

TAX PAPER 8

(Topic covered: -Wealth Tax)

Time Allowed: - 3 hours

M. M. 100

NOTE: - All the references to the sections mentioned in the paper relates to Wealth Tax Act, 1957 and relevant Assessment Year is 2011-12, unless otherwise stated. All questions are compulsory.

Ques. 1: - Under the wealth tax assessment three types of individuals are liable for the taxation on their net wealth, but when we look in the broad preview we can divide the classification under the two heads only. Discuss. (8 marks)

Ques. 2: - The concept of partial partition is alien to both wealth as well as income tax act. Discuss. (6 marks)

Ques. 3: - under the income tax act legal heirs of the assessee are responsible for all the act and deed of the deceased assessee and are liable to the all the consequences to which the deceased had been liable, except for the personal prosecution, but the provisions slightly differs in this regard under the wealth tax act. Discuss the validity of the statement in the light of provisions and case laws. (8 marks)

Ques. 4: - A Cooperative Society formed for the purpose of construction of residential flats for its members acquired a large area of urban land for Rs.3 crores. The society had a membership of 10 members, all having equal share. The Assessing Officer proposes to tax urban land in the hands of the society.

- What is meant by urban land? (5 marks)
- Is the action of the Assessing Officer correct? (3 marks)
- Can the members of the society be assessed on their share in the value of the urban land? (3 marks)

Ques. 5: - 'X' is the legal heir of 'C'. 'C.' had delayed filing of the returns of wealth for the assessment year 2006-07 to 2008-09. Penalty proceedings under section 18(1)(a) were initiated by the assessing officer against 'C' when he was alive and were continued against 'X'. Penalties were levied against 'X' who contends that no penalty for delay in the filing of return of wealth could be levied. In the contention correct? Discuss. (5 marks)

Ques. 6: - The net wealth of a firm consisting of three partners Balu, Kausik and Deepu having equal shares and a capital contribution of Rs.7,00,000/- Rs.3,00,000 and Rs.2,00,000/- respectively is as under:

	Rs.
(i) Value of assets located outside India	20,00,000
(ii) Value of assets located in India	50,00,000
(iii) Debts incurred in relation to assets in India	10,00,000

Determine the value of interest of the partners in the firm under the Wealth-tax Act, 1957. (6 marks)

Ques. 7: - Y Ltd is engaged in the construction of residential flats. For the valuation date 31.3.2011, furnishes the following data and requests you to compute the taxable wealth:

	Rs. (in Lacs)
(a) Land in urban area (construction is not permitted as per Municipal Laws in Force)	20
(b) Motor-cars (in the use of company)	5
(c) Jewellery (investment)	10
(d) Cash balance (as per books)	2
(e) Bank Balance (as per books)	3
(f) Guest house (situated in rural area)	4
(g) Residential flat occupied by Managing Director (annual remuneration of whom is Rs.6 Lacs excluding perquisites)	8
(h) Residential house let out for 100 days in the financial year	7
(i) Loans obtained:	
For purchase of motor-car	2
For purchase of jewellery	2

The reasons for inclusion or exclusion should be stated in the computation. (10 marks)

Ques. 8: - Bhaskar, a person of Indian origin was working in Kenya from 1997. He returned to India for permanent settlement in May, 2009, when he remitted money into India. For the valuation date 31st March 2011, the following particulars were furnished. You are required to compute the taxable wealth. The reason for inclusion or exclusion should be stated.

- | | | |
|--------|--|------------|
| (i) | Building owned and let out for 270 days for residence
Net maintainable rent (40,000) and the market value Rs.10,00,000
(Excess of unbuilt area over specified area is 20% of the aggregate area) | |
| (ii) | Jewellery: | |
| | (a) Purchased in April '09 out of money remitted to India from Kenya | 5,00,000 |
| | (b) Purchased in April, 2010 out of sale proceeds of motor car brought from abroad and sold | 4,00,000 |
| (iii) | Value of interest in urban land held by a firm in which he is a partner | 7,00,000 |
| (iv) | Bonds held in companies | 5,00,000 |
| (v) | Motor car used for own business | 2,50,000 |
| (vi) | Vacant house plot of 400 sq.mts (purchased in December 2005) market value | 9,00,000 |
| (vii) | Cash in hand | 80,000 |
| (viii) | Urban land purchased in the year 2009 out of withdrawals from NRE account | 10,00,000 |
| | | (10 marks) |

Ques. 9: - Amar Co-operative Housing Society Ltd owns a building in Mumbai, which stands on freehold land. There is no unbuilt area. It has 10 members, each of whom has contributed Rs.10 lacs towards the shares in the Co-operative society. The building was completed and occupied exclusively for residential purposes by its members before 31.3.2001. It was financed partly by the shares contributed by members and partly by bank finance. The annual value fixed by the municipality for the building is Rs.20 Lacs, the taxes amount to Rs.1 Lac.

