

J.K. SHAH[®]
CLASSES
CAFC → INTER CA → FINAL CA7

INTER CA
MAY '19
REVISION NOTES
DIRECT TAX

CHAPTER 1 – INTRODUCTION

Q.1. Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2019 – 20:

	₹
Income from Salaries	27,88,000
Income from House Property (Computed)	15,80,000
Interest Income from FDR's	7,22,000

He has not claimed any deduction under chapter VIA. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income Tax Act, 1961. **(Nov 2018)**

CHAPTER 2 – RESIDENTIAL STATUS

Q.1. Following incomes are derived by Mr. Krishna Kumar during the year ended 31-3-2019:

Pension received from the US Government	3,20,000
Agricultural income from lands in Malaysia	2,70,000
Rent received from let out property in Colombo, Sri Lanka	4,20,000

Discuss the taxability of the above items where the assessee is

(i) Resident, (ii) Non-resident. **(Nov 2018)**

Q.2. Mr. Kavin, a non-resident, entered into the following transactions during the financial year 2018-19:

- Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.
- Received foreign currency equivalent to ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Korea.
- Received ₹ 7 lakhs from RR Ltd., an Indian company as fees for providing technical services in India.
- Received ₹ 5 lakhs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.
- Received ₹ 8 lakhs towards interest on moneys borrowed by a non-resident for the purpose of business within India. Amount was received in Korea. **(RTP – May 2018)**

Examine briefly whether the above receipts are chargeable to tax in India.

Ans. Taxability of certain receipts in the hands of Mr. Kavin, a non-resident, for A.Y. 2019-20.

	Taxability	Reason
(a)	Taxable	Amount of ₹ 20 lakhs received from a non-resident is deemed to accrue or arise in India by virtue of section 9(1)(vi)(c), since the patent was used for a business in India. Therefore, the amount is chargeable to tax in India.
(b)	Not Taxable	Foreign currency equivalent to ₹ 15 lakhs received in Korea from a non-resident for use of know-how for a business in Sri Lanka is not deemed to accrue or arise in India as per section 9(1)(vi)(c), since it is in respect of a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.

(c)	Taxable	Amount of ₹ 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of section 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	Non Taxable	Amount of ₹ 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per section 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.
(e)	Taxable	Amount of ₹ 8 lakhs received in Korea towards interest on moneys borrowed by a non-resident for the purpose of business within India is deemed to accrue or arise in India by virtue of section 9(v)(c), since money borrowed was used for the purpose of business in India. Therefore, the same is chargeable to tax in India.

Q.3. Mr. Sahil, a citizen of India, serving in the Ministry of Human Resources in India, was transferred to Indian Embassy in Germany on 15th March 2018. His income during the financial year 2018 – 19 is given here under:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	4,80,000
Interest accrued on National Saving Certificate	25,600
Interest on Post office savings bank account	3,200
Salary from Government of India	8,15,000
Foreign Allowances from Government of India	9,00,000

Mr. Sahil did not come to India during the financial year 2018-19. Compute his Gross Total Income for the Assessment year 2019-20. **(RTP – Nov 2018)**

Ans. Mr. Sahil is a non-resident for the A.Y.2019-20, since he was not present in India at any time during the previous year 2017-18 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or income deemed to accrue or arise in India.

Computation of Gross Total Income of Mr. Sahil for A.Y. 2019-20

Particulars	₹
Salaries Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sahil, a citizen of India, even though he is a non-resident and rendering services outside India)	8,15,000
Foreign Allowances from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government of India to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil

Income from House Property Rent from a house situated at Australia, received in Australia (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it is neither accruing or arising in India nor is it deemed to accrue or arise in India nor is it received in India)	Nil
Income from Other Sources Interest accrued on National Savings Certificate is taxable ¹	25,600
Interest on Post office savings bank account – exempt upto ₹ 3,500	Nil
Gross Total Income	<u>8,40,600</u>

Q.4. Compute the Gross Total Income in the hands of an individual, if he is

- (a) A resident and ordinary resident; and
- (b) A non-resident for the A.Y. 2019-20.

