

**CHAPTER IV**  
**AMENDMENTS TO**  
**WEALTH-TAX ACT, 1957.**

**4.1 INTRODUCTION:**

The Union Government has made some cosmetic changes to the Wealth-Tax Act since its promulgation in 1957. The first such amendment was made through the Finance Act, 1958, relating to Sections 2 and 6 of the Act. Then vide the Finance Act, 1960, the most important amendment was made relating to the chargeability of the Wealth-tax on companies. Later on, in the years 1962 to 1991, the Government made a number of changes in the Wealth-tax Act, through the Finance Acts as well as the Direct Tax Laws (Amendment) Acts. Through the Direct Tax Laws (Amendment) Act, 1987, the Wealth-tax Act, 1957 was made administrable by the Income-tax Authorities as specified in section 116 of the Income-tax Act, 1961.

The Finance Act, 1991, Amended Schedule III of the Act as follows:

1. For the purpose of Rule 9A, average will be computed on the basis of ten years.
2. For the purpose of determining the break up value of an investment company, the value of an asset disclosed in the balance sheet shall be substituted

by the value determined in accordance with the rules as applicable to that particular asset, and in the absence of any such rule, the value of such assets shall be substituted by its value as determined under rule 20.

This is major departure from the method provided in Rule 11 for determining the value of unquoted equity shares in companies other than investment companies. Thus, while under Rule 11, for determining the break up value of an asset as shown in the balance sheet is taken under Rule 12, the value of each asset, as determined under the rules applicable to that asset is taken.

3. For the purpose of determining or facilitating the valuation under Rules 12 and 13, the company concerned shall have such valuation made by its Auditors appointed under Section 224 of the Companies Act, 1956, and a certificate of the Auditors relating to such valuations in the prescribed form shall be furnished to the Assessing Officer in the case of the Company. And the valuation made by the auditors shall be taken into account in the assessments of the share holders of the Company.

This amendment became effective from 1st April 1992, through which a systematic method was brought into

existence for determining the break-up value of an investment-company. Besides, a certificate of Auditors relating to the valuation of the assets must be furnished to the Assessing Officer. Because of this, an assessing officer will have to take into account the real price of the assets of share-holders of the company.

The Finance Acts, 1992, 1993 and 1994 have brought about radical changes in the scheme of taxation of wealth. With a view to stimulating investment in productive assets, Wealth-tax on all assets, except certain ones, was abolished. The Amendments made in the Wealth-tax Act, 1957, through the Finance Acts, 1992, 1993 and 1994 are as under:

#### 4.2 AMENDMENTS IN SECTION 2.

##### 4.2.1 Definition Of 'Asset'. [Section 2(e)]

The term 'Asset' was substituted, by the Finance Act, 1969. This concept was modified with new provisions effective from 1st April, 1981, and was further modified in 1983. These provisions are as below:

Old Provision:-

"assets" include property of every description, movable or immovable, but does not include:

(1) in relation to the assessment year commencing on 1st day of April, 1969 or any earlier assessment year -

(i) agricultural land and growing crops, grass or standing trees on such land;

(ii) any building owned or occupied by a cultivator of, or a receiver of rent or revenue out of, agricultural land:

Provided that building is on or in the immediate vicinity of the land and is a building which the cultivator or the receiver of rent or revenue by reason of his connection with land requires as a dwelling house or a store house or an out-house;

(iii) animals;

(iv) a right to any annuity in any case where the terms and conditions relating thereto preclude the commutation of any portion thereof into a lumpsum grant;

(v) any interest in property where the interest is available to an assessee for a period not exceeding six years from the date the interest vests in the assessee;

(2) in relation to the assessment year commencing on the 1st day of April 1970, or any subsequent assessment year, but before the 1st day of April, 1993.]

