

Wealth Tax

Some Key Points

- ❖ The threshold limit for net wealth chargeable to tax is ₹ 30 Lacs.

Entities not liable to wealth

According to section 45, no wealth tax shall be levied in respect of the following assesseees:

- (a) any company registered under section 25 of the Companies Act, 1956;
- (b) any co-operative society;
- (c) any social club
- (d) any political party
- (e) a Mutual Fund specified under section 10(23D) of the Income-tax Act, 1961.

Share in Partnership firm or an AOP

Section 4(1) provides that where the assessee is a partner in a firm or is a member of an association of persons, the value of his interest in the assets of the firm or association shall be determined in the manner laid down in Schedule III and is to be included in his net wealth.

The manner in which such value is to be computed has been prescribed in Rule 16 of Schedule III of the Wealth-tax Act, 1957.

Tax treatment of members of co-operative housing societies etc

Section 4(7) deals with tax treatment of members of co-operative society, company or other association of persons. Where the assessee is a member of a co-operative society, company or other association of persons and a building or part thereof is allotted or leased to him under a house building scheme of the society, company or association, as the case may be, the assessee shall be deemed to be the owner of such building or part and the value of such building or part, shall be included in computing the net wealth of the assessee; and in determining the value of such building or part, the value of any outstanding installments of the amount payable under such scheme by the assessee to the society, company or association towards the cost of such building or part and the land appurtenant thereto shall, whether the amount so payable is described as such or in any other manner in such scheme, be deducted as a debt owed by him in relation to such building or part thereof.

Recent Amendments

- (a) Urban land to exclude land outside specified urban limits, as redefined and land classified as agricultural land in the records of the Government and used for agricultural purposes, even if it falls within specified urban limits.
- (b) Sections 14A & 14B inserted to enable e-filing of annexure-less return of net wealth. CBDT empowered to frame rules for implementing the provisions of sections 14A & 14B.
- (c) Residential house not to be charged to wealth-tax in case the same is allotted to an employee etc, having gross annual salary less than ₹ 10 lakh [Section 2(ea)]
 - (i) As per section 2(ea), an asset being a house shall not be charged to wealth-tax in case the same is meant wholly and exclusively for residential purposes and is allotted by a company to an employee or an officer or any director who is in whole time employment, whose gross annual salary is less than ₹ 5 lakh. The said limit is now increased from ₹ 5 lakh to ₹ 10 lakh, taking into consideration the general increase in salary as well as inflation since the last revision of this limit by the Finance (No. 2) Act, 1998.
 - (iii) Therefore, in case a house, meant wholly and exclusively for residential purpose, is allotted by the company to an employee or an officer or any director who is in whole time employment and the gross annual salary of such employee or officer or director does not exceed ₹ 10 lakh, then, such house shall not be charged to wealth-tax in the hands of the company.

(d) Income deemed to have escaped assessment [Section 17]

Amendments similar to sections 147 and 149 of the Income-tax Act, 1961 have been made in section 17 of the Wealth-tax Act, 1957 i.e., -

- (i) deeming wealth to have escaped assessment where a person is found to have any asset (including financial interest in any entity) located outside India,
 - (ii) non-applicability of the four year time limit for issue of notice in such cases and
 - (iii) provision of an extended time limit of sixteen years for issue of notice for assessment or reassessment in such cases where wealth is deemed to have escaped assessment.
- (e) Time limit for completion of assessments and reassessments extended by 3 months [Section 17A]**

Proceeding under section	Earlier time limit of completion of assessment or reassessment	New time limit for completion of assessment or reassessment	Applicability of new time limit
16	21 months from the end of the	2 years from the end of the assessment	In case where the net wealth is first assessable in

	assessment year in which the net wealth was first assessable	year in which the net wealth was first assessable	the assessment year 2010-11 or any subsequent assessment year
17	9 months from the end of the financial year in which the notice under section 17(1) was served	1 year from the end of the financial year in which the notice under section 17(1) was served	Where the notice under section 17(1) is served on or after 01.04.2011.
Fresh assessment where the original assessment has been set aside, cancelled and referred back by an order under section 23A/24/25	9 months from the end of the financial year in which the said order under section 23A/24 is received by the CIT or the order under section 25 is passed by the CIT	One year from the end of the financial year in which the said order under section 23A/24 is received by the CIT or the order under section 25 is passed by the CIT	Where the order under section 23A/24 is received by the CIT or order under section 25 is passed by the CIT on or after 01.04.2011.

(f) Reserve Bank of India exempt from payment of wealth-tax [Section 45]

- (i) Section 45 of the Wealth-tax Act, 1957 provides for the cases in respect of which the said Act would not apply.
- (ii) Clause (k) is inserted in section 45 retrospectively with effect from 1.4.1957 to provide that the Reserve Bank of India incorporated under the Reserve Bank of India Act, 1934 would not be liable to pay wealth-tax under this Act.
- (g) Settlement Commission specifically empowered to amend any order to rectify a mistake apparent from record within six months from date the of its order [Section 22D(6B)]

The Settlement Commission may amend any order passed by it under section 22D(4) to rectify any mistake apparent from the record within a period of six months from the date of the order. However, the Settlement Commission should not make a rectification which has the effect of modifying the liability of the applicant, without –

- (1) giving a notice to the applicant and the Commissioner of its intention to do so; and
- (2) allowing the applicant and the Commissioner an opportunity of being heard.

Question 1

A Limited engaged in manufacturing activity has the following immovable properties as on 31st March, 2014. State, with reasons, whether the assets are chargeable to wealth tax on the valuation date 31st March, 2014.

- (i) *A plot of agricultural land in Chennai acquired on 1st January, 2012 for conversion into non-agricultural land to be used for opening a new factory. The approval of the Tamil Nadu State Government for conversion into industrial land was obtained on 1st November, 2013. The development activity for conversion was in progress on 31st March, 2014.*
- (ii) *A building is under construction at Coimbatore. The said building after construction will be used partly for accommodating senior executives each having annual salary exceeding ₹ 10 lakh and partly as guest house.*

Answer

- (i) A plot of agricultural land in Chennai is chargeable to wealth-tax on valuation date 31.3.2014, since it is an urban land within the definition of 'asset' under section 2(ea) of the Wealth-tax Act, 1957. Although unused land held for industrial purposes for a period of two years is not included in the definition of urban land, this exception does not apply in this case since as on the valuation date 31.3.2014, the land in Chennai has been held for more than two years from the date of its acquisition (i.e. 1.1.2012). It may be noted that the time period of two years has to be reckoned from the date of acquisition and not date of approval for conversion. Therefore, the plot of land in Chennai is an asset on the valuation date 31.3.2014.
- (ii) Building under construction is an incomplete building which neither falls within the meaning of 'building' nor within the purview of urban land under section 2(ea), and hence, is not an asset chargeable to wealth-tax on the valuation date 31.3.2014. It was so held by the Punjab & Haryana High Court in *CIT v. Smt. Neena Jain (2011) 330 ITR 157*.

Under section 2(ea), a building used for residential or commercial purposes or for the purpose of maintaining a guest house is an asset. However, an incomplete building cannot be used for residential or commercial purposes or for the purpose of maintaining a guest house and is hence, not an asset under section 2(ea). Therefore, the word "building" has to be interpreted to mean a completely built structure having a roof, dwelling place, walls, doors, windows, electric and sanitary fittings etc.

In this case, the building is under construction as on the valuation date and the purposes for which it will be used after its completion is not relevant for determining the issue.

The said building will also not fall within the definition of "urban land", since *Explanation 1(b)* under section 2(ea) defining "urban land" for levy of wealth-tax, specifically excludes from its scope, the land occupied by any building which has been constructed with the approval of the appropriate authority. Therefore, the incomplete building of the assessee neither falls within the meaning of a "building" nor within the purview of "urban land"

under section 2(ea). Consequently, the incomplete building is not an asset chargeable to wealth-tax.

Note – There is an alternate view that only an urban land, on which a completed building stood, is eligible for exemption. According to this view, the urban land, on which building was under construction, is taxable. This was the view of the Karnataka High Court in CWT v. Giridhar G. Yadalam (2010) 325 ITR 223.

Question 2

Examine the taxability of the following assets held on valuation date in the context of provisions in Wealth-tax Act, 1957:

- (i) *A house property owned by Pankaj was transferred without consideration to Miss Geeta on 11-1-2013. Subsequently, Miss Geeta got married to his son on 18-4-2013. The value of the house on 31-3-2014 is ₹ 75 lacs.*
- (ii) *The cash in hand on 31.3.2014 with the cashier of ABC Pvt. Ltd. was ₹ 2,00,000. The balance as per cash book on that day was ₹ 1,50,000.*

Answer

- (i) The house property owned by Mr. Pankaj was transferred, without consideration, on 11.1.2013 to Ms. Geeta, who subsequently got married to Mr. Pankaj's son on 18.4.2013. The asset in question was transferred to Ms. Geeta prior to her marriage with the son of the transferor and therefore, she cannot be treated as the son's wife on the date when it was transferred. Therefore, the property so transferred to her by Mr. Pankaj cannot be clubbed with the net wealth of Mr. Pankaj by invoking provisions of section 4(1)(a). It shall be included in the net wealth of Ms. Geeta, who can opt to claim exemption under section 5(vi) in respect of the same.
- (ii) The cash recorded in the books of account of a company on the valuation date does not constitute an asset under section 2(ea). However, cash held in excess of what has been recorded in the books shall be treated as an asset. Accordingly, the cash balance of ₹ 50,000 shall be treated as an asset on the valuation date 31.3.2014.

Question 3

Dee (P) Ltd. has a farm house situated at 30 kilometers from the local limits of Jaipur Municipal Corporation. It also has a guest house at a distance of 40 kilometers from the local limits of Bangalore Municipal Corporation. Decide whether farm house and guest house are chargeable to wealth-tax.

Answer

A farm house within 25 kms from the local limits of a municipal corporation is chargeable to wealth-tax. In this case, the farm house is situated beyond 25 kms from the local limits of Jaipur Municipal Corporation and therefore, it is not chargeable to wealth-tax, provided it does not fall within 25 kms from the local limits of any other municipality, or a cantonment board.

A guest house, regardless of the distance, is always chargeable to wealth-tax. Hence, the guest house is liable to wealth-tax.

Question 4

State with reasons whether the following assets are chargeable to wealth tax under the Wealth-tax Act, 1957:

- (i) *Factory building and godown leased out on rent.*
- (ii) *Silver and gold in the jewellers shop*
- (iii) *Jewellery purchased by Mr. X, a NRI out of balance lying in his Non Resident External Account on the date of his return to India. Mr. X returned to India two years back on permanent basis.*
- (iv) *Aircraft owned and used by a company for transportation of its goods.*
- (v) *Life interest in property*
- (vi) *Farm house situated 50 kms outside the municipal limits of Jaipur, but within 18 kms of Niwai Municipal Corporation.*
- (vii) *Cash balance of ₹ 4 Lacs.*

Answer

- (i) **Factory building and godowns leased out on rent**
Section 2(ea)(i) of the Wealth-tax Act, 1957 provides for exceptions to the chargeability of building or land appurtenant thereto to wealth-tax. One such exception is the property in the nature of commercial establishments or complexes. Therefore, factory buildings and godowns, being in the nature of commercial establishments or complexes, are not assets within the meaning of section 2(ea)(i) and are accordingly not chargeable to wealth-tax.
- (ii) **Silver and gold used in the jewellers' shop**
Jewellery is considered as an asset within the meaning of section 2(ea) of the Wealth-tax Act, 1957. However, if jewellery is used as stock-in-trade, the same shall be excluded from the assets chargeable to wealth-tax. Therefore, silver and gold used in the jewellers' shop represent his stock-in-trade and would, therefore, not be chargeable to wealth-tax.
- (iii) **Jewellery purchased by Mr. X, a NRI out of balance lying in his NRE A/c on the date of his return to India on permanent basis**
Any asset acquired by Mr. X out of money brought by him into India, within one year immediately preceding the date of his return or at any time thereafter, would be exempt for a period of seven successive assessment years following the year of his arrival in India on a permanent basis. Money standing to the credit of such person in a NRE A/c on the date of his return to India shall be deemed to be money brought by him into India on that date. Therefore, the jewellery acquired by Mr. X out of balance lying in his NRE A/c

on the date of his return to India would not be chargeable to wealth-tax for the A.Y.2014-15, since Mr.X has come to India on a permanent basis only two years back.

(iv) **Aircraft owned and used by a company for transportation of its goods**

The definition of asset under section 2(ea) includes, *inter alia*, aircrafts, other than those used by the assessee for commercial purposes. Aircraft owned and used by a company for transportation of its goods is construed as used for "commercial purposes", since it is used for the business of the company. Hence, such aircraft is not chargeable to wealth-tax.

(v) **Life interest in property**

If the "property" in question is taxable under the Wealth-tax Act, 1957, then life interest in such property would be valued and charged to wealth-tax in the hands of the assessee who has life interest in such property. If the property is not taxable, then life interest in such property would also not be chargeable to wealth-tax.

(vi) **Farm house situated within 25 kilometers from the local limits of municipality**

Section 2(ea) of the Wealth-tax Act, 1957 defines the term "asset". According to the said definition, buildings including farm house situated within 25 kilometers from the local limits of a municipality shall be considered as an asset. Therefore, the farmhouse situated within 18 kilometers from Niwai Municipal Corporation shall be an asset chargeable to wealth-tax.

(vii) **Cash balance of ₹4 Lacs**

Cash in hand in excess of ₹ 50,000 is considered as an "asset" under section 2(ea) for individuals and HUF. In case of other persons, any amount not recorded in the books of account shall be considered as an asset.

In the given case, if the assessee is an individual or HUF, the cash balance in excess of ₹ 50,000 (i.e. ₹ 3.50 Lacs) shall be chargeable to wealth-tax. In any other case, if the entire cash balance is accounted for in the books of account, it would not be chargeable to wealth-tax. If the cash balance is not accounted for in the books of account, the same would be chargeable to wealth-tax.

Question 5

(a) *Mr. Rajpal gives the particulars of various assets held by him on 31.3.2014 and requests you to compute his net wealth by explaining in brief that why the same was dealt with like that :*

- (i) *Jewellery gifted to wife from time to time in total of ₹ 10 lac and were available with her on the valuation date having market value of ₹ 35 lacs.*
- (ii) *A flat in Mumbai purchased under installment scheme in 1997 for ₹ 6 lacs and used for own residence since then. The market value of it was ₹ 20 lacs on 31.3.2014 and installment of ₹ 1 lac was also outstanding.*

- (iii) He is a qualified engineer and was in possession of instruments used for his professional activity. The value of all such instruments was ₹ 1 lac.
- (iv) Urban land purchased for ₹ 2 lacs in August 2011 located at Jaipur, in the name of his son who is suffering from a disability specified under section 80U of the Income-tax Act, 1961. The age of his son on 31.3.2014 was 17 years and value of land was ₹ 5 lacs.
- (v) House located in NOIDA shown in his wealth-tax return for A.Y.2013-14 at ₹ 40 lacs was sold on 20.3.2014 for ₹ 45 lacs, but the sale deed thereof was executed on 03.04.2014.
- (b) Examine the correctness of the statement that "All types of land held by an assessee on the valuation date are treated as 'Urban land' under the Wealth-tax Act, 1957."

