

What is Wealth Tax?	Wealth tax is the tax levied on the wealth of the Assessee declared on a particular date.
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Applicability of wealth tax



A Social Club is an AOP, but not assessable under the Wealth Tax Act.

Scope of Net Wealth

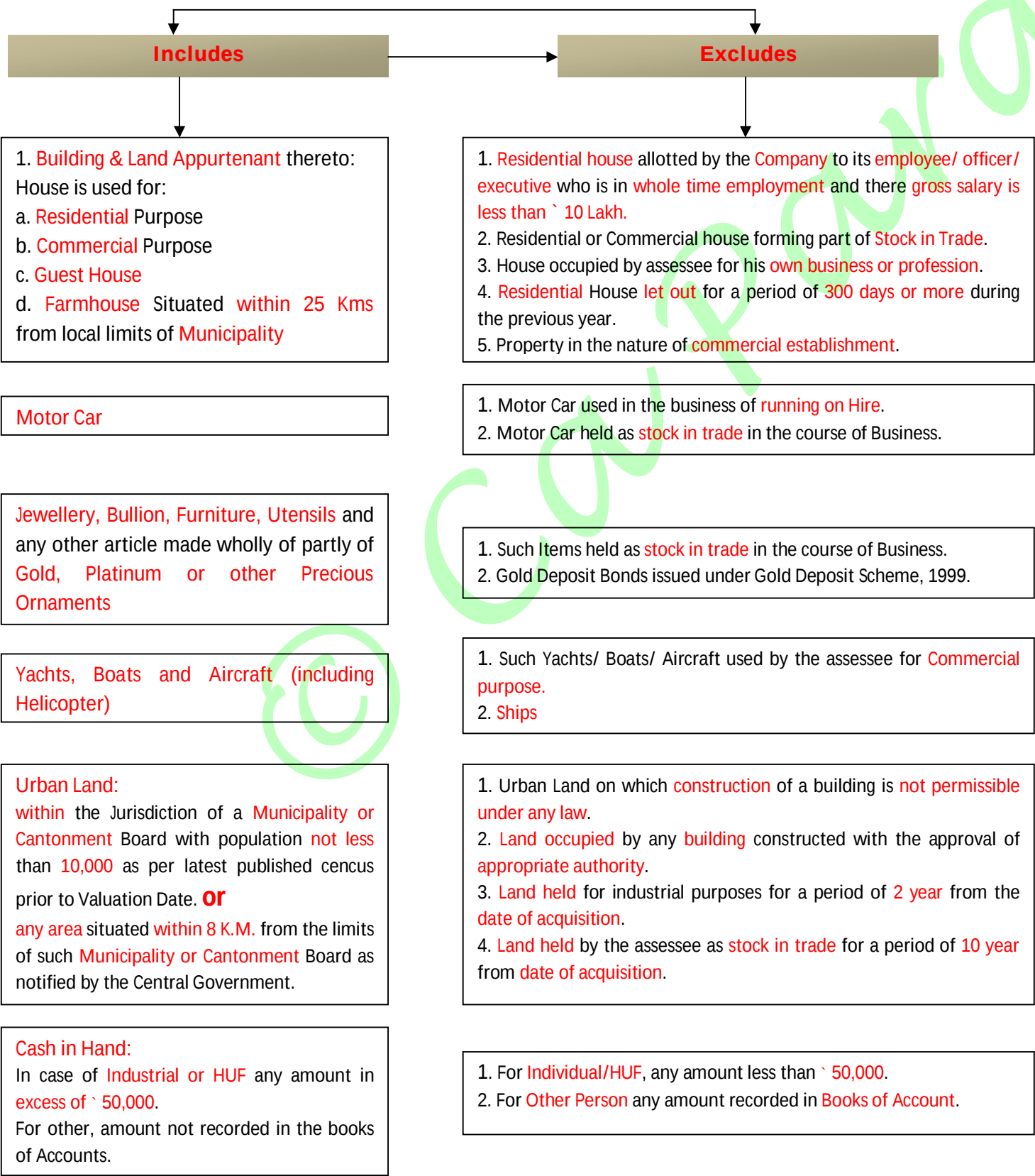
Incidence of Wealth Tax shall be determined on the basis of the following:-

1. In case of Individual, his nationality, residential status and location of the asset.
2. In case of HUF or Company, their residential status and location of the asset.

