"WEALTH TAX ACT, 1957"

Wealth tax is a **Direct Tax**. It is levied by Central Government on **few Persons**. Power to Levy Wealth Tax is derived by **Constitution of India**. It extends to the whole of India. It came into force on 01.04.1957.

Subject to the other provision contained in the Wealth Tax Act, if the net wealth of an ***Individual***, ***HUF***, or **Company** on corresponding valuation date exceeds Rs. 30,00,000/-, wealth tax shall be charged @ I % on such amount by which net wealth exceeds Rs. 30,00,000/- for every assessment. However Net wealth is determined on the basis of nationality and residential status.

Corresponding Valuation date:-means the last day of the previous year. i.e. 31st march. All calculations of wealth shall be made at the midnight of 31st march.

Persons not liable to pay 'Wealth Tax'

1. Company registered under section 25 of companies Act 1956.
2. Co-operative society
3. Social Club
4. Political Party
5. Mutual Fund specified under section 10(23D) of Income Tax Act, 1961
6. RBI **[Section 45]**

Computation of Wealth Chargeable to Tax	***Rs.***
Aggregate Value of all assets belonging to the assessee as on the Valuation Date	----------
Add: Aggregate Value of Deemed Wealth U/s 4	----------

Less: Exempted assets under Section 5	----------
Debts owed including interest in relation to above taxable assets	----------
Net Wealth	----------
Less: Exemption limit	30,00,000
Wealth Chargeable to Tax	----------

In case of confiscation of an asset, it will not be included in the net wealth because it cease to be property of the assesses. But, where asset is seized but not confiscated, then it will be included in the net wealth of the assessee because it belongs to the assesses.

Wealth:- Wealth Tax applicable on **5 types** of wealth-

1. Wealth from House
2. Wealth from Motor Cars
3. Wealth from Jewellery
4. Wealth from Air/Water Vehicles
5. Wealth from Land

Incidence of Tax (i.e. Scope of Net Wealth): All assets & debts (wherever located) shall be considered in the following cases:
(l**) Individual:** Must be Indian citizen, Person of Indian origin, and ordinarily resident in India.
(2) **HUF:** must be ordinarily resident in India.
(3) **Company:** must be resident in India.

Otherwise (if any of the above conditions is not get fulfilled), the assets located outside India and debts related from such assets shall not be considered. In the case of partnership firm & AOP, globally assets shall be taxable in India.

Assets [Section 2(ea)]:- Assets, means

I. House:- Any building or land appurtenant thereto, whether used for
- ✓ residential purposes or commercial purposes or
- ✓ for the purpose of maintaining a guest house or
- ✓ otherwise

It includes a farm house situated within 25 kilometers from local limits of any municipality or a Cantonment Board.

But does not include:
- ✓ A house meant exclusively for *residential* purposes and which is allotted by a *company* to an employee or an officer or a director who is in whole-time employment, having a *gross annual salary* of **less** than Rs. 5 Lacs. ;
- ✓ Any house for residential or commercial purposes which forms part of *stock-in-trade* ;
- ✓ Any house which the assessee may occupy for the *purposes of any business or profession* carried on by him;
- ✓ Any residential property that has been let-out for a minimum period of 300 days in the previous year;
- ✓ Any property in the nature of commercial establishments or complexes;

II. Motor cars does not include:
- ✓ Cars used by the assessee in the business of running them on hire.
- ✓ Cars used by the assessee as stock-in-trade.

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

But does not include:
- ✓ Jewellery used by the assessee as stock-in-trade ;

IV. Air/ Water Transport Vehicles:- Yachts, boats and aircrafts, **But does not include:**
- ✓ Those held as stock-in-trade
- ✓ Those used by the assessee for commercial purposes)

V. Urban Land: means land situated
1. in any area which is comprised within the jurisdiction of a municipality or a cantonment board and which has a population of not less than 10,000 according to the last preceding census of which the relevant figures have been published before the valuation date ; or
2. in any area within such distance, not being more than 8 kilometers from the local limits of any municipality or cantonment board referred to in sub-clause (i),

But does not include:
- ✓ Land on which construction of building is not permissible under any law for the time being in force in which such land is situated.
- ✓ Land occupied by any building which has been constructed with the approval appropriate authority
- ✓ Any unused land held by assessee for industrial purposes for a period of 2 years from the date of its acquisition by him.