Answer

- (a) Computation of Net Wealth of Mr. Rajpal as on valuation date 31.3.2014

	Particulars of asset with reason for chargeability	Amount (₹)
1.	Under section 4(1)(a)(i) read with Rule 18 of Schedule III, the fair market value of gifted jewellery on the valuation date will be included in the wealth of Mr. Rajpal.	35,00,000
2.	The flat at Mumbai used by the assessee for his own residence is exempt under section 5(vi) and accordingly, the liability of outstanding installment is not deductible.	Nil
3.	Professional instruments held on the valuation date used for the purpose of profession are not assets for the purpose of levy of wealth-tax.	Nil
4.	Urban land is an asset by virtue of section 2(ea)(v). However, since the same is in the name of his minor son who suffers from a disability specified under section 80U of the Income-tax Act, 1961, the clubbing provisions are not applicable as per section 4(1)(a)(ii).	Nil
5.	The property at Noida was sold during the year and is, therefore, not an asset of the assessee but is an asset of the beneficial owner, since ownership of the property passes on sale of the property and execution of sale deed only confirms the act of the parties.	Nil
	Net Wealth	35,00,000

- (b) The statement is not correct. Even though urban land is an "asset" as per section 2(ea)(v), the following are specifically excluded from the definition of urban land:
- (i) land classified as agricultural land in the records of the Government and used for agricultural purposes.

- (ii) land on which construction of a building is not permissible under any law for the time being in force in the area in which such land is situated;
- (iii) land occupied by any building which has been constructed with the approval of the appropriate authority;
- (iv) unused land held by the assessee for industrial purposes for a period of 2 years from the date of its acquisition by him; and
- (v) any land held by the assessee as stock-in-trade for a period of 10 years from the date of its acquisition by him.

Question 6

State with reasons whether the following constitute assets chargeable under Wealth-tax Act, 1957 as the wealth of Raja, a former ruler?

- (i) *Jewellery transferred to a minor handicapped daughter on 31-12-2013.*
- (ii) *50% of the Palace (occupied by him and declared by Government as his official residence) was rented out throughout the previous year ending 31-03-2014.*

Answer

- (i) As per section 4(1)(a)(ii), the clubbing provisions are not applicable in the case of a minor child who is suffering from any disability of the nature specified in section 80U of the Income-tax Act, 1961.

In view of the aforesaid provisions, in case the minor child of the ruler, Mr. Raja, is suffering from a disability referred to in section 80U of the Income-tax Act, 1961, the income and wealth of such a child shall not be clubbed in the hands of the parents.

- (ii) The palace of the former ruler, which was declared by the Government as his official residence is not an asset chargeable to wealth tax under section 5(iii). However, the building/buildings (comprised in the palace) which were rented out by the former ruler shall constitute an asset chargeable to wealth tax.

The Supreme Court in the case of *Mohd. Ali Khan v. CWT [1997] 224 ITR 672* held that where a palace consisting of a number of buildings was declared to be the official residence of the ruler, and some of the buildings were occupied by the ruler and the others were let out to tenants, the exemption will be available only in respect of buildings occupied by the ruler.

Since only 50% of the residence is occupied by the former ruler and the balance is let out throughout the year, such an exemption cannot be claimed in respect of the portion let out. However, section 2(ea) excludes any residential property which is let out for more than 300 days in a year. Hence, the balance 50% of the property let out is not an asset chargeable to wealth tax.

Question 7

ABC Ltd. owns the following assets as on 31st March, 2014. State whether the assets are chargeable to wealth-tax, indicating reasons in brief.

- (i) *Three office flats at Mumbai purchased in the financial year 2006-07 for resale.*
- (ii) *Shares of group companies, break-up value of which is ₹ 7.50 lakhs.*
- (iii) *Cash at construction site ₹ 2.50 lakhs, not recorded in the books of account.*
- (iv) *Residential flat in occupation of company's whole time director drawing a salary of ₹ 9 lakhs per annum.*

Answer

- (i) **Office flats purchased for resale – Not chargeable to wealth-tax**

Though building or land appurtenant thereto is an asset under section 2(ea), any house for residential or commercial purposes which forms part of stock-in-trade is specifically excluded from the scope of "building". Hence, office flats purchased for resale do not fall within the meaning of "asset" under section 2(ea).

- (ii) **Shares of group companies, breakup value of which is ₹ 7.50 lakhs – Not chargeable to wealth-tax**

Shares are not included in the definition of "asset" under section 2(ea). Hence, the value of shares of group companies is not chargeable to wealth-tax.

- (iii) **Cash at construction site, not recorded in the books of account – Chargeable to wealth-tax**

In case of persons other than individuals and HUFs, any amount not recorded in the books of account is an asset under section 2(ea). Hence, ₹ 2.50 lakhs, representing cash at construction site, not recorded in the books of account, constitutes an asset under section 2(ea).

- (iv) **Residential flat in occupation of company's whole time director drawing a salary of ₹ 9 lakhs per annum – Not chargeable to wealth-tax**

Building and land appurtenant thereto is an asset chargeable to wealth-tax. However, a house meant exclusively for residential purposes, allotted by a company to, *inter alia*, a director who is in whole-time employment having a gross annual salary of less than ₹ 10 lakhs, is not chargeable to wealth-tax in the hands of the company.

Therefore, the residential flat in occupation of company's whole time director drawing a salary of ₹ 9 lakhs per annum is not chargeable to wealth-tax in the hands of ABC Ltd.

Question 8

X enters into an agreement on 13.3.2014 to sell the house property for ₹ 50 Lacs purchased by him for ₹ 20 Lacs and received an advance of ₹ 10 Lacs. Further, an amount of ₹ 15 Lacs was

received by him on 22.3.2014 but the sale deed could only be executed on 21.4.2014. Does the house constitute his asset on the valuation date 31.3.2014.

Answer

Since the sale deed was executed only in April of the next financial year and the house property was transferred by 'X' only after the valuation date i.e. after 31st March, the assessee has to include the asset i.e. house property in his net wealth for wealth tax purpose. It is assumed that the possession of the property is not transferred to the purchaser upto 31.3.2014.

Question 9

A Cooperative Society formed for the purpose of construction of residential flats for its members acquired a large area of urban land for ₹ 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.

- (i) What is meant by urban land?
- (ii) Is the action of the Assessing Officer correct?

Answer

- (i) "Urban land" means -

- (i) Land situated 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.
- (ii) Land situated in any area, within the distance, measured aerially, in relation to the range of population according to the last preceding census as shown hereunder –

Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)		Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.
(1)	≤ 2 kilometers	> 10,000 ≤ 1,00,000
(2)	≤ 6 kilometers	> 1,00,000 ≤ 10,00,000
(3)	≤ 8 kilometers	> 10,00,000

However, the following are specifically excluded from the definition of "urban land" -

- (i) Land classified as agricultural land in the records of the Government and used for agricultural purposes;
- (ii) Land on which construction of building is not permissible under any law for the time being in force in the area in which such land is situated;
- (iii) Land occupied by a building which has been constructed with the approval of the

- appropriate authority;
- (iv) Any unused land held by the assessee for industrial purposes for a period of two years from the date of its acquisition by him;
 - (v) Any land held by the assessee as stock-in-trade for a period of ten years from the date of its acquisition by him.
- (ii) No wealth tax can be levied on a co-operative society as section 45 specifically excludes co-operative societies from the purview of wealth tax. Therefore, the action of the Assessing Officer proposing to tax urban land in the hands of the society is incorrect.

Question 10

A company incorporated outside India is not liable to wealth tax in India. Discuss.

Answer

Under section 2(h) of the Wealth-tax Act, 1957, a company shall have the same meaning as assigned to it in clause (17) of section 2 of the Income-tax Act, 1961. As per section 2(17), a company means, *inter alia*, any Indian company or any body corporate incorporated by or under the laws of a country outside India.

Therefore, a company incorporated outside India will be liable to wealth tax in respect of assets located in India and which are subject to wealth tax under section 2(ea) of the Wealth-tax Act, 1957.

Question 11

What meaning has been assigned to "Net wealth" under the Wealth-tax Act, 1957?

Answer

Section 2(m) defines 'net wealth' to mean the amount by which the aggregate value, computed in accordance with the provisions of the Wealth-tax Act, 1957, of all the assets, wherever located, belonging to the assessee on the valuation date (including assets required to be included under section 4 in his net wealth as on that date under the Act), is in excess of the aggregate value of all the debts owed by the assessee, on the valuation date which have been incurred in relation to the said assets.

Question 12

- (i) *Mr. X, a member of co-operative housing society, was allotted a plot as per the bye laws of the society. He constructed a house on plot and substituted the name of his wife in the records of the society in his place. The society executed the registered sale deed in respect of said plot in favour of his wife. The Assessing Officer included the value of the said property in the hands of Mr. X. Examine the validity of the action of the Assessing Officer.*
- (ii) *Mrs. W, wife of a coparcener, unilaterally executed a release deed stating that she relinquished her status as a member of HUF, but still maintaining her marital status. It*

was claimed by the HUF, that in view of this unilateral declaration by Mrs. W, her wealth should not be included in the wealth of the HUF. Discuss the validity of the claim.

Answer

- (i) The Allahabad High Court has, in the case of *Ram Saran Das Tandon v. CWT (2007) 292 ITR 546*, held that where an assessee is a member of a co-operative society to whom land was allotted under a house building scheme and he subsequently ceases to be a member of the society and transfers his membership to his spouse or others, he could not be assessed as owner of the property. The value of the property cannot be assessed to wealth tax in his hands subsequent to such transfer of membership. Therefore, in this case, the value of the property is not assessable in the hands of Mr. X and will be assessed in the hands of Mrs. X (assuming Mr. X has received adequate consideration from his wife Mrs. X for the aforesaid transfer of membership).
- (ii) The claim is totally untenable. The High Court, in *CIT v. M. A. R. Rajkumar (1997) 226 ITR 804 (AP)*, held that the wife of the Karta cannot relinquish her status as a member of HUF by a unilateral declaration while retaining her marital tie.

Question 13

- (i) *Rakesh, a married coparcener having no son but two minor daughters, gets a commercial property on disruption of the HUF on 17.3.2014. He, therefore, seeks your advice to know in whose hands the value of this property would be subject to wealth-tax on the valuation date 31.3.2014.*
- (ii) *There is a private specific trust in which the shares of the beneficiaries are certain. Mr. L and Mr. M are the trustees. The beneficiaries are all minors and there are several items of assets as envisaged by section 2(ea). Mr. B, the father of the minor children also has taxable net wealth. In whose hands should the Assessing Officer complete the assessment of the trust?*
- (iii) *S gifted ₹ 30,00,000 to his wife on 10.1.2014. His wife used the said amount for buying gold jewellery on 31.1.2014. The fair market value of the gold jewellery as on 31.3.2014 was ₹ 40,00,000. S claims that since his wife has not held on 31.3.2014 the sum of ₹ 30,00,000 which he gifted to her, no amount is includible in his net wealth for the assessment year 2014-15. Examine the claim of S.*

Answer

- (i) The facts given in the question are similar to the facts of the case decided by the Apex Court in the case of *Narendra Nath v. CWT (1969) 74 ITR 190* wherein it was held by the Court that if a co-parcener not having a son but having two minor daughters receives his share in the joint family property on disruption, then, such property would belong to the HUF comprising of himself, his wife and minor daughters and cannot be assessed as his individual property.

It may be noted that any property in the nature of commercial establishments are excluded from the definition of asset under section 2(ea). Therefore, commercial property received by Rakesh would not be chargeable to wealth-tax on the valuation date.

- (ii) Since an individual is an assessable entity as per section 3 of the Wealth-tax Act, 1957, and as per the General Clauses Act, "individual" includes "individuals" as well, the trustees of a trust (Mr. L and Mr. M, in this case) may be charged to wealth-tax, of course, with reference to only those assets which fall within the definition of section 2(ea) of the Wealth-tax Act, 1957.
- (iii) Section 4(1)(a) of the Wealth-tax Act, 1957 provides that the value of assets which are transferred, directly or indirectly, otherwise than for adequate consideration or in connection with an agreement to live apart, by a husband to his wife or vice versa, are to be clubbed in the hands of the transferor, whether the assets are held in the form in which they were transferred or otherwise.

The Supreme Court has, in *CWT v. Kishan Lal Bubna* (1993) 204 ITR 600, held that where the assessee transfers money and the transferee utilises that money to acquire an asset, it is the value of that asset on the valuation date which is relevant for the purposes of computing the net wealth of the assessee. Where, what is transferred by the assessee is an asset and the transferee disposes of the asset and acquires another asset with the consideration received, it is the value of that acquired asset on the valuation date which is relevant for the purposes of computing the net wealth of the assessee. In view of this legal position, the claim of S is not valid. The value of gold jewellery as per Schedule III on the valuation date 31.3.2014 is includible in the net wealth of S for A.Y.2014-15. Therefore, ₹ 40,00,000, being the fair market value of gold jewellery as on 31.3.2014 is includible in the net-wealth of S under section 4(1)(a).

Question 14

Madhav, a child artist acting in laughter shows, accumulated income of ₹ 25 lakh over a short span of time. The same was put into securities by his mother, who is also the guardian. The securities were sold in the P.Y. 2013-14 resulting in capital gain of ₹ 10 lakh, which was invested in a plot of land in urban area. The Assessing Officer proposes to include the value of the land in computation of net wealth of the mother under section 4(1) on the valuation date. Is the proposition of the Assessing Officer justified in law?

Answer

The value of asset held by a minor child on the valuation date is includible in the net wealth of the parent under section 4(1)(ii). However, assets acquired by the minor child out of income from activity involving, *inter alia*, appreciation of his talent, being income referred to in the proviso to section 64(1A), would be taxable in the hands of minor and not included in the hands of the parent.

In this case, however, the above exception to the clubbing provision under section 4(1)(ii) does not apply to the plot of land in urban area, since the same has been purchased out of capital

gains of ₹ 10 lakhs from sale of the original asset, namely, securities. It is only the securities which were purchased out of income earned from application of talent of the minor child.

Therefore, the value of urban land, which is an asset under section 2(ea), is includible in the net wealth of the mother as on valuation date. The proposition of the Assessing Officer is justified in law.

Note: It has been assumed that Madhav is a minor child, not suffering from any disability of the nature specified in section 80U of the Income-tax Act, 1961. It is also assumed that net wealth of mother (excluding minor's wealth) is higher than the net wealth of father or that she is the only living parent or in case the parents are separated, it is the mother who maintains the child.

Question 15

Mr. 'W' gifted a gold chain worth ₹ 1,00,000 to the adopted minor child of his son. On 31st March, 2013, the net wealth of Mr. 'W' is worth ₹ 50 lacs whereas the net wealth of W's wife is ₹ 60 lacs. Besides, the net wealth of W's son is worth ₹ 30 lacs while the net wealth of his daughter-in-law is worth ₹ 40 lacs. State with reason, in whose net wealth the value of gifted chain will be included.

Will it make any change in your answer if the marriage of the parents of adopted minor child does not subsist and the child is maintained by his father?

Answer

As per section 4(1)(a)(ii), the assets held by a minor child (including step child/adopted child, not being a married daughter) will be included in the net wealth of that parent whose net wealth [excluding the assets of minor child so includible under section 4(1)] is greater.

In the given problem, the value of gold chain of adopted minor grandson of W, which was transferred to him by W, shall be included in the net wealth of the mother of the adopted minor child, because the net wealth of the mother of the minor child exceeds that of the father of the minor child.

Question 16

Ram gifted a house property valued at ₹ 100 lacs to his wife on 1.4.2014 in an agreement to live apart. In whose hands the said property will be assessed to wealth-tax in the A.Y. 2014-15?