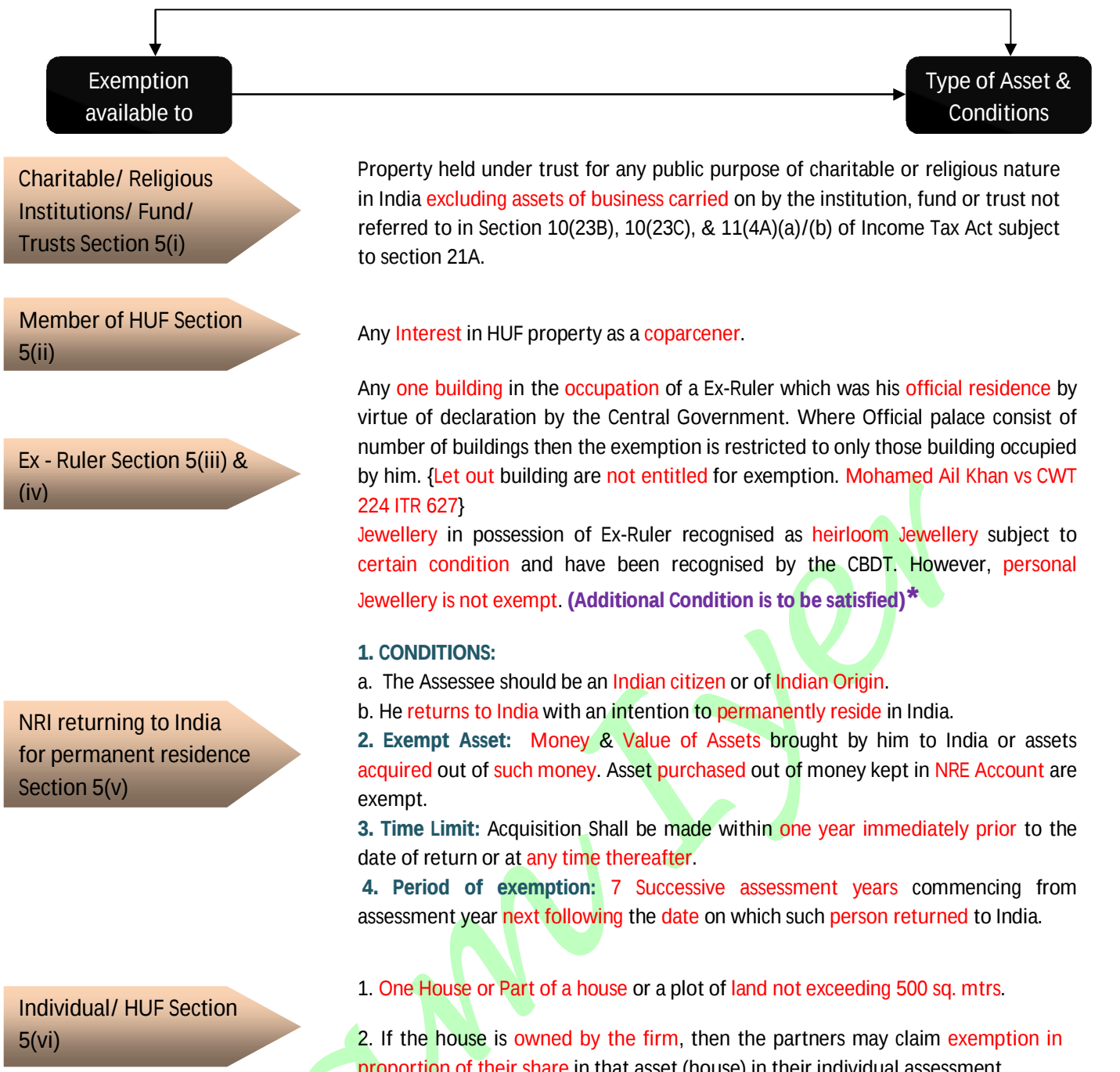
Citizenship/ Residential Status of the assessee in India	Assets Located		Debts incurred on assets	
	In India	Out-side India	In India	Out-side India
1. Individual who is an Indian national & HUF: a. Resident & Ordinarily Resident	T	T	D	D
b. Resident but Not Ordinarily Resident in India.	T	N.T.	D	N.D.
c. Non- Resident	T	N.T.	D	N.D.
2. Individual who is a foreign National	T	N.T.	D	N.D.
3. a. Resident Company	T	T	D	D
b. Non - Resident Company	T	N.T.	D	N.D.

T = Taxable, N.T. = Not Taxable, D= Deductible, N.D. = Not Deductible.

