New wealth tax rules bring relief for landowners

Most people believe paying taxes on income and filing an IT return by the due date means 100% compliance with the laws. However, some taxpayers are not aware of another form of direct tax, which is charged on their wealth.

Wealth tax is a direct tax levied on individuals, Hindu Undivided Families (HUFs) and companies (other than non-profit companies) possessing net wealth in excess of R30 lakh on March 31 of every year. Currently, wealth tax is payable at 1%. Under the proposed Direct Taxes Code (DTC), the threshold limit to levy wealth tax could be raised from R30 lakh to R1 crore.

The tax is payable on residential house (including a guest house, but excluding commercial complexes and residential properties let out for minimum of 300 days in a year), jewellery, gold and other precious metals, including articles made of precious metals, yachts, boats and aircraft (other than those used by the taxpayer for commercial purposes), urban land, cash in hand in excess of R50,000 for individuals and HUFs and motor cars (other than those used in taxpayer's hiring business or used as stock-in-trade).

The Central Board of Direct Taxes (CBDT) has issued a circular providing explanatory notes to amendments by the Finance Act, 2013. The key changes with respect to wealth tax are as follows:

1) Exemption of agricultural land situated in urban areas from the definition of ‘assets’

2) Provisions to facilitate electronic filing of annexure-less return of net wealth

3) The definition of ‘assets’ includes urban land situated in the jurisdiction of municipality or cantonment board, or land situated in a notified area. However, certain categories of urban land (such as land on which construction of a building is not permissible, land held for industrial purpose and land held as stock in trade) have been excluded from the definition. No specific exemption has been provided to agricultural land in urban areas.

4) As wealth tax is levied only on unproductive assets, there was no intention to levy it on agricultural land, which cannot be termed as an unproductive asset.

In view of the above, the definition of urban land has now been amended by the Finance Act, 2013/CBDT circular to exclude urban land, which is classified as agricultural land in government records and used for agriculture. The move to exclude urban agricultural land is definitely a big relief.

The electronic filing of annexure-less return is also a significant amendment.

The Wealth tax Act provides for furnishing a return of net wealth in a prescribed form and it has to be verified. Previously, certain documents and reports were required to be furnished along with the return of net wealth under the provisions of the Wealth Tax Act, read with the provisions of Wealth tax Rules.

Given these changes, it is clear that the government has been taking various steps to ensure compliance. If you are liable to pay wealth tax, it’s important that you comply in order to avoid any surprises from the tax department.

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