(i) animals

(ii) a right to [any annuity (not being an annuity purchased by the assessee or purchased by any other person in pursuance of a contract with the assessee)], in any case where the terms and conditions relating thereto preclude the commutation of any portion thereof into a lump-sum grant;

(iii) any interest in property where the interest is available to an assessee for a period not exceeding six years from the date the interest vests in the assessee:]

[Provided that, in relation to the assessment year commencing on the 1st day of April, 1981, (and the assessment year commencing on the 1st day of April, 1982.)], this sub-clause shall have effect subject to the modification that for item (i) thereof, the following item shall be substituted, namely -

(i)(a) agricultural land other than land comprised in any tea, coffee, rubber or cardamom plantation;

(b) any building owned or occupied by a cultivator of, or receiver of rent or revenue out of, agricultural land other than land comprise in any tea, coffee, rubber, or cardamom plantation;

Provided that the building is on or in the immediate vicinity of the land and is a building which the cultivator or the receiver of the rent or revenue by reason of his connection with the land requires as a dwelling house or a store house or an outhouse.

[(c) animals.]

Provided further that in relation to the assessment year commencing on the 1st day of April, 1983 or any subsequent assessment year, this sub-clause shall have effect subject to the modification that for item (i) thereof, the following item shall be substituted, namely -

- (i)(a) agricultural land and growing crops (including fruits on trees), grass, or standing trees on such land;
- (b) one building or one group of building owned or occupied by a cultivator or receiver of rent or revenue out of, agricultural land:

Provided that such buildings or groups of buildings is on or in immediate vicinity of the land and is a building which the cultivator or the receiver of rent or revenue by reason of his connection with the land requires as store house or for keeping livestock;

(c) animals:

[Provided also that in relation to the State of Jammu & Kashmir, this sub-clause shall have effect subject to the modification that for the assets specified in [ item (i)] of this sub-clause, the asset specified in [item (i) to (iii)] of sub-clause (1) shall be substituted and the other provisions of this Act shall be constructed accordingly;]

Under the old provisions motor cars, jewellery, urban land, etc. held by an assessee as a stock-in-trade is considered an asset and is liable to Wealth-tax.

**New provision:**

In Section 2 of the Act, in clause (ea), "assets" in relation to the assessment year commencing on the 1st day of April 1993, or any subsequent year means:

(i) any guest house and any residential house (including a farm house situated within twenty five Kms from the local limits of any municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee or by any other name) or a Cantonment Board ), But does not include:-

(1) a house meant exclusively for residential purpose 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 two lakh rupees;

(2) any house for residential purposes which forms part of stock-in-trade;

(ii) motor cars (other than those used by the assessee in the business of running them on hire or a stock-in-trade;

(iii) jewellery, bullion and furniture, utensils or any other article made wholly or partly of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals:

Provided that where any of the said assets used by the assessee as stock-in-trade, such assets shall be deemed as excluded from the assets specified in this sub-clause;

(iv) yachts, boats, and aircrafts (other than those used by the assessee for commercial purposes;)

(v) Urban land;

(vi) Cash in hand, in excess of fifty thousand rupees, of individual and Hindu undivided families and in the case of



any other persons any amount not recorded in the books of account.

Explanation: For the purposes of this clause -

(a) "jewellery" includes -

(i) ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stones, and whether or not worked or sewn into any wearing apparel;

(ii) precious or semi-precious stones, whether or not set in any furniture, utensils or the article or worked or sewn in wearing apparel;

(b) "urban land" means land situate -

(i) in any area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corporation, notified area committee, town area committee, town committee, or by any other name) or a Cantonment Board and which has a population of not less than ten thousand according to the last preceding

census of which the relevant figures have been published before the valuation date; or

- (ii) in any area within such distance, not being more than eight Kms from the local limits of any municipality or cantonment board referred to in sub-clause (i) as the Union Government may, having regard to the extent of, and scope for, urbanisation of that area and other relevant consideration, specify in this behalf by notification in the Official Gazette;

but does not include land on which construction of a building is not permissible under any law for the time being enforce in the area in which such land is situated or the land occupied by any building which has been constructed with the approval the appropriate authority or any unused land held by the assessee for industrial purposes for a period of two years from the date of its acquisition by him (or any land held by the assessee as a stock-in-trade for a period of three years from the date of its acquisition by him.);

The amendment through the Finance Act, 1994 is only related to the provision inserted by the Finance Act, 1993, which is as below:

**Old provision:**

[or any land held by the assessee as a stock-in-trade for a period of three years from the date of its acquisition by him.]