- ✓ Any land held by assessee as Stock-in-trade for a period of 10 Years from the date of its acquisition by him.

VI. Cash-in-hand: means-
In case of Individual and HUF - cash in excess of Rs. 50000
In the case of other persons - any cash not recorded in the books of account.

Note: Cash in hand is a asset, cash at bank is not a asset.

"DEEMED ASSETS' FOR INDIVIDUAL ASSESSEE *ONLY* (Section 4)

The following assets, ***though belonging to other persons,*** shall be included in the net welth of the ***INDIVIDUAL*** as belonging to him on the valuation date. O***n the valuation date, these assets are held.***

1. **By the SPOUSE** of such individual to whom such assets have been transferred by the individual, directly or indirectly, **otherwise** than for adequate consideration or under agreement to live apart.

2. **By a MINOR CHILD**,
   Exceptions:- shall be taxable in the hands of minor, if-
   - ✓ minor child suffering from any disability of the nature specified in section 80U of the Income-tax Act,
   - ✓ minor married daughter, of such individual,
   - ✓ Assets acquired by a minor child ***out of the income*** from **manual work** or **activity** involving his skill, talent, specified knowledge or experience done by him.

3. **By an AOP** to whom such assets have been transferred by the individual directly or indirectly, otherwise than for adequate consideration for benefit of the INDIVIDUAL, his or her SPOUSE.

4. **By an AOP or Person** to whom such assets have been transferred by the individual under a REVOCABLE transfer, (i.e. a transfer which is not for the lifetime or for a period exceeding six years).

5. **By the SON'S WIFE**, of such individual, to whom such assets have been transferred by the individual, directly or indirectly, otherwise than for adequate consideration,

6. **By an AOP or Person** to whom such assets have been transferred by the individual, directly or indirectly, otherwise than for adequate consideration for the benefit of SON'S WIFE.

7. ***Converted Property:-*** Where an individual, who is a member of HUF, converts his property into property belonging to the HUF, other wise than for adequate consideration, shall be included in the net wealth of the transferor.

8. Holder of an Impartible estate (KARTA)

9. ***Property allotted to Members:-*** Whenever property is allotted or leased by a co-operative society, company or other association of persons to its members under a house building scheme then such member shall be DEEMED OWNER.

10. ***Building acquired in part performance of contract:-*** If the purchaser has paid the consideration to seller & has taken the possession as per Section 53A of the Transfer of Property Act, 1882, then Purchaser shall be the DEEMED OWNER.

11. ***Building on lease for not less than 12 years:*** A person who acquires any right by way of a lease for not less than 12 years in respect to any building or part there of (under any such transaction as is mentioned to in clause (f) of section 269UA of the .I.T.Act 1961) shall be DEEMED OWNER of such assets and the value of such building or part thereof shall also be included in computing the net wealth of such person.

Note:

1. Asset may be held by transferee in the same form or any other form but where the form of asset transferred in aforesaid cases, is changed before the valuation date, the substituted assets shall be included in the net wealth only when it is one out of assets as defined U/s 2 (ea) and is held on the valuation date.
2. Where the properties are transferred then it is not necessary to be an asset on the date of transfer. Property must be an asset U\s 2(ea) on the valuation date, even though the property is not an asset at the time when it is transferred

"DEEMED ASSETS' FOR ALL THREE CATEGORIES OF ASSESSEE (i.e. COMPANY, HUF OR INDIVIDUAL)

1. **Interest in the assets of *firm/AOP:*** Where the assessee is a partner in a firm or member of an association of persons (not being a co-operative society) the value of his interest in the assets of the firm or AOP shall be included in his net wealth. Interest, of the minor child in the firm (not AOP) shall be included in the net wealth of his parent.