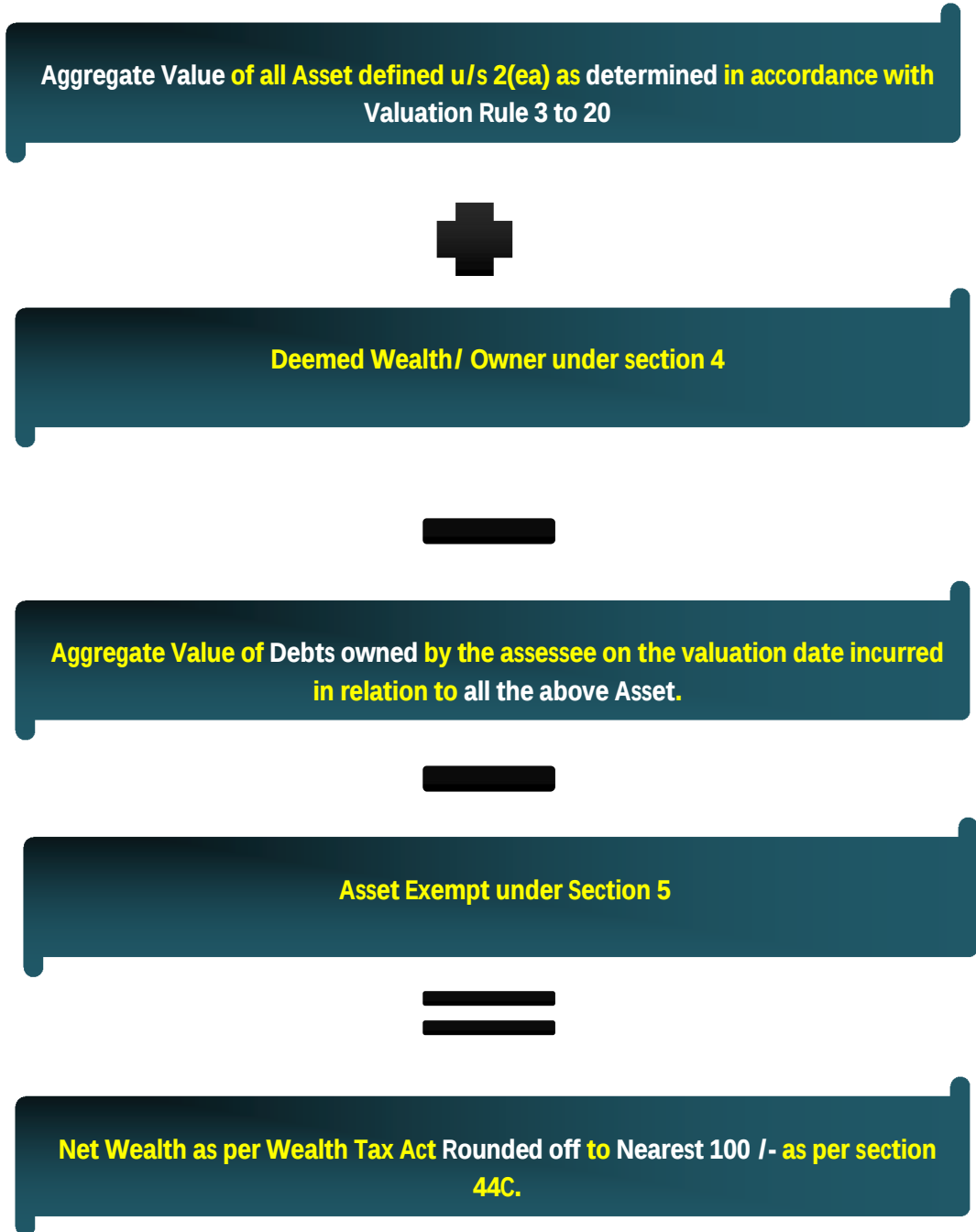
Asset Section 2(ea)