**New provision:**

[or any land held by the assessee as a stock-in-trade for a period of five years from the date of its acquisition by him.]

Through this amendment the Government increased the duration of holding of land from three years to five years which is better from the viewpoint of the assessees.

From 1st day of April 1993, these two old and new provisions are applicable for the term 'asset', only new provision is attached to the old provision.

It is very clear that the levy of Wealth-tax ought to be abolished on "productive assets" and introduced in case of "non-productive assets". It is the duty of the Government to penalise the accumulation of wealth in non-productive assets thereby depriving the society the benefit of multiplier effect of income generation if it is held in productive assets.

On the other hand, Wealth-tax becomes inequitable because the assets which create income for the owner are out of the scope of the Wealth-tax Act but the assets

which do not create any income for the owner is chargeable to Wealth-tax. Hence, Wealth-tax becomes inequitable as well as unjustified.

#### 4.2.2 Definition Of Net Wealth [Section 2 (a)]

Broadly speaking, the term 'net-wealth' means assets minus debts. This concept has been amended a number of times. Earlier, it was amended by the Finance Act, 1959, Wealth-tax (Amendment) Act 1964, the Finance Act, 1987, the Direct Tax Laws (Amendment) Act, 1989. Finally, in the Finance Act, 1992, an Amendment was made which reads as follows:

##### Old provision:

"Net wealth" means the amount by which the aggregate value computed in accordance with the provisions with this Act of all the assets, wherever located, belonging to the assessee on the valuation date, including assets required to be included in his net wealth as on that date under this Act, is in excess of the aggregate value of all the debts owed by the assessee on the valuation date other than -

- (i) debts which under section 6 are not to be taken into account.
- (ii) debts which are secured on, or which have been incurred in relation to, any property in

respect of which Wealth-tax is not chargeable under this Act and

(iii) the amount of tax, penalty or interest payable in consequence of any order passed under or in pursuance of this Act, or any law relating to taxation of income or profits or the Estate Duty Act, 1953, (34 of 1953), the Expenditure-Tax Act, 1957, (29 of 1957) or the Gift-tax Act 1958 (18 of 1958).-

(a) which is outstanding on the valuation date and is claimed by the assessee in appeal, revision or other proceeding as not being payable by him; or

(b) which although not claimed by the assessee as not being payable by him, is nevertheless outstanding for a period of more than twelve months on the valuation date.

Explanation: 1- A building or part thereof referred to in clause (iii) clause (iii a) or clause (iii b) of section 27 of the Income-Tax Act shall be includible in the net wealth of the person who is deemed under the said clause to be the owner of that building or part thereof.

Explanation: 2. Where a debt falling under sub-clause (ii) is secured on, or has been incurred in relation to, any

asset which not to be included wholly or partly in the net wealth by virtue of the provisions of the sub-section (1A) of Section 5, the amount of such debt shall, for the purpose of the said sub-clause, be limited to the value of the said asset, which is not includible in the net wealth under sub-section (1A) of Section 5;

This was the old provision that was substituted by the Direct Tax Laws (Amendment) Act, 1989. A fresh provision was inserted through the Finance Act, 1992, as below:

**New Provision:**

"net-wealth" means the amount by the aggregate value computed in accordance with the provisions of this Act of all the assets wherever located, belonging to the assessee on the valuation date, including assets required to be included in his net-wealth as on that date under this Act, is in excess of the aggregate value of the debts owed by the assessee (On the valuation date which have incurred in relation to the said assets;)

The concept of net-wealth was amended through the Finance Act, 1992, which was better from the tax viewpoint, since because of this amendment, an assessee could deduct only the debt taken and incurred in relation to the said assets. Therefore, misuse of 'debts' was avoided. But difficulties arose for the assesseees when

they needed debt for some other reasons. Assesseees could not deduct loans from net wealth which were taken for other reasons.