(May 2018)

S. No.	Particulars	Amount (₹)
(i)	Interest from German Derivatives Bonds (1/3 received in India)	21,000
(ii)	Income from agriculture land situated in Malaysia, remitted to India	51,000
(iii)	Income earned from business in Dubai, controlled from India (₹ 20,000 received in India)	75,000
(iv)	Profit from business in Mumbai, controlled from Australia	1,75,000
(v)	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000
(vi)	Dividend from Brown Ltd., an Indian Co. u/s 115 0 of IT Act,	30,000
(vii)	Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India)	60,000
(viii)	Amount received from an NRI for the use of know-how for his business in Singapore	8,00,000
(ix)	Dividend received from foreign company in India	25,000
(x)	Past years untaxed foreign income brought to India	50,000

Ans.

Computation of Gross Total Income for the A.Y. 2018 – 19

	Particulars	Resident and ordinary resident ₹	Non – resident ₹
(i)	Interest from German Derivative Bonds (1/3 rd received in India) [Refer Note at the end]	21,000	7,000
(ii)	Income from agriculture land situated in Malaysia, remitted to India [Refer Note at the end] [Taxable only in the hands of resident and ordinarily resident, since agriculture income arises from land situated outside India]	51,000	-
(iii)	Income earned from business in Dubai, controlled from India (₹20,000 received in India) [Refer Note at the end]	75,000	20,000
(iv)	Profit from business in Mumbai, controlled from	1,75,000	1,75,000

	Australia [Since the income accrues or arises in India, the same is taxable in the hands of the resident and non-resident]		
(v)	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India [Since interest is payable by non-resident for the loan used for business in India, such income is deemed to accrue or arise in India u/s 9(1)(v). Consequently, such income is taxable in the hands of both the resident and non-resident]	35,000	35,000
(vi)	Dividend from Brown Ltd., an Indian Co. under section 115-O of the Income-tax Act, 1961 [Exempt u/s 10(34), in the hands of both resident and ordinarily resident and non-resident, since the dividend does not exceed ₹10,00,000]	-	-
(vii)	Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India) [Refer Note at the end]	60,000	-
(viii)	Amount received from an NRI for the use of know-how for his business in Singapore [Since the amount is received for the use know-how for his business outside India, the same is not deemed to accrue or arise in India as per section 9(1)(vii). Accordingly, such income is not taxable in case of the non-resident, assuming that the amount is received outside India]	8,00,000	-
(ix)	Dividend received from foreign company in India [Taxable both in the hands of resident and ordinarily resident and non-resident, since the income is received in India and no exemption is available in respect of dividend from foreign company]	25,000	25,000
(x)	Past years untaxed foreign income brought to India [Not taxable, since it does not represent income of the P.Y. 2017-18]	-	-
Gross Total Income		12,42,000	2,62,000

CHAPTER 3 – INCOME FROM SALARY

Q.1. Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the under-mentioned information for the year ended 31-03-2019:

- (i) Basic salary upto 30-11-2018 ₹ 70,000 p.m.
Basic salary from 01-12-2018 ₹ 80,000 p.m.

Note : Salary is due and paid on the last day of every month.

- (ii) Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
- (iii) Bonus equal to one month salary. This was paid in November, 2018 on basic salary plus dearness allowance applicable for that month.

- (iv) Contribution of employer to recognized provident fund account of the employee @ 18% & of basic salary, employee also contributing an equivalent amount.
- (v) Profession tax paid ₹ 6,000 of which ₹ 3,000 were paid by the employer.
- (vi) Facility of laptop was provided to Janakaraj for both official and personal use. Cost of laptop ₹ 65,000 and was purchased by the company on 11-10-2018.
- (vii) Leave travel concession given to Janakaraj, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Janakaraj.

(Nov 2018)

Q.2. Mr. Kashyap retired from the services of M/s ABC Ltd. on 31.01.2019, after completing service of 30 years and one month. He had joined the company on 1.1.1989 at the age of 30 years and received the following on his retirement:

- (i) Gratuity ₹ 5,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car on 31.01.2019 which was purchased on 01.03.2016 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 8,000 on his retirement.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and dearness allowance @50% of basic salary for the period from 01.04.2018 to 31.01.2019. Dearness allowance does not form part of pay for retirement benefits.
- (ii) Received pension of ₹ 7,000 per month for the period 01.02.2019 to 31.03.2019 after commutation of pension.

Compute his income taxable under the head “Salaries” for Assessment Year 2018 – 19.

(RTP – May 2018)

Ans. Computation of income chargeable under the head “Salaries” of Mr. Kashyap for A.Y. 2019 – 20.

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	8,000
Transfer of car (See Note - 2)	1,20,000
Gratuity (See Note - 3)	30,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 7000 x 2)	14,000
Commutated pension (See Note - 5)	1,50,000
Taxable Salary /Gross Total Income	7,52,769

Notes:

- (1) As per Rule 3(7) (iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 8,000 is liable to tax as perquisite.