Answer

The property, gifted by Ram to his wife in an agreement to live apart, is not an asset to be included as a deemed asset in his wealth and accordingly, should be taxed in the hands of his wife. However, the transfer had taken place by way of gift on 1.4.2014 and accordingly, on the valuation date 31.3.2014, the house property was owned by Ram and therefore, the same would be assessed to wealth-tax in the hands of Ram for A.Y.2014-15. Thereafter, the property would be assessable in the hands of his wife.

Question 17

An association of persons (AOP), comprising of two members Akash and Vikash, owns an urban land valued at ₹ 60 Lacs on the valuation date 31.3.2014. The share of members in this AOP is not known. Examine the tax implications under the Wealth-tax Act, 1957.

Answer

The tax implications of an asset owned by an association of persons under the Wealth-tax Act are as follows:

- (i) As per section 3, only individuals, Hindu Undivided Families and Companies are liable to wealth tax. Therefore, an association of persons (AOP) is not chargeable to wealth-tax.
- (ii) However, as per section 4(1)(b), the value of interest of a member of an AOP in the assets of the AOP is to be included in his net wealth. Schedule III lays down the manner of determination of the value of such interest.
- (iii) Section 21AA deals with a situation where the shares of the members of an AOP are indeterminate or unknown. Where assets chargeable to wealth-tax are held by an AOP and the individual shares of the members are indeterminate or unknown on the date of formation or at any time thereafter, wealth tax is to be levied in the like manner and to the same extent as applicable to an individual.

Since the share of members of the AOP is unknown therefore, the urban land shall be assessed to wealth tax in the hands of the AOP in the like manner and to the same extent as applicable to an individual.

Question 18

The assessee was a Trust, whose objects were wide-ranging including imparting education, running free library, to raise the status of humanity and also advancement of general public utility. The trust was also conducting chits and collection of deposits from the public, but it was not its predominant or primary object. Is the trust exempt from Wealth-tax?

Answer

Under section 5(i), wealth tax is not payable by an assessee in respect of property held by him under trust or other legal obligation for any public purpose of a charitable or religious nature. Unlike section 11 of the Income-tax Act, 1961, the word “wholly” is not to be found in section 5(i). Thus, for claiming exemption it is not necessary that all the objects should fall within the expression “public purpose of a charitable nature”. It is sufficient if the trust can be said to be primarily or dominantly for a public purpose of a charitable nature. [*Trustees of K.B.H.M.Bhiwandiwalla Trust v. C.W.T.*(1977) 106 ITR 709 (Bom)]. Therefore, in accordance with the above ruling, the aforesaid trust shall not be chargeable to wealth tax.

Question 19

State the circumstances in which Rule 3 of Schedule III shall not apply for valuation of immovable property.

Answer

As per Rule 8 of Schedule III, the provision contained in Rule 3 of Schedule III shall not apply in the following circumstances –

- (1) Where the Assessing Officer is of opinion, having regard to the facts and circumstances of the case, that it is not practicable to apply the provisions of Rule 3 to such a case. The Assessing Officer has to, however, get the previous approval of the Joint Commissioner;
- (2) Where the difference between the unbuilt area and the specified area exceeds 20% of the aggregate area;
- (3) Where the property is constructed on leasehold land and the lease expires within a period not exceeding 15 years from the relevant valuation date and the deed on lease does not give an option to the lessee for the renewal of the lease.

In all the above circumstances, the value of the property shall be determined in the manner laid down in Rule 20.

Question 20

"The rules laid down in Schedule III to the Wealth-tax Act, 1957 are not binding on the Valuation Officer." Examine the correctness of the statement.

Answer

The statement is not correct.

As per section 2(r) of the Wealth-tax Act, 1957, "Valuation Officer" means a person appointed as a Valuation Officer under section 12A. The Valuation Officer is, therefore, a creation of the Statute. He is, therefore, bound by the provisions of the Statute and the rules made thereunder unless there is something in the Act or in the Rules to indicate otherwise.

As per section 16A(1), for the purpose of making an assessment under the Wealth-tax Act, 1957, where under the provisions of section 7 read with rules made under the Act or, as the case may be, the rules in Schedule III, the market value of any asset is to be taken into account in such assessment, the Assessing Officer may refer the valuation of any asset to a Valuation Officer.

Therefore, the Valuation Officer is bound to follow the rules of valuation under Schedule III.

The Supreme Court has held that the rules of valuation are binding on the Valuation Officer in *Bharat Hari Singhania v. CWT (1994) 207 ITR 001*, on the basis of the above reasoning.

Question 21

Chirag owns two residential flats, one in Mumbai and another in Chennai. Both the flats are meant to be used for residential purposes by Chirag and his family. The particulars of the flats are as follows:

- (i) *The flat at Mumbai was purchased by him in January, 1981 for ₹ 10 lacs. The flat was occupied by his friend, Suvalaxmi, without rent for three months from 1st April, 2013 to 30th*

June, 2013. The value of the flat as per Schedule III to the Wealth-tax Act, 1957 on 31st March, 2014 is ₹ 30 lacs. Its value on the same basis as on 31st March, 1981 was ₹ 12 lacs.

- (ii) The flat at Chennai was purchased in March, 2009 for ₹ 6 lacs. The values of the flat as per Schedule III to the Wealth-tax Act, 1957, on 31st March, 2009 and 31st March, 2014 are ₹ 3 lacs and ₹ 5 lacs, respectively.

You are required to fix the value of each flat for the purpose of computation of net wealth of Chirag on the valuation date 31.03.2014.

Answer

In the given case, Chirag is the owner of two residential flats for self-occupation, one at Mumbai and another at Chennai.

The value of any one flat can be claimed as exempt under section 5(vi) of the Wealth-tax Act, 1957. The assessee should first determine the value to be adopted for wealth-tax purpose and then should select the flat with the higher value for availing such exemption.

As per section 7(2) of the Wealth-tax Act, 1957, the value of a house belonging to the assessee and exclusively used by him for residential purposes throughout the period of 12 months immediately preceding the valuation date, may, at the option of the assessee, be taken to be the value determined in the manner laid down in Schedule III as on the valuation date next following the date on which he became the owner of the house or the valuation date relevant to the assessment year commencing on 1st April, 1971, whichever valuation date is later.

This benefit of pegging down of value is available only if the house is self-occupied by the assessee throughout the period of 12 months immediately preceding the valuation date. Therefore, such benefit of pegging down of value cannot be availed for the flat situated at Mumbai since the flat was occupied by the assessee's friend for a part of the year. The Schedule III value of the flat at Mumbai as on the valuation date 31st March, 2014, being ₹ 30 lacs, or the cost of acquisition of ₹ 10 lacs, whichever is higher, is to be adopted as the value for wealth-tax purpose. Therefore, ₹ 30 lacs is the value of the Mumbai flat for wealth-tax purpose.

The benefit of pegging down of value can be opted for the flat situated at Chennai, as it was self-occupied by the assessee throughout the 12 months immediately preceding the valuation date of 31st March, 2014 for his residential purposes. In case of the flat at Chennai, the Schedule III value as on 31st March, 2009, being the first valuation date after he became the owner, i.e. ₹ 3 lacs can be adopted, since its cost of acquisition does not exceed ₹ 50 lacs. Therefore, ₹ 3 lacs is the value of the Chennai house for wealth-tax purposes.

It would be more beneficial for the assessee to claim exemption under section 5(vi) in respect of the Mumbai house since the value of the Mumbai house (₹ 30 lacs) is higher than the value of the Chennai house (₹ 3 lacs) as on the valuation date 31st March, 2014.

Question 22

Mr. Parikh pledged his jewellery with a financier and borrowed ₹ 50 lacs. He acquired shares

in limited companies out of the borrowed amount.

The value of assets as on 31.03.2014 is given below:

- | | | |
|----|--|-------------|
| 1. | Market value of jewellery pledged with the financier | ₹ 80,00,000 |
| 2. | The market price of shares on the valuation date | ₹ 28,00,000 |

The loan outstanding on the valuation date was ₹ 48 lacs. Compute the net wealth of Mr. Parikh as on valuation date 31.03.2014.

Answer

Computation of net wealth of Mr. Parikh as on valuation date 31st March, 2014

Particulars	₹
The market value of jewellery on the valuation date is chargeable to wealth-tax.	80,00,000
Shares are not chargeable to wealth tax as the definition of asset in section 2(ea) does not include shares	Nil
	80,00,000
Less: Debts	
The loan outstanding was taken for purchase of shares, which is not an asset under section 2(ea). Therefore, such loan is not eligible for deduction as per section 2(m)	Nil
Net wealth chargeable to tax	80,00,000

Question 23

Mr. Ganesh has a house property at Mumbai, which he has rented out to Mr. Sridhar from 1st October, 2013. The cost of acquisition of the property (acquired in the year 1999) is ₹ 45 lacs. Determine the value of his property chargeable to wealth-tax as on the valuation date 31.3.2014, from the following particulars –

- The annual value of the property as per municipal records is ₹ 8 lacs.
- The monthly rent which the property fetches is ₹ 54,000.
- Half yearly municipal tax is ₹ 40,000, paid partly by Mr. Sridhar (25%) and partly by Mr. Ganesh (75%).
- The cost of repairs of the house property is entirely borne by Mr. Sridhar.
- Mr. Sridhar has given an interest-free deposit of ₹ 4 lacs to Mr. Ganesh.
- The unexpired period of lease on the valuation date is 25 years.

Answer

Valuation of house property at Mumbai of Mr. Ganesh on valuation date 31.3.2014

Particulars	₹
Actual Rent (₹ 54,000 x 6)	3,24,000

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Add: (i) Municipal taxes borne by the tenant (25% of ₹ 40,000)	10,000
(ii) Repairs borne by the tenant - 1/9 th of actual rent received	36,000
(iii) 15% of amount of deposit of ₹ 4 lakh (15%×₹ 4,00,000 × 6/12)	30,000
	4,00,000
Annual Rent (₹ 4,00,000 × 12/6)	8,00,000

The annual rent so worked out has to be compared with the municipal value and the higher of the two has to be adopted as the Gross Maintainable Rent. The municipal value is ₹ 8,00,000 and the annual rent also works out to ₹ 8,00,000. Therefore, ₹ 8,00,000 shall be the Gross Maintainable Rent.

Computation of Net Maintainable Rent (NMR)	₹	₹
Gross Maintainable Rent, being the annual rent		8,00,000
Less: Corporation Tax (annual)	80,000	
15% of Gross Maintainable Rent	1,20,000	2,00,000
Net Maintainable Rent (NMR)		6,00,000
Capitalised value of NMR		
Capitalised value (₹ 6,00,000 × 8) [See Note below]	48,00,000	
Cost of acquisition	45,00,000	
Capitalised value is the higher of the above		48,00,000
Note : Where the unexpired lease period is less than 50 years, capitalisation value is NMR × 8.		
Therefore, the value of house property chargeable to tax on valuation date 31.3.2014 is ₹ 48 lakh.		

Question 24

Mr. Manocha has a house property in Delhi, which was lying vacant for last 3 years. He constructed the property in 1991 at a cost of ₹ 40 lacs. He has let out the same at a monthly rent of ₹ 30,000 for a period of three years with effect from 1st January, 2014. The quarterly corporation tax is ₹ 30,000. He took a premium of ₹ 1,20,000 from the tenant and also security deposit of ₹ 1,00,000. The house was constructed on a land measuring 4,000 sq ft. It has three floors each measuring 960 sft. Compute the value of the house property for wealth tax purpose as at valuation date 31.3.2014.

Answer

Computation of value of the house property for wealth tax purpose as on valuation date 31.03.2014

Particulars	₹	₹
Computation of Actual Rent & Annual Rent		
Actual Rent (₹ 30,000 × 3)		90,000

Add: Adjustment for premium received from tenant (₹ 1,20,000/3) x 3/12		10,000
15% p.a. of Security Deposit i.e. 15% x ₹ 1,00,000 x 3/12		3,750
Actual Rent for 3 months		1,03,750
Annual Rent (₹ 1,03,750 x 12/3)		4,15,000
Computation of Net Maintainable Rent (NMR)		
Gross Maintainable Rent, being the annual rent		4,15,000
Less: Corporation Tax (₹ 30,000 x 4)	1,20,000	
15% of Gross Maintainable Rent	62,250	1,82,250
Net Maintainable Rent (NMR)		2,32,750
Capitalised value of NMR		
Capitalised value (₹ 2,32,750 x 12.5)	29,09,375	
Cost of acquisition	40,00,000	
Capitalised value is the higher of the above		40,00,000
Add: Premium		
(i) Aggregate Area	4000 Sq.Ft.	
(ii) Specified Area (60%)	2400 Sq.Ft.	
(iii) Built up area	960 Sq.Ft.	
(iv) Unbuilt Area	3040 Sq.Ft.	
(v) Excess of unbuilt area over specified area	640 Sq.Ft.	
% of excess area on aggregate area (640/4000) x 100	16%	
(vi) Premium to be added when (v) is 16% (40% of capitalized value i.e., 40% of ₹ 40 Lacs)		16,00,000
Value of house property for wealth-tax purpose		56,00,000

Question 25

Explain the procedure for adoption of the value of Jewellery for the valuation date as at 31st March, 2014 and subsequent 3 years assuming the value of Jewellery has been determined by Valuation Officer as at 31st March, 2013.

Answer

Rules 18 & 19 of Part G of Schedule III to the Wealth-tax Act 1957, provide that when the value of jewellery has been determined by Valuation Officer, such value shall be taken to be value of such jewellery for the subsequent four assessment years subject to the following two adjustments:

- (a) Where the jewellery includes gold or silver or any alloy of these, then the market value of such metal as on the valuation date relevant to that assessment year shall be taken in the place of the value as on the valuation date on which the Valuation Officer determined

the value.

- (b) Where jewellery is sold or otherwise disposed off or jewellery is acquired, the value of jewellery determined shall be reduced or increased to the extent of such deletions or additions to the jewellery. The value so reduced or increased shall be the value of the jewellery for the subsequent assessment year.

Question 26

How is the value of the interest of a person in a firm of which he is a partner determined under the Wealth-tax Act, 1957?

Answer

Under clause (b) of section 4, the value of the interest of a partner in a firm is to be determined in the manner laid down in schedule III. Under Schedule III part E, Rule 16 lays down the method of such determination. The net wealth of the firm shall first be determined as if it were the assessee. Thereafter, that portion of wealth of the firm as is equal to the amount of its capital shall be allocated among the partners in the proportion in which capital has been contributed by them. The residue of the net wealth of the firm shall be allocated among the partners in accordance with the agreement of partnership for distribution of assets in the event of dissolution and in the absence of such an agreement, in the proportion in which the partners are entitled to share the profits. The sum total so allocated to a partner shall be taken as the value of his interest. No account shall be taken of the exemption under section 5 in determining the net wealth of the firm.

Question 27

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 ₹ 10 lacs towards the shares in the Co-operative society. The building was completed and occupied exclusively for residential purposes by its members before 31.3.2014. 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 ₹ 20 Lacs, the taxes amount to ₹ 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 ₹ 20 Lacs and the amount outstanding by way of instalment loan payable to the society by 'X' is ₹ 2 Lacs. You are required to determine the net wealth of 'X' as on 31.03.2014.

Answer

Valuation of building as per Rule 3 of Schedule III

Particulars	₹	₹
Gross maintainable rent (Annual value)		20,00,000
Less: Municipal taxes	1,00,000	
15% of GMR	3,00,000	4,00,000
		16,00,000

Net Maintainable Rent $\times 12.5 = 2$ crores		
X's share in the property (1/10)	20,00,000	
Less : Outstanding instalment	2,00,000	
	18,00,000	

Under clause (vi) of section 5, the assessee can claim exemption of the net wealth of ₹18 lacs relating to residential flat.

