
(1985) 11 MAD CK 0009
In the Madras High Court
Case No : T.C.P. No. 445 of 1985

Commissioner of Wealth Tax

APPELLANT

Vs

K. Jagadeesan

RESPONDENT

Date of Decision : 25-11-1985

Acts Referred:

Wealth Tax Act, 1957 — Section 16A, 27(1), 27(3)

Citation : (1986) 55 CTR 100 : (1987) 163 ITR 289

Hon'ble Judges : V. Ramaswami, J;V. Bhaskaran Nambiar, J

Bench : Division Bench

Advocate : J. Jayaraman and N.V. Balasubramanian, for the Appellant; P.P.S. Janarthana Raja, for the Respondent

Judgement

V. Ramaswami, J.—The following question is sought to be referred in this case :

Whether the method of valuation applied by the Appellate Tribunal for determining the fair market value of the property at 927, Poonamallee High

Road, Madras, at Rs. 8,00,000 for the wealth-tax assessment for the tax year 1975-76 in the circumstances of the case is valid in law and in

accordance with principles of valuation of properties ?

2. The assessee, a practising doctor, owned 10 grounds of land with a building at Poonamallee High Road, Madras. This asset was used by the

assessee for running a private hospital. For the assessment year 1975-76 the assessee filed a return under the provisions of the Wealth-tax Act,

1957, disclosing a net wealth of Rs. 2,89,300. The assessee, while valuing the asset, adopted the value of the land at Rs. 2,00,700 representing

the cost and the depreciated value of the building at Rs. 4,75,901 as shown in the accounts and book value of furniture, fittings and medical

equipment. The property had been leased to a private limited company formed

by the assessee on a monthly rent of Rs. 9,000 which consisted of Rs. 4,000 for the building and Rs. 5,000 for the furniture, fixtures and equipment. As and from April 1, 1974, the lease agreement came to be revised under which a lease rent of Rs. 7,000 per month consisting of Rs. 5,000 for the land and building and Rs. 2,000 for other assets was fixed.

The Wealth-tax Officer referred the matter to the Valuation Officer u/s 16A. The Valuation Officer determined the value of the asset at Rs.

14,50,000. The Valuation Officer determined this value on the assumption that on the expiry of the lease agreement, the building would fetch a rent

of Rs. 10,000 and that its potential value and future increase in rent would have to be taken into account. This was objected to by the assessee.

The Wealth-tax Officer rejected the objection and determined the value of the building at Rs. 14,50,000 and on that basis proceeded with the

assessment. On appeal, the Appellate Assistant Commissioner pointed out that though the capitalisation of the rental income and determining the

value of the asset could not be said to be incorrect, the rental for the purpose of such capitalisation should be taken as Rs. 5,000 which is relatable

to the building alone and not any potential rental value which it may fetch at a future date. The Appellate Assistant Commissioner also pointed out

that the assessee has in his books separately valued the furnitures, fittings, ambulance van, etc., at Rs. 2,58,546 and this will have to be separately

considered as an asset for the purpose of wealth-tax. On the basis of Rs. 5,000 as the monthly rental, the value of the building was determined at

Rs. 8,00,000. This was accepted by the Tribunal. A reference application u/s 27(1) having been dismissed, the present application has been filed

u/s 27(3) of the Wealth-tax Act, 1957, praying for a direction to the Tribunal to refer the above said question.

3. Two points are raised by the learned counsel for the Revenue in support of his contention that the proposed question of law has to be directed

to be referred. Firstly, he contended that the potential rental value should have been taken into account and not the rental actually paid. The

Tribunal had found as a fact that Rs. 5,000 received by the assessee from the tenant is the real rent as on March 31, 1975, which is the relevant

date for purpose of wealth-tax. Though this is not disputed, the learned counsel for the Revenue seriously contended that the prospect of the

building fetching more rent after the end of the tenancy in 1978 has to be taken into account and the Tribunal erred in taking the rental value on the basis of a rent of Rs. 5,000 per month. We are unable to agree with this contention of the learned counsel. It may be, at the end of the four years" tenancy period, the rental may be increased and the building may fetch more rent, but for the purpose of valuing the building as a multiple of the annual rental value, we have no doubt that the prospect of increased future rent could not enter into the picture at all. It may be a different matter if the rental bargain between the lessor and the lessee is not accepted and it might have been open to the Department to find out the real rental value as on the valuation date. But once as on the valuation date the rental is accepted to be at a particular figure the potential future increase could not come into the picture at all for the purpose of valuing a building as a multiple of the annual rental value. In fact we would consider that in fixing the rental on the valuation date, both the lessor and the lessee would have taken into account all the facilities, benefits and other amenities available and then only the rent would have been fixed, and there is no possibility of any other circumstance being taken into account such as future prospect of getting increased rent. It may be a different matter if the building is valued not on the basis of multiple of the annual rental value but on a different method in which case the future prospects of being put to a better use or to other purposes may have to be taken into account for valuing the building as in the case of an agricultural land, with potential value as a house site. However, when the determination is with reference to the annual rental value, the rent fetched or reasonably expected as on the date of valuation is the only relevant matter and not the future rent that it may fetch. We are, therefore, unable to agree with the learned counsel that in fixing the annual rental value the Tribunal or the Appellate Assistant Commissioner has in any way erred.

4. The next argument of the learned counsel is that the building is rented out for the purpose of a hospital and the valuation should have to be determined with reference to the building let out as hospital and that in this case though the rent for the building and the rent for the furniture, fittings, equipment, van, etc., is separately mentioned, the total composite rent will have to be taken into account and the annual rental value determined for

the purpose of determining the capital value because, according to him, when the lease is for the purpose of the hospital, all the furniture, fittings, van and other equipments available would have been taken into account and though separate figures are mentioned, it could not be dissected as one for the building and the other for the furniture and equipments separately and if that is so, even assuming that Rs. 7,000 is the real rental value then as for a hospital, the annual rental value on the basis of Rs. 7,000 should have been taken into account and the value of the building with the equipment should have been determined and not the value separately for the building and the value separately for the furniture and fittings should be taken into account. As already stated, Rs. 8,00,000 is taken as the value for the building and Rs. 2,58,546 is taken as the value of the furnitures, fittings, ambulance, van, etc. The argument is attractive but the point had not been specifically put in this form. However, we think on this ground we need not direct any reference because we find the total value now comes to Rs. 10,58,546 and if Rs. 7,000 is taken as the basis for the purpose of determining the annual rental value, then the multiple arrived at on the basis of such value would be Rs. 11,20,000 ($\text{Rs. } 8,00,000 \times 7/5 = \text{Rs. } 11,20,000$). The difference in valuation is marginal and, therefore, we do not think that any useful purpose will be served by directing the Tribunal to state a case and refer the question.

5. For the foregoing reasons, we dismiss the petition with costs. Counsel's fee Rs. 250.