LESSON – 17
WEALTH TAX-I

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STRUCTURE

17.0 INTRODUCTION

The Wealth Tax Act came into force on April 1, 1957 and it extends to whole of India including the State of Jammu and Kashmir. [sec. 1]

Wealth tax is a direct tax, which is charged on the net wealth of the assessee. The unit of wealth tax has been divided into two lessons. In this lesson we shall be studying the chargeability and computation of wealth tax and in the next lesson we will be studying the valuation of assets and provisions relating to filing of return and assessment.

17.1 OBJECTIVE

The primary concern in this unit has been to help you to:

i) Understand the charging of Wealth Tax
ii) Identify the various items of assets included in wealth
iii) Describe the deemed assets, exempted assets, deductible debts
iv) Compute Net Wealth and Wealth Tax

17.2 CHARGEABILITY

The Wealth Tax is charged for every assessment year in respect of the net wealth of the corresponding valuation date of every individual, Hindu Undivided Family, and company, @1% of the amount by which net wealth exceeds Rs.15 lakh. By virtue of section 45, no wealth tax is chargeable in respect of net wealth of the following persons:

a) Any company registered under section 25 of 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

17.3 DEFINITIONS AND CONCEPTS

Following are the important definitions and concepts in wealth tax.

17.3.1 ASSESSMENT YEAR [A.Y.] [Sec2 (d)]

Assessment year means a period of 12 months commencing from 1st day of April every year falling immediately after valuation date
Thus, for the year 2006, A.Y. is from1st April2006 to 31st March 2007.

17.3.2 VALUATION DATE Sec.2 (q)

Valuation date is 31st March immediately preceding the assessment year. Thus, for assessment year 1st April 2006 to 31st March2007 valuation date is 31st March 2006. Valuation date is very important because:
a) It is the tax base for the charge of wealth tax
b) The residential status of an assessee is determined with reference to the year ending on valuation date
c) The value of an asset is determined on valuation date.
d) The wealth as on the last moment of the valuation date is taken to be the net wealth for
Taxation purposes

17.3.3 INCIDENCE OF TAX

Incidence of tax depends on residential status and nationality of the assessee:

	Resident and ordinary resident in India [or resident in case of a company]	Resident but not ordinary resident in India	Non-resident
In case of	Taxable	Taxable	Taxable

a) Individual who is a citizen of India b) Every Hindu Un divided Family c) Company	wealth=(A-B)+(C-D)	wealth=(A-B)	wealth=(A-B)
In case of an individual who is not a citizen of India	Taxable wealth=(A-B)	Taxable wealth=(A-B)	Taxable wealth=(A-B)

Here in
'A' denotes all assets located in India
'B' denotes all debts owed on valuation date which have been incurred in relation to the assets included above
'C' denotes all assets located outside India
'D' denotes all debts owed on valuation date in relation to the assets included above

17.3.4 NET WEALTH

Net Wealth represents the amount by which the total value of all assets including deemed assets but excluding exempt assets, belonging to the assessee on the valuation date exceeds the value of all debts owed by the assessee on the valuation date incurred in relation to the taxable assets.

17.3.5 ASSETS Sec.2 (ea)

The term assets include the followings:
1) Building Sec.2 (ea) (i)
Any building or land appurtenant thereto u/s2 (ea) (i) is treated as an asset and it includes:
a) Commercial building
b) Residential building
c) Any guest house
d) A farmhouse situated within 25 kilometers from the local limits of a local authority
However following buildings are not treated as assets
a) A house meant for residential purposes is allotted by a company to an employee or an officer or a whole time director, having a gross annual salary of less than Rs.5lakhs
b) Any house for residential or commercial purposes, which forms part of stock-in-trade
c) Any house occupied by assessee for the purposes of his own business or profession
d) Any residential property that has been let out for a minimum period of 300days in the previous year

e) Any property in the nature of commercial establishments or complexes

2) Motor Cars Sec.2 (ea) (ii)