#### **4.3 AMENDMENTS IN SECTION 4:**

Section 4 of the Act is related to the deeming provisions of the Act. The deeming provisions relating to minor's wealth in clause (a) of Sub-section (ii) of Section 4 of Act provides for the prevention of tax avoidance through the wealth of a minor by including it in the net wealth of his parents. The procedure is described in the Act is under:

##### **Old provision:**

The value of assets which on the valuation date are held by a minor child, not being a married daughter of such individual, to whom such assets have been transferred by the individual directly or indirectly, otherwise than for adequate consideration, or

In the Finance Act, 1992, the words "to whom such assets have been transferred by the individual, directly or indirectly, otherwise than for adequate consideration" are omitted. Then through the Finance Act, 1992, the Government provided a fresh provision as under:

**New provision:**

The value of assets which on the valuation date are held "by a minor child, not being a married daughter, of such individual", or

However, this clubbing provision does not apply to such assets as have been acquired by minor child from manual work or from any activity involving his specialised knowledge or experience. Besides, the individual may transfer assets to his minor child for adequate consideration or inadequate consideration is not relevant here. It is clear that the only assets held by a minor child (excluding assets held by a child out of his own income) are included in the net wealth of the parents.

Through the Finance Act, 1992, important changes were made in section 4 sub-section (ii) of clause (a), by which the net wealth held by a minor become includible in the net wealth of the parents. This amendment is better from the revenue viewpoint because people cannot avoid tax through the preparation of pretended documents showing that a transfer has been made for adequate consideration. In the old provisions, though the assets held by a minor for inadequate consideration were includible in the net wealth of the parents. It was possible to avoid tax through transfer to minor.



It is clear that such type of amendment must be made in respect of the assets held by the spouse as well as the son's wife, as it is, possible to avoid tax through the transfer of assets to son's wife without or for inadequate consideration and showing through pretended documents that the transfer was made for adequate consideration.

#### 4.4 AMENDMENTS TO SECTION 5:

In Section 5 of the Act, amendments were made through the Finance Act, 1992, which withdraw exemption in respect of certain assets which were earlier available. The Bill sought to review the exemption in respect of one house or part of a house belonging to an assessee. It was proposed that this exemption would be available only to an individual and Hindu undivided family. The provisions are as below:

##### Old Provisions:

Under the old provision of the Act, i.e., before the Finance Act, 1992, following assets were exempted from the Wealth-Tax.

1. Property held under a trust [Section 5 (1) (i)]
2. Co-parcenary interest in a Hindu undivided family  
[Section 5(1)(ii)]

3. Residential building of a Former Ruler  
[Section 5(1)(iii)]
4. Dwelling units [Section 5(1)(iv)]
5. Patent or copyright [Section 5(1)(v)]
6. Insurance Policy [Section 5(1)(vi)]
7. Annuity [Section 5(1)(vi a)]
8. Pension [Section 5(1)(vii)]
9. Household effects [Section 5(1)(viii)]
10. Agricultural equipment [Section 5(1)(ix)]
11. Tools for profession [Section 5(1)(x)]
12. Outstanding fees of professional [Section 5(1)(x  
a)]
13. Research Equipments [Section 5(1)(xi)]
14. Works of Art [Section 5(1)(xii)]
15. Paintings [Section 5(1)(xiii)]
16. Former Ruler's jewellery [Section 5(1)(xiv)]
17. Cumulative Time Deposits [Section 5(1)(xvi)]
18. Gold Bonds and Special Bearer Bonds  
[Sec.5(1)(xvi a)(xvi b)]
19. Foreign Exchange certificates, assets,  
[Section 5(1)(xvi c)(xvi ca)]
20. Capital Investment Bonds [Section 5(1)(xvi d)]
21. Notified Debentures of Public Sector Company  
[Section 5(1)(xvi e)]
22. Relief Bonds [Section 5(1)(xvi f)]
23. Notified Bonds [Section 5(1)(xvi g)]
24. Provident Fund Balance [Section 5(1)(xvii)(xvii a)]