2. **Gift by book entry:**Where a gift of money from a person to another person is made by means of enters in the books of account maintained by the donor with which the donor has business or other relationship. The value of such gift shall be included in the net wealth of the donor. However, the value of such gift shall not be included in computing the net wealth of donor (assessee) if he proves to the satisfaction of A.O. that the money has actually been delivered to the other person at the time the entries were made.

3. **Building allotted by Housing society to its member:**Where the assessee is a member of a co-operative housing society, company orother AOP to whom a building or part there of is allotted or leased under a house building scheme, shall be deemed to be the owner of the building or part there of, then value of such building shall be included.in the net wealth of the assessee.

4. **Building acquired in part performance of contract:**A person who is allowed to take or retain possession of any building in part performance of a contract of the nature referred to in section 53A of the transfer of property Act 1882, shall be deemed to be the owner of the building. Accordingly, such building shall be including in the net wealth of the assessee.

5. **Building on lease:**A person who acquires any right in or with respect to any building or part there of by virtue of any such transaction as is referred to in clause (f) of section 269UA of the . I.T.Act 1961 (i.e.) lease for not less than 12 years shall be deemed of the owner of such assets and the value of such building or part thereof shall also be included in computing the net wealth of such person.

Notes:

- ✓ For clubbing, it is necessary that the asset transferred in above referred cases, should hold by the transferee at the relevant valuation date. If it is not hold by the transferee at the relevant valuation date then there will be no question of clubbing in the hands of transferor.
- ✓ Asset may be held by transferee in the same form or any other form but where the form of asset transferred in aforesaid cases, is changed before the valuation date, the substituted assets shall be included in the net wealth only when it is one out of assets as defined U/s 2 (ea) and is held on the valuation date.

Exempted Assets U/s 5

***Any property held under trust** or other legal obligation for any public purpose of a charitable or religious nature in India shall be exempt from tax.*

***Share of a co-parcerner in HUF property** is exempt, as tax on whole property is paid by Karta.*

***Any building declared as official residence of a ruler** by Central government shall be exempt from tax-*

- ✓ Where there is more than one official residence then anyone (at the option of the assessee) shall be exempt.
- ✓ After the death of the erstwhile ruler the successor can not enjoy the benefit of exemption.
- ✓ Similarly, where a part of such building is let out then exemption shall not be available on such part of the building.

Jewellery in possession of any ruler, not being his personal property, which has been recognised as his heirloom by central government shall be exempt from tax.

Recognition is granted by Central government on following terms:

i. Jewellery shall be permanently kept in India and shall not be removed outside India except for a purpose and period approved by CBDT.
ii. Reasonable steps shall be taken for keeping the Jewellery substantially in original shape.
iii. Reasonable facilities shall be allowed to government officer (authorized by CBDT) to examine the Jewellery as and when it deems fit.

If any of the above condition is not satisfied then CBDT may withdraw the exemption retrospectively. In such a case, FMV for proceeding years (i.e. assessment years for which exemption is withdrawn) = "fair market value on the date on which exemption is withdrawn."

But wealth tax payable shall not exceed 50% of FMV on valuation date relevant for the assessment year in which recognition is withdrawn.

Person of Indian origin or Citizen of India who ordinarily residing in foreign country and who leaving such country has returned to India with the intention of permanently residing in India, THEN

- ✓ Money and assets brought by him into India and the value of assets acquired by him out of such moneys within 1 year immediately preceding the date of his return and at any time thereafter,
- ✓ **Shall be exempt from tax for a period of 7 successive years.**

Explanation: Money standing to the credit of NRE account on the date of return to Indil1 shall be deemed to be moneys brought into India on that date.

Note: Even if the assessee has converted assets, which were brought by him from outside India, into money, and has used that money for acquisition of other assts, the asset which is acquired with sales consideration of original asset, is also eligible for exemption.