Any motorcar is an asset except the following

a) Motor cars used by the assessee in the business of running them on hire

b) Motor cars held as stock- in- trade

3) Jewellery, Bullion, Utensils Of Gold, Silver etc. Sec. 2(ea) (iii)

Jewellery, bullion furniture, utensils or any other article made wholly or partly of gold, silver, platinum, or any other precious metal of any alloy containing one or more of such precious metals are treated as an asset

For this purpose, the term jewellery includes

a) Ornaments made of gold, silver, platinum or any other precious metal of any alloy containing one or more of such precious metals, whether or not containing any precious or semi precious stone, whether or not set in any furniture, utensils, or other articles or worked or sewn into any wearing apparel.

b) Precious or semi precious stones, whether or not set in any furniture, utensils or other articles or worked or sewn into any wearing apparel

However, the term jewelry shall not include the Gold Deposit Bonds issued under Gold Deposit Scheme, 1999 notified by the Central Government

However, if any of the above stated assets are held by the assessee as stock-in-trade, then it is not treated as an asset

4) Yachts, Boats and Aircrafts Sec 2(ea) (iv)

Yachts, boats and aircrafts are treated as “assets” excluding yachts boats and aircrafts used by assessee for commercial purposes.

5) Urban Land Sec 2(ea) (v)

Urban land is treated as an “asset” and urban land means land situated a) in any area which is comprised within the jurisdiction of local authority and which has a population of not less than ten thousand according to the last preceding figures of census of which the relevant figures have been published before the valuation date; or b) is any area within such distance, not being more than 8 kilometer from the local limits of the local authority as the central government may, having regard to the extent, and scope for urbanization of that area and other relevant considerations, specified in this behalf by notification in the official gazette. However land is not treated as “asset” in the following cases:

a) 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;
b) Land occupied by any building which has been constructed with approval of the appropriate authority;
c) Any unused land held by the assessee for industrial purposes for a period of two years from the date of acquisition by him
d) Land held by an assessee as stock-in-trade for a period of 10 years from the date of its acquisition by him.

6) Cash-in-hand Sec 2(ea) (vi)

Following is treated as an "assets":

a) In case of any individual and HUF, cash in hand on the last moment of the valuation date in excess of 50,000 shall be treated as "asset"
b) In case of any other person any amount not recorded in the books of accounts shall be treated as "asset".

Illustration 17.1

ABC Ltd. owns following assets. State whether these assets are chargeable to wealth tax for assessment year 2005-06

a) Stock in trade
b) Residential flats given to employees by the company with annual salary of Rs 3,00,000 each
c) Shares in Indian Companies.
d) Cars used by directors for company's business purpose.
e) Land acquired in 1992 on which construction of building is not permitted.

Solution 17.1

a) Stock in trade is not an asset under section 2 (ea)
b) Since the residential flats have been given to the employees with annual salary of less than Rs. 5,00,000, so these are not to be treated as assets under section 2 (ea) (i)]
c) Shares in Indian companies are not treated as assets under section 2(ea)
d) Since cars are not being used by the assessee for the business of running them on hire or being held as stock-in-trade, hence cars are to be treated as assets under Section [2(ea) (ii)].
e) Since the construction of the building is not permitted on the land hence it is not to be treated as asset under section [2 (ea) (v)]

Illustration 17.2

Discuss whether the following are assets:

a) A residential house property given on rent by X for a period of 320 days.
b) A commercial house property used by Mr. Y for his business purposes.
c) Mr. A was having cash of Rs. 1, 20,000 on 31st March 2006, out of which he deposited Rs. 40,000 in bank on the same day.
d) Aircrafts owned by Sahara Airlines
e) Amount held by Mr. Z in fixed deposits in bank

Solution 17.2

a) Since the residential house or property has been given for rent on more than 300 days in previous year, hence it is not be treated as an asset under section [2 (ea) (i)].
b) Since commercial house or property is being used by assessee for his own business purposes hence it is not be treated as an asset.
c) Since on the last moment of valuation date i.e. 31st March'2006, Mr. A is having cash of Rs 80,000 and out of which Rs. 50,000 is not an asset under section [2 (ea) (vi)], thus remaining Rs 30,000 is taken as an asset.

d) Under section 2 (ea) (iv) aircrafts used by assessee for commercial purposes is not an asset.
e) Amount held by Mr. Z in fixed deposit is not an asset under section 2 (ea).