'X' is a member of the society owning one of the flats. The cost of the flat to 'X' has been fixed by the society at Rs.20 Lacs and the amount outstanding by way of instalment loan payable to the society by 'X' is Rs.2 Lacs. You are required to determine the net wealth of 'X' as on 31.03.2001. (5 marks)

Ques. 10: - Mr.Jogi is aged 45 years. His father settled a property in trust giving whole life interest therein to Jogi. The income from the property for the years 1997-98 to 2000-01 was Rs.60,000, Rs.64,000, Rs.70,000 and Rs.76,000 respectively. The expenses incurred each year were Rs.2,000, Rs.4,000, Rs.5,000 and Rs.6,000 respectively. Calculate the value of life interest of Mr. Jogi in the property to settled on the valuation dated 31.3.2001, with the help of the factor 9.267. (3 marks)

Ques. 11: - Mr. 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 31.3.2011 is indicated below. You are requested to compute the taxable wealth of Mr. Kamat giving justification for the inclusion or exclusion of each item. The valuation date as indicated above is 31st March, 2011: (8 marks)

- | | Rs. |
|--|-----------|
| (i) Motor cars of foreign make held as Fixed Assets | 9,50,000 |
| (ii) Gold bonds under Gold Deposit Scheme, 2008 | 15,00,000 |
| (iii) Residential house property at Pune let out with effect from 05th June, 2010 | 11,00,000 |
| (iv) Jewellery held | 9,00,000 |
| (v) Lands purchased for industrial purpose: | |
| on 1st January, 2007 | 5,50,000 |
| on 25th March, 2010 | 7,50,000 |
| (vi) Loan against the purchase of lands: | |
| on 01st January, 2007 | 2,75,000 |
| on 25th March, 2010 | 3,50,000 |
| (vii) Wealth-tax liability | 9,000 |
| (viii) Cash in hand | 75,000 |
| (ix) Cash at Bank | 1,25,000 |
| (x) Fixed Assets located in USA | 50,00,000 |
| (xi) 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 |

Ques. 12: - Steel, Oil and Coal are partners in a firm engaged in the business of running a manufacturing unit in the municipal town of Siliguri having a population of more than 10,000 located in the State of West Bengal. Given below is the Balance Sheet of the firm as on 31st March, 2011:

	Rs. in Lacs		Rs. in Lacs
Partner's Capital		Urban Land	300
Steel 300		Urban Land (Construction not allowed)	700
Oil 400		Factory Land	200
Coal 200	900	Residential House	300
Cash credit from bank (Secured by hypothecation of stock and debtors)	200	Plant (WDV)	120
Term loan taken from bank (Secured by charge on gold and silver)	1,200	Factory shed	400
Creditors	1,000	Lorry (WDV)	100
Other liabilities	600	Stocks	300
		Gold and Silver	800
		Sundry Debtors	180
		Advance Tax	200
		Cash at Banks	300
Total	<u>3,900</u>		<u>3,900</u>

Two urban lands are valued by independent valuer at Rs.550 and Rs.50 Lacs respectively. The market value of gold and silver on the balance sheet date is Rs.1,100 Lacs. The value of residential house as per Rule 3 of schedule III is Rs.350 Lacs.

Term loan was taken for purchase of : (a) plant and machinery Rs.300 Lacs;(b) Lands, the plots are of which are of equal size Rs.700 Lacs.

The residential house is occupied by partner Steel, who looks after the production activity of the firm.

Partner Oil is a non-resident for Income-tax purposes.

The partners share the profits in the ratio of 2 : 2 : 1.

Details of personal assets of the partners as on 31st March, 2011 are as follows:

	(Rs. in Lacs)		
Particulars	Steel	Oil	Coal
Shares of Companies	40	Nil	Nil
Cash in hand (in India)	Nil	0.75	Nil
Fixed deposit and other deposits with banks	35	32	40
Loan taken for making investment in the firm	30	Nil	Nil
Residential House in Nairobi, Kenya	Nil	400	Nil

You are required to determine the assessable wealth of each partner as at 31st March, 2011 stating clearly the reason for inclusion or exclusion of each item. (10 marks)

Ques. 13: - Discuss the cases where the status of exemption of the heirloom jewellery can be withdrawn. Also discuss the tax issues involved on such exemption getting withdrawn with the help of an example. (10 marks)