Wealth tax basics: Get a grip for peace of mind

Wealth tax is a direct tax levied on individuals, HUFs and companies annually. It is charged at the rate of 1% of net wealth (the value of specified assets on the valuation date in excess of the value of the debt that the taxpayer owes on the said assets) of a person if it exceeds Rs 30 lakh. Wealth tax is applicable on an asset held by a taxpayer as on March 31. Hence, the assets sold during the year are not subject to wealth tax.

This tax is levied on the non-productive assets of a taxpayer. The intent of this law is to tax assets that do not generate any income. Broadly, house property, motor cars, jewellery, cash in hand subject to limits, urban land, yachts, boats and aircraft qualify as assets that are liable to wealth tax in India. The said assets, when used for commercial purposes, are excluded from the ambit of wealth tax. The tax is also not imposed on residential properties rented for at least 300 days in a year.

Chargeability to wealth tax depends on the nationality and the residential status (as defined under the Income-Tax Act, 1961) of a taxpayer. While Indian nationals qualifying as ‘resident and ordinarily resident’ are liable to pay wealth tax on their global net wealth, a ‘non-resident’ or ‘resident but not-ordinarily resident’ is liable to pay this tax only on assets located in India. In contrast, foreign nationals, irrespective of their residential status, are liable to wealth tax only on Indian assets.

The value of taxable assets for the purpose of wealth tax would be the value as on the valuation date (i.e., March 31 of a financial year). Further, such value of assets (except cash) would have to be determined in accordance with the valuation norms prescribed under the Wealth Tax Act, 1957.

The due date for filing the wealth tax return is the same as the due date for filing the I-T return. For individuals and HUFs, the due date is July 31 following the financial year for which this return is to be filed and, for companies, it is September 30 or November 30 (as the case may be). The return has to be filed manually in the prescribed form (Form BA).

The provisions of regular assessment that apply to income tax also apply to wealth tax. Simple interest at the rate of 1% per month is applicable for failure to pay wealth tax and/or furnishing the return on or before the due date.

There are penalty provisions in case of non-payment of taxes, concealment of wealth and failure to produce evidence in support of return, when required by the wealth tax authorities.

Practically, while the provisions under I-T laws are strictly enforced by the revenue authorities and penal proceedings are initiated for non-compliance, the same is not true of wealth tax enforcement. Wealth tax enforcement has not gained much importance by the revenue authorities. Consequently, its compliance has not got the desired attention of taxpayers.

Considering rising inflation, the Direct Taxes Code (DTC) proposes to increase the threshold limit for levy of wealth tax from R30 lakh to R50 crore. Further, wealth tax rate is proposed to be slashed from 1% to 0.25%.

Though the DTC proposes to increase the ceiling limit for wealth tax, it also proposes to expand the ambit of wealth tax. The assets proposed to be covered would include both physical and financial assets and not limited to the current category of assets. While we all remain vigilant about our income tax liability, it is imperative that the same diligence is adopted for wealth tax compliance.

(Financial Express)