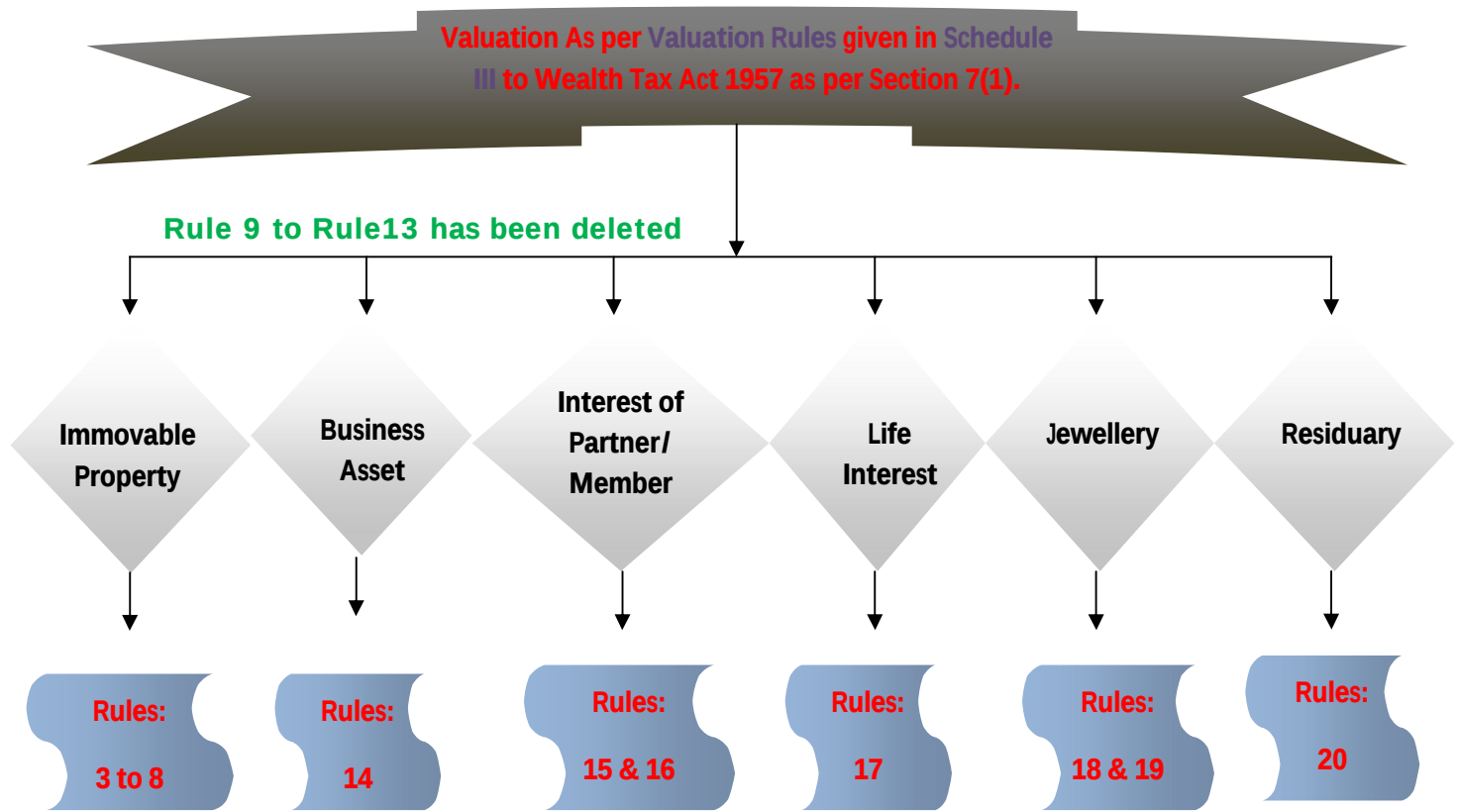


Asset Exempt from Wealth Section 5



How to Calculate Net Wealth as per Section 2(m) ?



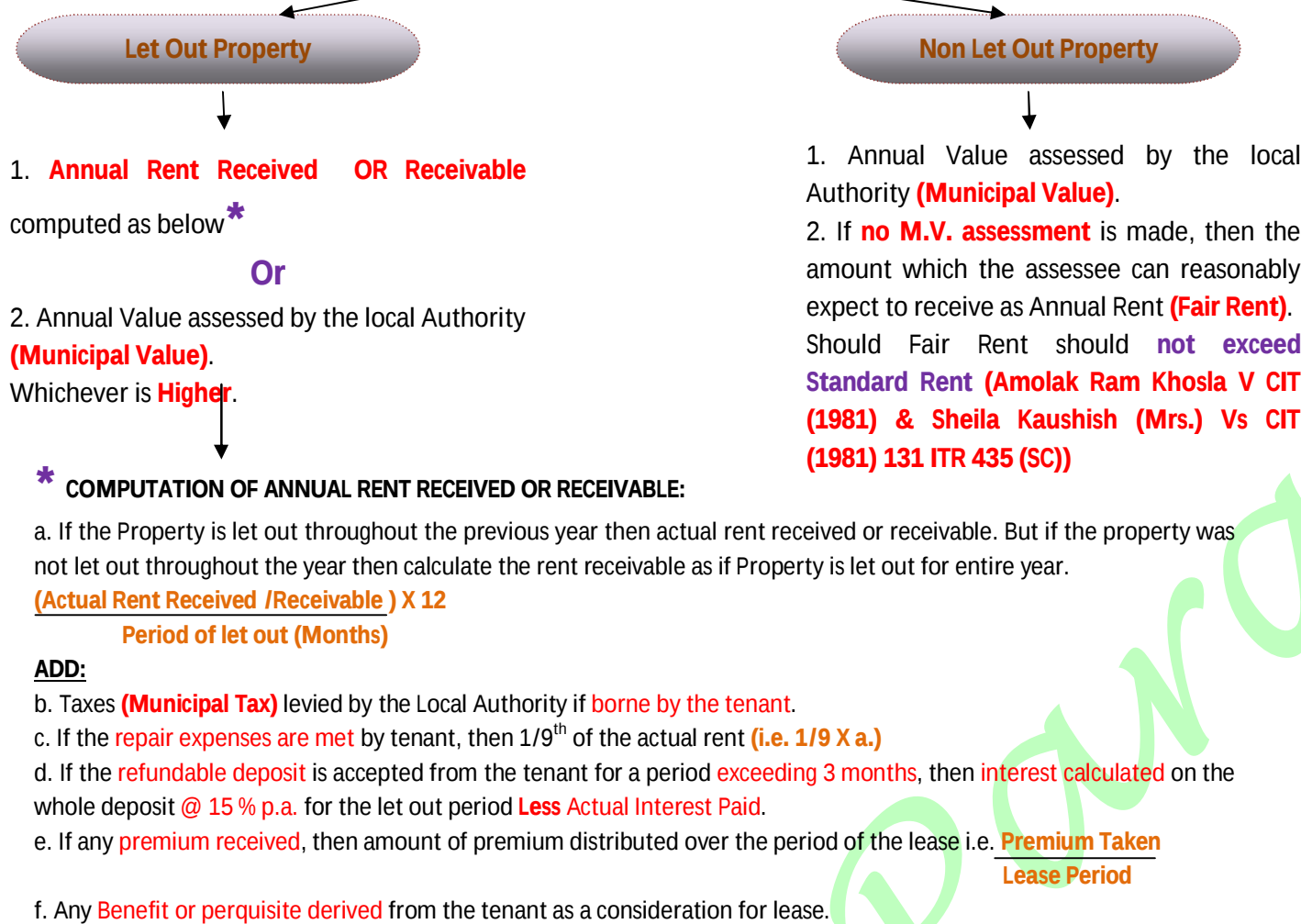


VALUATION OF IMMOVABLE PROPERTY (RULE 3 to 8)

Order of application of this are as under:

- Step 1 : Rule 5 - Computation of **Gross Maintainable Rent (GMR)**
Step 2 : Rule 4 - Computation of **Net Maintainable Rent (NMR)**
Step 3 : Rule 3 - **Capitalisation** of Net Maintainable Rent (**CNMR**)
Step 4 : Rule 6 - **Addition** of **Premium of Un-built** area to Substituted Maintainable Rent (SNMR)
Step 5 : Rule 7 - **Deduction** in respect of **Unearned Increase**.
Step 6 : Rule 8 - Situation when **Rule 3** is **not applicable**.
= **TAXABLE VALUE OF IMMOVABLE PROPERTY**

Step 1: Rule 5 Computation of Gross Maintainable Rent (GMR)



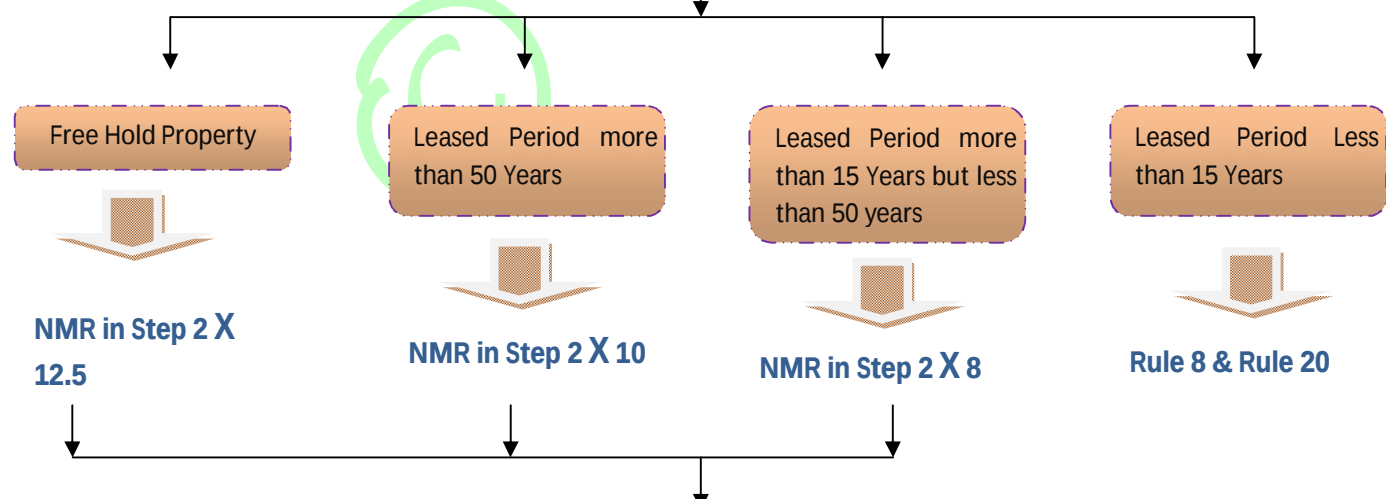
ADD All the Above to arrive at Actual Rent Received / Receivable

Step 2: Rule 4 Computation of Net Maintainable Rent (NMR)

Gross Maintainable Rent As Calculated in **step 1** in accordance with Rule 5

- Less:**
- a. **Municipal Tax levied** by the local authority.
b. **15% of GMR**

Step 3: Rule 3 Capitalisation of Net Maintainable Rent (CNMR)



If the Property is **acquired/ construction completed after 01-04-1974**. **Proviso** to Rule 3
But this **proviso Shall not apply** in the following Case:

a. The property is exclusively used by the assessee for his **own residential purpose** throughout the year **&**
b. The cost of **construction + Improvement** is **not more than ` 50 Lakh** in case of **Metro.** & **` 25 Lakh** in **other place**.
c. If **more than 1 house** property is used for **residential purpose** of the assessee, then the **exception** shall apply only in respect of **1 such property**.