Notes:

1. A Co-operative society is not an assessee under the Wealth-tax Act, 1957.
2. Under sub-section (7) of section 4, where an assessee is a member of a co-operative society and a building or part thereof is allotted to him, he is deemed to be the owner of the building or part thereof and the value thereof shall be included in computing the net wealth of such assessee. The value of any outstanding instalment towards the cost of the building is also deemed to be a debt owed by him in relation to such building.

Under the second proviso to Rule 3, if the value arrived at on the basis of Schedule III is less than the cost of acquisition, the cost of acquisition shall be taken to be the value of the property. However, this proviso will not apply, if the house is exclusively used for residential purposes by the assessee himself throughout the period of 12 months preceding the valuation date and the cost of construction does not exceed ₹ 50 Lacs in Mumbai. The period of 12 months would mean the period right from inception if it is less than 12 months.

Question 28

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 2010-11 to 2013-14 was ₹60,000, ₹64,000, ₹70,000 and ₹76,000, respectively. The expenses incurred each year were ₹2,000, ₹4,000, ₹5,000 and ₹6,000, respectively. Calculate the value of life interest of Mr. Jogi in the property so settled on the valuation dated 31.3.2014, by assuming the factor to be 9.267.

Answer

The valuation of life interest of Mr. Jogi in the property settled by his father is governed by Rule 17 of Schedule III. The average annual income of the last three years is to be considered for the purpose of valuation. The expenses of the last three years are also to be taken on an average by restricting it to 5 per cent of the average annual income.

Computation of interest:	₹
Average annual income of last 3 years $(64,000 + 70,000 + 76,000/3)$	70,000
Less: Average of annual expenses restricted to 5% of the average annual income i.e. $1/3 \times (4,000 + 5,000 + 6,000) = ₹ 5,000$ but restricted to 5% of ₹ 70000	3,500
Net average annual income	66,500
Value of life interest = ₹ 66,500 $\times 9.267 = ₹ 6,16,256$	

Question 29

Anil has a house property in Delhi. He constructed the said property in 1985 at a cost of ₹40 lakhs. He has let out the property at ₹25,000 per month for a period of three years from 1st October, 2013. The half yearly municipal tax is ₹12,500 which is borne by him. The house was constructed on freehold land measuring 10,000 sq. ft. The built up area of the house is 2,000 sq. ft. Compute the value of the house property for wealth tax purpose as on the valuation date 31st March, 2014.

Answer

Computation of value of the house property of Mr. Anil as on valuation date 31.03.2014

Particulars	₹	₹
Gross Maintainable Rent (Annual rent) ¹ (₹ 25,000 × 12)		3,00,000
Less: Corporation tax (₹ 12,500 × 2)	25,000	
15% of Gross Maintainable Rent	45,000	
		70,000
Net Maintainable Rent (NMR)		2,30,000
Value of the house property		
Capitalised value of NMR (NMR × 12.5) (₹ 2,30,000 × 12.5)	28,75,000	
Cost of acquisition	40,00,000	
Value arrived at under Rule 3 – Higher of Capitalised value of NMR and Cost of acquisition		40,00,000
(to be further adjusted for unbuilt area of plot of land)		
Add: Adjustment for unbuilt area of plot of land		
(i) Aggregate Area	10,000 sq.ft.	
(ii) Specified Area (60%, since the house is in Delhi)	6,000 sq.ft.	
(iii) Built up area	2,000 sq.ft.	
(iv) Unbuilt Area	8,000 sq.ft.	
(v) Excess of unbuilt area over specified area	2,000 sq.ft.	
% of such excess area on aggregate area		
(2,000 / 10,000) × 100	20%	
(vi) Premium to be added when (v) is 20%		

¹ Since Annual Value assessed by the local authority is not given in the question, the annual rent has been taken as the Gross Maintainable Rent.

(40% of value arrived at under Rule 3 i.e., 40% of ₹ 40 Lacs)	16,00,000
Value of house property as on valuation date 31.3.2014	56,00,000

Question 30

The net wealth of a firm consisting of two partners S & K having 3 : 1 share and a capital contribution of ₹ 7,50,000 and ₹ 2,50,000 respectively is as under:

- (i) Value of assets located outside India ₹ 15 lacs.
- (ii) Value of assets located in India ₹ 40 lacs.
- (iii) Debts incurred in relation to assets in India ₹ 5 lacs

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

Answer

Computation of net wealth of the firm

Particulars	₹	₹
Value of assets located outside India		15,00,000
Value of assets located in India	40,00,000	
Less: Debts incurred in relation to such assets located in India	<u>5,00,000</u>	<u>35,00,000</u>
Net wealth of the firm		<u>50,00,000</u>

Value of partner's interest in the assets of the firm

Particulars	S (₹)	K (₹)
Net assets of the firm to the extent of capital i.e., up to ₹ 10,00,000 – to be allocated in the proportion in which capital has been contributed by the partners	7,50,000	2,50,000
Balance ₹ 40,00,000, to be distributed in profit sharing ratio (3:1)	<u>30,00,000</u>	<u>10,00,000</u>
Value of interest of partners in the net wealth of the firm	<u>37,50,000</u>	<u>12,50,000</u>

Note - As per section 4(1)(b) of the Wealth-tax Act, 1957, in computing the net wealth of an assessee, who is a partner in a firm, the value of his interest in the assets of the firm determined in the manner laid down in Schedule III shall be included.

As per Rule 16 of Schedule III, the net wealth of the firm on the valuation date shall first be determined as if it were the assessee. Thereafter, that portion of the net wealth of the firm as is equal to the amount of its capital shall be allocated amongst the partners in the proportion in which capital has been contributed by them. The remaining portion of net wealth of the firm shall be allocated amongst the partners in accordance with the agreement of partnership or, in the absence of such agreement, in the proportion in which the partners are entitled to share the profits.

Question 31

Mr. Ram, a resident individual following cash basis of accounting, has the following assets as on 31-03-2014. Compute his net wealth as on the valuation date 31.03.2014:

		Valuation as on 31-03-2014 (₹ in lacs)
(i)	Self-occupied residential house	60
(ii)	Owning of a guest house situated 26 kms from the municipality	30
(iii)	Property used for his business	50
(iv)	One residential complex consisting of 10 dwelling units. He intended to sell 5 units which are kept vacant for want of prospective buyers for the whole year. 2 units are vacant from 05-01-2014. 3 units are let out fully for the whole year.	500

Answer

Computation of net wealth of Mr. Ram on valuation date 31.03.2014

S.No.	Particulars	₹ (in lacs)
1.	Self-occupied house property - Exempt under section 5(vi)	Nil
2.	Guest house situated within 26 kms from municipality is an asset as per section 2(ea)(i)	30
3.	Property used for business	Nil
	Not an asset as per section 2(ea)(i)(3)	
4.	Residential complex [Section 2(ea)(i)(4)]	
	5 units kept vacant are assets as they are not let out for a minimum period of 300 days in a year [₹ 50 lacs × 5]	250
	2 units let out for less than 300 days are assets [₹ 50 lacs × 2]	100
	3 units let out for more than 300 days are not assets	Nil
	Net Wealth	<u>380</u>

Question 32

NKP Limited engaged in industrial activity has furnished the following particulars of its assets as at the valuation date 31st March, 2014. Compute the net wealth and wealth-tax liability of the company on the valuation date 31.03.2014.

- (i) One hectare of vacant land was allotted to the company at Ahmedabad by the State Government for industrial purpose in May, 2010 on permanent lease basis on payment of a non-refundable premium of ₹ 4 lacs. The terms of allotment includes that in the event the lessee transfers the lease, 50% of the unearned increase in the value should be made over to

the lessor. The construction work for the proposed factory has not been started. The value of the land as on 31st March, 2014 is ₹ 50 lacs.

- (ii) The company is a partner of a firm with 30% share, whose net assets as on 31st March, 2014 is ₹ 150 lacs. Its capital as on that date is ₹ 20 lacs out of total capital of ₹ 70 lacs.
- (iii) It has let out a building with effect from 1st October, 2013 at a monthly rent of ₹ 1 lac for a period of 10 years. The tenant has made a deposit of ₹ 3 lacs. Annual Corporation Tax of ₹ 1 lac is borne by the tenant. The building is on a freehold land. The written down value of the building is ₹ 80 lacs.

Answer

Computation of net wealth and wealth tax liability of NKP Ltd.
as on valuation date 31.3.2014

Particulars	₹
Land for industrial purpose (Note 1)	27,00,000
Interest in the assets of partnership firm (Note 2)	44,00,000
Building (Note 3)	<u>1,30,40,625</u>
Net Wealth	<u>2,01,40,625</u>
Wealth-tax@1% of ₹ 1,71,40,625, being the net wealth in excess of ₹ 30 lacs	1,71,406
Notes:	₹
1. Unused land held for industrial purpose for more than two years from the date of acquisition is an asset under section 2(ea). As such, wealth tax incidence is attracted Market value of land as on 31.3.2014	50,00,000
Less: 50% of the unearned increase payable to the lessor [i.e. 50% of (₹ 50 lacs – ₹ 4 lacs)]	<u>23,00,000</u>
Value for wealth tax purpose	<u>27,00,000</u>
2. Interest in assets of the firm of which the assessee is a partner is deemed to be asset of the partner under section 4(1)(b) of the Wealth-tax Act, 1957 Value of interest in the firm as per Rule 15 of Schedule III: ₹ 20,00,000 + [(₹ 150 lacs – ₹ 70 lacs) x 30%] = [₹ 20,00,000 + ₹ 24,00,000, being 30% of ₹ 80,00,000]	44,00,000
3. Value of Building [Rule 3 to 5 of Part-B of Schedule III]: Actual Rent (₹ 1,00,000 x 6)	6,00,000

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Interest on deposit@15% p.a. for 6 months	22,500
Corporation tax borne by tenant (for 6 months)	<u>50,000</u>
	<u>6,72,500</u>
Annual Rent (₹ 6,72,500 x 12/6)	13,45,000
Gross Maintainable Rent (GMR)	13,45,000
Less: Corporation Tax ₹ 1,00,000	
15% of GMR <u>₹ 2,01,750</u>	<u>3,01,750</u>
Net Maintainable Rent	<u>10,43,250</u>
Capitalised value for wealth tax purpose of a building on a freehold land (₹ 10,43,250 x 12.5)	1,30,40,625

Note - As per Rule 14, relating to valuation of assets of a business, the value of a depreciable asset disclosed in the balance sheet shall be taken to be its written down value. In this case, written down value of the building is ₹ 80 lacs. However, if the value of the asset determined in accordance with the relevant rule of Schedule III which is applicable to the asset, exceeds the above value by more than 20%, the higher value shall be taken to be the value of the asset. In this case, the capitalized value of ₹ 1,30,40,625 exceeds ₹ 80,00,000 by 63%. Therefore, ₹ 1,30,40,625 should be taken as the value of the building. It is presumed that building is disclosed in the Balance Sheet.

Question 33

Bentac Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.3.2014:

		₹ (in lacs)
(i)	Land in urban area (held as stock in trade since 2000)	67
(ii)	Motor cars (including one imported car worth ₹ 32 lacs used for hiring)	43
(iii)	125 acres of land acquired at Ghaziabad township on 15.5.2011 for construction of commercial complex	150
(iv)	Residential flats of 950 sq feet each provided to 2 employees (salary of one employee exceeds ₹ 10 lacs per annum)	22
(v)	Farm house situated at a remote village	7
(vi)	Cash in hand as per cash book	5

	Liabilities:	₹ (in lacs)
(i)	Loan for purchase of land at urban area	45
(ii)	Loan for purchase of land at Ghaziabad	100

(iii)	Wealth-tax liability for A.Y. 2012-13	10
(iv)	Loan for construction of residential flats	14

Compute the net wealth of the company as on valuation date 31.03.2014.

Answer

Computation of net wealth of Bentac Constructions Ltd. as on valuation date 31.03.2014

Particulars		₹ in lacs
Assets [as per the definition of assets under section 2(ea)]		
(i)	Land in urban area (held as stock in trade since 1999) – taxable since it is held as stock-in-trade for more than 10 years	67
(ii)	Motor cars (excluding imported car not being an asset since it is used for hiring) [₹ 43 Lacs – ₹ 32 Lacs]	11
(iii)	Land at Ghaziabad township – Since the assessee is engaged in construction business, land and building would form part of his stock-in-trade. Hence, not taxable.	Nil
(iv)	(a) Residential flats provided to an employee drawing salary less than ₹ 10 lacs per annum – not an asset	Nil
	(b) Residential flat provided to an employee drawing salary exceeding ₹ 10 lacs per annum is an asset $[22 \times 1/2]$	11
(v)	Farm house at a remote village is not an asset assuming it is not situated within 25 km of any municipality	Nil
(vi)	Cash in hand as per cash book is not an asset since it represents cash recorded in the books	Nil
		89
Less: Liabilities		
(i)	Loan for purchase of land in urban area – deductible since it is incurred in relation to land in urban area, which is an asset chargeable to wealth-tax.	45
(ii)	Loan for purchase of land at Ghaziabad – not deductible since the land, being stock-in-trade, is not an asset under section 2(ea).	Nil
(iii)	Wealth-tax liability for A.Y.2012-13 – wealth tax liability is not deductible	Nil
(iv)	Loan for construction of residential flats - the portion relating to taxable asset (1/2) is deductible i.e. $\frac{1}{2} \times 14$ lacs	7
		52
Net Wealth		37

Question 34

Gamma Limited is engaged in the construction of residential flats. For the valuation date 31.3.2014, it furnishes the following data and requests you to compute the taxable wealth:

- (i) Land in urban area (Construction is not permitted as per municipal laws in force) ₹ 42 Lacs
- (ii) Motor-cars (used for running on hire by the company) ₹ 12 Lacs.
- (iii) Jewellery (investment) ₹ 25 Lacs. Loan taken for purchase of the same ₹ 14 Lacs.
- (iv) Cash balance (as per books) ₹ 3 Lacs.
- (v) Bank balance ₹ 8 Lacs.
- (vi) Guest House (situated in a place which is 45 kms away from the local limits of the municipality) ₹ 15 Lacs.
- (vii) Residential flat occupied by the Managing Director ₹ 12 Lacs. The managing director is on whole time appointment and is drawing remuneration of ₹ 1.50 Lacs per month.
- (viii) Residential house let out on hire for 150 days ₹ 6 Lacs.

The computation should be supported with proper reasoning for inclusion or exclusion.

Answer

Computation of net wealth of Gamma Ltd. as on valuation date 31.3.2014

	Particulars	Notes	₹ in Lacs
(i)	Land in urban area	1	Nil
(ii)	Motor-cars	2	Nil
(iii)	Jewellery	3	25
(iv)	Cash balance	4	Nil
(v)	Bank Balance	5	Nil
(vi)	Guest House	6	15
(vii)	Residential flat occupied by Managing Director	7	12
(viii)	Residential house let out for 150 days	8	<u>6</u>
			58
	Less : Debts - Loan obtained for purchase of jewellery	9	<u>14</u>
	Taxable wealth as on 31.03.2014		<u>44</u>

Notes:

- (1) Land in urban area on which the construction is not permitted as per municipal laws in force does not fall within the meaning of 'asset' defined under section 2(ea) and is therefore, not taxable.
- (2) Motor cars used for running on hire is not an asset as per section 2(ea) and is, therefore, not taxable.