CHECK YOUR PROGRESS

ACTIVITY A
Define six key words relating to assets forming part of wealth.

17.3.6 DEEMED ASSETS [sec. 4]

Deemed assets represent those assets, which belong to some other person but for the purpose of calculation of wealth tax, these are included in the wealth of the assessee. (transferor), it is because at time an individual may transfer his assets without adequate consideration to persons in whom he may be interested.

Thus to prevent avoidance of wealth tax in this manner, wealth tax Act provides that assets transferred by an individual after 31-03-1956 (in case of Dadra Nagar Havely, Goa, Daman and Diu and Pondicherry on after 01-04-1963) shall be included in the net wealth of the transferor, provided following conditions are satisfied.

(i) The individual must be the owner of these assets.
(ii) The assets must be transferred without adequate consideration in money or money is worth. In case of inadequate consideration, difference between adequate consideration and inadequate consideration shall be included in the net wealth of the transferor.
(iii) The asset must be held by the transferor on the valuation date whether in the same form or in converted form.

If assets have been lost, destroyed, transferred by the transferee to a third party and it is not held by transferee on the valuation date. Then the value of the assets shall not be included in the net wealth of the transferor, further the form of asset has been changed by transfer then value of substituted asset is included in the wealth of transferor if it is taxable u/s 2 (ea).

If the asset transferred by an individual to the spouse without adequate consideration was not an asset u/s 2 (ea) but on the valuation date, it has been substituted by an asset taxable u/s 2 (ea) then value of such asset shall be included in the net wealth of transferor.

DEEMED ASSETS u/s 4 (i) are as follows.

1) Assets transferred to spouse Sec. 4(1) (a) (ii).

If the assessee has transferred an asset to his/her spouse without adequate consideration or in connection with in an agreement to live apart, then value of such asset in included in the wealth of assessee provided their relationship exists both on the date of transfer and on the date of valuation.

2**) Assets held by minor child Sec. 4 (1) (a) (ii)**

The value of assets held by minor child including step child and adopted child, excluding a married daughter, a handicapped child, illegitimate child and grand child of an individual is included in the wealth of a parent.
If marriage of parents subsists, then in the wealth of that parent whose net wealth is more.
If marriage of parents does not subsist, then in the wealth of that parent who maintains the minor child in the previous year.
However there are certain exceptions to it.

(i) Assets acquired by the minor child out of his income arising on account of his manual work or activities involving application of his specialized knowledge and experience shall not be included in the net wealth of a parent.
(ii) Assets held by a disabled minor child shall not be included in the wealth of the parent.

In these cases, net wealth of the child shall be determined separately and assessed in his hands.

3) Assets transferred to a person or to AOP's, Sec. 4 (1) (a) (iii)

If an individual transfers his assets to another person or AOP's without adequate consideration, directly or indirectly, for the immediate or deferred benefit of the individual or his spouse then these assets are included in the wealth of the individual provided their relationship exists on valuation date.

4) Revocable transfer of asset Sec. 4(1) (a) (iv)

Revocable transfer means a transfer which can be revoked at any time by the transferor. Thus, if an individual has transferred any assets to another person or AOP under revocable transfer then value of such assets is included in the wealth of the individual.

5) Assets transferred to son's wife Sec. 4(1) (a) (v)

If an individual transferred an asset to his son's wife directly or indirectly after 31-05-1973 without adequate consideration then the value of such assets is included in the net wealth of the individual.

6) Assets transferred to a person/AOP for the benefit of son's wife Sec. 4(1) (a) (vi)

If an assessee has transferred his asset to another person or AOP directly or indirectly after 31-05-1993 without adequate consideration for the immediate or deferred benefit of his son's wife then value of such assets shall be included in wealth of the individual.

