after 31.3.1981, thus the value of the house is Rs 980000.

Mr. M is in Delhi and acquired a house in 1991-92 for Rs 6200000, value as on 31.3.1992 is Rs 5700000 and as on 31.3.2006 is Rs 6900000
Hint: Since the self-residential house was acquired after 31.3.1974 and cost of acquired plus improvement does not exceed Rs 50 lac. Thus the value of the house shall be higher of value as on 31.3.1992(valuation date immediately after the date of acquisition) or actual cost of acquisition plus improvement.

VALUATION OF BUSINESS ASSETS [SCHEDULE III PART D]

In case the assessee is carrying on a 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 is taken as value of such assets after making final adjustments.

1. Assets disclosed on balance sheet

Asset	Value to be taken
i) Depreciable assets	Written down value
ii) Non depreciable asset excluding stock in trade	Book value
iii) Closing Stock	Value as calculated for IT purposes

2. Asset not disclosed in balance sheet: Value as determined with provisions of schedule III as applicable to the asset

Further valuation of business assets following assets shall not be considered.
   i) Advance IT paid under the IT act.

ii) The debt due to the assessee as per balance sheet which has been allowed as a deduction under provisions of II act for relevant assessment year.
iii) Value of any asset exempt from wealth tax.
iv) P & L A/c debit balance any other amount shown in balance sheet which does not represent the value on any asset
v) Non-business assets

Further following liabilities are not to be deducted to calculate the net value of business assets:

i) Capital employed in business other than borrowed money
ii) Reserve by whatever name called.
iii) Any provisions made for meeting any future or contingent liability.
iv) Any liability shown in balance sheet which has been specifically utilized for acquiring exempt assets
v) Non-business liability

However business liabilities not shown under balance sheet are deductible

VALUATION OF INTEREST IN FIRM OR AOP [SCHEDULE III PART E]

Procedure for valuation of interest of partner (members) in firm or AOP is as:

1. Complete the net wealth of firm AOP in the valuation date without considering the exemption given u/s 5 [exempt assets]
2. Divide the net wealth of firm/AOP among partners/member
   i) Up to the amount of capital employed in firm in the ratio of capital
   ii) Residual net wealth in the rate in which partner/ members have agreed to distribute assets of firm in the event of dissolution of firm/AOP or in profit sharing ratio in the absence of such agreement.

Thus individual partners/ members of firm/AOP are liability to pay tax on their wealth as well as on the interest in firm/AOP; however in their individual capacity they can claim exemption u/s 5.

VALUATION OF LIFE INTEREST [SCHEDULE III PART F]

Value of life interest can be calculated by multiplying the annual income that accrues to the assessee from life interest by the value shown in the appendix attached to the schedule III

However the value so calculated shall not exceed the value of corpus as on the valuation date else value of corpus shall be the value of life interest.

VALUATION OF JEWELLERY [SCHEDULE III PART G]

The value of the jewellery shall be estimated to be the price it would fetch if sold in open market on the valuation date, further the return of net wealth as furnished by assessee must be supported by:

1. A statement in the prescribed form (MOSA) where the value of the jewellery on the valuation dates does not exceed Rs. 5 Lac.
2. A report of a registered valuer in the prescribed form, where the value of jewellery on the valuation dates exceeds Rs. 5 Lac.

However in the following cases, the assessing officer may refer the valuation of jewellery to a valuation officer

1. Where he value is estimated by a registered valuer and the AO is of the opinion that value so estimated is less than its fair market value
2. In any other case if AO is of the opinion that the fair value of the asset exceeds the value of the asset returned by 1/3rd the value of the asset as returned or more than Rs 50000.

When the valuation is referred to the valuation officer, the fair market value of jewellery as determined by the valuation officer will be the value of the jewellery. The value so determined shall be taken to be the value of such jewellery for subsequent 4 assessment years subject to the adjustments of change in market value of gold/ silver/ alloy on the valuation date relevant to the assessment year and for the purchase/sale of jewellery during the assessment years

VALUATION OF OTHER ASSETS [SCHEDULE III PART H]

Other assets shall be valued as:

1. The value of the assets except cash being an asset not covered by part B to G shall be estimated either by AO himself or by V.O., if a reference is made to him. The value shall be estimated to be the price that it would fetch if sold in open market, on the valuation date.

2. If asset is not saleable in open market, then its value shall be determined in accordance with such guidelines or principals as may be specified by the board from time to time by general or special order.

VALUATION BY VALUATION OFFICER SEC.16A

For the valuation of jewellery and other assets the AO may refer the valuation to a V.O. in following cases

1. AO is of the opinion that the fair value of the asset exceeds the value of the asset returned by 1/3rd the value of the asset as returned or more than Rs 50000.
2. That having regard to the nature of the asset and other circumstances, it is necessary once reference is made to V.O.

V.O. will estimate the price of the asset which in his opinion, the asset would fetch if sold on open market on the valuation date and in this case value as estimated by V.O. on value shown by the assessee in his return, whichever is higher shall be the value of asset for wealth tax purposes

PROCEDURE FOR ASSESSMENT

Provisions relating to assessment can be enumerated as:

WEALTH TAX RETURN (VOLUNTARY /REVISED)

It is a statutory obligation of every person if his net wealth on the valuation date exceeds Rs. 15 Lakh to furnish a return in the prescribed form (Form BA) with the Wealth Tax offices on or before the due date.