- (3) Jewellery is always taxable unless the same is held as stock-in-trade.
- (4) In the case of assesseees, other than individuals and HUFs, cash in hand is not taxable to the extent reflected in the books of account. In this case, since the entire cash balance of ₹ 3 Lacs is reflected in the books of account, it is not taxable.
- (5) Bank balance is not an asset within the meaning of 'asset' defined under section 2(ea).
- (6) Guest House situated in rural area is an asset and is, therefore, taxable. Only in the case of farm house, if it is situated beyond 25 kms from the local limits of any municipality, taxability does not arise.
- (7) Residential flat which is allotted by a company to an employee or an officer or a director who is in whole-time employment, having gross annual salary of less than ₹ 10 Lacs is not an asset within the meaning of asset defined under section 2(ea). In the given case, the residential flat is a taxable asset since it is occupied by the Managing Director whose gross annual remuneration exceeds ₹ 10 Lacs.
- (8) Any residential property which is let out for a minimum period of 300 days in the previous year is not an asset. In the given case, the residential house is taxable since it has been let out for less than 300 days during the previous year.
- (9) Debts incurred in relation to assets chargeable to tax shall be allowed as deduction in the computation of net wealth. Accordingly, loan obtained for purchase of jewellery shall be allowed as deduction since jewellery is assessable to wealth tax.

Question 35

Mrs. A furnishes the following particulars for the computation of her wealth tax liability on the valuation date 31.03.2014:

- (1) *Gifts of jewellery and gold ornaments received from her mother on the occasion of her marriage aggregating ₹ 5,00,000. However, the said jewellery were forcibly taken away from her by her mother-in-law after marriage.*
- (2) *She owns two residential house properties each valuing ₹ 10,00,000.*
- (3) *She is one of the partners in the business with her husband. The value of her interest in assets of the firm as at 31st March, 2014 is ₹ 12,75,500. The said business is conducted in one of the house properties owned by Mrs. A.*
- (4) *She has two motor cars of ₹ 12,50,000, one of which is imported by her for ₹ 7,50,000.*
- (5) *She has invested ₹ 10,00,000 in a bank deposit for five years to meet the future expense of children on their education.*

- (6) Mrs. A has signed "agreement to sell" for purchase of new residential house property of ₹ 20,00,000 and has made advance payment of ₹ 5,00,000 on 1st March, 2014 and has taken possession. However, the sale deed has not been executed till 31st March, 2014. She has taken loan of ₹ 15,00,000 from bank for purchase of said property.
- (7) She has cash balance of ₹ 75,000.

Compute the wealth tax payable by Mrs. A on the valuation date 31.03.2014.

Answer

Computation of wealth-tax payable by Mrs. A on the valuation date 31.03.2014

Asset	₹	Reason
Jewellery	Nil	Jewellery forcibly taken by mother-in-law and not in the possession of the assessee, is not chargeable to wealth-tax in the hands of the assessee.
House Property 1	Nil	A house used exclusively for residential purpose is treated as an asset under section 2(ea), but the same is exempt under section 5(vi).
House Property 2	Nil	Building owned by a partner but used in firm's business is deemed to be used by the partner for his business purposes and is, hence, not an asset chargeable to tax under section 2(ea).
Value of interest in assets of the firm	12,75,500	Included in the net wealth of Mrs. A by virtue of section 4(1)(b). It has been assumed that the assets are those covered under section 2(ea).
Motor Cars	12,50,000	Motor cars, whether indigenous or imported, are assets chargeable to wealth-tax under section 2(ea).
Bank Deposit	Nil	Not an asset under section 2(ea) and hence, not chargeable to tax under the Wealth-tax Act, 1957.
House Property 3	20,00,000	Since the possession of the house property is taken, it is deemed as an asset and is chargeable to wealth-tax. It may be noted that only one house property is exempt under section 5(vi) and this exemption has already been availed in respect of House Property 1.
Cash balance		For an individual, cash in hand in excess of ₹ 50,000 shall be chargeable to wealth tax (₹ 75,000 – ₹ 50,000)
	<u>25,000</u>	
Gross Wealth	45,50,500	
Less: Loan borrowed from Bank	<u>15,00,000</u>	Money borrowed by the assessee for purchase of House Property 3 is deductible under section 2(m), since the value of House Property 3 is included in gross wealth.
Net Wealth	<u>30,50,500</u>	

Wealth-tax payable by Mrs. A will be ₹ 505 i.e. 1% of ₹ 50,500 (i.e., ₹ 30,50,500 – ₹ 30,00,000).

Question 36

Mr. Neeraj provides the following particulars and asks you to work out the amount of net wealth on the valuation date 31.03.2014:

- (i) Value of a Motor Cars ₹ 25,00,000
- (ii) Value of a Motor Cycle ₹ 50,000
- (iii) A house of which ground floor is used by him for business purposes and first floor for self residence having value of ₹ 50,00,000 on 31.3.2014.
- (iv) Jewellery worth ₹ 22 lacs purchased on 30.3.2014 by his wife out of funds given by him of ₹ 15 lacs and by his son of ₹ 7 lacs.
- (v) Shares of various companies worth ₹ 2,00,000 purchased by him in the name of his daughter-in-law.

Answer

Computation of Net Wealth of Neeraj on valuation date 31.3.2014

	Particulars	₹
(i)	Motor car is an asset as per section 2(ea)	25,00,000
(ii)	Motor cycle is not an asset as per section 2(ea)	--
(iii)	Exemption under section 5(vi) shall be allowed in respect of one house, irrespective of its use, that is to say, the building may be used either for self-residence or for business purposes or for both.	--
(iv)	Jewellery purchased by his wife out of funds given by him is a deemed asset to the extent of funds given by him. It is presumed that the value of jewellery given in the question also represents the fair market value as on the valuation date, determined as per Rule 18 of Schedule III.	15,00,000
(v)	Shares purchased by him in the name of his daughter-in-law is not a deemed asset because shares are not an asset under the Wealth-tax Act, 1957.	--
	Net wealth	<u>40,00,000</u>

Question 37

Mr. Duggal, a Chartered Accountant and citizen of India after serving 16 years in U.K. returned back on 12.4.2013 for permanent settlement in Delhi started professional practice, furnishes value of his all assets and liabilities held on 31.3.2014 and request you to compute his net wealth as on valuation date 31.3.2014.

	Particulars	₹ (In lacs)
(i)	Cars used for professional work	25
(ii)	Cars used for personal purposes	15
(iii)	Laptop used for personal purposes	1
(iv)	Desktop/Scanner/Printer used in Office for professional work	2
(v)	Bank Term Deposits	10
(vi)	Shares of listed and unlisted various companies	5
(vii)	Loan against the car used for professional work	5
(viii)	Urban land purchased in the name of handicapped son (Minor)	3

- (ix) Jewellery valuing now ₹ 5 lacs purchased out of money from NRE account on 1.12.2012
- (x) House property valuing now ₹ 40 lacs purchased on 11.10.2009 from the funds in NRE account was given on rent to a corporate house on 1.7.2013.
- (xi) Amount of ₹ 2,00,000 was withdrawn from bank on 27.3.2014 for a deal of a house which could not be materialized and therefore the cash was deposited back in bank on 2.4.2014.
- (xii) Jewellery worth ₹ 2 lacs was gifted on 22.3.2014 to wife on the occasion of 25th marriage anniversary.

Answer

Computation of Net Wealth of Mr. Duggal on valuation date 31st March, 2014

	Particulars	₹
(i)	Cars used for professional work is an asset u/s 2(ea)(ii)	25,00,000
	Car used for personal purpose is an asset u/s 2(ea)(ii)	15,00,000
(ii)	Laptop used for personal purposes is not an asset u/s 2(ea)	Nil
(iii)	Desktop/Scanner/Printer used in office for professional work are not assets u/s 2(ea)	Nil
(iv)	Bank term deposits is not an asset u/s 2(ea)	Nil
(v)	Shares of various listed and unlisted companies is not an asset under section 2(ea)	Nil
(vi)	Urban land purchased in the name of handicapped son is not a deemed asset as per section 4(1)(a)(ii)	Nil
(vii)	Jewellery purchased from NRE account on 1.12.2012 is exempted under section 5(v)	Nil
(viii)	House purchased from NRE account prior to one year of return and also was on rent for less than 300 days (i.e. 274 days) is an asset under section 2(ea), but exempt by virtue of section 5(vi)	Nil
(ix)	Amount withdrawn from bank and held in the form of cash on valuation date in excess of ₹ 50,000 is an asset u/s 2(ea)(vi)	1,50,000

(x)	Value of jewellery gifted to wife is includible under section 4(1)(a)(i) as deemed wealth.	<u>2,00,000</u>
	Gross Wealth	43,50,000
	Less: Debts incurred in relation to an asset u/s 2(ea), namely, loan against cars used for professional work is deductible	<u>5,00,000</u>
	Net Wealth	<u>38,50,000</u>

Reasons for inclusion or exclusion of the various items are furnished below :

- (i) Motor Cars, whether used for professional or personal purposes is an asset as per section 2(ea)(ii) and, therefore, included in the net wealth. Only motor cars used by the assessee in the business of running on hire are exempt from wealth-tax.
- (ii) Laptop used for personal purposes is not an asset under section 2(ea). Hence, the same is not to be included in net wealth.
- (iii) Desktop/Scanner/Printer used in office for professional work are not assets under section 2(ea) and hence are not to be included in net wealth.
- (iv) Bank term deposits are not assets under section 2(ea) and hence are not to be included in the net wealth.
- (v) Shares of various listed and unlisted companies are not assets under section 2(ea) and hence are not to be included in net wealth.
- (vi) According to section 4(1)(a)(ii), net wealth of an individual shall include assets held by his minor child, other than a minor suffering from any disability of any nature specified in section 80U of the Income-tax Act, 1961. Therefore, urban land purchased in the name of handicapped son is not to be included in the hands of the individual, assuming that the disability is of the nature specified in section 80U of the Income-tax Act, 1961.
- (vii) Clause (v) of section 5 seeks to provide wealth-tax exemption in respect of assets acquired by an individual out of moneys brought into India within one year immediately preceding the date of his return and at any time thereafter. Moneys standing to the credit of the person (to whom this clause is applicable) in a NRE account in any Bank in accordance with the Foreign Exchange Regulation Act, 1973 and rules made thereunder on the date of his return shall be deemed to be moneys brought by him into India on that date. Since section 5(v) exempts the value of asset acquired out of money from NRE account within one year immediately preceding the date of return or at any time thereafter, jewellery purchased from NRE account on 1.12.2012 is exempt from wealth-tax.
- (viii) According to section 2(ea)(i), any residential property that has been let out for a minimum period of 300 days in the previous year is not an asset. Since the house purchased from NRE account is prior to one year of return of Mr. Duggal and also was on rent for less than 300 days (i.e. 274 days) and, therefore, it is an asset under section 2(ea). However, one house belonging to an individual is exempt under section 5(vi). Exemption under section 5(vi) can, therefore, be claimed in respect of this house.

- (ix) Cash in hand, in excess of ₹ 50,000 constitute an asset in case of an individual. Therefore, ₹ 1,50,000, being cash in hand in excess of ₹ 50,000, is to be included in net wealth.
- (x) According to section 4(1)(a)(i), net wealth of an individual shall include assets held by spouse of such individual to whom such assets have transferred by the individual, otherwise than for inadequate consideration. Therefore, by virtue of this deeming provision, jewellery worth of ₹ 2,00,000 gifted to wife would be included in the net wealth of Mr. Duggal.
- (xi) Cars used for professional work is an asset under section 2(ea) and therefore debt incurred in relation to such asset is a deductible as per section 2(m) in computing the net wealth.

Question 38

Matisha Constructions Ltd. furnishes the following particulars of its wealth for the valuation date as on 31.3.2014:

		₹ (in lacs)
(i)	Land in urban area (held as stock in trade since 2000).	81
(ii)	Motor cars (including one imported car, worth ₹ 18 lacs used for hiring)	38
(iii)	250 acres agricultural land acquired at Greater Noida Township on 27.8.2013 for construction of residential flats/commercial complex. However, Greater Noida Authority has reserved 25 acres land as green belt.	250
(iv)	Residential flats of 1500 sq feet each provided to 3 employees (salary of one employee exceeded ₹ 10 lacs per annum)	36
(v)	Farm house of 5 acre at a remote village beyond 25 kms from the local limits of Municipality	9
(vi)	Cash in hand as per cash book	3
	Liabilities:	
(i)	Loan for purchase of land at Urban area	30
(ii)	Loan for purchase of land at Greater Noida	120
(iii)	Wealth-tax liability for Assessment year 2013-14	12
(iv)	Loan for construction of residential flats	9

Compute the net wealth of the company as on valuation date 31.03.2014.

Answer

**Computation of Net Wealth of M/s Matisha Constructions Ltd.
as on valuation date 31.03.2014**

Particulars	₹ (in lacs)	₹ (in lacs)
Assets [as per the definition of assets under section 2(ea)]		
(i) Land in urban area (held as stock in trade since 2000) – taxable since it is held as stock-in-trade for more than 10 years		81
(ii) Motor cars (excluding imported car not being an asset since it is used for hiring) [₹ 38 Lacs – ₹ 18 Lacs]		20
(iii) Agricultural land acquired for construction of residential and commercial complex (is a stock-in-trade in the hands of a construction company – hence, not an asset)		Nil
(iv) (a) Residential flats provided to 2 employees drawing salary less than ₹ 10 lacs per annum – not an asset		Nil
(b) Residential flat provided to one employee drawing salary exceeding ₹ 10 lacs per annum is an asset $[36 \times 1/3]$		12
(v) Farm house - not an asset		Nil
(vi) Cash in hand as per cash book is not an asset since it represents cash recorded in the books		Nil
		113
Less: Liabilities		
(i) Loan for purchase of land in urban area – deductible, since it is incurred in relation to land in urban area, which is an asset chargeable to wealth-tax.	30	
(ii) Loan for purchase of agricultural land - not deductible, since land is not an asset	Nil	
(iii) Wealth tax liability for Assessment year 2013-14 – wealth tax liability is not deductible	Nil	
(iv) Loan for construction of residential flats - the portion relating to taxable asset (1/3) is deductible i.e. $\frac{1}{3} \times 9$ lacs	<u>3</u>	<u>33</u>
Net Wealth		80

Question 39

Compute the net wealth of UMV Ltd. (carrying on the business of running cars on hire and also dealing in jewellery) which furnishes the following particulars of its assets and liabilities as on 31.3.2014:

		(₹ in crores) Book value	(₹ in crores) If valued as per Schedule III
Assets			
(i)	Fixed Assets:		
	Plant & Machinery	10	15
	Factory Building	25	10
	Urban land (450 sq. meters)	40	100
	Motor cars (used in the business of running on hire)	5	10
(ii)	Investments		
	Jewellery	15	30
	Plot of land in Mumbai (480 sq. meters)	10	50
	Equity shares in subsidiary companies	20	25
(iii)	Current assets :		
	Inventories (Jewellery)	150	150
	Sundry Debtors	10	10
	Cash and bank balances (includes cash balance of ₹ 1,00,000)	5	5
Liabilities			
(i)	Current Liabilities	40	40
(ii)	Loans taken for purchase of Urban land	30	30

Answer

Computation of Net Wealth of UVM Limited as on the valuation date 31.03.2014

Particulars	Reasons	Value (₹ in crores)
Assets:		
(i) Fixed Assets:		
Plant & Machinery	Not an asset under section 2(ea)	Nil
Factory building	Commercial property. Hence, not an asset under section 2(ea)	Nil
Urban land (450 sq. meters)	It is an asset under section 2(ea) - Refer Note 2	100

(ii)	Motor cars	Used for running on hire. Hence, not an asset under section 2(ea)	Nil
	Investments:		
	Jewellery	Not stock-in-trade. Hence, an asset under section 2(ea)	30
	Plot of land in Mumbai	An asset under section 2(ea). Refer Note 2	50
(iii)	Equity shares in subsidiary companies	Not an asset under section 2(ea)	Nil
	Current assets:		
	Inventories (Jewellery)	Stock-in-trade. Hence, not an asset under section 2(ea)	Nil
	Sundry Debtors	Not an asset under section 2(ea)	Nil
	Cash and bank balances (includes cash balance of ₹1,00,000)	Bank balance – not an asset under section 2(ea). Cash in hand – recorded in books – hence, not an asset under section 2(ea).	Nil
			Nil
Value of assets as per Schedule III of the Wealth-tax Act, 1957(A)			180
Liabilities:			
(i)	Current Liabilities	Not incurred in relation to an asset under section 2(ea). Hence, not eligible for deduction.	Nil
(ii)	Loans taken for purchase of Urban land	Since the loan is taken for purchase of urban land, which is included in the net wealth, it is eligible for deduction.	30
Liabilities eligible for deduction (B)			30
Net wealth [(A) – (B)]			150

Notes:

- As per Rule 14 of Schedule III, the value of business asset shall be the value specified in the clause 2(a) of the said rule. In case the value of the specific asset as per other provisions of Schedule III exceeds the value as per Rule 14(2)(a) by 20% then, the higher value shall be taken to be the value of the business asset. In respect of the business assets of UMV Ltd. chargeable to wealth tax above, the value as per Schedule III exceeds the book value by 20%, therefore, the Schedule III value has been taken to be the value for levy of wealth tax.
- Plot of land not exceeding 500 sq. meters is exempt only in the case of an individual or HUF and not in the case of a company.

