

**(8) Net wealth:**

**[Section 2(m)]**

Net wealth means the aggregate value of all the chargeable assets [specified in section 2(ea), refer item (7) on page 263], wherever located, belonging to the assessee on the valuation date including assets which are to be included in his net wealth under section 4 as diminished by the aggregate value of all the debts owed by the assessee on the valuation date which have been incurred in relation to the assets specified in section 2(ea).

However, wealth-tax liability<sup>6</sup> on the aforesaid assets will not be deductible as a debt for arriving at the net wealth u/s. 2(m).

**(9) Incidence of tax on the basis of citizenship and residential status:**

A. *In the case of an assessee who is a citizen of India*, the tax liability will be as under:

(i) If he is "resident and ordinarily resident", he will be chargeable to tax in respect of—

- (a) the value of the assets and debts located in India, and
- (b) the value of the assets and debts located outside India.

(ii) If he is "resident but not ordinarily resident" or "non-resident", he will be chargeable to tax in respect of the value of all assets and debts located in India except the value of assets in respect of which interest is not to be included in total income under section 10 of the Income-tax Act. The value of assets and debts located outside India is exempt in his case under section 6 of the Wealth-tax Act.

B. *In the case of an assessee who is not a citizen of India*, the tax liability will be as under:

If he is "resident and ordinarily resident" or "resident but not ordinarily resident" or "non-resident", he will be chargeable to tax on net wealth located in India except the assets in respect of which interest is not to be included in total income under section 10 of the Income-tax Act. The value of assets and debts located outside India is exempt in his case under section 6 of the Wealth-tax Act.

**(10) Valuation of assets:**

**[Section 7]**

Value of any asset, other than cash, belonging to the assessee, shall be its value as on the valuation date determined in the manner laid down in Schedule III to the Wealth-tax Act and not under the Wealth-tax Rules. This Schedule contains 21 Rules for determining the value of assets as stated hereunder:

PART	RULE	VALUATION IN RESPECT OF:	FOR TEXT OF THE RULE
A	1 & 2	Applicability of rules & definitions	Refer page 251 of ITRR 1998-99.
B	3 to 8	Immovable property	Refer page 252-253 of ITRR 1998-99.
C <sup>7</sup>	9 to 13 <sup>7</sup>	Shares in, or debentures of, companies <sup>7</sup>	Refer page 202-204 of ITRR 1992-93.
D	14	Assets of business as a whole	Refer page 253 of ITRR 1998-99.
E	15 & 16	Interest in firm/AOP of partner/member	Refer page 254 of ITRR 1998-99.
F	17	Life interest	Refer page 255 of ITRR 1998-99.
G	18 & 19	Jewellery	Refer page 255 of ITRR 1998-99.
H	20 & 21	Assets other than the assets stated above	Refer page 255 of ITRR 1998-99.

Any provision made in the trust deed giving right to the beneficiary or any other person to acquire or purchase any property of the trust at a stipulated price under the terms of the trust deed or restrictive covenant in any instrument of transfer is to be ignored for the purposes of determining the market price of such property as on the valuation date. Thus, the restrictive clauses in the trust deed or in the instrument of transfer will be disregarded for the purpose of determining the market value of such property chargeable to wealth-tax [Rule 21 of the Schedule III].

**(a) Valuation of immovable property:**

(Rules 3 to 8 of Part B of Schedule III)

Valuation of any immovable property for the purpose of section 7(1) of the Wealth-tax Act, 1957 is to be made in accordance with the provisions contained in Rules 3 to 8 of Schedule III. These rules apply to any immovable property whether it is residential or not.

6. The liability under the Wealth-tax Act is not a debt owed by the assessee incurred in relation to the assets taxable under the Wealth-tax Act. Therefore, no deduction is to be allowed for wealth-tax liability in the computation of the taxable net wealth from assessment year 1993-94 and onwards [Circular No. 663, dt. 28-9-1993: 203 ITR (St.) 134].

7. Part C of Schedule III omitted w.e.f. 1-4-1993 (assessment year 1993-94 and onwards) consequential to exclusion of shares and debentures from levy of wealth-tax, vide section 2(ea), refer item (7) on page 263.

