Simplified notes on wealth tax

Wealth Tax

Wealth Tax- Payable

- **On net wealth up to the last moment of valuation Date ended 31st march of previous year-sec2(q)**
- **By every individual, HUF and company but not by-**
    - **Sec 25 companies.**
    - **Co-operative society**
    - **Social club**
    - **Political party**
    - **Mutual funds specified u/s 10(23D) of income tax act(sec45)**
    - **Reserve Bank of India.**
- **If net wealth exceeds Rs.30,00,000**
- **@ of 1% on net wealth in excess of RS.30,00,000**

Note: - No surcharge (or) cess payable.

COMPUTATION OF NET WEALTH

Particulars	RS.
Assets u/s 2(ea) chargeable base on location of assets and Nationality, residential status of assessee	**XXX**
Less: Debts in relation to above mentioned assets on valuation date u/s2(m)	**(XXX)**
Less: Assets exempt u/s 5	**(XXX)**
Add: Deemed asset u/s4	**XXX**
Net Wealth (As per Wealth Tax act)	**xxx**

Round off (u/s 44c):- Net wealth calculated should be rounded off to nearest hundred rupees.

Net wealth:-Excess of assets (includes deemed assets, Excludes Exempted assets) over Debts (which are related to assets included in Net Wealth)

INCIDENCE OF TAX

For individual - Depends on Residential status and Nationality

For Huf and company - Depends on residential Status

Note: - Residential status as per Income tax act on Valuation date

	ROR	RNOR	NR
Individual(Indian) HUF, Company	**1**	**2**	**2**
Individual(Foreign National)	**2**	**2**	**2**

1. All assets (including deemed assets but excluding exempted) Located in India & outside India MINUS Respective aggregate value of Debts (related to assets)

2. All assets Located in India MINUS Respective Debts.

ASSETS u/s [2(ea)] - sub section

(i) Guest house, residential house, or commercial building and land appurtenant thereto and includes farm house situated in 25kms of Municipal limits.

But does not include

a. **Residential house exclusively for residence of employee, officer& director in whole time employment whose gross amount of salary is less than Rs.10, 00,000.**
b. **House (residential or commercial) held as stock in trade.**
c. **House used for business or profession of assessee.**
d. **Residential house property let-out for a minimum period of 300days in Previous year(P.Y)**
e. **Property in nature of commercial establishment or complex.**

(ii) Motor Cars:- covers all motor vehicles except heavy vehicles

But does not include

a. **Cars used by assessee in business of running them on hire**
b. **Cars held as stock in trade**

Note: for leasing company cars will be assets and hence may be wealth if satisfies sec 2(m).

(iii) Jewellery, bullion, furniture,& utensils of gold, silver: (but not an asset if held as stock in trade)

a. **Includes – ornaments made of gold, silver, platinum or any other precious metal or an alloy containing one or more of such precious metals.**

b. **Precious and semi precious stones, whether or not contain precious and semi precious stones and whether or not worked or swen in any wearing apparel or set into furniture.**

(iv) Ship and Aircrafts: - other than used by assessee for commercial purpose is an asset.

(v) Urban land :-

What is urban Land?

Urban land means land situated in:-

Area A (or) Area B (up to A.Y 2013-14)

Area A (or) Area C (from A.Y2014-15)

Area A => Any area within jurisdiction of municipality (or) containment board which has population of not less than 10,000.

Area B =>Any area within such distance (not more than 8 kms) from local limit of municipality or cantonment board, as central government may, having regard to the extent of, and scope for urbanization.

Area C =>

Distance from Local limits	Population in municipal or cantonment board limit	Status
2kms	>10,000<=1,00,000	Urban land
6kms	>1,00,000<=10,00,000	Urban land
8kms	>10,00,000	Urban land

"Population" means the population according to last preceding census of which the relevant figures has been published before valuation date.

"Municipality" includes all Municipal Corporation, notified area committee, town planning committee, or municipality known by any other name.

<u>Exception:-</u>

1. **Land on which construction of building is not permitted under any law time being in force.**
2. **Land occupied by any building which has been constructed with approval of appropriate authority**
3. **Unused land held by assessee for industrial purpose for a period of 2 years from the date of acquisition.**
4. **Stock in trade for period of 10 years from its acquisition.**

(vi) Cash in Hand:-

Individual or HUF - cash in excess of s.50, 000

Companies - Amount not recorded in books of accounts.

Note:- sec 2ea defines the assets and theses need not be included in wealth, further it should satisfy condition of Sec 2(m) that he is owner of property. Mere possession doesn't mean wealth, otherwise accompanied by Right on Such asset.

CONCEPT OF DEEMED ASSET (Sec4):-

To check avoidance of tax in certain cases, provisions of deemed assets have been made.