Note – An alternate view is possible that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000 and gross total income would be ₹ 7,47,769.

- (2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% on a written down value basis for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (1.3.2016)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.2.2017	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 28.2.2018	3,20,000
Less: Amount recovered	2,00,000
Value of perquisite	1,20,000

Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case, the third year of use of car is completed on 28.2.2019 whereas the car was sold to the employee on 31.1.2019. Accordingly, wear and tear has to be calculated @20% on reducing balance method for only two years.

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. Kashyap.

- (3) **Taxable gratuity**

Particulars	₹
Gratuity received	5,50,000
Less: Exempt under section 10(10) - Least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity received = ₹ 5,50,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years or part in excess of 6 months}$	
$15/26 \times 30,000 \times 30 = ₹ 5,19,231$	
Taxable Gratuity	<u>5,19,231</u>
	<u>30,769</u>

Note – As per the Payment of Gratuity Act, 1972, dearness allowance is included in the meaning of salary. Since, in this case, Mr. Kashyap is covered under the Payment of Gratuity Act, 1972, dearness allowance has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less: Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit	₹ 3,00,000
(ii) Actual leave salary received	₹ 3,30,000
(iii) 10 months x ₹ 20,000	₹ 2,00,000
(iv) Cash equivalent of leave to his credit	₹ 2,20,000
$\left(\frac{330}{30} \times 20,000\right)$	<u>2,00,000</u>
Taxable Leave encashment	<u>1,30,000</u>

Note – Salary, for the purpose of exemption under section 10(10AA), would include dearness allowance only if it forms part of pay for retirement benefits. Therefore, in this case, since dearness allowance does not form part of pay for retirement benefits, only basic salary has to be considered for computing exemption under section 10(10AA).

(5) Commuted Pension

Since Mr. Kashyap is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the commuted pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10 (10A) = $\frac{1}{3} \times \left[30,00,000 \times \frac{3}{2}\right]$	<u>1,50,000</u>
Taxable amount	<u>1,50,000</u>

Q.3. You are required to compute the income chargeable under the head Salaries in the hands of Mr. Narayan for the assessment year 2019-20 from the following details pertaining to the financial year 2018-19:

Particulars	₹
Basic salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Narayan paid by employer	42,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

(RTP – Nov 2018)

Ans. **Computation of income chargeable under the head “Salaries” of Mr. Narayan for A.Y. 2019 – 20.**

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Narayan’s birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Narayan paid by employer is a taxable perquisite as per section 17(2)(v)	42,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes – perquisite value would be ₹ 21,600 [₹1,800 ×12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	12,57,600
Less: Deductions under section 16 → Standard Deduction 116 (ia)	40000
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Narayan is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head “Salaries”	12,14,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Narayan from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 10,000.

In such case, the gross salary and net salary would be, ₹ 12,52,600 and ₹ 12,09,600, respectively.

Q.4. Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P. M.

Salary received in India (For 6 months) ₹ 50,000 P. M.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility. During the previous year company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year where as his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year the company paid premium of ₹ 5,000 and ₹ 10,000 respectively.

Compute Mr. Honey's taxable income from salary for the Assessment Year 2019-20.

(May 2018)

Ans. Since Mr. Honey stays in India for atleast 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2018 – 19

Particulars	₹	₹
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	<u>3,00,000</u>	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 x 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	<u>Nil</u>	36,000
Perquisites:		95,400
Value of rent-free accommodation in USA		
Lower of:		
- 15% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)	95,400	
- Rent paid by employer = ₹ 15,000 x 12	1,80,000	-
Value of guest house in India		
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		48,000
Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]		84,400
Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]		
Used for both official and personal purposes for 6 months when	14,400	

he is in US. Hence, the perquisite value is ₹ 14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 litres, assuming that expenses are fully met by employer		
Used for personal purposes by his family members for 6 months when he is in India		
Actual running and maintenance expenditure ³ [₹ 5,000 x 6]	30,000	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	<u>40,000</u>	<u>70,000</u>
Education expenditure of elder son in India met by employer [Fully taxable perquisite]		12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite		10,000
Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.		-
Gross Salary		<u>8,85,000</u>
Less: Deductions under section 16 (ia) Std Deduction		<u>40,000</u>
Taxable Salary		<u>8,45,800</u>

Notes:

- (1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly.