25. Property held by trustees on behalf of Provident Fund  
[Section 5(1)(xvii b) to (xvii d)]
26. Gallantry Awards [Section 5(1)(xviii)]
27. Medals and Trophies [Section 5(1)(xviii a)]
28. Shares held in industrial undertaking engaged in priority sector industries [Section 5(1)(xx a)]
29. Deposit under National Savings Scheme  
[Section 5(1)(xxv b)]
30. Right of an assessee under Annuity Plan of LIC  
[Sec.5(1)(xxv c)]
31. Deposit under Notified Scheme for the benefit of Retired Government Employees [Section 5(1)(xxvii c)]
32. Deposits with a Co-operative Housing Society  
[Sec.5(1)(xxx)]
33. Residential House for low-paid employees  
[Sec.5(1)(xxx a)]
34. Assets belonging to the Indian repatriates  
[Sec.5(1)(xxxiii)]
35. Investment by Non-Resident Indians  
[Section 5(1)(xxxiv)]

Besides, under the old provision the assessee was eligible to exemptions subject to a ceiling of rupees five lakhs specified in Section 5(1A). The Finance Act, 1992, withdraw exemption in respect of certain assets

which were provided under old provisions and only a few assets are now exempted under the Act.

**New Provision:**

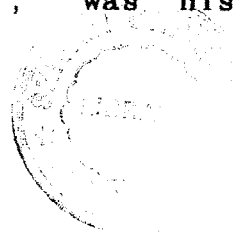
Wealth-tax shall not be payable by an assessee in respect of the following assets, and such other assets shall not be included in the net-wealth of the assessee -

- (i) any property held by him under a trust or other legal obligation for any public purpose or a charitable or religious nature in India.

[Provided that nothing contained in this clause shall apply to any property forming part of any business, not being a business referred to in clause (a) or clause (b) of sub-section (4A) of Section 11 of the Income-tax in respect of which separate books of account are maintained or a business carried on by an institution, fund or Trust referred to in clause (22) or (22A) or (23B) or (23C) of section 10 of that Act;]

- (ii) the interest of the assessee in the coparcenary property of any Hindu undivided family of which he is a member;

- (iii) any one building in the occupation of a Ruler, being a building which immediately before the commencement of the constitution (twenty sixth Amendment) Act, 1971, was his official



residence by virtue of a declaration by the Union Government, under paragraph 13 of the Merged States (Taxation Concessions) order 1949, or paragraph 15 of the part B States (Taxation concessions) Order, 1950;

- (iv) jewellery in the possession of any Ruler, not being his personal property, which has been recognised before the commencement of this Act by Union Government as his heirloom or, where no such recognition exists, which the Board may, subject to any rules that may be made by the Union Government in this behalf, recognise as his heirloom at the time of his first assessment to wealth-tax under this Act:

Provided that in case of jewellery recognised by the Union Government as aforesaid, such recognition shall be subject to the following conditions, namely -

1. that the jewellery shall be permanently kept in India and shall not be removed outside India except for a purpose and period approved by the Board;
2. that reasonable steps shall be taken for keeping the jewellery substantially in its original shape;
3. that reasonable facilities shall be allowed to any officer of Government authorised by the Board in

this behalf to examine the jewellery as and when necessary; and

4. that if any of the conditions hereinbefore specified is not being duly fulfilled, the Board may, for reasons to be recorded in writing, withdraw the recognition retrospectively w.e.f. the date of commencement of clause (b) of section 5 of the Rulers of Indian States (Abolition of Privileges) Act, 1972, and in such a case, wealth-tax shall become payable by the Ruler for all the assessment years after such commencement for which the jewellery was exempted on account of the recognition.

Explanation:- For the purpose of clause (iv) of the foregoing proviso, the fair market value of any jewellery on the date of the withdrawal of the recognition in respect thereof shall be deemed to be the fair market value of such jewellery on each successive valuation date relevant for the assessment years referred to in the said proviso:

Provided that the aggregate amount Wealth-tax Payable in respect of any jewellery under clause (iv) of the foregoing proviso for all the assessment years referred to therein shall not in any case exceed fifty percent of its fair market value on the valuation date relevant for the assessment year in which recognition was withdrawn;]

(v) in the case of the assessee, being a person of Indian Origin [or a citizen of India (hereinafter in this clause referred to as such person)] who was ordinarily residing in a foreign country and who, on leaving such a country, has returned to India with the intention of permanently residing therein, moneys and values of assets brought by him into India and the value of the assets acquired by him out of such moneys [within one year immediately preceding the date of his return and at any time thereafter];

Provided that this exemption shall apply only for a period of seven successive assessment years commencing with the assessment year next following the date on which such person return to India.