Substituted Net Maintainable Rent (**SNMR**)=
CNMR

or

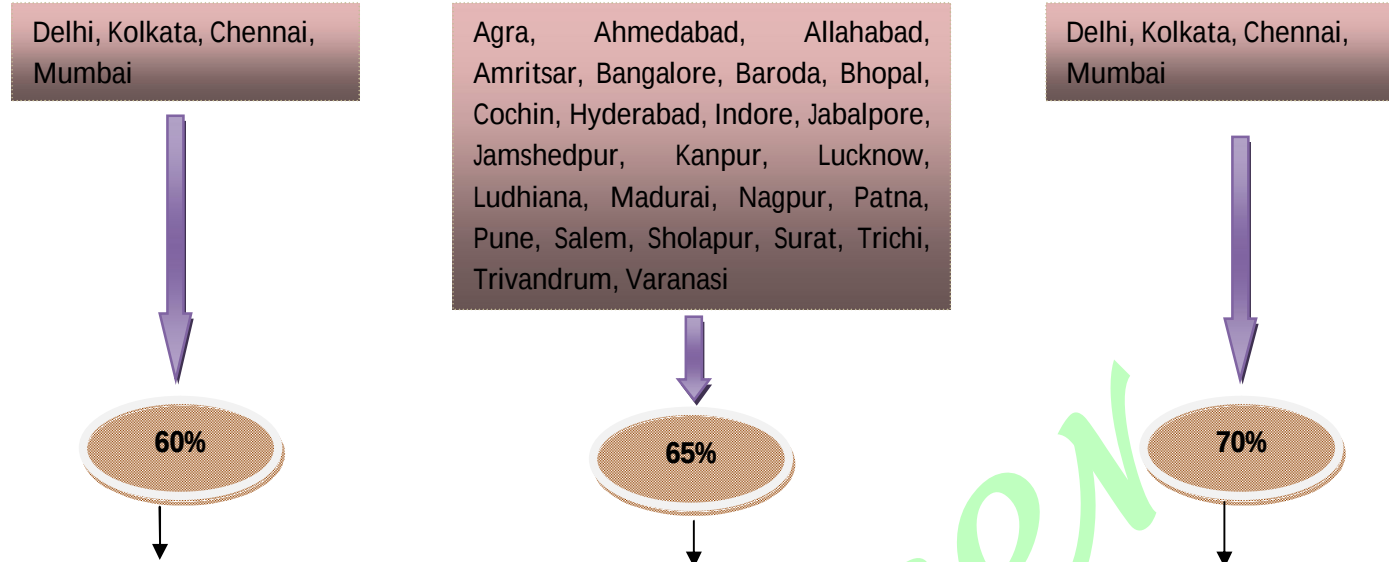
Cost of Construction + Cost of Improvement Whichever is **Higher**.

Step 4: Rule 6: Premium to SNMR in case of excess Un built Area (UBA)

1. Compute Aggregate Area (AA) = Area on which property is considered + Un built Area (i.e. Total Area).
2. Compute Un built Area (UBA) = Aggregate area of the land on which on building has been erected.

Determine Specified Area (S.A.)= S.A. in Relation to the plot of land to which the property is constructed, refers to the maximum space which can be kept as Un built and for which no premium is added.

S.A. =



Note: If any law for the time being in force requires the minimum area of plot of land to be kept as open for the enjoyment of the property and if that minimum area exceeds the specified area then such Minimum Area will deemed to be the Specified Area.

Calculate Excess Area (EA) = UBA -SA.

Calculate Excess Area Premium Percentage (EAPP) = $\frac{EA \times 100}{A.A.}$

Excess Area Premium Percentage Range	Premium Added to the SNMR
a. Less than 5%	Nil
b. More Than 5% but Less than or equal to 10%	20% of SNMR
c. More Than 10% but Less than or equal to 15%	30% of SNMR
d. More Than 15% but Less than or equal to 20%	40% of SNMR

Adjusted Net Maintainable Rent (ANMR) = SNMR + Premium (if EAPP more than 20% then Rule 8 & 20 Applies)

Step 5: Rule 7: Deduction of Unearned Increase (UBA)

What is Unearned Increase?

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 premium paid or payable to the Government or such authority for the lease of the Land.

Specified part of Unearned Increase, if any payable to the Government as if the property has been transferred on the valuation date or
50% of SNMR
Whichever is less

Step 6: VALUE OF IMMOVABLE PROPERTY

ANMR LESS Unearned Increase

Important points to Claim deduction of Unearned Increase:

- The Property should be constructed on a leasehold land and the lease is obtained from the Government or local authority or authority referred in Section 10(20A) of Income Tax Act.
- The Term of the lease provided/entitles 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.

Rule 8: Situation when Rule 3 is Not Applicable.

- Where, having regards to the facts and circumstances of the Case, the Assessing officer with the previous approval of the Joint Commissioner, is of the opinion that it is not practicable to apply the provisions of the said rule to a particular case.
- Where the difference between the un built area & the specified area exceeds 20% of the aggregate area.
- 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 all the above case Rule 20 will Apply.

Total of the Above asset shall be the value of Interest of Partner/Member in the Firm/AOP.

- Step 3:** Allocation of **Asset** in case asset is located **outside India**
- This Step is Carried out if one of the Partner / Member is a Foreign National or a Resident but not ordinarily resident or non-resident and the firm is holding asset outside India.
 - Calculate **Value of Indian Asset (VAI)** =

$$\frac{\text{Value of Interest of Partner/Member (Referred in Point 1 \& as Calculated in Point 2)}}{\text{Net Wealth of the Firm}} \times \frac{\text{Value of Asset Located in India (-) Debt on Such Asset}}{\text{Net Wealth of the Firm}}$$

- Interest** in the Asset Situated **Out Side India** = **STEP 2 (-) VAI**

Step 4: Determination of interest in the **Asset exempt u/s 5** included in the Net Wealth of the Firm.

