LESSON – 18
WEALTH - II

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STRUCTURE

18.0 INTRODUCTION

In the last lesson we have studied the chargeability of the wealth tax and its calculation. In this lesson we shall be studying the relevant provisions relating to the valuation of the assets for the purposes of calculation of net wealth and the assessment procedures.

18.1 OBJECTIVE

The primary concern in this unit has been to help you to:
i) Understand the valuation of various assets
ii)) Enumerate provisions relating to the filing of the return and assessment

18.2 VALUATION OF ASSETS

In order to determine net wealth and wealth tax of an assessee, asset's value should be determined as on valuation date as per the manner given in schedule III

18.2.1 VALUATION OF A BUILDING

[Schedule 3, Part B]

Value of an immovable property i.e. a building or land apartment thereto or a part thereof is to be determined according to Part B of schedule III of wealth tax act. The procedure of valuation is:

Step 1 Calculation of GMR [Gross Maintainable Rent]

GMR is calculated as

i) Where property is not let out: GMR means amount of annual rent assessed by the local authority or if property is not situated within local limits of a local authority then GMR is the amount which the owner can reasonably be expected to receive as an annual rent.

ii) Where the property is let out, GMR is higher of the annual rent whether received or receivable by owner or annual value assessed by the local authority. Annual rent is the sum of actual rent and certain specified adjustments. Actual rent is defined as

a) Actual rent received or receivable by owner in respect of such year if property is let out through out the period of 12 months during the previous year.
b) Actual rent received or receivable proportionately where the property is let out for only the part of previous year

Illustration 18.1: A house or property is let out for a period of 6 months for Rs 1000 p.m and 4 months for Rs 1200 p.m and it remain vacant for 2 months.
So the actual rent received for 10 months = 6 * 1000 + 4 * 1200 = 10800
Thus rent for full year = 10800/10 * 12 = 12960
Further amount of actual rent is to be increased for the following adjustments to calculate annual rent:

i) Municipal taxes borne by tenant
ii) 1/9 of actual rent if tenant bear the repair expenses
iii) Interest @15% p.a. on the amount of deposit (calculate outstanding amount on monthly basis) made by tenant provided deposit in not in nature of advance rent for 3 months or less
iv) Amount received as premium or otherwise for leasing the property as divided by the period of lease
v) Any other payment for the use of the property by whatever name called the value of benefits or perquisites, whether convertible to money or not, obtained from tenant in respect of any obligation of owner.

Step 2 Calculation of NMR [Net Maintainable Rent]

GMR= X
Less a) Taxes levied by local authority whether paid or not
b) 15% GMR to cover other expenses =Y
NMR =(X-Y)

Step 3 Calculation of capitalized value of NMR

i) When property is built on freehold land = NMR * 12.5

ii) When property is built on leasehold land and unexpired period of lease is 50 years or more = NMR * 10

iii) When property is built on leasehold land and unexpired period of lease is less than 50 years = NMR * 8

Step 4 Calculation of value of building under Rule 3

i) When property is acquired or constructed before 31st March 1974
Value under rule 3 = capitalised value of NMR

ii) When property is acquired or constructed after 31st March 1974
Value under rule 3 = higher of capitalised value of NMR or cost of acquisition/construction plus cost of any improvement.

Step 5 Calculation of value of building for calculation of net wealth

Value under rule 3 = A
Add adjustment for the unbuilt area = B

Less amount of unearned increase [in case of leasehold land property] = C
[Least of specified % of unearned increase
Or 50% of value after adjustment for un built area]

Value of the house =A+B-C

Explanation

i) Adjustment for un built area
Wherein the un built area of property exceeds the specified area, the value as calculated under rule 3 shall be increased by the amount calculated as:
D = difference between un built area and specified area

D = difference between un built area and specified area	Addition to value under Rule 3
D <= 5%	No adjustment
10% >= D >= 5%	20% of value under Rule 3
15% >= D >= 10%	30%
20% >= D>= 15%	40%

Herein specified area is area as specified under wealth tax act.

ii) Unearned increase means difference between value of land on valuation date as determined by govt. or such authority for purposes of calculation of such increase and the amount of premium actually paid/payable to Govt. /local authority for the lease of land.

Exception: In some cases the valuation of property shall not be computed according to the provisions of rule 3, these cases are:

i) Where the accessing officer, with the previous approval of the joint commission is of the opinion that it is not practicable to apply this rule to a case having regard to the facts and circumstances of the case.

ii) Where the difference between the unbuilt area and specified area exceeds 20% of the aggregate area.

iii) Where the property is built in leasehold land and unexpired period of lease does not exceed 15 years from relevant valuation date and the deed of lease does not provide an option to lessee for the renewal of lease.