Explanation: (1) A person shall be deemed to be of Indian origin if he, or either of his parents or any of his grand parents was born in undivided India.

[Explanation: (2) For the removal of doubts, it is hereby declared that moneys standing to the credit of such persons in a Non-resident (External) Account in any Banks in India in accordance with the Foreign Exchange Regulation Act, 1973(46 of 1973) and any rules made thereunder, on the date of his return to India, shall be

deemed to be moneys brought by him into India on that date.]

In section 5 of the Wealth-tax Act, in sub-section (1), after clause (v) the following clause shall be inserted with effect from the 1st day of April, 1994, namely.

[(vi) one house or part of house belonging to an individual or Hindu undivided family] clarification as per notes on clauses.

Clause 38 of the Bill seeks to amend section 5 of the Wealth-Tax Act. The proposed amendment provides that one house or part of house belonging to an individual or Hindu undivided family will not be subject to Wealth-tax. This amendment seeks to review the exemption in favour of individuals and Hindu undivided families which was available to Wealth-tax Assesseees till assessment year 1992-93.

In section 5 of the Act the amendments were made through the Finance Act, 1992, on two grounds; one for increasing the revenue and the second for reducing arithmetical complications but the attempt will not become successful in increasing the revenue by withdrawing the exemptions because the taxable net-wealth limit is already increased. On the other hand, there would be some success



in reducing the arithmetical complications in computing the total taxable net wealth.

It is also clear that on the one hand, the Government is trying to reduce complications in Act, on the other, it has put brakes on its revenue.

#### 4.5 AMENDMENTS IN SECTION 18B.

In section 18B of the Wealth-tax Act, with effect from the 1st day of June, 1993, in sub-section(1), the words "Chief Commissioner or" have been omitted. Clause 39 of the Bill seeks to amend Section 18 of the Wealth-tax Act relating to the powers to reduce or waive penalty, etc. in certain cases.

#### Old provision:

In the old provision of this section, both the Chief Commissioner and the Commissioner were empowered to reduce or waive: (a) the amount of the penalty imposed or imposable under clause (iii) of Sub-Section (1) of Section 18; or (b) the amount of any other penalty payable under the Act, subject to certain certain conditions. They could also stay or compound any proceeding for the recovery of any such amount. It was further provided that, where the amount of net wealth in respect of which the penalty was imposed or imposable under clause (c) of sub-section (1) of Section 18 exceeds five hundred thousand rupees, no



order reducing or waiving the amount of penalty could be made without the previous approval of the Board.

**New Provision:**

Notwithstanding anything contained in sub-section (1), if in a case falling under clause (c) of sub-section (1) of Section 18, the net wealth in respect of which the penalty is imposed or is imposable for the relevant assessment year, or where disclosure relates to more than one assessment year, the net wealth for any one of the relevant assessment year, exceeds five hundred thousand rupees, no order reducing or waiving the penalty under sub-section (1) shall be made by the Commissioner, except with the previous approval of the Chief Commissioner.

Sub-clause (a) and sub-clause (c) seek to omit reference to Chief Commissioner as the authority to reduce or waive the amount of penalty.

Through this amendment, it has been tried to reduce the delay in decisions relating to reduction or waiving of penalty as well as to improve the administrative efficiency. But the omission of any administrative authority will affect on workload and responsibilities of specified Authorities.

#### 4.6 AMENDMENTS TO SECTION 45.

Under Section 45, no Wealth-tax was leviable on a number of entities. Several clauses in this section have been omitted by the Finance Act, 1992. The existing provision before and after the Finance Act are as under:

**Old Provision:**

Prior to the omission, clauses (a) to (j), as originally enacted, read as under:

- (a) a banking company as defined in section 5 of the Banking Companies' Act, 1949, (10 of 1949);
- (b) an insure within the meaning of the Insurance Act, 1938 (4 of 1938);
- (c) any Company established with the object of financing, whether by way of making loans or advances to, or subscribing to the capital of, private industrial enterprises in India, in any case where the Union Government has made or agreed to make to the Company a special advance for the purpose or has guaranteed or agreed to guarantee, the payment of moneys borrowed by the company from any institution outside India;
- (d) any company established with the object of carrying on an industrial undertaking in India in any case where the company is not formed by

splitting up, or the reconstruction, of a business already in existence or by the transfer to a new business of any building, machinery or plant used in a business which was previously carried on.

