

COMMISSIONER OF WEALTH TAX Vs MEGHAJI GIRDHARLAL.

Court: Madhya Pradesh High Court

Date of Decision: Aug. 3, 1985

Citation: (1986) 51 CTR 352

Hon'ble Judges: P. D. Mulye, J

Bench: Division Bench

Judgement

P. D. Mulye, J. - The Wealth Tax Appellate Tribunal, Indore Bench, Indore at the instance of the revenue namely the CWT, M.P., Bhopal has

made this reference under s. 27(1) of the WT Act for the opinion of this Court on the following question of law :

Whether on the facts and in the circumstances of the case, the Tribunal was justified in allowing deduction of wealth tax liability as determined by

the assessment order passed by the WTO in computing the taxable wealth of the assessee thereby including therein liability which is outstanding on

the valuation date and is claimed by the assessee in appeal etc., as not being payable by him ?

2. The facts giving rise to this reference as per the statement of case received may be stated in brief, thus : The dispute relates to the deduction of

WT liabilities in computing the taxable wealth of the assessee. The WTO did not allow any of these liabilities presumably on the ground that neither

they had been quantified on the valuation dates nor had they been accepted as such by the assessee. Since the assessee was agitating the matter in

appeals, the CWT (Appeals) allowed deduction for cumulative liability in respect of undisputed wealth tax only, for determination of the taxable

wealth of the assessee-respondent.

3. The assessee went up in second appeal before the Tribunal. According to the Tribunal the charge of wealth tax as per terms of s. 3 is imposed

on the net wealth of the assessee computed on the valuation date after adjusting the debts owed by the assessee on that date and unlike the IT Act,

the WT Act prescribed the ratio of tax in the Schedule and it was evident that by virtue of s. 3 the liability to wealth tax got crystallised on the

valuation date and not on the first date of the assessment year. The Tribunal further held that a debt owed within the meaning of s. 2(m) of the WT

Act could be defined as a liability to pay in future an ascertainable sum of money. The Tribunal consequently held that the CWT (Appeal) erred in

allowing the cumulative liability of the undisputed wealth tax only as deduction from the total wealth in place of one as determined by the order of

the WTO.

4. The Id. members of the Tribunal in paras 19 to 27 of the impugned order have given valid reasons supported by authority for deciding the said

point in favour of the assessee. Hence this reference at the instance of the revenue.

5. At the hearing of this reference the Id. counsel for the revenue, Shri R. C. Mukati frankly submitted that the question referred to for the opinion

of this Court has to be answered in favour of the assessee in view of the Supreme Court decisions in Commissioner of Wealth Tax, Madras Vs.

K.S.N. Bhatt, ; Commissioner of Wealth Tax, Gujarat, Ahmedabad Vs. Vadilal Lallubhai and Others, and Commissioner of Wealth-tax, Gujarat

Vs. Smt. Vimlaben Vadilal Mehta, .

6. In the case of CWT v. K. S. N. Bhatt (supra) it has been held that in computing net wealth of the assessee for wealth tax the liabilities towards

income tax, wealth tax and gift tax, which crystallise on the relevant valuation date as determined in the respective assessment orders as liabilities

are to be deducted even though those assessment orders are finalised after the valuation date. The quantification effected by assessment order may

be varied as the Income Tax, wealth tax and gift tax case is carried in appeal to the AAC or thereafter to the Appellate Tribunal, and indeed even

in reference later to the High Court or subsequent appeal to the Supreme Court. It is the quantification of the tax liability by the ultimate judicial

authority which will determine the amount of the debt owed by the assessee on the valuation date. So long as such ultimate determination indicates

the existence of a positive tax liability, there is a debt owed by the assessee on the valuation date even though such determination may be

subsequent in point of time, to the valuation date. If however, it is found on such ultimate determination that there is no tax liability, it cannot be said

that, merely because originally a tax liability had been determined and stood existing on the valuation date, there was a debt owed by the assessee.

If the finding is that there was no tax liability, it must be held that there was no debt owed by the assessee on the valuation date.

7. In the case of CWT, Gujarat v. Vimalaben Vadilal Mehta (supra) it has been held that rectification of an assessment must be treated on the

same basis as on original assessment for the purpose of a claim to deduction of liabilities towards Income Tax, wealth-tax, wealth-tax and gift-tax

in the computation of the assessee's net wealth. The rectification merely quantifies the true tax liability which had already been crystallised and

become a debt on the last day of the previous year in the case of an income tax liability, on the valuation date in the case of a wealth tax liability

and on the last day of the previous year in the case of a gift tax liability.

8. It has been further held that it is well settled that when an appeal is filed against an assessment order before the AAC, the assessment is thrown

open and the appellate proceeding constitutes a continuation of the assessment proceeding. Even if the tax liabilities of which a deduction was

claimed, were created by rectification orders or by assessment orders made after the date of the wealth tax assessment order under appeal, the

law requires the claim to deduction being considered on the same basis as if it had been made in the original wealth tax assessment proceedings.

9. Similar is the view taken in the case of *CWT v. Vadilal Lalubhai* (supra).

10. In view of these decisions the question has to be answered in favour of the assessee and against the department.

11. Accordingly, the question referred to us for our opinion is answered in favour of the assessee and against the department. The reference is

answered accordingly with no order as to costs.