Question 40

Dinesh an individual, has the following assets and liabilities as on 31.3.2014

Assets	₹ in Lacs
Plot of land at Bhopal comprising an area of 1,200 square metres on which building has been constructed without the approval of the appropriate authority	25
Building constructed on land at Bhopal without the approval of the appropriate authority and used for his business purposes.	10
Motor cars held as stock-in-trade	60
Gold jewellery brought into India from Singapore, where he was residing, on his return to India on 1.11.2009 for permanently residing in India.	6
Jewellery made of Platinum.	9
Interest in the coparcenary property of the Hindu undivided family of which he is a member	15
Cash in hand recorded in the books of account	5
Fixed deposits in a co-operative bank	10
Liabilities	
Loan borrowed for marriage of daughter	6
Loan borrowed for construction of building at Bhopal	5

The minor married daughter of Dinesh holds a plot of land at Indore valued at ₹ 20 Lacs.

The amounts stated against the assets, except cash in hand, are the values determined as per section 7 of the Wealth-tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Dinesh as on valuation date 31.03.2014.

State the reasons for inclusion or exclusion of the various items.

Answer

Computation of net wealth of Mr. Dinesh as on valuation date 31.03.2014

Particulars	Note	₹
Plot of land of 1,200 sq. mts. at Bhopal	(a)	25,00,000
Building constructed on land at Bhopal – construction without the approval of appropriate authority – not an asset under section 2(ea) since used for business purposes	(b)	Nil
Motor cars held as stock-in-trade – not an asset under section 2(ea)	(c)	Nil
Gold jewellery brought from Singapore on 1.11.2009 on his return to India for permanently residing in India – Exempt under section 5(v)	(d)	Nil

Jewellery made of platinum	(e)	9,00,000
Interest in coparcenary property of the HUF– Exempt under section 5(ii)	(f)	Nil
Cash in hand in excess of ₹ 50,000	(g)	4,50,000
Fixed deposits in a co-operative bank–not an asset under section 2(ea)	(h)	Nil
Gross wealth		38,50,000
Less: Liabilities		
Loan borrowed for marriage of daughter – not deductible	(i)	Nil
Loan borrowed for construction of building at Bhopal – not deductible	(j)	Nil
Net wealth		38,50,000

The reasons for the inclusion or exclusion of the various items are furnished below -

- (a) Plot of land at Bhopal on which building has been constructed without the approval of the appropriate authority is an asset under section 2(ea) and is, therefore, includible in the net wealth. Since the plot of land comprises an area of more than 500 square meters, it is not eligible for exemption under section 5(vi).
- (b) Building constructed on land at Bhopal without the approval of the appropriate authority is not a specified asset under section 2(ea) since it is used for business purposes by Dinesh. It is, therefore, not includible in the net wealth.
- (c) Motor cars held as stock-in-trade do not fall under the purview of 'asset' under section 2(ea) and are, therefore, not chargeable to wealth tax.
- (d) Gold jewellery brought into India on 1.11.2009 from Singapore is exempt under section 5(v) for seven successive assessment years beginning with the assessment year 2010-11.
- (e) Jewellery made of platinum is an asset under section 2(ea) and is, therefore, included in the net wealth.
- (f) Interest in the coparcenary property of the Hindu undivided family of which Dinesh is a member is exempt under section 5(ii).
- (g) Cash in hand, in excess of ₹ 50,000, is includible in the net wealth of an individual, whether such cash is recorded in the books of account or not.
- (h) Fixed deposits in a co-operative bank do not constitute 'assets' within the meaning of section 2(ea) and, therefore, are excluded from net wealth.
- (i) Only loans borrowed in relation to the 'assets' as per section 2(ea) are deductible. Hence, loan borrowed for marriage of daughter is not deductible.
- (j) Since building at Bhopal is used for business purposes and is, therefore, not an asset and excluded while computing the net wealth, the loan borrowed for its construction is not a deductible debt.
- (k) Assets held by a minor married daughter are not includible in the net wealth of any parent as per section 4(1)(a)(ii). Hence, the value of the plot of land at Indore, held by the minor married daughter, does not form part of the net wealth of Dinesh.

Question 41

Gautam an individual furnishes the following particulars of his assets and liabilities as on 31.3.2014:

	₹ (in Lacs)
Assets:	
Residential house at New Delhi	25
Residential house at Agra	15
Plot of land comprising an area of 450 square meters at Mumbai	60
House at New Delhi exclusively used for carrying on his business	15
Commercial complex at Agra	20
Residential house at Chennai let out for 335 days during the relevant previous year	10
Motor cars used in business of running them on hire	20
Shares in private limited companies	25
Cash in hand	3
Gold jewellery	12
Liabilities:	
Loan borrowed for purchase of land at Mumbai	20
Loan borrowed for purchase of shares in private limited companies	10
Loan borrowed for purchase of gold jewellery	6

Amounts stated against assets, except cash in hand, are the values determined as per section 7 of the Wealth-tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Gautam as on valuation date 31.03.2014.

State the reasons for inclusion or exclusion of the various items.

Answer

Computation of net wealth of Gautam as on valuation date 31.03.2014

	Particulars	Amount in ₹
(a)	Residential house at New Delhi is an asset	25,00,000
(b)	Residential house at Agra is an asset	15,00,000
(c)	Plot of land comprising an area of 450 square meters at Mumbai is an asset but exempt under section 5(vi)	Nil
(d)	House at New Delhi exclusively used for carrying on his business is not an asset	Nil
(e)	Commercial complex at Agra is not an asset	Nil
(f)	Residential house at Chennai let out for 335 days during the relevant previous year is not an asset	Nil

(g)	Motor cars used in the business of running them on hire is not an asset	Nil
(h)	Shares in private limited companies is not an asset	Nil
(i)	Cash in hand in excess of ₹ 50,000 is includible in net wealth	2,50,000
(j)	Gold jewellery is an asset	12,00,000
		54,50,000
	Less: Debts incurred in relation to assets	
(k)	Loan borrowed for purchase of land at Mumbai (not deductible since exemption under section 5(vi) has been claimed in respect of the said land)	Nil
(l)	Loan borrowed for purchase of shares in private limited companies (not deductible since shares are not included in net wealth)	Nil
(m)	Loan borrowed for purchase of gold jewellery	6,00,000
	Net Wealth	48,50,000

Reasons for inclusion or exclusion of the various items are furnished below:

- (a) Residential house at New Delhi is included, as residential house is an "asset" within the meaning of section 2(ea) of the Wealth-tax Act, 1957. Exemption under section 5(vi) is not claimed in respect of this house as it is more beneficial for the assessee to claim exemption in respect of plot of land at Mumbai whose value is higher.
- (b) Residential house at Agra is an asset under section 2(ea) and, therefore, included in the net wealth.
- (c) Plot of land measuring 450 square metres at Mumbai is exempt under section 5(vi) and, therefore, does not form part of net wealth. One house or part thereof or a plot of land, not exceeding 500 square metres, belonging to an individual or a Hindu Undivided Family is exempt under section 5(vi) without any monetary ceiling.
- (d) House at New Delhi, occupied for own business purposes, is excluded from net wealth as it is not an asset.
- (e) Commercial complex at Agra is excluded as it is not an asset.
- (f) Any residential property let out for a minimum period of 300 days in the previous year is not considered as an asset. Residential house at Chennai let out for more than 300 days is, therefore, excluded from net wealth.
- (g) Motor cars used in business of running them on hire are not assets as per section 2(ea)(ii) and, therefore, excluded from net wealth.
- (h) Shares in private limited companies are not assets and, therefore, excluded from net wealth.
- (i) Cash in hand, in excess of ₹ 50,000, of individuals constitutes an asset. Therefore, ₹ 2,50,000, being cash in hand in excess of ₹ 50,000, is included in net wealth.

- (j) Gold jewellery constitutes an asset as per section 2(ea) and is includible in net wealth.
- (k) Debts incurred in relation to an exempted asset are not deductible in computing net wealth. Loan borrowed for purchase of land at Mumbai is not deductible as exemption under section 5(vi) has been claimed in respect of the said land.
- (l) Loan borrowed for purchase of shares in private limited companies is not deductible while computing net wealth as shares are not included in net wealth.
- (m) Gold jewellery, being an asset, has been included in the net wealth. Therefore, loan borrowed for purchase thereof is deductible in computing the net wealth.

Question 42

New Era Ltd. furnishes the following particulars of its wealth for the valuation date of 31st March, 2014. The company is engaged in real estate business and also in jewellery trade.

Compute its net wealth on valuation date 31.03.2014 and the wealth tax payable.

		₹
Land in rural area (within 5 kms of Aligarh – purchased in 1992, construction on which is permissible but not held as stock in trade)		90,00,000
Land in urban area (for construction of Mall – not held as stock in trade)		20,00,000
Land in urban area (held as stock-in-trade since 2001)		50,00,000
Motor car (including one imported car worth ₹ 6 Lacs)		11,00,000
Jewellery (held as stock-in-trade)		18,00,000
Bank balance		5,00,000
Cash in hand as per cash book		2,70,000
Guest house and land appurtenant thereto in rural area		8,00,000
Residential flats of identical size provided to six employees for their use near factory in rural areas (salaries of two such employees exceed ₹ 10,00,000 p.a.)		15,00,000
Residence provided to managing director (salary exceeds ₹ 10,00,000 p.a.)		10,00,000
Flats constructed remaining unsold (not held as stock in trade)		30,00,000
Residence provided to whole time director (salary ₹ 15,000 p.m.)		17,00,000
The company has taken the following loans :	₹	
(a) for purchase of jewellery	6,00,000	
(b) for flats constructed remaining unsold	2,00,000	
(c) for residence provided to whole time director	90,000	

Answer

Computation of net wealth of New Era Ltd on the valuation date 31.03.2014

	Particulars	₹	₹
1.	Land in rural area within 5 kms. of Aligarh (within the prescribed limit)		90,00,000
2.	Land in urban area [for construction of mall not - held as stock-in-trade]		20,00,000
3.	Land in urban area (held for more than 10 years as stock in trade – hence taxable)		50,00,000
4.	Motor car (including imported car)		11,00,000
5.	Jewellery (held as stock in trade – hence, not taxable)		Nil
6.	Bank balance - not an asset under section 2(ea)		Nil
7.	Cash in hand as per cash book - not an asset as per section 2(ea)		Nil
8.	Guest house in rural area (always taxable as wealth)		8,00,000
9.	(a) Four residential flats given to employees, whose salary does not exceed ₹ 10,00,000 p.a. – exempt		Nil
	(b) Two residential flats given to employees, whose salary exceed ₹ 10,00,000 p.a. – taxable		5,00,000
10.	Residential house given to Managing Director whose salary exceeds ₹ 10,00,000 p.a.		10,00,000
11.	Unsold flats		30,00,000
12.	Residence given to whole time director (not taxable, since salary does not exceed ₹ 10,00,000 p.a.)		Nil
Gross Wealth			2,24,00,000
<i>Less: Debts</i>			
1.	Loan for purchasing jewellery – Not deductible since jewellery held as stock in trade is exempt from wealth-tax	Nil	
2.	Loan for flats constructed remaining unsold	2,00,000	
3.	Loan for residential house provided to the whole time director – not deductible as the house is exempt from wealth-tax	Nil	2,00,000
Net Wealth			2,22,00,000
Wealth-tax liability= 1% of ₹ 1,92,00,000 (i.e., ₹ 2,22,00,000 - ₹ 30,00,000)			1,92,000

Question 43

X Limited is engaged in the construction of residential flats. For the valuation date 31.3.2014, it furnishes the following data and requests you to compute the taxable wealth:

- (i) Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹ 35,00,000
- (ii) Motor-cars (used on hire by the company) ₹ 7,00,000
- (iii) Jewellery (Investment) ₹ 15,00,000. Loan taken for purchasing the same ₹ 10,00,000
- (iv) Cash Balance (as per books) ₹ 1,75,000
- (v) Bank Balances ₹ 2,50,000
- (vi) Guest House (situated in a place which is 30 kms away from the local limits of the municipality) ₹ 6,00,000
- (vii) Residential flats occupied by the Managing Director ₹ 10,00,000. The managing director is on whole time appointment and is drawing remuneration of ₹ 12,00,000.
- (viii) Residential house let out on hire for 200 days ₹ 8,00,000

The computation should be supported with proper reasoning for inclusion or exclusion.

Answer

Computation of taxable wealth of X Limited as on 31.3.2014

	Particulars	Note No.	₹ (in lacs)
(i)	Land in urban area	(1)	Nil
(ii)	Motor-cars used on hire	(2)	Nil
(iii)	Jewellery	(3)	15
(iv)	Cash balance	(4)	Nil
(v)	Bank balance	(5)	Nil
(vi)	Guest house	(6)	6
(vii)	Residential flat occupied by the Managing Director	(7)	10
(viii)	Residential house let out for 200 days	(8)	8
			39
	Less: Debts: Loan obtained for purchasing jewellery	(9)	10
	Net wealth as on 31.3.2014		29

Notes:

- (1) Land in urban area on which the construction is not permitted as per municipal laws in force is not an asset with in the meaning of "asset" as defined under section 2(ea) and as such excluded from taxability.