## DEFINITIONS:

(1) **"Gross maintainable rent"** means:

(a) where the property is not let, the amount of annual rent assessed by the local authority for the purposes of levy of property tax or any other tax. If there is no such assessment or the property is situated outside the area of any local authority, the amount which the owner can reasonably be expected to receive as annual rent had such property been let;

~~(b) where the property is let, the amount received or receivable as annual rent or the annual value assessed by the local authority for the purposes of levy of property tax or any other tax, whichever is higher.~~

**"Annual rent"** means the actual rent received or receivable<sup>8</sup> by the owner throughout the previous year. However, in cases where the property is partly let-out and partly vacant during the previous year, the annual rent means the amount which bears the same proportion to the amount of the actual rent received or receivable by the owner for which the property is let, as the period of 12 months bears to the number of months (including part of a month) during which the property is let.

*EXAMPLE 1:* Mr. A receives Rs. 9,000 as rent of a residential house for a period of 9 months. The house was vacant for 3 months. The annual rent is to be adopted at Rs. 12,000 [Rs. 9,000 × 12 (months) ÷ 9 (months)].

Further, such actual rent is to be increased by—

- (i) the amount of municipal taxes, if borne by the tenant;
- (ii) 1/9th of the actual rent, if expenditure on repairs is borne by the tenant;
- (iii) the amount calculated @ 15% p.a. on the amount of deposit (not being advance rent for 3 months or less) outstanding from month to month, for the number of months (excluding part of a month). However, if the owner pays interest to the tenant on deposit so taken, the increase to be made to the actual rent as above should be limited to the sum by which the amount calculated aforesaid exceeds the interest.

*EXAMPLE 2:* Mr. A let out his property to Mr. B from 1-4-2004 for a period of 3 years @ Rs. 36,000 p.a. The annual value of the property assessed by a local authority is Rs. 30,000. Mr. A has taken on the said date a deposit of Rs. 1,20,000 to be adjusted at the end of the period. Mr. A pays interest to Mr. B @ 6% p.a. i.e., Rs. 7,200 p.a. Mr. B bears repairs expenses and also municipal taxes amounting to Rs. 8,000. Annual rent will be:

Actual rent for the year <sup>9</sup> (gross maintainable rent)	Rs.	36,000
Add: Municipal taxes borne by Mr. B	Rs.	8,000
For repairs expenses borne by Mr. B: 1/9th of actual rent	Rs.	4,000
Interest @ 15% p.a. on deposit of Rs. 1,20,000	Rs.	18,000
Less: Interest paid to Mr. B @ 6% p.a. on Rs. 1,20,000	Rs.	7,200
	Rs.	10,800
	Rs.	22,800
Annual rent	Rs.	58,800

(iv) where the owner has received any amount by way of premium or otherwise as consideration for leasing or any modification of the terms of the lease, the amount obtained by dividing the premium or other amount by the number of years of the period of lease.

*EXAMPLE 3:* If in the *Example 2* above, if Mr. A had taken Rs. 1,20,000 as premium for leasing for a period of 20 years, instead of deposit, the annual rent will be Rs. 54,000 [Rs. 36,000 + Rs. 8,000 + Rs. 4,000 + Rs. 6,000 (Rs. 1,20,000 premium ÷ 20 years, being number of years of the lease period)].

(v) where the owner derives any benefit or perquisite, whether convertible into money or not, as consideration of leasing or any modification of the terms of the lease, the value of such benefit or perquisite should be added to the actual rent.

(2) **"Net maintainable rent"** means the amount of gross maintainable rent as reduced by—

(i) ~~the amount of taxes levied by any local authority in respect of the property, e.g. municipal taxes~~ and

~~(ii) a sum equal to 15% of the gross maintainable rent~~

<i>EXAMPLE 4:</i> Gross maintainable rent in the manner worked out in item (1) above is, say.	Rs.	60,000
Less: Municipal taxes levied by local authority	Rs.	10,000
15% of Rs. 60,000 (gross maintainable rent)	Rs.	9,000
Net maintainable rent	Rs.	41,000

(3) **"Aggregate area"** means the aggregate area in relation to the plot of land on which the property is constructed and the unbuilt area.