Individual or HUF having one house or part of house or plot of land upto 500 sq. meters shall be exempt from tax.

Note:-This exemption is available in respect of all houses whether residential or commercial. No exemption for a Company or residential house letout for 300 days or more. Guest house or a Farm House is eligible for exemtion.

Debts owned by assessee on the valuation date are deductible if these debts are incurred on the assets included in the wealth.

VALUATION of ASSETS

The value of the assets, other than cash, as on the valuation date, shall be determined in the manner laid down in Schedule III of the Wealth Tax Act.

I. Valuation of immovable property (Rules 3 to 8 of Schedule III)

Step 1: Determination of GMR (Rule 5)

Actual Rent received/ receivable for the year = -------
Or Fair Rent Or Municipal Value, whichever is more.

[Actual Rent received or receivable= Actual Rent **x** 12 / No. of let out months]

ADD:

- ✓ 1/9 of Actual Rent received/ receivable for the year- if repairs are borne by tenant = ------
- ✓ Municipal Taxe borne by tenant = ------
- ✓ 15% Interest on deposit received from tenant – actual interest paid = ------
  [Deposit i.e. not being rental advance for 3 months or less]
- ✓ Lease premium or non-refundable deposit received / No. of years of lease = -------
- ✓ The value of any benefit or perquisite derived as consideration for leasing of property= -------
- ✓ Any other obligation of owner met by tenant = --------

ANNUAL RENT [Actual Amount Received or Receivable) = ---------

GMR shall be **higher** of Annual rent, OR Annual value assessed by Local Authority.

Step 2: Determination of NMR (Rule 4)

GMR	=	-------
Less: 15% of GMR	=	-------
Less: Municipal taxes (whether paid by owner or tenant)	=	(------)
NMR	=	--------

Step 3: Value as per Rule 3, 4 & 5 of Schedule III shall be higher of NMR X ***Capitalisation factor*** (12.5/10/8) **OR** Cost of Construction (COC) + Cost of Improvement (COI).

Capitalisation factor (12.5/10/ 8) **[Rule 3]**

Nature of Property	Capitalisation Factor
Property is constructed on Freehold Land	12.5
Property is constructed on Leasehold Land, unexpired period of lease on valuation date > = 50 Yrs	10
Property is constructed on Leasehold Land, unexpired period of lease on valuation date < 50 Yrs	8

Note:- In the aforesaid cases, if such property is acquired or constructed after 31.03.1974 and the value as above is lower than the COA or COC as increased by the COI, such increased COA or COC ***shall be taken as value of this property under Rule 3.***

Step 4: Adjustment for un-built area as per (Rule 6)
Rule 6 shall be applicable only where-- Un-built area > Specified area.

Calculation would be depend upon % of default and it means—
% of default = {Unbuilt Area - Specified Area / Aggregate Area (Built Area + Unbuilt Area)} **X** 100

Value as per Rule 3, 4 & 5 of Schedule III	=	------
Add: Adjustment for un-built area	=	------
Value after Rule 6	=	------

PERCENTAGE OF DEFAULT	**ADDITION IN VALUE**
Upto 5%	NIL
Above 5% but Upto 10%	20% of Capital Value (as per rule 3, 4 & 5)
Above 10% but Upto 15%	30% of Capital Value (as per rule 3, 4 & 5)
Above 15% but Upto 20%	40% of Capital Value (as per rule 3, 4 & 5)
Above 20% (Rules 3 to 7 shall not be applicable)	Value shall be FMV for property (Rule 8 shall apply)

Specified Area:- Specified area in general terms mean permissible un-built area.
Specified area is :

1. Property is at Delhi/Bombay/Calcutta/Madras – 60% aggregate area.
2. Property is at specified cities – 65% aggregate area.
3. Property is at other cities – 70% aggregate area.