Provided that the exemption granted by clause (d) shall apply to any such company as is referred to therein only for a period of five successive assessment years commencing with the assessment year next following the date on which the company is established, which period shall, in case of a company established before the commencement of this Act, be computed in accordance with this Act from the date of its establishment as if this Act had been enforce on and from the date of its establishment.

- (e) any company solely engaged in the business of transporting goods or passengers by ships;
- (f) any company registered under section 25 of the Companies Act, 1956 (1 of 1956)
- (g) any Co-operative Society,
- (h) any social club,
- (i) any political party,

[Explanation - For the purpose of clause (i), "political party" shall have the meaning

assigned to it in the Explanation to section 13A of the Income-tax Act:]

- (j) a Mutual Fund specified under clause (23D) of Section 10 of the Income-Tax

These provisions are before the Finance Act, 1992. Among these provisions clause (a) to (e) are omitted through the Finance Act, 1992 and fresh provisions for that Act is as under:

**New Provision:**

No tax shall be levied under this Act in respect of the net wealth of -

- (a) to (e) is omitted by the Finance Act, 1992, w.e.f. 1/04/1993,

- (f) any company registered under section 25 of the Companies Act, 1956 (1 of 1956),

- (g) any co-operative society,

- (h) any social club,

- (i) any political party,

[Explanation - For the purpose of clause (i), "political party" shall have the meaning assigned to it in the Explanation to section 13A of the Income-tax Act:]

(j) a Mutual Fund specified under clause (23D) of section 10 of the Income-tax Act.

Here it has been attempted to make tax structure more comprehensive through covering maximum taxable entities and by trying to improve the revenue position. But it would not be possible to increase the revenue due to the lowering of the Tax rate and increasing the taxable wealth limit.

#### 4.7 CHANGES IN THE SCHEDULE:

##### 4.7.1 Schedule I.

Schedule I is related to rate structure of Wealth-tax. In this schedule, a number of changes have been made from time to time. Particularly important amendments were made through the Finance Act 1992. We have to take into consideration only the tax structure before and after the 1992 amendments. By the Finance Act 1988, Schedule I was changed and was further amended through the Finance Act, 1992.

**Old rate structure:**

The revised tax structure that was inserted by the Finance Act, 1988, w.e.f. 1/04/1988 was as under:

**Part I****1. In the case of every individual**

R A T E O F T A X	
(a) where the net wealth does not exceed Rs.2,50,000	nil
(b) where the net wealth exceed Rs.2,50,000 but does not exceed Rs.10 Lacs	1/2 % of the amount by which the net wealth exceeds Rs.2,50,000.
(c) where the net wealth exceeds Rs.10 Lacs but does not exceed Rs.20 lacs.	Rs.3,750 plus 1% of the amount by which the net wealth exceeds Rs.10 lacs
(d) where the net-wealth exceeds Rs.20 Lacs.	Rs.13,750 plus 2% of the amount by which the net wealth exceeds Rs.20 lacs.

**2. In the every Hindu undivided family which has at least one member whose net wealth assessable for the assessment year exceeds Rs.2,50,000 -**

R A T E O F T A X	
(a) where the net wealth does not exceed Rs.1,50,000	nil
(b) where the net wealth exceed Rs.1,50,000 but does not exceed Rs.5 Lacs	1 % of the amount by which the net wealth exceeds Rs.1,50,000.
(c) where the net wealth exceeds Rs.5 Lacs but does not exceed Rs.10 lacs	Rs.3,500 plus 2% of the amount by which the net wealth exceeds Rs.5 lacs
(d) where the net-wealth exceeds Rs.10 Lacs.	Rs.13,500 plus 3% of the amount by which the net wealth exceeds Rs.10 lacs.