However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

- (2) In the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows :

Particulars	₹
Motor car provided by employer [₹ 5,400 + ₹ 40,000]	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹ 900 p.m., since cubic capacity exceeds 1.6 litres,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	<u>40,000</u>
	<u>45,400</u>

In this case, the taxable salary would be ₹8,46,800.

CHAPTER 4 – INCOME FROM HOUSE PROPERTY

Q.1. Mrs. Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum.

The property was let out for ₹ 75,000 per month for the period April 2018 to December 2018.

Thereafter, the tenant vacated the property and Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November and December 2018 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 35,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from "House Property" for the A.Y. 2019 – 20.

(Nov 2018)

Q.2. In August 2017, Mr. Kailash, a first-time home buyer, borrowed a sum of ₹ 35 lakhs from the National Housing Bank for construction of a residential house for ₹ 48 lakhs. The loan was sanctioned on 12.3.2017. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2019 and repayments towards principal and interest commenced immediately after disbursement of loan.

In the light of the above facts, examine:

(i) Whether Mr. Kailash can claim deduction under section 24 in respect of interest for the A.Y. 2019-20?

(ii) Whether deduction under Section 80C and 80EE can be claimed by him for the A.Y. 2019-20?

(RTP – May 2018)

Q.3. Mr. Ranjan owns a shop whose construction got completed in August 2017. He took a loan of ₹ 22 lakhs from Bank of Baroda on 1-8-2016 and had been paying interest calculated at 9% per annum.

During the financial year 2018 – 19, the shop was let out at a monthly rent of ₹ 45,000. He paid municipal tax of ₹ 18,000 each for the financial year 2017 – 18 and 2018 – 19 on 25 – 5 – 2018 and 15 – 4 – 2019, respectively.

Compute income under the head 'House Property' of Mr. Ranjan for the Assessment year 2019 – 20, assuming that the entire amount of loan is outstanding on the last day of the current previous year.

(RTP – Nov 2018)

Ans. Computation of income under the head "House Property" of Mr. Ranjan for A.Y. 2019-20

Particulars	₹	₹
Gross Annual Value (₹ 45,000 x 12)		5,40,000
Less: Municipal taxes (See Working Note 1)		<u>18,000</u>
Net Annual Value (NAV)		5,22,000
Less: Deductions under section 24		
(i) 30% of NAV	1,56,600	
(ii) Interest on housing loan (See Working Note 2)	<u>2,24,400</u>	
		<u>3,81,000</u>
Income chargeable under the head "House Property"		<u>1,41,000</u>

Working Notes:

(1) Municipal taxes deductible from Gross Annual Value	
As per proviso to section 23(1), municipal taxes actually paid by the owner during the previous year are allowed to be deducted from Gross Annual Value. Accordingly, only ₹ 18,000 paid on 25.05.2018 are allowed to be deducted from Gross Annual Value, while computing income from house property of the previous year 2018 – 19.	
(2) Interest on housing loan allowable as deduction under section 24	
As per section 24(b), interest for the current year (₹ 22,00,000 x 9%)	₹ 1,98,000
Pre-construction interest For the period 01.08.2016 to 31.03.2017 (₹ 22,00,000 x 9% x 8/12) = ₹ 1,32,000 ₹ 1,32,000 allowed in 5 equal installments (₹ 1,32,000/5) from P.Y. 2016-17 to P.Y. 2020-21	
	<u>₹ 26,400</u>
	₹ 2,24,400
(3) Deduction under section 24(b), in respect of interest on housing loan for let out property, fully allowed without any limit.	

CHAPTER 5 – INCOME FROM BUSINESS OR PROFESSION

Q.1. Mr. Rangamannar resides in Delhi. As per new rule/in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21 – 09 – 2018, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add : Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the AY 2019 – 20, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2020 – 21 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-Tax Act, 1961. **(Nov 2018)**

Q.2. Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2018 – 19 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	<u>1,00,000</u>
To Gross profit	<u>20,50,000</u>	Total	<u>2,71,00,000</u>
Total	<u>2,71,00,000</u>	By Gross Profit b/d	20,50,000
Salary to employees (Including Contribution to PF)	5,00,000		
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	<u>11,50,000</u>		
Total	<u>20,50,000</u>	Total	<u>20,50,000</u>

Other information:

- (i) He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2018 to M/s Décor World.
- (ii) Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
- (iii) No deduction of tax at source on payment of interest on bank loan has been made.
- (iv) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employee's contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

(RTP – Nov 2018)

Compute business income of Mr. Chauhan for the Assessment Year 2018 – 19.