7) Interest in a Firm or AOP Sec. 4(1) (b)

If the assessee is a partner in a firm or a member of an AOP (not being a co-operative housing society), then value of his interest in the assets of firm or association shall be included in his net wealth. Where a Karta of H.U.F. is a partner in a firm, his interest in the firm's assets is includible in the net wealth of the H.U.F.

8) Converted Property Sec. 4(1A)

If an individual who is a member of an HUF converts his individual property after 31-12-1969 into Joint family property either by throwing it into the common stock or by making gifts of separate property or through act of impressing such separate property with the character of property belonging to family without adequate consideration, such properly is called converted property. In this case value of the converted property or any part of it held by the family on valuation date is included in the net wealth of the individual.

However in case the converted property becomes the subject matter of partition among the members, then the part of the property received by the individual and his spouse is includible in his net wealth.

9) Transfer by means of book entry [Sec.4 (5A)]

Where a person makes a gift of money to another person by means of entries in

the books of account maintained by
the donor or an individual or HUF or firm or AOP or body of individuals with which the done has business or other relationship.
Then value of such gift is includible in the net wealth of donor unless the donor satisfies the Assessing officer that the money was actually delivered to the done at the time of making the entries.

10) Impartible Estate Sec. 4(6)

Impartible estate of an H.U.F. is that estate which by special law or custom descend to one member of the family though it is a Joint property belonging equality to all, Value of impartible estate is included in the net wealth of such holder, so far wealth tax purposes. He is the deemed owner of the impartible estate.

11) House from a Co-operative Housing society etc. Sec. 4(7)

If the assessee is a member of a co-operative Housing Society, company or AOP's and he is allotted a building a part thereof or leased under a house building scheme of the society, company or association, as the case may be then he is the deemed owner of that building part thereof and hence value of such building shall be included in his net wealth.

12) Building in part performance of a contract Sec. 4(8) (a)

If a person is allowed to take or retain possession of any building in part performance of a contract of the nature referred u/s 53 A of Transfer of Property Act, 1882 then he is the deemed owner of that building or part thereof and hence value of such building shall be included in his net wealth.

13) Building on lease Sec. 4(8) (b)

If an assessee acquires any right by way of lease with respect to a building by virtue of any transaction to a building by virtue of any transaction referred to in clause (f) of Sec. 269 U A. shall be the deemed owner of the building or part thereof and its value shall be included in his net wealth, however it excludes any right by way of a lease from month to month of for a period not exceeding 1 year.

Illustration 17.3: Explain the taxability of the following in the net wealth computation of Mr. A

a) Gifts of jewellery made to wife Rs 60,000, Market value on valuation date is Rs 2, 00,000.
b) He gifted cash Rs. 2, 00,000 to his son's wife without consideration, which she deposited in bank.
c) Urban land transferred by him to his minor handicapped child

d) A minor son of Mr. A receives income by acting in films. Out of this income, he purchased a Car and a residential house; value of these on valuation date is Rs 50 Lacs.
e) He transferred a house valued at Rs 20 Lacs to his married daughter but he has reserved the right to live in that house for whole life.

Solution 17.3:

a) Since the gift has been made without adequate consideration, hence the value of jewellery on valuation date will be included in wealth of Mr. X.
b) Although the gift has been made without any adequate consideration but as on valuation date it is in form of fixed deposits, which is not an asset under section 2 (ea), hence it is not an asset.
c) Assets held by minor handicapped child are not taxable in the hands of parents, hence the value of urban land is not to be included in wealth of Mr. X, but it is chargeable in hands of the child.
d) The assets acquired by the minor child out of his income arising on account of any manual work done by him or activity involving application of his specialized knowledge or skill is not included in the wealth tax of parents, hence the assets valued at Rs 50 Lacs will be included in the wealth of the child.
e) Mr. A transferred his house to his married daughter. Hence he does not remain the owner of the house on the valuation date, but he has reserved the right to live in that house for whole life, hence it is a revocable transfer u/s 4 (1) (a) (iv) thus value of the house will be included in wealth of Mr. A

17.3.7 Exempt Assets [Sec 5]

The following assets are exempt from wealth tax

1) Property held under trust Sec. 5(i)

Any property held under trust or other legal obligations by the assessee for any public purpose of a charitable or religious nature in India is exempt.