The amount of Wealth-tax computed is according to the provisions included in Part I of Schedule I of the Wealth-tax Act and the amount of Wealth-tax were increasing by way of charging surcharge calculated at the rate of 10% of such Wealth-tax.

**New rate structure:**

The Government has applied the tax rates for the assessment year 1992-93, the rates which are applied before the Finance Act, 1992. The Finance Act, 1992, has withdrawn the surcharge on net wealth of individual and Hindu undivided family.

This new rate structure is applicable to the assessment year 1993-94 which is 1% of the amount by which the net wealth exceeds Rs.15 lacs. This tax rate is applicable in the case of every individual, Hindu undivided family and company.

**Part II**

Part II was related to the tax rate in case of every company, before amendment tax was charged as is under:

1. On the first rupees five lacs of the net wealth....  
nil.
2. On the balance of the net wealth..... 1/2  
%



But this Part II of Schedule I was omitted by the Government through the Finance Act, 1992.

3. Here, it was tried to increase the revenue through making the Wealth-tax Act more comprehensive from the assessment year 1993-94. The closely held companies was brought within the scope of the Wealth-tax Act, which was expected to improve the earning position. But it was not possible to increase the revenue because the rates of tax on wealth were reduced and surcharge was withdrawn. As compared to the tax rates before the Finance Act, 1992, the tax rate of assessment year 1993-94 was very low. Due to this, the contribution of the Wealth-tax to the National exchequer would be reduced.

#### 4.7.2 Schedule II

Schedule II is related to list of articles or things. In the production of this things, the producer was allowed to deductions for the allowances referred in sub-section (2) of Section 32, 33 and section 34 of the Act or of the allowances in respect of any losses brought forward from the early years.

Schedule II was inserted by the Finance Act, 1976 w.e.f. 1/04/1977. But Schedule II was omitted by the Finance Act, 1994 w.e.f. 1/04/1993. Due to this omission the arithmetical complication in the Act were reduced; at the same time the scope for levy of Wealth-tax was increased.

#### 4.7.3. Schedule III

Schedule III is related to the rules for determining the value of assets and is divided into different parts.

Part A - In this part, are included general information and important definitions.

Part B - This part is related to the procedure for valuation of immovable properties. Rules 4 to 8 of part B of Schedule III are applied for the purpose of sub-section (1) of Section 7, i.e., for determining value of any immovable property, being a building or land appurtenant thereto or part thereof;

Part C - This part of Schedule III is omitted by the Finance Act, 1992, w.e.f. 1/04/1993.

Part D - This part is related to global valuation of assets of business, where the assessee carrying on a business for which accounts are maintained on regular basis. Part D provides the provisions for determining the value of all business assets which are covered in the Balance Sheet.

Part E - In this part are included provisions for valuation of interest of a person in a firm or association of persons. Rule 16 provides procedures for computation of the net wealth of the firm or association and its allocation amongst the partners or members.

Part F - This part is related to the valuation of life interest. The Part F is useful for the purpose of subsection (1) of Section 7 for determining value of life interest of an assessee in any property.

Part G - Part G provides provision for valuation of jewellery and adjustment in the value of jewellery for subsequent assessment years.

Part H - This is the last part of the Schedule and is related to the valuation of assets in other cases. Through the provisions of this part, the value of any asset, other than cash, being an asset which is not covered by Rules 3 to 19, for the purpose of this Act shall be estimated to be the price which, in the opinion of the Assessing Officer, it would fetch if sold in the open market on the valuation date.

It is clear that among these schedules, Schedule III is very large which contains various parts and different rules for determining the value of assets.

Part C of Schedule III, was related to the valuation of shares in or debentures of a company. The Finance Act 1992 omitted this part from Schedule III as shares or debentures in companies are no longer assets for the purpose of Wealth-tax.

The success of these amendments depend upon the enforcement of the fiscal discipline. Compliances with the

tax provisions, tax consciousness and cost consciousness are to play a very important role in that direction.

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NOTE: The interpretative content of this chapter is based on the section-wise commentaries contained in:

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"Wealth-Tax and Gift-Tax Acts", with rules, Second Ed.

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