Ans. Computation of Business Income of Mr. Chauhan for the A.Y. 2018-19

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	<u>25,000</u>	<u>3,25,000</u>
Less: Expense allowed		
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		<u>40,000</u>
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		<u>14,35,000</u>
		<u>25,000</u>
Business income		<u>14,60,000</u>

Notes:-

- (1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
- (2) Provisions for bad debts is allowable as deduction under section 36(1)(vii-a) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
- (3) Expenditure on family planning is allowed as deduction under section 36(1) (ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.
- (4) Income-tax paid is not allowable as deduction as per the provisions of section 40(a) (ii).
- (5) Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2019-20.
- (6) As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.
- (7) Employee's contribution is includible in the income of the employer by virtue of Section 2(24) (x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
- (8) TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Q.3. Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2018-19.

Receipts and Payments Accounts

Receipts	₹	Payments	₹
Opening Balances (01-04-2018)		Staff salary, bonus and stipend to articled clerks	20,50,000
Cash & Bank	20,000	Other general and administrative expenses	12,00,000
Fee from professional services	39,60,000	office rent	48,000
Motor car loan from SBI @ 10% interest per annum	2,00,000	Life Insurance Premium	23,000
		Motorcar(Acquired in January 2018 by way of online payment)	4,00,000
		Books bought (annual publication by credit card)	22,000
		Computer acquired on 1-11-2018 for professional use	25,000
		Domestic drawings	2,50,000
		Motor car maintenance	12,000
		Public Provident Fund subscription	1,40,000
		Closing balances (31-03-2019)	
		Cash & Bank	10,000
	41,80,000		41,80,000

Other information:

- (i) Motor car was put to use for both official and personal purposes. 1/4th of the motor car is for personal purpose. No interest on car loan was paid during the year.
- (ii) Mr. Hari purchased a flat in Jaipur for ₹ 15,00,000 in July 2013 cost of which was partly financed by a loan from State Bank of India of ₹ 10,00,000 @ 10% interest his own savings ₹ 1,00,000 and a deposit from Bank of Baroda for ₹ 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @ ₹ 40,000 per month. The following particulars are relevant:
 - (a) Municipal taxes paid by Mr. Hari ₹ 4,200 per annum
 - (b) House insurance ₹ 1,000
- (iii) He earned ₹ 1,00,000 in share speculation business and lost ₹ 1,50,000 in commodity speculation business.
- (iv) Mr. Hari received a gift of ₹ 15,000 each from four of his family friends.
- (v) He contributed ₹ 1,11,000 to Prime Minister's Draught Relief Fund by way of bank draft.
- (vi) He donated to a registered political party ₹ 3,00,000 by way of cheque.

Compute the total income of Mr. Hari and the tax payable for the Assessment year 2019-20. (May 2018)

Ans. Computation of total income and tax liability of Mr. Hari for A.Y. 2018-19

Particulars	₹	₹	₹
Income from house property			
Gross annual value ¹ (₹ 40,000 x 12)		4,80,000	
Less: Municipal taxes paid by Mr. Hari		<u>4,200</u>	
Net annual value		<u>4,75,800</u>	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,42,740	
(b) Interest on house borrowing ² (₹ 10,00,000 x 10%)		<u>1,00,000</u>	2,33,060
Profits and gains of business or profession			
Income from profession			
Fees from professional services		39,60,000	
Less: Expenses allowable as deduction			
- Staff salary, bonus and stipend	20,50,000		
- Other general and administrative expenses	12,00,000		
- Office rent	48,000		
- Motor car maintenance (₹ 12,000 x 3/4)	9,000		
- Car loan interest – not allowable (since the same has not been paid during the year) [Refer Note 1]	<u> -</u>	33,07,000	
		6,53,000	
Less: Depreciation u/s 32			
- Motor car ₹ 4,00,000 x 15% x 50% x 3/4, being put to use for less than 180 days	22,500		
- Books being annual publications [₹ 22,000 x 40%] [Refer Note 2]	8,800		
- Computer @ 40% of ₹ 25,000 x 50%, since the same is put to use for less than 180 days, assuming that payment was made through A/c payee cheque/bank draft or ECS through bank account [Refer Note 3]	<u>5,000</u>	<u>36,300</u>	