- (2) Motor car held as stock in trade or used on hire is not taxable. It is taxable only if it is used for business purposes or personal purposes.
- (3) Jewellery is always taxable unless the same is held as stock in trade.
- (4) Cash on hand in excess of ₹ 50000 as on the valuation date is taxable in the case of an individual or HUF. In other cases it is not taxable to the extent reflected in the books of account. In this case, since cash balance of ₹ 1,75,000 is as per books of X Ltd., it is not taxable.
- (5) Bank balance is not an asset within the meaning of "asset" as defined in section 2(ea).
- (6) Guest house situated 30 kms away from the local limits of the municipality is an asset and is therefore taxable. Only in the case of farm house situated beyond 25 kms from the local limits of any municipality, the taxability would not arise.
- (7) Residential flat which is allotted by a company to an employee or an officer or a director who is in whole time employment, having gross annual salary of ₹ 10 lacs or more is an asset within the meaning of "asset" as defined in section 2(ea) of the Act. Accordingly, the residential flat occupied by the managing director is taxable since his annual remuneration is ₹ 12 lacs.
- (8) Any residential property which is let out for a minimum period of 300 days in the previous year is not an asset. In the given case, the residential house is taxable since it has been let out for only 200 days (i.e. less than 300 days during the previous year).
- (9) Debts incurred in relation to assets chargeable to wealth tax shall be allowed as deduction in the computation of net wealth. Accordingly loan obtained for purchase of jewellery shall be allowed as deduction since jewellery is assessable to wealth tax.

Question 44

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 31.3.2014 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, 2014:

	₹
(i) Motor cars of foreign make held as Fixed Assets	19,50,000
(ii) 8% Bonds issue by Reserve Bank of India	15,00,000
(iii) Residential house property at Pune let out with effect from 05 th June, 2014	11,00,000
(iv) Jewellery held	9,00,000
(v) Lands purchased for industrial purpose:	
on 1 st January, 2011	5,50,000
on 25 th March, 2014	7,50,000

(vi) Loan against the purchase of lands:	
on 01 st January, 2011	2,75,000
on 25 th March, 2014	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

Answer

Computation of taxable wealth of Mr. Kamat on valuation date 31.3.2014

Particulars	₹
(a) Motor cars of foreign make held as fixed assets [included as asset under section 2(ea)(ii)]	19,50,000
(b) Bonds issue of Reserve Bank of India [Not an asset under section 2(ea)(iii)]	Nil
(c) Residential House Property let out for 300 days: [not an asset under section 2(ea)]	Nil
(d) Jewellery Held: [Asset under section 2(ea)(iii)]	9,00,000
(e) (i) Land purchased on 01.01.2011 [included as asset under section 2(ea)(v) as 2 years have lapsed from the date of acquisition]	5,50,000
(ii) Land purchased – II (held for less than 2 years - exempt under section 2(ea)(v))	Nil
(f) Cash on hand in excess of ₹ 50,000 taxable [Section 2(ea)(vi)]	25,000
(g) Cash at bank [exempt under section 2(ea)(vi)]	Nil
(h) Fixed assets located in USA (Not included as assets in the case of Not Ordinarily Resident in India)(Section 6)	Nil
(i) Deemed assets includible under section 4(1)(a)	
Shares and Securities: [Not an asset under section 2(ea)]	Nil
Residential House Property at Mumbai [Exempt under section 5(vi)]	Nil
Total	34,25,000
Less: (a) Wealth-tax liability (Not a deductible debt)	Nil
(b) Loan taken against purchase of land Outstanding balance, being debt in relation to taxable wealth under the Wealth-tax Act, 1957	2,75,000

(c) Loan against the purchase of land-II. Since the asset is exempted from tax, the debt is not deductible	Nil
Net Wealth	31,50,000

Question 45

ABC Ltd is a company engaged in the construction and sale of buildings. It has the following assets as on 31.3.2014. You are required to compute the Net Wealth of the company, in respect of Assessment year 2014-15:

		₹ (in lacs)
(i)	Flats – residential ready for sale	200
(ii)	Commercial properties ready for sale	500
(iii)	Guest House situated 30 kms away from Delhi	25
(iv)	2 Residential Houses occupied by:	
	(a) An officer having an annual salary of ₹ 7 Lacs	10
	(b) An officer having an annual salary of ₹ 11 Lacs	15
(v)	Cars used for company's business	20
(vi)	Urban land held from 31.1.2002, on which no building could be built due to dispute of title	50
(vii)	Cash in hand	5

Answer**Net Wealth of ABC Ltd as on Valuation Date 31.3.2014**

		₹ in Lacs
(i)	Residential flats for sale – stock in trade – exempt under section 2(ea)(i)(2)	NIL
(ii)	Commercial properties being stock-in-trade – exempt under section 2(ea)(i)(2)	NIL
(iii)	Guest House situated beyond 25 km from the municipal limits of Delhi – asset under section 2(ea)(i)	25
(iv)(a)	Residential house allotted to employee with annual salary of ₹ 7 Lacs – exempt under section 2(ea)(i)(1)	NIL
(iv)(b)	Residential house allotted to employee with annual salary of ₹ 11 Lacs – asset under section 2(ea)(i)	15
(v)	Cars (other than those used for running on hire or stock-in-trade) – asset under section 2(ea)(ii)	20
(vi)	Urban land held as stock-in-trade for more than 10 years – asset under section 2(ea)(v) [See Note 2]	50
(vii)	Cash in hand (assumed that is recorded in the books of account)	Nil
Net Wealth		110

Note: The question clearly states that no construction could be carried out due to dispute of title. The exemption under the Explanation 1(b) to clause (ea) of section 2 is available only if the construction is prohibited in that place by law. This is not the case here. Hence, the value of urban land will have to be included in the net wealth.

Question 46

Bhaskar, a person of Indian origin was working in Kenya from 1995. He returned to India for permanent settlement in May, 2012, when he remitted money into India. For the valuation date 31st March 2014, the following particulars were furnished. You are required to compute the taxable wealth. The reason for inclusion or exclusion should be stated.

	Particulars	₹
(i)	Building owned and let out for 270 days for residence Net maintainable rent (₹ 40,000) and the market value ₹ 10,00,000 (Excess of unbuilt area over specified area is 20% of the aggregate area)	
(ii)	Jewellery:	
	(a) Purchased in March 2011 out of money remitted to India from Kenya	15,00,000
	(b) Purchased in August, 2012 out of sale proceeds of motor car brought from abroad and sold	4,00,000
(iii)	Bonds held in companies	5,00,000
(iv)	Motor car used for own business	22,50,000
(v)	Vacant house plot of 400 sq.mts (purchased in December 2007) market value	9,00,000
(vi)	Cash in hand	80,000
(vii)	Urban land purchased in the year 2012 out of withdrawals from NRE account	10,00,0000

Answer

Section 5(v) gives special concession to persons of Indian origin or citizen of India, who ordinarily reside in a foreign country upon their return to India with the intention of permanently residing in India. The value of assets acquired one year before the date of return to India out of moneys remitted from foreign country is exempt from wealth tax. Similarly, assets brought in to India upon their return are exempt from wealth tax. However, this exemption is only for a period of 7 successive assessment years commencing with the assessment year next following the date on which such person returned to India.

Computation of Net Wealth of Bhaskar as on valuation date 31.03.2014

		₹
1.	Building is let out for 270 days during the year, i.e., less than 300 days, and hence, includible in net wealth Market value is irrelevant unless Rule 8 is invoked	

	Net maintainable rent ₹40,000 12.5 times thereof (vide Rule 3 Schedule III)(Assuming that building is constructed on freehold land)	5,00,000
	Adjustment for unbuilt area under Rule 6(c) – 40 per cent thereof	2,00,000
	Total	7,00,000
2.	Jewellery purchased in March 2011 out of moneys remitted to India from Kenya [Not exempt under section 5(v) as it was acquired before one year from the date of his return]	15,00,000
3.	Jewellery purchased in August 2012 out of sale proceeds of motor car [Exempt under section 5(v) in view of CWT vs. K.O. Mathews (2003) 261 ITR 702]	Nil
4.	Motor car used for own business	22,50,000
5.	Vacant plot 400 sq.mtrs market value [Exempt u/s 5(vi)]	Nil
6.	Cash in hand ₹ 80,000 – exempt ₹ 50,000	30,000
7.	Urban land purchased out of withdrawals of NRE account (Under Explanation 2 to clause (v) section 5, moneys standing to the credit in NRE account shall be deemed to be moneys brought to India)	Nil
	Net Wealth	44,80,000

Notes:

1. Bonds held in companies do not come within the definition of the term 'asset'.
2. Motor car is exempt only if it is held as stock in trade or used in the business of running them on hire.

Question 47

Y Ltd. is engaged in the construction of residential flats. For the valuation date 31.3.2014, furnishes the following data and requests you to compute the taxable wealth:

		₹ (in Lacs)
(a)	Land in urban area (construction is not permitted as per Municipal law in Force)	20
(b)	Motor-cars (in the use of company)	5
(c)	Jewellery (investment and not stock in trade)	20
(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 ₹ 11 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.

Answer

Computation of net wealth as on valuation date 31.3.2014

		₹ in Lacs
(a)	Land in urban area (not taxable as the construction is not possible under the municipal tax laws, hence not an asset)	NIL
(b)	Motor cars (used by the company). This asset is includible as per clause (ii) of section 2(ea) as it does not fall under the exceptions.	5
(c)	Jewellery This is includible as it is an asset under clause (iii) of section 2(ea) and is not stock in trade of the business. The assessee is engaged in construction of flats and the jewellery may be kept as an investment and not as stock in trade of business.	20
(d)	Cash balance and bank balance as per books are not taxable and not includible as an asset as per clause (vi) of section 2(ea)	Nil
(e)	Guest house in rural area [This is an asset under section 2(ea)(i)]	4
(f)	Residential flat occupied by Managing Director (This is falling outside the exceptions of section 2(ea)(i)(1), hence includible since the gross annual salary is exceeding ₹ 10 Lacs)	8
(g)	Residential house let out for 100 days (this is includible as the asset is falling outside the exception 4) to section 2(ea)(i)	7
		34
	Less: Debts incurred in relation to assets	
	Both the loans obtained are in the case of assets that are includible as wealth as they are assets under section 2(ea) of the Act. They satisfy the conditions of deductibility of debts from the aggregate of assets.	
	On motor cars	2
	On Jewellery	2
	Net Wealth	40

Question 48

Can the Assessing Officer under section 16A of Wealth-tax Act, 1957 refer valuation of assets to the Departmental Valuation Officer for the purpose of making an assessment in a case where no return of wealth has been filed by the assessee?

Answer

Reference to Valuation Officer under section 16A is made for the purposes of making an assessment under the Wealth-tax Act, 1957 where the market value of any asset is to be taken into account in such assessment.

If a person has not filed his return of wealth within the due date of filing the return, the Assessing Officer can serve a notice requiring such person to furnish the return on a specified date. If the person fails to furnish the return, then the Assessing Officer can proceed to make a best judgment assessment and estimate the net wealth of the person after giving him an opportunity of being heard.

Therefore, even in a case where return of wealth is not furnished, the Assessing Officer can make a best judgment assessment, and if the market value of any asset is to be taken into account in such assessment, he may refer the valuation of such asset to the Valuation Officer under section 16A, if having regard to the nature of the asset and other relevant circumstances, the Assessing Officer is of the opinion that it is necessary to do so.

In *CWT v. Anil Tayal (HUF) (No.1) (2006) 285 ITR 243*, the Punjab & Haryana High Court held that reference under section 16A(1) could be made even where no return had been filed by the assessee.

Question 49

Can summons enforcing attendance and to take evidence on oath be issued by a Valuation Officer to the seller of the building for which a reference under section 16A has been made by the Wealth-tax Officer?

Answer

Section 38A(1) empowers the Valuation Officer to enter any land, building or other place belonging to or occupied by any person in connection with whose assessment a reference has been made under section 16A or inspect any asset in respect of which a reference under that section has been made and require any person in charge of or in occupation or possession of such land, building to afford him necessary facility to survey or inspect the building or estimate its value or inspect any books of account etc. which may be relevant for valuation of such building or gather other particulars relating to such building. If any person who is required to afford any facility to the Valuation Officer, either refuses or evades to afford such facility, the Valuation Officer, by virtue of section 38A(2), is empowered to invoke powers under section 37(1) and issue summons enforcing the attendance of any person and examining him on oath.

Question 50

What are the cases where it is deemed that net wealth chargeable to tax has escaped assessment under section 17 of the Wealth-tax Act, 1957?

Answer

The provisions of section 17 are attracted if the net wealth chargeable to tax has escaped assessment, whether by reason of under-assessment or assessment at too low a rate or otherwise.

The following are the cases where it would be deemed that net wealth chargeable to tax has escaped assessment under section 17 of the Wealth-tax Act, 1957 -

- (1) where no return of net wealth has been furnished by the assessee although his net wealth or the net wealth of any other person in respect of which he is assessable on the valuation date exceeds the maximum amount not chargeable to tax i.e. ₹ 30,00,000;
- (2) where a return of net wealth has been furnished by the assessee but no assessment has been made, and the Assessing Officer notices that the assessee has understated the net wealth or claimed excessive exemption or deduction in the return.

Question 51

How shall the assets retained pursuant to an order passed as per section 37A(5A) of the Wealth-tax Act, 1957 be dealt with?

Answer

The assets retained pursuant to an order passed under section 37A(5A) of Wealth-tax Act, 1957 may be dealt with in the manner as specified under section 37C as under: -

- (i) the amount of the existing liability and the amount of liability determined on completion of the regular assessment or reassessment including the amount of any penalty or interest in respect of which the assessee is in default or is deemed to be in default may be recovered out of such assets.
- (ii) where the assets consist solely of money or partly of money and partly of other assets, the money may be applied in discharge of such liabilities and the assessee shall be treated as discharged to the same extent.
- (iii) assets other than money may also be applied for discharge of such liabilities as remains un-discharged. The Assessing Officer may recover the amount of such liabilities by sale of such assets effected in the manner laid down in Third Schedule to the Income-tax Act, 1961 as made applicable to the Wealth-tax Act, 1957 by section 32.

Question 52

'H' filed his return of net wealth for the assessment year 2010-11. Penalty proceeding under section 18 for concealing particulars of net wealth was initiated by the Assessing Officer in 2011. 'H' died in January, 2013. The estate of 'H' devolved on his wife, 'W', who also died in October, 2013. Thereafter, the estate devolved on their daughter 'D'. The Assessing Officer passed penalty order on 28th February, 2014 and served notice of demand for penalty on 'D'. Is the action of the Assessing Officer valid in law?

Answer

The issue under consideration in this case is whether penalty can be levied under the Wealth-tax Act, 1957 against the legal representative after the death of the assessee, in respect of penalty proceedings initiated against the assessee prior to his death.

Section 19(3), which provides for application of certain provisions of the Wealth-tax Act, 1957, to the legal representatives does not refer to the applicability of the provisions of section 18 relating to imposition of penalty. Therefore, penalty under section 18 cannot be levied on the legal representatives. The Delhi High Court, in *CWT v. H.S. Chauhan (2000) 245 ITR 704*, has also held that penalty proceedings initiated against an assessee cannot be continued on the legal heirs on the demise of such assessee. This view is also supported by the Gujarat High Court in *ACIT vs. Late Shrimant F.P. Gaekwad (2009) 313 ITR 192*. Therefore, penalty cannot be levied under the Wealth-tax Act, 1957 on the legal representatives for defaults committed by the deceased for which penalty proceedings have been initiated against the deceased prior to his death.

In view of above, the action of the Assessing Officer is not valid in law.

Question 53

Examine the correctness of the following statements as per provisions contained in the Wealth-tax Act, 1957:

- (i) *The building and land appurtenant thereto held on valuation date always do not form part of net wealth.*
- (ii) *Every officer of the company shall be treated as principal officer in respect of proceedings under the Wealth-tax Act, 1957.*

Answer

- (i) The statement is correct.