2) Interest in the coparcener property Sec. 5(ii)

if the assessee is a member of H.U.F., he is not liable to pay tax on his share in the joint property, so long as the property remains joint and he continues as the member of that family.

3) One building in the occupation of former Ruler Sec. 5(iii)

any one building which is in the occupation of a Ruler and which has been declared as his official residence by the Central Govt .is totally exempt from tax. However the exemption available only to the Ruler during his life time.

4) Jewellery in possession of a former Rule Sec. 5(iv)

Jewellery in possession of a former Ruler not being his personal property which has been recognized by the Central Govt. as his heirloom, before commencement of Wealth Tax Act or by the board after that shall be exempt. However this exemption is subject to fulfillment of certain conditions like keeping of jewellery in India, in its original shape, allowing authorized person to examine the jewellery as and when necessary

5) Assets of Indian repatriate Sec. 5 (v)

Indian repatriate means a person of Indian origin or a citizen of India who was residing in a foreign country and on leaving such country assessee has returned to India with the intention of permanently residing therein. In this case his following assets shall be exempt for 7 successive assessment years, commencing with the assessment year following the date of his return to India.

(i) Money brought by him in India.
(ii) Assets brought by him in India.
(iii) Any balance in Non-Resident External Accounts in India on the date of his return
(iv) Assets acquired by him out of money in his Non-resident External Account or by sending money from foreign country within 1 year immediately preceding the date of his return to India.
(v) Any assets acquired by him out of money brought in by him in India or out of the balance in NRE account after his arrival in India.

6) House [Sec 5 (vi)]

One house or part of a house or a plot of land belonging to an individual or HUF is exempt provided size of plot is not bigger than 500 square meters.

Illustration 17.4: How would you treat the following items under the wealth tax act?

i) Mr. Gupta is a managing trustee of an educational society. The society is a public charitable trust. The value of trust property is Rs 50 Lacs, which is held by Mr. Gupta in his name as Managing director.
ii) Mr. G, an Indian repatriate came to India on 1st Oct'2005, The balance in his non resident external account is Rs 10 Lacs on that day, out of which he purchased a car for Rs 4 Lacs
iii) Mr. X is a former ruler; his jewellery was recognized by Central Govt. as his heirloom in 1956.
iv) Interest of Mr. Z in the HUF to which he is a member
v) Mr. Shyam owns only one house valued at Rs. 12 Lacs, the house has been build on a land area of 450 sq. meter.

Solution 17.4:

i) Any property held by assessee under trust for any public purposes of charitable nature in India is exempt u/s 5 (I, hence value of trust property is neither includable in the wealth of Mr. Gupta nor the society is liable to pay wealth tax on it.
ii) Balance on Non-resident external account is exempt u/s 5 (v), further Car acquired by him out of that balance is also exempt.

iii) Jewellery in procession of a former ruler that has been recognized as an heirloom by central govt. is exempt u/s 5 (iv).
iv) As Mr. Z is a member of HUF so his interest in family property is totally exempt from tax u/s 5 (ii)
v) Since the land area does not exceed 500 sq. meters. , Thus the value of house is exempt from wealth tax as value of one house is exempt u/s 5 (vi)

CHECK YOUR PROGRESS

ACTIVITY B: State True or False:

i) Motor car held as stock-in-trade is a taxable asset. ------
ii) Investment into shares of a company is non-taxable asset. -----
iii) Assets transferred to a minor child are taxable in the hands of the parents. ----
iv) Property transferred to a trust for the benefit of the spouse is exempt. -----
v) All residential buildings of a former ruler are exempt. ------
vi) The only house owned by the assessee built on the area of 600sq. meters is exempt. ---

17.3.8 DEBT OWED

Debt owed represents an obligation to pay an amount either in present or in future. In the computation of net wealth, from the total of all assets value of debts owed by an assessee is deductible provided following conditions are satisfied

i) Debt is owed by assessee on valuation date
ii) Debt should have been incurred in relation to acquisition or creation of nay asset, which is taxable for Wealth Tax in the hands of assessee.