If any person has not furnished the return on/before the due date or with in the time allowed under a notice to furnish return of net wealth or after furnishing the return, discovered any omission or wrong statement therein, he may furnish a return or a revised return at any time before the expiry of one year from the end of relevant AY or before assessment is made whichever is earlier,

ASSESSMENT

Where wealth tax is payable on the bases of return to be furnished, the assessee is required to pay the tax before filling of return and such return is to be accompanied by the proof of such payment.

DUE DATES FOR FILING THE RETURN

Due dates for filing of the return are

ASSESSEE	DUE DATES
1. Assessee is a company	31st October of relevant A.Y.
2. Assessee is other than a company	
i) Accounts are required to be audited under Income Tax Act or any other law.	31st October of relevant A.Y.
ii) Person is required to file the return of income on the basis of economic criterion.	31st October of relevant A.Y.
iii) in any other case	31st July of relevant A.Y.

SIGNING OF THE RETURN

The Wealth Tax Return shall be signed and verified by

1. In case of an individual
   - i) by individual concerned
   - ii) by some person duly authorized by him holding a valid power or attorney in case the individual concerned is absent from India.
   - iii) By his guardian or any person competent to act on his behalf. If the individual is mentally incapacitated from attending his affairs.
   - iv) By some duly authorized person holding a rapid power or attorney if it is not possible for individual to sign the return due to any reason.
2. In case of an HUF
   - i) The Karta
   - ii) If Karta is absent form India or is mentally incapacitated from attending the affairs, by any other adult member of the family

3. In case of a company
   i) By managing director or any other director if managing director is not able to sign due to unavoidable reasons
   ii) if company is not resident in India, by a person holding valid power of attorney from such company to do so.
   iii) By the liquidator of the company if the company is being wound up
   iv) By principal officer if the management of the company has been taken over by Central Govt. or any state Govt. under any law.

LET US SUM UP

Thus the Wealth Tax is charged on six specified assets (excluding exempt assets, including deemed assets) minus of deductible debts. Assets are valued according to the rules given in schedule III for the purposes of calculation of net wealth... Wealth Tax is charged @1%of the amount by which Net Wealth exceeds Rs.15Lakh.Then the assessee is required to furnish his Wealth Tax return duly signed by him, in the prescribed form on or before the due date.

SELF ASSESSMENT EXCERCISE

1) Discuss valuation of assets by valuation Officer.
2) What is the procedure followed in valuing the jewellery for Wealth Tax purposes?
3) Enumerate the steps involved in valuation of a house.
4) Mr. Dev constructed a house in 2000 on a freehold land owned by him in Calcutta. The cost of the house is Rs.2000000, Annual value assessed by local authority is Rs.120000. Mr. Dev has let the house to a bank at Rs. 15000 p.m., other terms are
   i) Repair expenses are to be borne by bank.
   ii) Municipal taxes Rs.40000 are to be paid by bank.
   iii) Bank paid deposit of Rs. 400000 to Mr. Dev; Mr. Dev pays interest to bank at the rate of 10% p.a.

Calculate value of house assuming difference between unbuilt area and specified area is 9% of aggregate area. **ANSWER:** Value of house=Rs.26, 17,800.

5) Mr. Z acquired a house in Bombay for Rs.20, 00,000 in 1978. It is let out @ Rs.1, 50,000 p.m. The annual value as per municipal records is Rs. 1, 50,000. Local taxes are partly borne by the owner Rs.5000 and partly by the tenant Rs.10, 000. Repair expenses Rs.6, 000 one borne fully by tenant. Difference between unbuilt area and specified area is 18% of aggregate area. The tenant has paid Rs. 2, 00000 to Mr. Z as interest free deposit. The house is built in a leasehold land and unexpired period of lease is 72 years, Calculate value of house. **ANSWER** Value of the house=Rs.28, 00,000.

6) Actual rent of a building situate at Pune is Rs. 1, 00,000 p.m. The tenant has paid Rs.20, 000 as local taxes out of total of Rs.30, 000 taxes. Annual value as assessee by authority is 7, 50,000. The owner has accepted a deposit of Rs.12 Lakh without interest compute value of house under Rule 3 assuming.
   i) It is on freehold land and it was acquired for Rs.1200000 in 1970.
   ii) It is on freehold land and it was acquired for Rs. 2000000 in 1980.
   iii) It is on lease hold land with unexpired lease period of 82 years and entire cost of acquisition and construction is Rs.20, 00,000 in 1985.

ANSWER (i) value of house=Rs.28, 12,500. (ii) Rs.28, 12,500. (iii) Rs.22, 50,000.

7) Mr. Gupta is the owner of a house, which is constructed on freehold land. Hehas let out this house to a tenant for Rs.6000 p.m., The other terms are as under:-
   i) Tenant will pay ½ the municipal taxes and bear the cost of repair
   ii) He will pay Rs.50, 000 as interest free deposit. The annual value as assessed by the local authority is Rs.100, 000 and taxes levied Rs. 12,000. Tenant spent Rs.6000 on the repairs of the hose. The difference between unbuilt and specified area is 12% of the aggregate area. Find out the value of the house for wealth tax purposes if cost of building including land in 1980 was Rs. 500000. **ANSWER: Value of the house=Rs.9, 49,000.**