Probable Questions for CA-Final November, 2013 Examination

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Wealth tax Act, 1957

1.1 Mr. Pradumna aged 45 years has a property in trust giving whole life interest. The average income from property during 3 years is ` 70,000 and related year average expenses are ` 3,500 (being 5% of average income).

Solution: **(Refer Page No. 8 Para No. 1.10 for detailed provision)**

- ❖ Net average annual income is ` 66,500 (` 70,000 – ` 3,500)
- ❖ So, value of life interest worked out as ` 66,500 x 9.267 (life factor for 45 years) = ` 6,16,255.

1.2 Whether the following constitute assets chargeable to wealth tax on the valuation date 31.03.2013 in an each independent situation. **(Refer Page No. 2 - 7 for detailed provision)**

(a) Residential house owned by X Ltd and allotted to an employee drawing a gross salary of ` 9 lakhs pa.

- ✓ Residential house owned by company and allotted to an employee drawing gross salary of less than ` 10 lakhs is specifically excluded from the definition of asset u/s 2(ea)(i).

(b) Silver and gold in the jeweller shop.

- ✓ Jewellery used as stock in trade shall be excluded from chargeability of wealth tax u/s 2(ea)(iii)

(c) Cash balance of ` 5 lakhs with Mr. M

- ✓ Cash in hand in excess of ` 50,000 is considered as an asset u/s 2(ea)(vi) in case of an individual and HUF.

(d) Aircraft used for the purpose of transportation of goods for the business of P Ltd.

- ✓ The definition of asset u/s 2(ea)(iv) specifically excluded those used by the assessee for commercial purpose. Aircraft held by company and used for transportation of its goods is considered as used for "commercial purpose", since it is used for the business of the company.

(e) Motor car used in the business of running on hire by Mr. C

- ✓ Motor cars other than those used by the assessee in the business of running them on hire or as stock in trade is an asset u/s 2(ea)(ii). Hence, it does not constitute an asset u/s 2(ea)(ii).

(f) Dr. V, a dentist who has his own clinic, is in possession of surgical instruments used for his professional activity. The value of all such instruments was ` 10 lakhs.

- ✓ Surgical instruments held on the valuation date used for the purpose of profession are not assets to levy wealth tax, since such instruments are used for his professional activity.

(g) Fixed deposit held by Mr. P with State Bank of India ` 2 lakhs

- ✓ Fixed deposit with bank is not an asset u/s 2(ea). Hence, wealth tax is not leviable in respect of value of fixed deposit held by Mr.P with SBI.

(h) Urban land located at Coimbatore, purchased by Mr. M for ` 2 lakhs in August 2010, in the name of his son who is suffering from a disability specified u/s 80U of the income tax Act, 1961. The age of his son on 31.03.2013 was 17 years and value of land was ` 5 lakhs.

- ✓ Urban land is an asset u/s 2(ea)(v). However, since the same is in the name of Mr. M's minor son who suffers from a disability u/s 80-U of the income tax Act, 1961, the clubbing provisions are not applicable u/s 4(1)(a)(ii).

(i) The house property owned by Prakashan was transferred without consideration to Miss Gayatri on 11.1.2012. Subsequently, Miss Gayatri got married to his son on 18.04.2012. The value of house on 31.03.2013 is ` 50 lakhs.

- ✓ Miss Gayatri cannot be treated as son's wife on the date of transfer.
- ✓ The property so transferred cannot be clubbed with net wealth of Mr. Prakashan by invoking section 4(1)(a). Hence, it can be included in the hands of net wealth of Ms. Gayatri, who can opt to claim exemption u/s 5(vi) in respect of the same.

(j) Agricultural farm house situated 50 kms outside the municipal limits of Chennai, but within 18 kms of Alandur Municipal Corporation.

- ✓ As per section 2(ea) , farm house situated within 25 kms from the local limits of a Alandur municipality shall be considered as an asset and chargeable to wealth tax.

1.3 What are the cases where it is deemed that net wealth chargeable to tax has escaped assessment u/s 17 of the wealth tax Act, 1957?

Solution: **(Refer Page No. 11 Para No. 1.15.1 for detailed provision)**

- ❖ Return of net wealth is **not furnished even** his net wealth **exceeds** the basic exemption limit. i.e. ` 30,00,000
- ❖ Return of net wealth **is furnished** and the **assessment not** made and assessing officer notices that the assessee has **(a)** under stated the net wealth or **(b)** claimed excessive exemption or deduction in return.

1.4 'P' filed his return of net wealth for AY 2009-10. Penalty proceedings u/s 18 for concealment was initiated by the initiated in 2010. 'P' died in January, 2012. The estate of 'P' devolved on his wife, 'W', who also died in October, 2012. Thereafter, the estate devolved on their daughter 'D'. Penalty order passed on 28th February, 2013 on 'D'. Is the action of assessing offer valid in law?

Solution: **(Refer Page No. 12 Para No. 1.15.3 for detailed provision)**

- ❖ Penalty proceedings initiated against an assessee cannot be continued on the legal heirs on the demise of such assessee. **{(In re Late Shrimant F.P. Gaekwad)(2009)(Guj)}.** Hence, the action of the assessing officer is not valid in law.