Note:- If the Actual Unbuilt Area is less than or equal to the Specfied Area, ***no premium shall be added to the Capitalised Value of such property***

Step 5: Adjustment for unearned increase in value of land as per (Rule 7)

If the property is constructed on leasehold land and such land is obtained from Government etc. U/s 10(20A) of the Income Tax Act and as per terms of lease, a specified % of unearned increase is payble to Government etc. AT THE TIME OF TRANSFER OF THIS PROPERTY, then

THE value as per Rule 3, 4, 5 & 6 (calculated under Step 4) = ----------

SHALL be reduced by the least of the following:

- ✓ Amount of unearned increase to be claimed by government
- ✓ 50% of Value (as per Rule 3, 4, 5 & 6) = ----------

Value for Immovable property for 'WEALTH TAX PURPOSE' = ----------

'UNEARNED INCREASE' = VALUE OF SUCH LAND ON VALUATION DATE as determined by government ***MINUS*** the AMOUNT OF PREMIUM paid or payable to government for the lease of such land. IN OTHER WORDS, means Value of such land at the time of takent it on the lease.

Non-applicability of Rule 3 to 7 (Rule 8)

1. If in the opinion of the Assessing Officer it is not practicable to apply said rules, or
2. If % of default exceeds 20% of the Aggregate Area, or
3. Where the property is constructed on leasehold land and such lease expires within a period not exceeding 15 years from the RELAVANT VALUATION DATE and the terms of lease deed does not give an option to the lease for the renewal of the lease.

VALUATION OF ASSETS OF BUSINESS (RULE 14)

If assets U/s 2(ea) are assets of business, their valuation shall be made under Rule 14. If a businessman assessee is maintaining accounts regularily, THEN as per Balance Sheet the net value of the assets of the business (on the valuation date) shall be considered as under:

(1) Identify assests U/s 2(ea) – Disclosed under the Balance Sheet- **VALUE OF SUCH ASSETS** shall be:-

   a. for depreciable assets shall be W.D.V.
   b. for non-depreciable assets shall be BOOK VALUE,
   c. for a closing stock shall be as adopted under the Income Tax Act, 1961.

> If the value of above asset determined under Schedule III exceed the value determined above by more than 20%, THEN the value of that asset shall be taken as value determined underSchedule III.

(2) Determine the **VALUE OF ASSETS NOT-DISCLOSED UNDER THE BALANCE SHEET-** shall be the value as determined under schedule III:-

(3) Aggregate the value under point (1) and (2) above..

(4) Deduct the debts from point (3) above as determined below:

$$\text{Total Debts} \times \frac{\text{Value of Business Assets liable to Wealth Tax}}{\text{Total Value of Assets}}$$

VALUATION OF INTEREST IN FIRM OR ASSOCIATION OF PERSONS

The value of the interest of a partner in a FIRM or the value of the interest of a member in an AOP shall be determined in the following steps:

STEP I:-The net wealth of the Firm or AOP on the valuation date shall first be determined as if such Firm or AOP were Assessee.
STEP II:- So much of the net wealth***, as is equal to the amount of the capital*** of the Firm or AOP, shall be allocated among the Partners or Members in the ***Capital Contribution Ratio***

AND

the **BALANCE WEALTH** shall be allocated among the partners/ members in the ratio/proportion defined in the agreement of Partnership or AOP, as distributable in the event of dissolution.

In cases where there is no such agreement, the distribution is done in the ratio/proportion in which the partners or members are entitled to share profits.

STEP III:- The sum total of the amounts so allocated to the Partner or Member under ***STEP II*** shall be taken as **VALUE OF INTEREST** of that Partner or Member in the Firm or AOP.