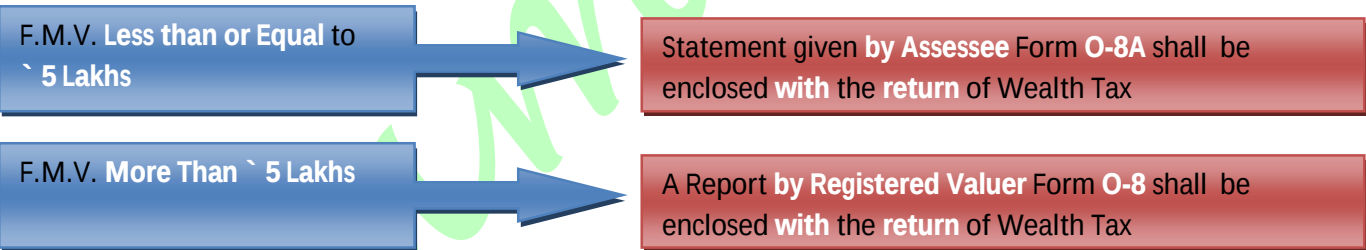
$$\frac{\text{Value of Interest of Partner/Member (Referred in Point 1 \& as Calculated in Point 2)}}{\text{Net Wealth of the Firm}} \times \frac{\text{Value of Asset Exempted u/s 5 included in the Net Wealth of the Firm (-) Debt on Such Asset}}{\text{Net Wealth of the Firm}}$$

RULE 17: VALUATION OF LIFE INTEREST

Steps	Procedure
1	Compute the average Gross Total Income for the Last 3 Years upto the Valuation Date.
2	Compute deduction for Average of Expenses incurred on the collection of such income subject to a maximum of 5% of Average of Annual Gross Income.
3	Average Annual Income (AAI) = Step 1 (-) Step 2
4	Value of Life Interest = AAI X C given in the appendix to the rules against the age of the Assessee.

RULE 18 & 19: VALUATION OF JEWELLERY

Value of Jewellery = The Price which it will fetch when it is **sold in Open Market** [Fair Market Value (**F.M.V**)] on **ValuationDate**



- When the **Valuation** of the Jewellery has been done **by the Valuation Officer u/s 16A** for the assessment year, then such valuation shall be adopted for the **subsequent 4 Assessment Year** subject to the following **adjustment**:-
 - Market Value** of the **gold or silver or alloy** containing them as on **Valuation Date** shall be **substituted**.
 - Adjustment shall be made in respect of any **Acquisition of or Sale** of the **Jewellery** during the period.
- If any or both of the above **2 adjustments** are made then with the **Registered Valuer's Report, Chart** showing the above adjustment should be enclosed in the **return** of net wealth.

RULE 20: VALUATION OF OTHER ASSETS NOT REFERRED IN RULE 3 TO 19

This rule is applicable to all asset except cash & those covered in Rule 3 to 19.

VALUATION

NATURE OF ASSET	VALUE OF ASSET
Saleable Asset u/s 2(ea)	a. Price it Open Market on Valuation Date. b. If the referred to the Valuation Officer, the Value determined by Valuation Officer
Non Saleable Asset u/s 2(ea) in Open Market	As per the guidelines or principles specified by the Board.

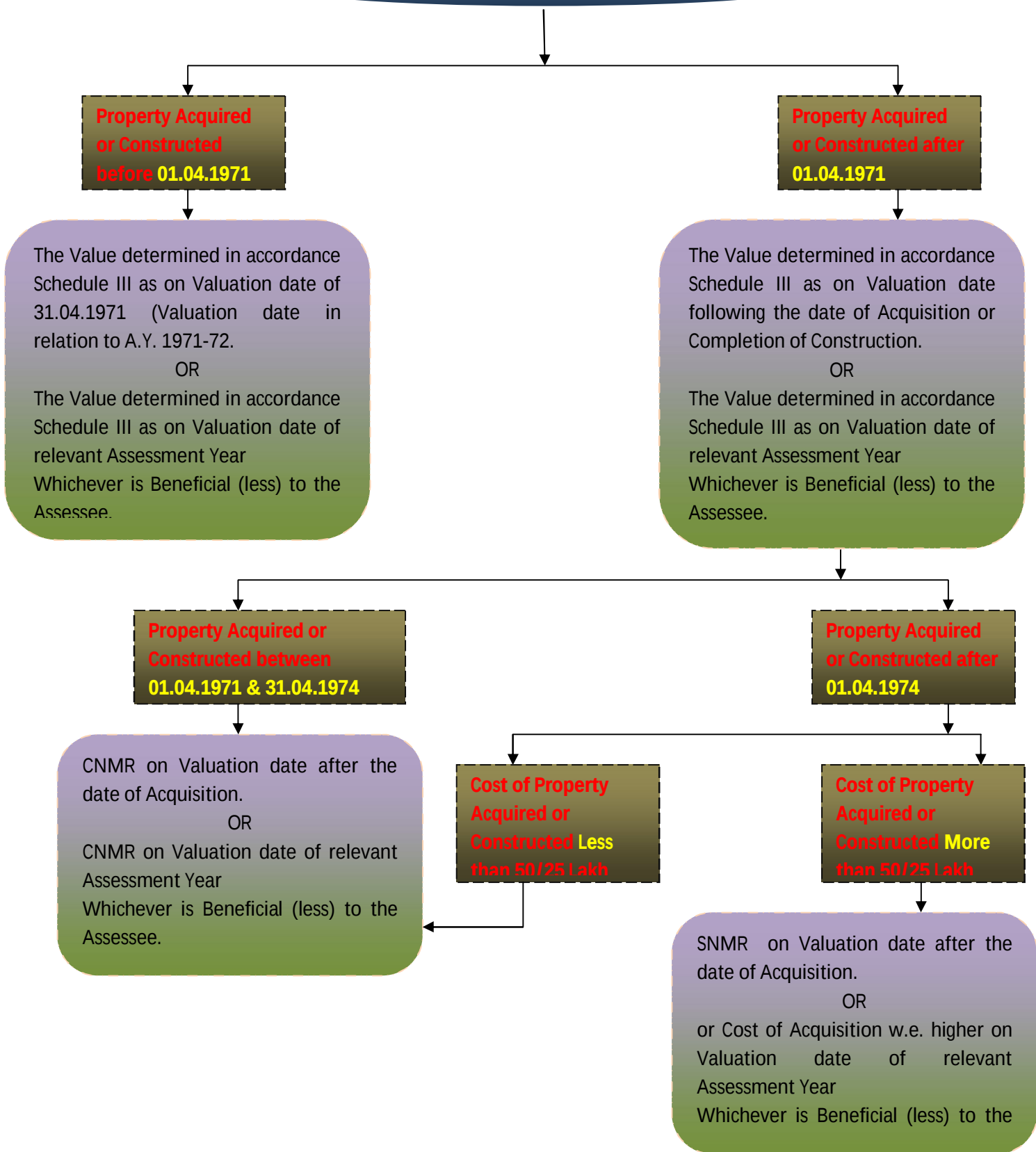
Reference to Valuation Officer (Section 16A)