8. Rent received or receivable shall include all payments for user of property, value of all benefits or perquisites, whether convertible into money or not, obtained from a tenant or occupier of the property and also any sum paid by such a tenant or occupier in respect of any obligation which would have been payable by the owner.

9. As the actual rent received (Rs. 36,000) is more than annual value (Rs. 30,000), actual rent (Rs. 36,000) is to be taken.

(4) "Specified area", in relation to the plot of land on which the property is constructed, means:

(a) where the property is situate at Bombay, Calcutta, Delhi or Madras, sixty per cent. of the aggregate area;

(b) where the property is situate at Agra, Ahmedabad, Allahabad, Amritsar, Bangalore, Bhopal, Cochin, Hyderabad, Indore, Jabalpur, Jamshedpur, Kanpur, Lucknow, Ludhiana, Madurai, Nagpur, Patna, Pune, Salem, Sholapur, Srinagar, Surat, Tiruchirapalli, Trivandrum, Vadodara (Baroda) or Varanasi (Banaras), sixty-five per cent. of the aggregate area;

(c) where the property is situate at any other place, seventy per cent. of the aggregate area:

Provided that where under any law for the time being in force, the minimum area of the plot of land required to be kept as open space for the enjoyment of the property exceeds the specified area, such minimum area shall be deemed to be the specified area.

(5) "Unbuilt area", in relation to the aggregate area of the plot of land on which the property is constructed, means that part of such aggregate area on which no building has been erected.

**CAPITALISATION OF NET MAINTAINABLE RENT:**

**[Refer Rule 3 of the Schedule III]**

The value of any immovable property, being a building or land appurtenant thereto, or part thereof, for inclusion in the net wealth is to be arrived at as under:

Where the property is constructed on:

(a) Free hold land	.. .. .	Net maintainable rent × 12.5
(b) Leasehold land and where the unexpired period of lease of such land is:		
(1) 50 years or more	.. .. .	Net maintainable rent × 10
(2) less than 50 years	.. .. .	Net maintainable rent × 8.

EXAMPLE 5: The net maintainable rent of a building is say, Rs. 40,000.

If the building is constructed on:

		Value for inclusion in the net wealth
(1) free hold land	net maintainable rent Rs. 40,000 × 12.5 .. ..	Rs. 5,00,000
(2) lease hold land where the unexpired period of lease of such land is:		
(a) 50 years or more	net maintainable rent Rs. 40,000 × 10 .. ..	Rs. 4,00,000
(b) less than 50 years	net maintainable rent Rs. 40,000 × 8 .. ..	Rs. 3,20,000

However, where such property is acquired or construction of which is completed after 31-3-1974 and value arrived at as above is lower than the cost of acquisition/construction, as increased by the cost of any improvement to the property, then the value of the property under Rule 3 for the purposes of inclusion in the net wealth shall be the cost of acquisition/construction as so increased by cost of improvement. This restriction will also apply to a self-occupied residential house subject to certain conditions mentioned in item (b) hereafter.

**PREMIUM TO BE ADDED TO THE CAPITALISED VALUE IN CERTAIN CASES:**

**[Refer Rule 6 of the Schedule III]**

Where the unbuilt area of the plot of land on which the property is constructed exceeds the specified area, the capitalised value of the property shall be increased by an amount calculated as hereunder:

Where the difference between the unbuilt area and the specified area—

exceeds 5% but does not exceed 10% of the aggregate area .. by an amount equal to 20% of such value;  
 exceeds 10% but does not exceed 15% of the aggregate area .. by an amount equal to 30% of such value;  
 exceeds 15% but does not exceed 20% of the aggregate area .. by an amount equal to 40% of such value.

**(b) Valuation of self-occupied residential house:**

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 manner laid down in Part B of the Schedule III [refer item (a) on page 264] as on the valuation date next following the date on which he became the owner of the house or on the valuation date relevant to assessment year 1971-72, whichever is later [Section 7(2)].

