

**TAX LAWS AND PRACTICE**  
**EXECUTIVE PROGRAMME (NEW SYLLABUS)**  
**JUNE 2014 EXAMINATION**  
**CORRIGENDUM OF GUIDELINE ANSWERS**  
**(Module - I Paper - 4)**

Revised Solution to Question 3 (b) on page no. 71 of the Guideline Answers to Executive Programme (New Syllabus) Module – I

**Question 3 (b)**

Jay ltd. has let out a premises with effect from 1<sup>st</sup> October, 2013 on monthly rent of Rs. 2,00,000. The lease is valid for 10 years and the tenant has made a deposit equivalent to 5 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to Rs. 90,000.

What will be the value of the property under Schedule III of the Wealth-tax Act, 1957 for the assessment year 2014-15?

(5 marks)

**Answer to Question 3 (b)**

<b>Value of Property of Jay Ltd. As per Schedule III of Wealth Tax Act, 1957</b>		
<b>Particulars</b>	<b>Alternative 1</b>	<b>Alternative 2</b>
	<b>Amount in Rs.</b>	<b>Amount in Rs.</b>
Actual Rent (2,00,000 x 12)	24,00,000	24,00,000
<i>Add:</i> Interest on deposit (15% of 10,00,000) for 6 months	75,000	75,000
<i>Add:</i> Repair borne by Tenant (1/9 <sup>th</sup> of 24,00,000)	-	2,66,667
<i>Add:</i> Municipal tax paid by Tenant	90,000	90,000
<b>Gross Maintainable Rent</b>	<b>25,65,000</b>	<b>28,31,667</b>
<i>Less:</i> Municipal Taxes Paid	(90,000)	(90,000)
<i>Less:</i> 15% of GMR	(3,84,750)	(4,24,750)
<b>Net Maintainable Rent</b>	<b>20,90,250</b>	<b>23,16,917</b>
<b>Capitalized value of the premises:</b>		
Freehold land (Net Maintainable Rent x 12.5)	2,61,28,125	2,89,61,459
Leasehold land with unexpired lease period 50 years or more (Net Maintainable Rent x 10)	2,09,02,500	2,31,69,167
Leasehold land with unexpired lease period less than 50 years (Net Maintainable Rent x 8)	1,67,22,000	1,85,35,334

**Alternative 1**

Assuming that repair expenditure is borne by Landlord/owner

**Alternative 2**

Assuming that repair is borne by the tenant, since the amount of repair is not given thus 1/9<sup>th</sup> of the actual rent would be added to actual rent.

**Working Notes**

Since question is silent about whether land is freehold or leasehold, capitalized value of building could be calculated assuming it to be constructed on freehold land or leasehold land with unexpired period of lease 50 years or more or unexpired lease period less than 50 years.