Purpose: To adopt the **Market Value** of the **Asset** for the purpose of Making an **Assessment**.
Situation when Reference can be made:

Value of the Asset is estimated by a Registered Valuer	Any other Case
The Assessing Officer is of the Opinion that the value of the Asset declared in the return of Wealth is Less than its Fair Market Value (F.M.V.)	1. F.M.V. of the asset exceeds the value of the asset as returned by more than 33 1/3% or ₹ 50,000/- 2. Having regards to the nature of the asset and other relevant circumstances it is necessary to do so.

Procedure to File Return of Wealth Tax		
Section as Per WT Act	Section as Per IT Act	Nature of Return/ Time Limit
14(1)	139(1)	Voluntary Return: 30th September of the Assessment Year in the case of the following assessee: - Company - Non- Corporate Assessee whose Accounts are to be Audited under IT Act or any other law. - Working Partner of a Firm whose Accounts are required to be audited. 31st July of the Assessment Year - for any other assessee .
15	139(4) & (5)	Belated or Revised Return: At any time before completion or the expiry of one year from the end of the relevant assessment year, whichever is earlier. A belated return shall not be revised.

Valuation of Self Occupied Property Section 7(2)



RULE 14: VALUATION OF BUSINESS ASSET

Condition: The assessee should maintain books of **accounts of the regularly**.

Step1: Look into the **asset side** of **Balance Sheet** and identify those **assets**, falling **within section 2(ea)**

Assets Not Considered:	Liabilities Not Considered:
1. Advance Tax paid. 2. Bad debts allowed as deduction under IT Act. 3. Assets which is not liable for Wealth Tax. 4. Profit & Loss A/c shown in the asset side of the B/S. 5. Asset Shown in B/S not relating to business.	1. Capital employed other than borrowed money. 2. All Reserves. 3. Provision for Contingent Liability. 4. Liability not pertaining to business. 5. Liabilities in relation to assets which are not liable for wealth tax.

Step 2: **Value of Asset** is **total** of the following

Nature of Asset	Value of the Asset
Depreciable Asset	W.D.V. as on Valuation Date.
Non-Depreciable Asset	Book Value of Asset on Valuation Date
Closing Stock	Value adopted for IT Purpose for the P.Y.
Value of asset not disclosed in B/s	Determination in accordance with Schedule III

Step 3: **Value of All Asset** above is **compared** with **Schedule III or Rule 20 Value**.

Situation	Value of the Asset
Sch. III Value or Rule 20 Value <=20% of Step 2	Step 2 Value.
Sch. III Value or Rule 20 Value > 20% of Step 2	Schedule III Value or Rule 20 .

Step 4: **Deduction of Liability** while **Determining** the Value of Assets:

- Deduct the liability incurred in relation to above assets
- When we can't bifurcate the Loan Liability then use:

$$\frac{\text{Total Debt X Value of assets of business liable to Wealth Tax}}{\text{Total Value of Assets}}$$

Step 5: **Value of Business Asset** = **Step 3 (-) Step 4**

RULE 15 & 16: VALUATION OF INTEREST OF PARTNER/MEMBER OF FIRM/AOP

Step1: Valuation of Asset of Firm/AOP

Nature of Asset	Value of the Asset
a. Business of AOP/Firm	Apply Rule 14
b. Not a Business Asset of AOP/Firm	Schedule III Value.
Total Net Wealth of the Firm	a + b

No exemption under **section 5** shall be allowed to a **Firm/AOP**, but **partners** are entitled for **proportionate exemption** in their **Individual Capacity**.

Step 2: Allocation of Net Wealth of Firm/AOP to their Partner/Members

Allocation of Net Wealth	Ratio of Allocation
Net Wealth Upto the extent of capital contribution in the firm by the partner	Capital Contribution Ratio
Any amount in Excess of Capital Contribution in the firm	Distribution Agreement Exist: Ratio as per that Agreement Distribution Agreement do not Exist: Profit/Loss Sharing Ratio .