Where such a house is acquired prior to assessment year 1971-72, its value, at the option of the assessee, be taken to be as prevailing on the valuation date relevant to assessment year 1971-72 or the value determined

in manner laid down in Part B of Schedule III [refer item (a) on page 264], whichever is beneficial to the assessee.

Where such a house is acquired or constructed subsequent to assessment year 1971-72 but on or before 31-3-1974, the value of such a house is to be determined in the manner laid down in Part B of Schedule III [refer item (a) on page 264].

Where such a house is acquired or constructed on or after 1-4-1974 and the cost of acquisition or construction (as increased by the cost of improvement, if any) exceeds the value determined under Rule 3, then, such cost (as increased by the cost of improvement, if any) will be taken as its value and not as determined under Rule 3 [2nd proviso to Rule 3].

However, one house belonging to an assessee, exclusively used by him for self-occupation, whose cost of acquisition or construction (as increased by the cost of improvement, if any) does not exceed—

- (1) Rs. 50,00,000, if the house is situate at Bombay, Calcutta, Delhi or Madras,
- (2) Rs. 25,00,000, if the house is situate at any other place,

the value determined under Rule 3 will be taken and not cost of acquisition or construction (as increased by the cost of improvement, if any) [3rd proviso to Rule 3].

Where the assessee owns more than one house cost of each of which exceed the value determined under Rule 3, the concession of adopting the value under 3rd proviso to Rule 3 will apply only in respect of one house at the option of the assessee, as may be specified by him [4th proviso to Rule 3].

Where the house is constructed by the assessee, the date on which the construction of the house is completed will be taken to be the date on which he became owner of the house. "House" includes a part of a house being an independent residential unit [*Explanation* to section 7(2)].

#### PROVISIONS OF RULE 3 OF THE SCHEDULE III NOT APPLICABLE IN CERTAIN CASES:

##### [Refer Rules 8 & 20 of the Schedule III]

- (1) Where the Assessing Officer, with the previous approval of the Joint Commissioner, is of opinion that it is not practicable to apply the provisions of Rule 3 [Rule 8(a)];
- (2) where the difference between the unbuilt area and the specified area exceeds 20% of the aggregate area [Rule 8(b)];
- (3) where the property is constructed on lease-hold land and the lease expires within 15 years from the relevant valuation date and the deed of lease does not give an option to the lessee for the renewal of the lease [Rule 8(c)].

In the above circumstances where the provisions of rule 3 are not applicable, the value of the property is to be determined in the manner laid down in rule 20.

##### (c) The valuation of other assets:

The valuation of jewellery has to be made by the authorised registered valuer appointed by the Government. Where the value of jewellery does not exceed Rs. 5,00,000, then, assessee has to submit a statement in the prescribed Form 0-8A alongwith the return of net wealth. If value exceeds Rs. 5,00,000, its value will be as per the valuation made by the Valuation Officer, on a reference made to him by the Assessing Officer. For the rates of gold and silver from 15-11-1982 to 31-3-2005, refer page 277.

The valuation of jewellery will be on the basis of its 'fair market value' on the valuation date. Where the value of the jewellery exceeds Rs. 5 lakhs, a valuation report from a registered valuer in the prescribed form should be filed along with the return of net wealth<sup>10</sup>. If the Assessing Officer is of the opinion that the value of jewellery is less than its fair market value, he may, subject to section 16A(1), refer the valuation of such jewellery to the Valuation Officer. The value estimated by such Valuation Officer will be adopted by the Assessing Officer.

In case of uncertainty in the matter of correct valuation of any asset, it would be advisable to get the asset or assets valued by the approved valuer appointed by the Government. Though the valuation report is not by itself binding on the department, the assessee would not be subjected to any penalty for understatement of the value of any asset on the ground that its value as adopted in the assessment order is higher than that estimated by the approved valuer.

10. The Board has clarified vide Circular No. 646, dt. 15-3-93 [200 ITR (St.) 228] that "The report of the registered valuer obtained for one assessment year can also be used for subsequent four assessment years subject to the adjustments specified in Para 3 of the said circular. In such a case a copy of the said valuation report along with a chart showing the specified adjustments shall be filed along with the return of net wealth for each of the four assessment years."