CHECK YOUR PROGRESS

Activity C
State whether following debts are deductible in the calculation of Net Wealth:
i) Loan taken for the marriage of the daughter.
ii) Loan taken to buy jewellery.
iii) Loan taken to buy shares of a company.

17.4 COMPUTATION OF NET WEALTH AND WEALTH TAX

Procedure for computation of net wealth is as follows:

Computation of Net wealth of the assessee.	**Rupees**

Assets owned by assessee on valuation date including deemed assets and excluding exempt assets	X
Less Deductible debts owed by assessee on the valuation date.	(Y)
Net Wealth	X - Y

Procedure for computation of Wealth tax.

Wealth tax is chargeable @1% of the amount by which net wealth exceeds 15 lac rupees, hence
If net wealth is up to Rs. 15 lac, there will not be any wealth tax.
If net wealth exceeds Rs.15 lac, wealth tax is calculated as:
Wealth Tax = 1% [Net Wealth – Rs 15 Lac]

Illustration 17.5: Mr. Gupta has the following assets and liabilities on the valuation date:

S.N.	Details	Rs.
1	Residential House	40,00,000
2	Cars for personal use	10,00,000
3	Jewellery	16,00,000
4	Aircrafts and boats for personal use	1,30,00,000
5	Farm house 15 Kms away from local limits of Mumbai	12,00,000
6	Cash in hand	2,20,000
7	Shops given on rent	12,00,000
8	Loan taken to purchase aircrafts	50,00,000
9	Loan taken to purchase residential house	22,00,000

Compute Net Wealth and Wealth Tax?

Solution 17.5:

S.N.	Details	Rs.
1	Residential House (exempt u/s 5 (vi))	-
2	Cars for personal use	10,00,000
3	Jewellery	16,00,000
4	Aircrafts and boats for personal use	1,30,00,000
5	Farm house 15 Kms away from local limits of Mumbai	12,00,000
6	Cash in hand (In excess of Rs. 50,000 is an asset)	1,70,000
7	Shops given on rent (Commercial establishment not an asset u/s 2 (ea))	-
8	Less - Loan taken to purchase aircrafts	(50,00,000)
9	Loan taken to purchase residential house (Not deductible since residential house is exempt)	-
	Net Wealth	**1,19,70,000**

Wealth Tax = 1% of [Net Wealth – Rs. 15 lakhs] = 1% (1, 04, 70,000) = **Rs. 1, 04,700**

Illustration17.6: An Indian company has the following assets and liabilities on the valuation date:

S.N.	Details	Amount in Rs.
1	Stock in trade	200000
2	Business premises occupied for own business purposes	3800000
3	Residential houses given to employees [gross salary of each employee is less than Rs 500000]	2200000
4	Residential house for full time director with gross annual salary of Rs 720000	1200000
5	Cars held as stock in trade	1800000
6	Cars for use of officers of the company	1000000
7	Bank Balance	1200000
8	Cash in hand recorded in books	200000
9	Guest House	1500000
10	Loan taken for construction of house	1000000
11	Loan taken for construction of residential houses of employees	1700000

Compute the net wealth and wealth tax of the company?

Solution 17.6: Computation of net wealth and wealth tax of the company:

S.N.	Details	Amount in Rs.
1	Stock in trade [Not an asset u/s 2 (ea)]	-
2	Business premises occupied for own business purposes [Not an asset u/s 2 (ea)]	-
3	Residential houses given to employees [Not an asset u/s 2 (ea) as gross salary of employees is less than Rs 500000]	-
4	Residential house for full time director with gross annual salary of Rs 720000 [Since gross annual salary exceed Rs 500000 hence an asset u/s 2 (ea)]	1200000
5	Cars held as stock in trade [Not an asset u/s 2 (ea)]	-
6	Cars for use of officers of the company	1000000
7	Bank Balance [Not an asset u/s 2 (ea)]	-
8	Cash in hand recorded in books [Not an asset u/s 2 (ea) since its recorded]	-
9	Guest House	1500000
	Less debts owed by the company:	
10	Less - Loan taken for construction of house	(1000000)
11	Less - Loan taken for construction of residential houses of	(1700000)

	employees	
	Net Wealth	**2700000**

Wealth Tax @1% [2700000 – 1500000] = **Rs. 120000**

Illustration17.7: Mr. Monty is in the business of construction and sale of residential flats. From the given information compute the Net Wealth and wealth tax.

S. no.	Details	Amount
1	Land in Rural Area	1500000
2	Land in urban area [construction is not permitted as per municipal laws]	2500000
3	Land in urban area [held as stock in trade since 2000]	4200000
4	Motor Cars [Not held as stock in trade]	1250000
5	Jewellery [Not held as stock in trade]	1500000
6	Bank Balance	800000
7	Cash in hand	150000
8	Flats constructed and remaining unsold [not being held as stock in trade]	4200000
9	Residence provided to 5 employees with one employee's gross annual salary exceeding Rs 500000	2500000
10	Loan taken to acquire land	1200000
11	Loan taken to acquire jewellery	1100000
12	Loan taken for construction of flats	3000000

Solution 17.7: Computation of net wealth and wealth tax of Mr. Monty

Sno	Details	Amount
1	Land in Rural Area [Not an asset u/s 2 (ea)]	-
2	Land in urban area [Not an asset u/s 2 (ea) as construction is not permitted]	-
3	Land in urban area [land held as stock in trade is not taxable for 10 years]	-
4	Motor Cars [Not held as stock in trade]	1250000
5	Jewellery [Not held as stock in trade]	1500000
6	Bank Balance [Not an asset u/s 2 (ea)]	-
7	Cash in hand [In excess of Rs 50000 is taxable u/s 2 (ea)]	100000
8	Flats constructed and remaining unsold [not being held as stock in trade, hence an asset]	4200000
9	Residence provided to 5 employees [Exempt for 4 whose salary less than Rs 500000 taxable for one]	500000
	Total	**7550000**
	Less debts	
10	Loan taken to acquire land (not deductible as land is not	-

	taxable asset)	
11	Loan taken to acquire jewellery	(1100000)
12	Loan taken for construction of flats	(3000000)
	Total	**(4100000)**
	Net Wealth	**3450000**

Wealth tax @1% (3450000 – 1500000) = **Rs 19500**

CHECK YOUR PROGRESS

ACTIVITY D

Mr. Gupta has following assets and liabilities on the valuation date

i)	Gold and Silver	4000000
ii)	Share on Indian companies (not an asset u/s 2(ea))	200000
iii)	Residential houses- A	3000000
iv)	- B	4000000
v)	Commercial building used for own business	5000000
vi)	Jewellary	200000
vii)	Boat	400000
viii)	Cars for personal use	1200000
ix)	Bank Deposits	100000
x)	Cash in Hand	350000
xi)	Loan taken to purchase gold	500000
xii)	Loan taken to purchase houses A	1200000
xiii)	Loan taken to purchase houses B	2500000
xiv)	Loan taken to purchase Boat	300000
xv)	Loan taken to purchase Jewellary (out of which Rs. 300000 used to pay personal expenses)	800000

Calculate his wealth tax?

Solution: Net Wealth=Rs.51Lacs, Wealth Tax=Rs.36, 000.

17.5 LET US SUM UP

Thus the Wealth Tax is charged on six specified assets (excluding exempt assets) minus of deductible debts. However an assessee is not only chargeable in respect of the assets belonging to him on valuation date but also for his deemed assets. Wealth Tax is charged @1%of the amount by which Net Wealth exceeds Rs.15Lacs

17.6 GLOSSARY

1) **Previous Year:** It is a period of 12 months immediately preceding the Assessment Year
2) **Residential Status:** According to Income Tax Act, the residential status of an assessee can be ordinary resident in India, resident but not ordinary resident in India, and Non-Resident in India.