CHECK YOUR PROGRESS

ACTIVITY A:

Arrange the following in a suitable order:
Capitalization of NMR, adjustment for unearned increase, calculation of GMR, calculation of NMR, adjustment for un-built area.

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Illustration 18.2: Mr. A owns a house built on a lease hold kind (unexpired period of lease is 60 years) in Mumbai which is let out to a tenant for Rs. 1200 p.m. other terms one
Tenant pays all repair expenses
Tenant has paid Rs. 300000 in advance refundable at the time of vacating the house.
Tenant has paid Rs. 100000 on premium for taking sub-lease of property for 5 years.
The annual value assessed by local authority is Rs. 240000 and municipal tax is 20000. The tenant spent Rs. 15,000 on repairs of the house, difference between specified area and unbuilt area is 4 %. Compute value of house assuming.

Cost of acquisition is Rs. 10, 00,000

Solution 18.2
Valuation of house

Step 1 Calculation of GMR

GMR = higher of annual rent or annual value

(i) Annual value = Rs. 2, 40,000

(ii) Calculation of annual rent

Rent of the year = Rs. 12000 x 12 = 1, 44,000
Repair borne by tenant (1/9 x 1, 44,000) = 16,000
Interest on advance (15% 300000) = 45,000

Premium paid (1/2 x 100000) = 20,000

Annual rent 225000

Thus GMR = higher of Rs. 240000 of Rs. 225000

= Rs. 240000

Step 2 Calculation of NMR

GMR = Rs.240000

Less Municipal Tax Rs. 20000

15% repair of GMR for Rs. 36000 (Rs. 56000)

NMR = Rs.184000

Step 3 Calculation of Value under Rule 3

Capitalised Value of NMR = NMR X10

Rs.184000 X 100

Rs.1840000

Value of House = Higher of actual cost of acquisition or capitalised value of NMR.

= Higher of Rs 10 Lac. or Rs.1840000

= Rs.1840000

Step4 Value under Rule 3 = Rs.1840000

Adjustment for unbuilt area = NIL--------

Value of house Rs.1840000

Illustration 18.3: A Ltd. is the owner of a house, which is constructed on a leasehold land. Unexpired period of lease is 40 years. It has been let out this house to X for Rs.21000 p.m, other terms one.

(i) X is to pay 3/4th of municipal taxes and bear the cost of repairs.

(ii) X paid interest free advance of Rs. 1 lac. refundable at the time of vacating the house.

The annual value assessed by local authority is Rs. 2 Lacs and taxes levied are Rs. 24000, X spent Rs. 10000 on the repairs of the house.

The difference between the 'unbuilt area' and 'specified area' is 8% of the aggregate area. Find value of house assuming cost of the building including land was Rs. 1200000. A Ltd. had paid Rs. 5 lakh to DDA for lease of land but now value of land is Rs.5 lakh, DDA charges 50% of un-earned increase on transfer of house.

Solution 18.3

Valuation of House

Step 1 Computation of GMR

GMR= Higher of annual rent/annual value
Calculation of annual rent

Repairs (1/9 of actual rent)	=	28000
Interest on advance (15% X Rs.1 lac)	=	15000
Municipal taxes borne by tenant (3/4 X 24000	=	18000
Annual Rent	=	313000

Annual Value assessed by local authority = Rs.200000
Thus GMR = Rs. 313000

Step 2 Computation of NMR

			Rs.
GMR			313000
Less municipal taxes Rs.24000			
15% of GMR	Rs.46950	=	70950
NMR			242050

Step 3 Calculation of Value under Rule 3

		Rs.
Capitalized value of NMR 242050 X8 =		1736400
Actual cost of construction	=	1200000
Value under rule 3 = Higher of above two	=	1736400

Step 4 Calculation of value of house for wealth tax

Value under rule 3	=	1736400
Add adjustment for unbuilt Area 20% of value		347280
		2083680
Less amount of unearned increase 50% (1500000-500000) or 50% (2083680) Whichever is less	=	(500000)
Value of house	=	1583680

CHECK YOUR PROGRESS

ACTIVITY B: Mr. Mahesh is the owner of a house which is constructed on freehold land. He has let out this house to a tenant for Rs.5800 p.m., The other terms are as under:-

(i) Tenant will pay 3/4th the municipal taxes and bear the cost of repair
(ii) He will pay Rs.50, 000 as interest free deposit.