Following assets will be treated as deemed assets u/s 4(1)(a)-subsection
(Assets transferred by INDIVIDUAL which held by transferee in same form or other)

(i) **Assets transferred to spouse: -** **If asset transferred to spouse after 31.03.1956, directly or indirectly without adequate consideration, not in connection with agreement to live apart, on relevant valuation date is considered as asset in hands of transferor.**

(ii) **Assets held by minor child:-** **(including step and adopted child but not married daughter) Shall be included in net wealth of individual(parent) on valuation date whose net wealth on valuation date(excluding minor child assets) is greater**
   - **If marriage of parents doesn't subsist, then include in net wealth of individual who maintains the child**
   - **Once included in net wealth of either of parents will be continued for succeeding years unless assessing officer is satisfied to include in other parent income after giving opportunity of being heard.**

(iii) **Assets transferred to a person or AOP: -** **transferred after 31.03.1956, directly or indirectly for immediate or deferred benefit of transferor or spouse of transferor is deemed to be asset of transferor on valuation date.**

(iv) **Assets transferred under revocable transfer: -** **to person or AOP under revocable transfer is deemed to be asset of transferor.**

   Revocable transfers:-

   a. **If transfer is revocable in 6 years (or) revocable during life time of beneficiary**
   b. **Directly or indirectly if transferor derives benefits from transferred assets**
   c. **Directly or in directly if transferor RE-Assume power (OR) RE-transfer, in respect of whole or any part of assets (or) income from such assets.**

(v) **Assets transferred to son's wife: -** **Asset transferred by individual after 31.05.1973 to son's wife whether directly or indirectly without adequate consideration.**

(vi) **<u>Assets transferred for the benefit of son's wife: -</u> Asset transferred by individual after <u>31.05.1973</u> to a person or AOP for immediate or deferred benefit of son's wife whether directly or indirectly without adequate consideration.**

<u>Interest of partner or member sec 4(1)(b):-</u>

If assessee (may or may not be individual) is a partner of firm or member of association of persons, his value of interest in such firm or AOP is to be added to his net wealth for relevant valuation date.

<u>Note:-</u> if minor is admitted for benefits of partnership then his share of interest in firm should included in net wealth of Parent as discussed above(sec 4(1)(a)(ii)).

<u>Conversion of self occupied property of an individual into joint family property:-</u>

such property transferred after 31.12.1969, directly or indirectly without adequate consideration is treated as his deemed asset.

<u>Note: -</u> the share of spouse of individual (who transferred property), (from the property which has been transferred) during partition is treated as asset in hands of individual.

<u>Gifts by mere book entries: - Sec 4(5A)</u>

Gifts made through mere book entries, by the person who is making gift or any other person with whom he has business connection.

<u>Impartible estate:- Sec 4(6)</u>

The holder of impartiable estate will be deemed as owner of all the properties in that estate.

<u>Property held by a member of housing society:-</u>

Assessee a member of cooperative housing society to whom a building is allotted (or) leased from such society is treated as asset and included in calculation of his net wealth. However any outstanding installments payable for such building cost by assessee is deductible as debt owed by assessee.

<u>Note: -</u> The above rules are also applicable if assessee is a member of company (or) an AOP.

ASSETS EXEMPT FROM TAX [sec5]-sub section

(i) <u>Property held under a trust:-</u>

Property held by assessee, under a trust (or) by legal obligation for any public charitable or religious purpose in India is totally exempt from tax.

Which business assets held in trust are exempted?

a. **Where the business is wholly for public religious purpose including printing and/or publication of books, also includes business notified by central government in this behalf.**
b. **If business is carried on by an institution for charitable purpose then business shall be mainly carried on by beneficiaries of such institution.**
c. **Business carried on by institution or trust specified u/s 10.**

(ii) Interest in HUF:-

Interest in HUF property is completely exempt from tax since taxable in HUF STATUS.

(iii) Residential building of former ruler:-

1. **Any palace (or) building (declared by central government) occupied by a ruler of a princely state is totally exempted from tax (including land appurtenant thereto).**
2. **Any new building constructed in such palace(official Residence) is also exempt from tax**
3. **In case of partly self occupied and partly let out, those which are occupied by ruler will be exempted and those let out are not exempted.**

(iv) Former rulers jewellery:-

Jewellery in possession of ruler which not his personal property but recognized as heirloom by the central government before 01.04.1975 (or) by the Board afterwards is totally exempt from tax.

Note:-

1. **The jewellery should be permanently kept in India.**
2. **Can be taken out of India for the purpose and period approved by the board.**
3. **Reasonable steps should be taken for keeping the asset in original shape.**
4. **Shall provide to government and officers of board for examining when required.**

(v) Asset belonging to Indian reparities:-

Assets of an Indian origin* or a citizen of India, who is returning to India permanently from foreign country is exempted from tax.

The following are not taxable for 7 successive assessment years (starting from assessment year next following to his return)

a. **Money and value of assets brought by to India**

b. Money stands to the credit of such person's nonresident (External) account on the date of his returning.

c. Value of assets acquire by him from money mentioned above from one year prior to return or thereafter.

***Indian origin means Indian origin defined in income tax act.**

(vi) House (or) part of house (or) plot of land of an individual (or) HUF not exceeding area of 500sq.m whether self occupied or let out is exempt from tax.