3) **Assessee:** Assessee means a person by whom Wealth Tax or any other sum by way of interest, penalty is payable under this Act.

4) **Hindu Undivided Family [H.U.F.]:** A family governed by Hindu Law is an H.U.F.

17.7 SELF ASSESSMENT EXCERCISE

(1) Write short notes on the following
- (a) Valuation date
- (b) Net Wealth

(2) Incidence of tax depends on residential status and nationality of an assessee, Explain
(3) Define 'assets' under the Wealth Tax Act.
(4) List out "deemed assets"
(5) What items of Wealth are exempt from Wealth Tax?

(6) How would you treat the following under Wealth Tax Act?
(i) Mr. Gupta gifted to his daughter-in-law jewellary worth Rs. 1.0 Lacs. The jewellary is held by her on valuation date and its value on this date is Rs. 5 Lacs.

(ii) Mr. Gupta gifted to his daughter-in-law jewellary in shares of some companies, value of the shares on the valuation date is Rs. 3 Lacs.

(iii) Mr. Romy gifted a piece of land to his daughter in law after obtaining approval of the authorities constructed 5 shops as at and let out the same. The value of shops on valuation date is Rs. 50 Lacs.

(iv) Mr. Kumar formed a trust for the benefit of his wife and transferred his urban land valued at Rs. 20 Lacs to the trust. Income of the land will be available to his wife through out her whole life.

Hints

(i) The asset transferred to daughter-in-law without adequate consideration is deemed to be the assets of the transferor

(ii) & (iii) The asset transferred to daughter-in-law without adequate consideration is deemed to be the asset of the transferor provided it is in the form of taxable asset.

(iii) Property held under trust for the benefit of one's spouse is assessable in the hands of the transferor

(7) Mr. Singh has following assets and liabilities on the valuation date

1.	Gold and Silver	2000000
2.	Share on Indian companies (not an asset u/s 2(ea))	200000
3.	Residential houses - A	3000000
	- B	4000000
4.	Commercial building used for own business	5000000
5.	Jewellary	1200000
6.	Boat	500000
7.	Cars for personal use	1200000
8.	Bank Deposits	500000
9.	Cash in Hand	350000
10.	Loan taken to purchase gold	500000
11.	Loan taken to purchase houses A	1200000
12.	Loan taken to purchase houses B	2500000
13.	Loan taken to purchase Boat	300000
14.	Loan taken to purchase Jewellary (out of which Rs. 300000 used to pay personal expenses)	800000

Calculate his wealth tax?

ANSWER

Net Wealth=Rs.51Lacs, Wealth Tax=Rs.36000

(8) From the following particulars of Mr. Sharma on the valuation date, calculate his Net Wealth and Wealth Tax Liability-

		Rs.
i)	Agricultural land in Delhi	120000
ii)	Agricultural land in village/ a place on the 8 km, From municipal limits of Delhi	200000
iii)	Farm house at a distance of 6 km from Delhi 900000	
iv)	Crop on agricultural land 500000	
v)	Cars 250000	
vi)	Tools for agricultural 200000	
vii)	Jewellery 1500000	

viii)	Interest in HUF	300000
ix)	Cash in hand	30000
x)	Shares on Indian companies	500000
xi)	Units of UTI	300000
xii)	Loan for agricultural land	100000
xiii)	Income Tax liability	20000
xiv)	Wealth Tax Liability	12000

ANSWER: Net Wealth=Rs.17, 50,000. Wealth Tax=Rs.2, 500.

17.8FURTHER READINGS AND SOURCES

1) Dr. S .P.Goyal, *Direct tax planning and management,* Sahitya Bhavan Publications, latest edition.
2) Dr.V.K.Singhania *Students guide to direct taxes,* Taxmann Publications Pvt. Ltd., latest edition.
3) Dr.V.K.Singhania, *Direct tax planning and management,* Taxmann Publications Pvt. Ltd., latest edition.