The annual value as assessed by the local authority is Rs.100, 000 and taxes levied Rs. 12,000. Tenant spent Rs.16000 on the repairs of the hose. The difference between un-built and specified area is 8% of the aggregate area. Find out the value of the house for wealth tax purposes if cost of building including land in 1980 was Rs. 500000.

ANSWER Value of the house=Rs.8, 76,000

18.2.2 VALUATION OF SELF-RESIDENTIAL HOUSE.

[Sec.7 (2)]

The value of one self occupied house belonging to the assessee and exclusively used him for residential purposes is determined as:

i) House acquired/constructed before 1.4.1971: Value determine under rule 3 as on 31.3.1971 shall be the value of the house for all coming assessment years.

ii) House acquired/constructed between 1.4.1971 and 31.3.1974: Value determined under rule 3 as on the valuation date immediately following the date on which assessee became the owner shall be the value of house for all coming assessment years.

iii) House acquired/constructed after 31.3.1974

a) Where the cost of the acquired/constructed house including the cost of improvement does not exceed Rs 50 lac, if house is located in Mumbai, Kolkata, Chennai or Delhi [Rs 25 lac for any other place], the value as determined under rule 3 as on the valuation date immediately following the date on which the assessee became the owner shall be the value of the house for all coming assessment years.

b) Where the cost of the acquisition/construction including the cost of improvement exceeds Rs 50 lac, if house is located in Mumbai, Kolkata, Chennai or Delhi [Rs 25 lac for any other place], the higher of the value as determined under rule 3 on the valuation date immediately following the date on which the assessee became the owner or cost of acquisition/construction including cost of improvement shall be the value of the house for all coming assessment years.

Illustration 18.4: Mr. X is having a residential house in Pune which he was exclusively for his own residential purposes; he had acquired the house in 1969-70 for Rs 200000. its value as per rule 3 as on 31.3.1971 is Rs 400000 and on 31.2.2006 as per rule 3 is Rs 500000

Solution 18.4: Since the residential house was acquired before 1.4.1971 so its value is as on 31.3.1971 thus value of house is Rs 400000

Illustration 18.5: Mr. Y is in Mumbai. He acquired a house in 1980-81 for Rs 1200000. Value as on 31.3.1981 is Rs 980000 and as on 31.3.2006 is Rs 1240000.

Solution 18.5: Since the self-residential house was acquired after 31.3.1974 and cost of acquired plus improvement does not exceed Rs 50 lac. Thus the value of the house shall be determined under rule 3 as on the valuation date immediately following after 31.3.1981, thus the value of the house is Rs 980000.

CHECK YOUR PROGRESS

ACTIVITY C: Mr. M is in Delhi and acquired a house in 1991-92 for Rs 6200000, value as on 31.3.1992 is Rs 5700000 and as on 31.3.2006 is Rs 6900000
Hint: Since the self-residential house was acquired after 31.3.1974 and cost of acquired plus improvement does not exceed Rs 50 lac. Thus the value of the house shall be higher of value as on 31.3.1992(valuation date immediately after the date of acquisition) or actual cost of acquisition plus improvement.

18.2.3VALUATION OF BUSINESS ASSETS

[Schedule III Part D]

In case the assessee is carrying on a business for which accounts are maintained by him regularly, the net value of the assets of the business as a whole, having regard to the balance sheet of such business on the valuation date is taken as value of such assets after making final adjustments.

a) Assets disclosed on balance sheet

Asset	Value to be taken
i) Depreciable assets	Written down value
ii) Non depreciable asset excluding stock in trade	Book value
iii) Closing Stock	Value as calculated for IT purposes

b) Asset not disclosed in balance sheet: Value as determined with provisions of schedule III as applicable to the asset

Further valuation of business assets following assets shall not be considered.

i) Advance IT paid under the IT act.
ii) The debt due to the assessee as per balance sheet which has been allowed as a deduction under provisions of II act for relevant assessment year.
iii) Value of any asset exempt from wealth tax.
iv) P & L A/c debit balance any other amount shown in balance sheet which does not represent the value on any asset
v) Non-business assets

Further following liabilities are not to be deducted to calculate the net value of business assets:

i) Capital employed in business other than borrowed money
ii) Reserve by whatever name called.
iii) Any provisions made for meeting any future or contingent liability.

iv) Any liability shown in balance sheet which has been specifically utilized for acquiring exempt assets

v) Non-business liability

However business liabilities not shown under balance sheet are deductible

18.2.4 VALUATION OF INTEREST IN FIRM OR AOP

[Schedule III Part E]

Procedure for valuation of interest of partner (members) in firm or AOP is as:

i) Complete the net wealth of firm AOP in the valuation date without considering the exemption given u/s 5 [exempt assets]

ii) Divide the net wealth of firm/AOP among partners/member

- Up to the amount of capital employed in firm in the ratio of capital
- Residual net wealth in the rate in which partner/ members have agreed to distribute assets of firm in the event of dissolution of firm/AOP or in profit sharing ratio in the absence of such agreement.