VALUATION OF LIFE INTEREST

The value of the life interest of an assessee is-

$$\text{AVERAGE ANNUAL INCOME X} \quad \left[\frac{1}{p+d} \right]$$

Where,

p= THE ANNUAL PREMIUM FOR A WHOLE LIFE INSURANCE without profits on the life of the life tenant for unit sum assured.

d = i / (1+i), **i** is the rate of interest. i = **6.5%** per annum

AVERAGE ANNUAL INCOME= (AVERAGE GROSS ANNUAL INCOME) **-** (AVERAGE EXPENSES)

AVERAGE GROSS ANNUAL INCOME =(TOTAL GROSS INCOME) **/** (TOTAL NUMBER OF YEARS)

AVERAGE EXPENSES = (TOTAL EXPENSES) **/** (TOTAL NUMBER OF YEARS)

Note:

- ✓ TOTAL EXPENSES means total expenses incurred on the collection of such income.
- ✓ TOTAL GROSS INCOME mean Total Gross Income from the life interest.
- ✓ AVERAGE EXPENSES means Average Expenses incurred on collection of such income
- ✓ AVERAGE EXPENSES incurred on collection of such income shall not exceed **5%** of the AVERAGE ANNUAL GROSS INCOME.
- ✓ AVERAGE ANNUAL INCOME will be calculated only for the period of maximum 3 years preceding the period ending on the valuation date.
- ✓ The Assessing Officer may vary the normal premium rates in force and determine value accordingly if he thinks that the normal rates are low or any insurance company would not provide insurance at that premium.
- ✓ The value of the life interest determined above shall not be greater than the value of the corpus of the trust determined under schedule III of this Act.

VALUATION OF JEWELLERY

The value of jewellery shall be estimated to the price it would fetch if sold in the open market on the valuation date, i.e., the fair market value.

The return of net wealth furnished by the asessee shall be supported by, -

i. a statement in Form No. O-8A, if the value of the jewellery on the valuation date does not exceed Rs. 5,00,000/-;
ii. a report (in Form No. O-8) of a registered valuer, if the value of the jewellery on the valuation date exceeds Rs. 5,00,000/-.

Reference to the Valuation Officer:- The Assessing Officer (AO) is empowered to refer the valuation of such jewellery to a Valuation Officer ***if he is of the opinion that-***

a. the VALUE OF THE JEWELLERY declared in the return is less than ***its fair market value*** by prescribed percentage or prescribed amounts, i.e., 33-1/3% of Returned Value or Rs. 50,000,
b. the FAIR MARKET VALUE of the jwellery exceeds the value of the jwellery as declared by the Assessee in his return.

The value of jewellery determined on a reference to the Valuation Officer by the AO, shall be taken as the value of such jewellery for the ***subsequent four assessment years*** subject to the following adjustments :

a) SUBSTITUTION OF THE VALUE of gold or silver or any alloy containing gold or silver with the value thereof prevailing as on the relevant valuation date;
b) in the case of sale or purchase, by the assessee, of any jewellery or part thereof CORRESPONDING REDUCTION/S OR INCREASE/S, as the case may be.

*The VALUE OF THE JEWELLERY, in above two cases, shall be the FAIR MARKET VALUE as estimated by the **Valuation Officer.***

VALUATION OF OTHER ASSETS

The other assets, [i.e. ***OTHER THAN cash and those covered under Rules 3 to 19]***, have to be valued either by the AO himself or the Valuation Officer, on a reference under Section 16A. The basis for determination in both these cases is "the price, the asset would fetch if sold in the open market on the valuation date". For the assets not saleable in open market, the valuation has to be done in accordance with the guidelines or principles specified by the Board (by general or special order).

Return of Wealth:- An Individula, HUF or Company must file return of wealth (Form No. BA), if net wealth as on valuation date exceed Rs. 30,00,000/-.

Belated Return & Revised Return:- If any person has not furnished a return within the time allowed under Section 14(1) or under a notice issued under Section 16(4)(i), or having furnished a return discovers any omission or a wrong statement therein, he may furnish a BELATED RETURN or REVISED RETURN at any time ***before the expiry of one year*** from the end of the relevant asessment year or before the completion of assessment, whichever is earlier.

- ✓ A BELATED RETURN cannot be revised.
- ✓ The computed net wealth under the Act shall be rounded off to the nearest multiple of Rs. 100/-.
- ✓ The amount of wealth tax, interest, penalty, fine or any other sum payable or refundable under this Act, shall be rounded off to the nearest rupee.