As per section 2(ea)(i), an asset includes any building or land appurtenant thereto (house), whether used for residential or commercial purposes or for the purpose of maintaining a guest house or otherwise and includes a farm house situated within twenty-five kilometers from the local limits of any municipality or a Cantonment Board, but does not include:

- (a) 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 ₹ 10 lacs.
- (b) Any house for residential or commercial purposes which forms part of stock-in-trade.
- (c) Any house which the assessee may occupy for the purpose of any business or profession carried on by him.
- (d) Any residential property that has been let out for a minimum period of 300 days in the previous year.
- (e) Any property in the nature of commercial establishments or complexes.

Hence, the property mentioned in (a) to (e) above and a farm house, situated beyond 25 kms from the local limits of a municipality or cantonment board, do not form part of net wealth. All other land and building held on valuation date form part of net wealth.

- (ii) The statement is not correct.

As per section 2(o) of the Wealth-tax Act, 1957, "principal officer" used with reference to a company, means the secretary, manager, managing agent or managing director of the company, and includes any person connected with the management of the affairs of the company upon whom the Assessing Officer has served a notice of his intention of treating him as the principal officer thereof.

Therefore, every officer of the company shall not be treated as the principal officer of the company in respect of proceedings under the Wealth-tax Act, 1957.

Question 54

Under what circumstances can the Assessing Officer make a reference to the Valuation Officer for the purpose of making an assessment under the Wealth-tax Act, 1957?

Answer

Under section 16A of the Wealth-tax Act, 1957, a reference to the Valuation Officer may be made by Assessing Officer, where the market value of any asset is to be taken into account in the wealth tax assessment. Such reference can be made in the following cases -

- (a) Where the value of the asset adopted by the assessee is on the basis of the estimate by a registered valuer and the Assessing Officer is of the opinion that such value returned is less than the fair market value;
- (b) In any other case, if the fair market value, in the opinion of Assessing Officer, exceeds the value of the asset (as disclosed in the return), by 33¹/₃% or ₹ 50,000; or,
- (c) Having regard to the nature of the asset and other relevant circumstances, the Assessing Officer is of the opinion that it is necessary to make a reference.

Question 55

An assessee, being aggrieved by the order of Assessing Officer, filed an appeal by taking for the first time a ground "that notice to complete the assessment was not served upon him but he had co-operated in completion of proceedings". Are you in agreement with the view taken by the assessee?

Answer

Section 42 provides that the assessee would be precluded from raising any objection in any proceeding or inquiry that the notice was not served upon him or was not served in time or was served in an improper manner, if he had appeared in any proceedings or co-operated in any inquiry relating to assessment or re-assessment. Therefore, if the assessee had appeared in any proceedings or co-operated in any enquiry, it shall be deemed that any notice required to be served on him has been duly served upon him in time in accordance with the provisions of the Act.

Such deeming provision would, however, not apply where the assessee has raised an objection (regarding non-service of notice or non-service of notice in time or improper service of notice) before the completion of such assessment or reassessment.

In this case, the assessee objected to the non-service of notice for the first time at the appellate level i.e., after completion of the wealth-tax assessment. Therefore, the claim of the assessee is not tenable.

Question 56

Examine the correctness of the following taking into consideration the provisions of Wealth-tax Act, 1957:

- (i) *The Commissioner of Wealth-tax is not empowered to reduce or waive penalty unless it is approved by the Chief Commissioner or Director General.*
- (ii) *Penalty for concealment of wealth can be imposed where the value of assets disclosed by the assessee is ₹ 4,00,000 but determined by the Assessing Officer at ₹ 6,00,000.*

Answer

- (i) Under section 18B of the Wealth-tax Act, 1957, the Commissioner is vested with the power to reduce or waive the penalty *suo moto* or on an application made by the assessee, if he is satisfied that the assessee has –
 - (1) voluntarily and in good faith made full and true disclosure of the particulars of his wealth, prior to detection of the same by the Assessing Officer;
 - (2) co-operated in any enquiry relating to the assessment of his net wealth; and
 - (3) has also made satisfactory arrangements for the payment of tax or interest payable in consequence of an order passed by the Assessing Officer for the relevant assessment year.

However, no order reducing or waiving the penalty, in the above case, shall be made by the Commissioner without the prior approval of the Chief Commissioner or Director General, if the concealed net wealth in respect of which the penalty was imposed or imposable for any relevant assessment year exceeds ₹ 5 Lacs.

- (ii) The levy of penalty under section 18(1)(c) of the Wealth-tax Act, 1957 is in respect of concealment of wealth or furnishing inaccurate particulars of wealth. *Explanation 4* to section 18(1) clarifies that an assessee would be deemed to have furnished inaccurate particulars of his wealth if the value of assets disclosed by him is less than 70% of the value as determined in an assessment under section 16 or 17, unless he proves that the value of assets as disclosed by him is the correct value. In the case of this assessee, the value of the assets determined by the Assessing Officer is ₹ 6 Lacs whereas the value disclosed by the assessee is only ₹ 4 Lacs. Since the value disclosed by the assessee i.e., ₹ 4 Lacs is less than ₹ 4.2 Lacs, being 70% of the value determined by the Wealth-tax Officer, penalty under section 18(1)(c) is attracted in this case, unless the assessee proves that the value of assets disclosed by him is the correct value.

Question 57

How can the arrear demand of wealth-tax be recovered by the department where the assessee dies prior to making payment thereof?

Answer

Where the assessee dies prior to making of payment of demand of wealth tax, the same shall be recovered as per section 19(1) out of the estate of the deceased from his executor, administrator or other legal representative. The executor, administrator or other legal representative shall be liable to pay out of the estate of the deceased person, to the extent to which the estate is capable of meeting the charge, the wealth tax assessed as payable by such person, if he had not died.

Question 58

What are the various circumstances under which an assessee will be deemed to have concealed the particulars of his net wealth or furnished inaccurate particulars thereof?

Answer

The circumstances under which an assessee will be deemed to have concealed the particulars of his net wealth or furnished inaccurate particulars thereof are as follows:

- (i) Where a person fails to offer an explanation or offers an explanation which is found to be false in respect of any facts material to the computation of net wealth, he will be deemed to have concealed the particulars. Further, where such person offers an explanation which he is unable to substantiate and fails to prove that such explanation is *bonafide* and that all the facts relating to the same and material to the computation of his net wealth have been disclosed by him, he will be deemed to have concealed the particulars - *Explanation 2* to section 18(1).
- (ii) Where a person, fails, without reasonable cause, to furnish within the due date, a return of his net wealth which he is required to furnish and the Assessing Officer is satisfied that the person has assessable wealth, he shall be deemed to have concealed the particulars of his assets - *Explanation 3* to section 18(1).
- (iii) Where the value of any asset returned by any person is less than 70% of the value of such asset as determined in an assessment under section 16 or section 17, such person shall be deemed to have furnished inaccurate particulars - *Explanation 4* to section 18(1)
- (iv) Where in the course of search under section 37A, the assessee is found to be the owner of any money, bullion, jewellery or other valuable article or thing and such assets have been neither declared in the return of wealth nor recorded in the books of account, he shall be deemed to have concealed the particulars of such assets or furnished inaccurate particulars of such assets - *Explanation 5* to section 18(1).

Question 59

Return of net wealth declaring wealth of ₹ 55.50 Lacs for Assessment year 2013-14 was filed by Ravi on 30-11-2013. The Assessing Officer issued notice under section 16(2), which was

served upon the assessee on 28-10-2014. The assessment was completed by the Assessing Officer on 13-03-2016 on the wealth of ₹ 85 Lacs. Ravi wants to know:

- (i) Whether the order passed by the Assessing Officer is a valid order under the Act?
- (ii) Will his case be fit for levy of penalty, if assessed wealth is not disputed?

Answer

- (i) Notice under section 16(2) has to be served within 12 months from the end of the month in which the return is furnished. The time limit for completion of assessment under section 17A of the Wealth-tax Act, 1957 is 2 years from the end of the assessment year in which the net wealth was first assessable.

In this case, the return was filed late. However, it was filed within the time allowed for filing a belated return. Also, the notice under section 16(2) was served within 12 months from the end of the month in which the return was furnished. Further, the order was passed within 2 years from the end of the assessment year 2013-14. Therefore, the order passed by the Assessing Officer is a valid order under the Act.

- (ii) *Explanation 4* to section 18(1) of the Wealth-tax Act, 1957, specifies that where the value of an asset returned by any person is less than 70% of the value of such asset as determined in an assessment under section 16 or section 17, then such person shall be deemed to have furnished inaccurate particulars of such asset and shall be liable for levy of penalty under section 18(1)(c).

In the present case, the wealth assessed by the Assessing Officer is ₹ 85 Lacs against the returned wealth of ₹ 55.50 Lacs. The returned wealth is only 65.3% of assessed wealth. Since the returned wealth is less than 70% of the wealth assessed and determined by the Assessing Officer, therefore, the assessee is liable for levy of penalty under section 18(1)(c) of the Wealth-tax Act, 1957, unless he proves that the value of the asset as returned by him is the correct value.

Question 60

State the cases where the Assessing Officer can make an assessment of net wealth to the best of his judgement by exercising his powers under section 16(5) of the Wealth-tax Act, 1957. Is it necessary for the Assessing Officer to issue show cause notice before making such assessment?

Answer

- (i) The cases where the Assessing Officer can make an assessment of net wealth to the best of his judgment by exercising his powers under section 16(5) are as follows—
 - (a) Where a person fails to furnish his return of wealth required to be filed under section 14(1) within the due date, and has also not filed a belated return or a revised return under section 15.

- (b) Where any person, having filed a return, fails to comply with all the terms of a notice issued under section 16(2) for making scrutiny assessment.
 - (c) Where the assessee fails to comply with all the terms of a notice issued under section 16(4) for filing a return of net wealth or requiring production of accounts, records, or other documents as the Assessing Officer may require.
- (ii) The Assessing Officer, after taking into account all relevant material which he has gathered, can make a best judgment assessment only after giving the assessee an opportunity of being heard by serving a notice calling upon the assessee to show cause, on a date and time to be specified in the notice, why the assessment should not be completed to the best of his judgment.
- (iii) However, it will not be necessary to give such opportunity where a notice under section 16(4) has already been issued prior to making the best judgment assessment.

Question 61

Mr. Raj executed a 'will' during his life time. His uncle Mr. Amitabh was appointed as executor, under the 'will'. Mr. Raj died on 13.6.2013. The executor could complete the distribution of assets after the valuation date 31.3.2014.

The wealth tax records of Raj reveal that (a) the return of wealth for the valuation date 31.3.2013 was not filed; (b) wealth tax demands for the assessment years 2011-12 and 2012-13 are payable. On these facts, Mr. Amitabh approached you to advise him on his obligations under Wealth-tax Act, 1957.

Answer

The pending wealth tax demand relate to assessment years 2011-12 and 2012-13.

Mr. Amitabh was appointed as an executor of the 'will' by deceased Mr. Raj. As per the provisions of section 19 of the Wealth-tax Act, 1957, the tax liability of the deceased is payable by the legal representative in the following situations.

- (i) Where the assessment had been completed on the deceased but tax is still payable [section 19(1)];
- (ii) Where the deceased has not furnished a return or the return furnished by him is incorrect or incomplete [section 19(2)].

Therefore, Mr. Amitabh is responsible for filing of the pending wealth tax return of the deceased for the assessment year 2013-14, which he should do so on or before 31.03.2015, being the time limit for filing a belated return. He is also responsible for making payment of the wealth-tax demands for A.Y. 2011-12 & 2012-13 out of the estate of the deceased.

Further, as per section 19A, the executor of a 'will' is responsible for the assessment in respect of the estate of the deceased for the period from the date of death of the deceased till the completion of the distribution of assets amongst the legatees. The executor holds the status as of the deceased during the period of distribution of assets amongst the beneficiaries in the 'will'

and accordingly a separate assessment will be made under section 19A in the hands of the executor in respect of the net wealth of the deceased as on the valuation date viz. 31.03.2014.

Question 62

In respect of defaults committed under Wealth-tax Act 1957, penalty proceedings are initiated against the deceased prior to his death. Can the wealth tax officer continue the proceedings and levy penalty on the legal representative?

Answer

Section 19 of the Wealth-tax Act, 1957 determines the liability of legal representative for the defaults committed by the deceased assessee. According to section 19(3), the provisions of sections 14, 15 and 17 shall apply to legal representative as they apply to any person referred to in those sections, whereas section 18 dealing with penalty does not form part of section 19(3). In view of the legal position, penalty under section 18 of Wealth-tax Act, 1957 can neither be levied nor penalty proceedings already initiated be continued on the legal representative for the defaults committed by deceased against whom penalty proceedings have been initiated prior to his death.

Question 63

'X' is the legal heir of 'C'. 'C.' had delayed filing of the returns of wealth for the assessment year 2009-10 to 2011-12. Penalty proceedings under section 18(1)(a) were initiated by the assessing officer against 'C' when he was alive and were continued against 'X'. Penalty was 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.

Answer

The issue came up before the Delhi High Court in *CWT v. H.S.Chauhan (2000) 245 ITR 704*. In this case, the delay in filing the returns of wealth was attributable to "C" during his lifetime. The question is whether a legal representative can be penalized for default committed by the person of which he is the representative. Section 19(3) provides only for the application of sections 14, 15 and 17 to the representative, as they would have applied to the deceased. Section 18 which deals with penalties is not applicable to legal representative. Therefore, "X" cannot be subjected to penalty.

Question 64

The concept of a partial partition is alien to the Wealth-tax Act, 1957. Discuss.

Answer

After 31.12.1978, partial partition of HUF is not recognised for both income-tax and wealth-tax purposes. Section 20A of the Wealth-tax Act, 1957 clearly lays down that where a partial partition has taken place after 31.12.1978, such family shall continue to be liable to be assessed as if no such partial partition has taken place. The effect of a partial partition will be that those assets divided or allowed to a member or some of them will continue to be treated as HUF property and assessed as such.

Self-examination Questions

1. Define the following terms under the Wealth-tax Act, 1957 -
 - (a) Assessment year and valuation date;
 - (b) Net wealth
2. A company incorporated outside India is not liable to wealth tax in India. Discuss.
3. A Cooperative Society formed for the purpose of construction of residential flats for its members acquired a large area of urban land for ₹ 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.
 - (i) What is meant by urban land?
 - (a) Is the action of the Assessing Officer correct?
 - (b) Can the members of the society be assessed on their share in the value of the urban land?
4. Enumerate the entities to which the provisions of the Wealth-tax Act, 1957 do not apply.
5. Discuss the provisions of the Wealth-tax Act, 1957, regarding the inclusion of the wealth of minor child in the assessment of the parent. Enumerate the exceptions to this provision.
6. Under what circumstances can the net wealth of an individual include assets held by others?
7. Discuss the validity of the following proposition, setting forth the reasons for your answer – Wealth tax is not a debt owed on the valuation date and is therefore not deductible from net wealth.
8. In certain circumstances, the procedure for valuation of house property as contained in Rule 3 of schedule III of the Wealth-tax Act, 1957 are not applicable. What are these circumstances? Explain.
9. Explain the procedure for adoption of the value of jewellery for the valuation date 31.3.2014 and subsequent three years, assuming the value of jewellery has been determined by the Valuation Officer as at 31.3.2013.
10. How is the value of interest of a person in a firm of which he is a partner determined under the Wealth-tax Act, 1957?
11. What are the provisions of the Wealth-tax Act, 1957 relating to the valuation of assets of a business?
12. State the rule for determining value of life interest for wealth-tax purposes.