Thus individual partners/ members of firm/AOP are liability to pay tax on their wealth as well as on the interest in firm/AOP; however in their individual capacity they can claim exemption u/s 5.

18.2.5 VALUATION OF LIFE INTEREST

[Schedule III Part F]

Value of life interest can be calculated by multiplying the annual income that accrues to the assessee from life interest by the value shown in the appendix attached to the schedule III

However the value so calculated shall not exceed the value of corpus as on the valuation date else value of corpus shall be the value of life interest.

18.2.6VALUATION OF JEWELLERY

[Schedule III Part G]

The value of the jewellery shall be estimated to be the price it would fetch if sold in open market on the valuation date, further the return of net wealth as furnished by assessee must be supported by:

i) A statement in the prescribed form (MOSA) where the value of the jewellery on the valuation dates does not exceed Rs. 5 Lac.

ii) A report of a registered valuer in the prescribed form, where the value of jewellery on the valuation dates exceeds Rs. 5 Lac.

However in the following cases, the assessing officer may refer the valuation of jewellery to a valuation officer

i) Where he value is estimated by a registered valuer and the AO is of the opinion that value so estimated is less than its fair market value

ii) In any other case if AO is of the opinion that the fair value of the asset exceeds the value of the asset returned by 1/3rd the value of the asset as returned or more than Rs 50000.

When the valuation is referred to the valuation officer, the fair market value of jewellery as determined by the valuation officer will be the value of the jewellery. The value so determined shall be taken to be the value of such jewellery for subsequent 4 assessment years subject to the adjustments of change in market value of gold/ silver/ alloy on the valuation date relevant to the assessment year and for the purchase/sale of jewellery during the assessment years

18.2.7 VALUATION OF OTHER ASSETS

[Schedule III Part H]

Other assets shall be valued as:

(i) The value of the assets except cash being an asset not covered by part B to G shall be estimated either by AO himself or by V.O., if a reference is made to him. The value shall be estimated to be the price that it would fetch if sold in open market, on the valuation date.

(ii) If asset is not saleable in open market, then its value shall be determined in accordance with such guidelines or principals as may be specified by the board from time to time by general or special order.

18.2.8 VALUATION BY VALUATION OFFICER

Sec.16A

For the valuation of jewellery and other assets the AO may refer the valuation to a V.O. in following cases

a) AO is of the opinion that the fair value of the asset exceeds the value of the asset returned by 1/3rd the value of the asset as returned or more than Rs 50000.

b) That having regard to the nature of the asset and other circumstances, it is necessary once reference is made to V.O.

V.O. will estimate the price of the asset which in his opinion, the asset would fetch if sold on open market on the valuation date and in this case value as estimated by V.O. on value shown by the assessee in his return, which ever is higher shall be the value of asset for wealth tax purposes

CHECK YOUR PROGRESS

ACTIVITY D

Can you enumerate the cases when valuation of jewellery is referred to a valuation officer?

18.3 PROCEDURE FOR ASSESSMENT

Provisions relating to assessment can be enumerated as:

18.3.1 WEALTH TAX RETURN (VOLUNTARY /REVISED)

It is a statutory obligation of every person if his net wealth on the valuation date exceeds Rs. 15 Lacs to furnish a return in the prescribed form (Form BA) with the Wealth Tax offices on or before the due date.

If any person has not furnished the return on/before the due date or with in the time allowed under a notice to furnish return of net wealth or after furnishing the return, discovered any omission or wrong statement therein, he may furnish a return or a revised return at any time before the expiry of one year from the end of relevant AY or before assessment is made whichever is earlier,

18.3.2 ASSESSMENT

Where wealth tax is payable on the bases of return to be furnished, the assessee is required to pay the tax before filling of return and such return is to be accompanied by the proof of such payment.

18.3.3 DUE DATES FOR FILING THE RETURN

Due dates for filing of the return are

ASSESSEE	DUE DATES
a) Assessee is a company	31st October of relevant A.Y.
b) Assessee is other than a company	
i) Accounts are required to be audited. Under Income Tax Act or any other law.	31st October of relevant A.Y.
ii) Person is required to file the return of income on the basis of economic criterion.	31st October of relevant A.Y.
iii) in any other case	31st July of relevant A.Y.