Note: - Incase of co-owner exemption is available to each co-owner of house.

Exemption u/s5(vi) is available if assessee has only one house.

VALUATION OF ASSETS (Schedule III)

Building valuation:-

1. **Gross Maintainable rent:-**
   a. **Higher of annual rent received/receivable (or) annual value fixed by local authority. (if let out)**
   b. **Higher of Deemed annual rent (if let out) received/receivable (or) annual value fixed by local authority. (if not let out)**

   ANNUAL RENT:-

   Actual rent received/receivable
   As increased by
   (i) Municipal taxes borne by tenant
   (ii) $1/9^{th}$ of actual rent if repair of building borne by tenant
   (iii) interest@15% on advance from tenant (if exceeds 3months)

   (as reduced by interest paid on such deposit)

   (iv) premium received in terms of modification of agreement of

   lease (will be divided on proportion basis to lease period)

   (v) Any benefits or perquisite received in terms of modification of agreement of lease.

2. **Net maintainable rent:-**

Gross maintainable rent MINUS taxes levied by local authority (whether paid by owner or tenant) MINUS 15% of Gross maintainable rent.

3. **<u>Capitalization to arrive at net value of asset:-</u>**

<u>Point-1</u>

Net value of asset = net maintainable rent x 12.5
<u>Incase property is constructed on lease hold land then</u>

If lease period is 50 years or more - Net maintainable rent X 10
If lease period is less than 50 years - Net maintainable rent X 8

<u>Point-2</u>

Cost of construction/ acquisition and cost of improvement.

<u>Exception to point -2:-</u> For only one house and Cost of construction/ acquisition and cost of improvement doesn't exceed - 50lakh (Mumbai, Chennai, Delhi and Kolkata), 25lakh in case of others.

If property acquired or constructed on or before 31.03.1974- only point -1 applicable

If property acquired or constructed after 31.03.1974 - higher of point-1 or point-2.

4. **<u>Addition of premium in case of excess un built area:-</u>**

If UN built area of part of land on which property is built, exceeds the specified area premium has to be added.

Unbuilt area means part of aggregate area on which no building has been erected where aggregate area means the area on which property has been built and un built

Specified area = minimum area which can be kept as un built

Excess of un built area over specified area	Amount of premium
5%	Nil
>5% <= 10%	20% of capitalized value
>10% <=15%	30% of capitalized value
>15%<=20%	40% of capitalized value
>20%	rules of part B of schedule III are not applicable, valued by assessing officer

Hence we arrived at Adjusted net maintainable rent

In final we have to deduct the amount of unearned increment payable or 50% of value of property, whichever is low (if property value includes un earned increment payable)

Unearned income means value on valuation date in excess of premium.

<u>Valuation of self occupied property:-</u> if assesse owns house and exclusively used for residential purpose then he has option to take

Value of house as determined above on valuation date of current assessment year or on first valuation date next following date on which he became owner or A.Y 1971-1972 whichever is later

<u>Valuation of business assets: -</u> where books are regularly maintained by assessee

1. **Value of house property, jewellery and other assets will be calculated as per wealth tax provisions.**
2. **Book assets are valued as follows**
   a. **DEPRECIABLE ASSETS- written down value**
   b. **NON- DEPRECIABLE ASSETS- Book value**
   c. **Closing stock – Value Taken for income tax purpose**

   These values should be appreciated by 20%

Higher of (1) or (2) will be taken as value of assets

Assets like Advance tax paid, written off debts, P&L debit balance will not be considered as assets (also these won't satisfy sec 2(ea)).

Likewise liabilities like capital employed, provisions for liability will not be considered.

<u>Valuation of interest in firm or AOP:-</u>

Net wealth equal to capital employed will be allocated to partners or members in ratio of capital contributed and remaining is allocated in distribution ratio in event of dissolution (if any) or profit sharing ratio.

<u>Value of life interest:-</u>

Calculate average annual income derived from life interest during 3 years period as reduced by expenses incurred for such receipt (subject max of 5% of income).

The above calculated value should be multiplied by 1/(P+D)-1

Where P = annual premium for whole life insurance,

D = rate of interest which is 6.5% p.a (i.e., D=6.5/106.5)

However value of life interest is limited to value of asset.

<u>Valuation of jewellery: -</u> Fair market value should be treated as value of jewellery

If value of jewellery exceeds RS. 5,00,000 form O-8 should be submitted

If value of jewellery doesn't exceeds RS. 5,00,000 form O-8A should be submitted, but these are not binding on assessing officer.

Valuation of other assets:-

Value of any other asset, not covered shall be valued by assessing officer or can refer to valuation officer. (However it would be fair market value)

NOTES:-

1. **Return of wealth tax should be filed before the due date specified u/s139 of income tax act**
2. **Interest or penalty: - interest is payable @1% per month for late filing. Penalty will be up to 100% of tax if income is concealed.**

Yours sincerely,

B. Venkatesh

(Student)