18.3.4 SIGNING OF THE RETURN

The Wealth Tax Return shall be signed and verified by

(i) In case of an individual
  (a) by individual concerned
  (b) by some person duly authorized by him holding a valid power or attorney in case the individual concerned is absent from India.
  (c) By his guardian or any person competent to act on his behalf. If the individual is mentally incapacitated from attending his affairs.
  (d) By some duly authorized person holding a rapid power or attorney if it is not possible for individual to sign the return due to any reason.

(ii) in case of an HUF
  (a) The Karta
  (b) If Karta is absent form India or is mentally incapacitated from attending the affairs, by any other adult member of the family

(iii) In case of a company
  (a) By managing director or any other director if managing director is not able to sign due to unavoidable reasons
  (b) if company is not resident in India, by a person holding valid power of attorney from such company to do so.
  (c) By the liquidator of the company if the company is being wound up
  (d) By principal officer if the management of the company has been taken over by Central Govt. or any state Govt. under any law.

18.4 LET US SUM UP

Thus the Wealth Tax is charged on six specified assets (excluding exempt assets, including deemed assets) minus of deductible debts. Assets are valued according to the rules given in schedule III for the purposes of calculation of net wealth... Wealth Tax is charged @1%of the amount by which Net Wealth exceeds Rs.15Lacs.Then the assessee is required to furnish his Wealth Tax return duly signed by him, in the prescribed form on or before the due date.

18.5 GLOSSARY

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

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

18.6 SELF ASSESSMENT EXCERCISE

(1) Discuss valuation of assets by valuation Officer.

(2) What is the procedure followed in valuing the jewellery for Wealth Tax purposes?

(3)Enumerate the steps involved in valuation of a house.

(4) Mr. Dev constructed a house in 2000 on a freehold land owned by him in Calcutta. The cost of the house is Rs.2000000, Annual value assessed by local authority is Rs.120000. Mr. Dev has let the house to a bank at Rs. 15000 p.m., other terms are

(i) Repair expenses are to be borne by bank.
(ii) Municipal taxes Rs.40000 are to be paid by bank.
(iii) Bank paid deposit of Rs. 400000 to Mr. Dev; Mr. Dev pays interest to bank at the rate of 10% p.a.

Calculate value of house assuming difference between unbuilt area and specified area is 9% of aggregate area.

ANSWER: Value of house=Rs.26, 17,800.

(5) Mr. Z acquired a house in Bombay for Rs.20, 00,000 in 1978. It is let out @ Rs.1, 50,000 p.m. The annual value as per municipal records is Rs. 1, 50,000. Local taxes are partly borne by the owner Rs.5000 and partly by the tenant Rs.10, 000. Repair expenses Rs.6, 000 one borne fully by tenant. Difference between unbuilt area and specified area is 18% of aggregate area. The tenant has paid Rs. 2, 00000 to Mr. Z as interest free deposit. The house is built in a leasehold land and unexpired period of lease is 72 years, Calculate value of house.

ANSWER Value of the house=Rs.28, 00,000.

(6) Actual rent of a building situate at Pune is Rs. 1, 00,000 p.m. The tenant has paid Rs.20, 000 as local taxes out of total of Rs.30, 000 taxes. Annual value as assessee by authority is 7, 50,000. The owner has accepted a deposit of Rs.12 Lacs without interest compute value of house under Rule 3 assuming.

(i) It is on freehold land and it was acquired for Rs.1200000 in 1970.
(ii) It is on freehold land and it was acquired for Rs. 2000000 in 1980.
(iii) It is on lease hold land with unexpired lease period of 82 years and entire cost of acquisition and construction is Rs.20, 00,000 in 1985.

ANSWER (i) value of house=Rs.28, 12,500.
(ii) Value of house=Rs.28, 12,500.
(iii) Value of the house=Rs.22, 50,000.

(7) Mr. Gupta is the owner of a house, which is constructed on freehold land. He has let out this house to a tenant for Rs.6000 p.m., The other terms are as under:-

(i) Tenant will pay ½ the municipal taxes and bear the cost of repair
(ii) He will pay Rs.50, 000 as interest free deposit.

The annual value as assessed by the local authority is Rs.100, 000 and taxes levied Rs. 12,000. Tenant spent Rs.6000 on the repairs of the hose. The difference between unbuilt and specified area is 12% of the aggregate area. Find out the value of the house for wealth tax purposes if cost of building including land in 1980 was Rs. 500000.

ANSWER: Value of the house=Rs.9, 49,000.

18.7 FURTHER 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.