For the P.Y. 2017-18, the gross receipts of Mr. Hari is ₹ 39,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA In such case, his professional income would be ₹ 19,80,000, being 50% of ₹ 39,60,000 It is more beneficial for Mr. Hari to declare profit of ₹ 6,16,700 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB		6,16,700	
Income from share speculation business Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 50,000 from commodity speculation business to be carried forward to A.Y. 2019-20	1,00,000		
	<u>1,00,000</u>	<u>Nil</u>	6,16,700
Income from other sources Cash Gift of ₹ 60,000 i.e., ₹ 15,000 x 4, received from his four friends is taxable u/s 56(2)(x), since the same exceeds ₹ 50,000			<u>60,000</u>
Gross Total Income			9,09,760
Less: Deductions under Chapter VI-A			
Section 80C Life insurance premium PPF subscription Restricted to ₹ 1,50,000			
Section 80G Contribution to Prime Minister's Drought Relief Fund (50% of ₹ 1,11,000) by way of bank draft	23,000 <u>1,40,000</u> 1,63,000	1,50,000 55,500	
Section 80GGC Donation to registered political party made by way of cheque		<u>3,00,000</u>	<u>5,05,500</u> 4,04,260
Total Income			7,713
Tax liability Tax @5% on ₹ 1,54,260 [₹ 4,04,260 - ₹ 2,50,000, being basic exemption limit] Add: health and Education cess @ 4%			309 <u>77</u> 8,022
Tax liability (Rounded off)			8,020

Notes:

- (1) It is assumed that the same has also not been paid on or before the due date under section 139(1), hence disallowance under section 43B is attracted, if he is following mercantile basis of accounting. If it is assumed that the payment has been made on or before due date under section 139(1), disallowance under this section would not be attracted and the same [i.e., ₹ 2,00,000 x 10% x 3/12 x 3/4 i.e., ₹ 3,750] would be allowed

as deduction. If it is assumed that he is following cash basis of accounting, it would, in any case, not be allowed

- (2) As per second proviso to section 43(1), in computing actual cost, the expenditure for acquisition of asset, for which payment is made to a person in a day exceeds ₹ 10,000 has to be ignored, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. In this case, the books are purchased and payment of ₹ 22,000 is made by credit card. In the above solution, depreciation has been allowed on the assumption that payment has not been made to the same person on the same day. Alternatively, assuming that payment has been made to the same person on the same day, it is possible to take a view that depreciation would not be admissible on such sum based on the plain reading of the section and strict interpretation thereof that such payment has to be made only by way of account payee cheque or bank draft or ECS for the purpose of inclusion of such sum in actual cost. In such a case, the business income would be ₹ 6,25,500, the gross total income would be ₹ 9,18,560, the total income would be ₹ 4,13,060, and the tax liability (rounded off) would be ₹ 8,400.
- (3) Since the question is silent regarding the mode of payment for purchase of computers, depreciation is allowed on computers assuming that payment is made by way of A/c payee cheque/ bank draft or ECS through bank account. However, if it is assumed that payments for purchase of computers is made otherwise than by way of A/c payee cheque/ bank draft or ECS through bank account, no depreciation would be admissible on computers. The total income and tax liability (rounded off) would be ₹ 4,09,260 and ₹ 8,200, respectively.

Q.4. Mr. Abhay has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2019:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payments made to an approved Agro Research Association	25
(ii)	Payment made to RR University, an approved University	15
(iii)	Payment made to XY College	17
(iv)	Payment made to IIT, Madras (under an approved programme for scientific research)	10
(v)	Machinery purchased for in-house scientific research	20
(vi)	Salaries to research staff engaged in in-house scientific research	14

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2019 – 20, while computing his income under the head “Profits and gains of business or profession”.

(RTP – May 2018)

CHAPTER 6 – CAPITAL GAINS

Q.1. Mr. Arjun bought a vacant land for ₹ 80 lakhs in March 2006. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

He entered into an agreement for sale of the above said residential house with Mr. Jerry (not a relative) on 9th April 2018 and received ₹ 20 lakhs as advance in cash on that date. The stamp duty value on that date was ₹ 740 lakhs. The actual sale consideration was, however, fixed at ₹ 700 lakhs.

The sale deed was executed and registered on 10-6-2018 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of

property for stamp duty purposes was ₹ 770 lakhs. Mr. Arjun paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Arjun made following investments:

- (i) acquired a residential house at Mumbai for ₹ 110 lakhs.
- (ii) acquired a residential house at London for ₹ 150 lakhs.
- (iii) Subscribed to NHAI bond: ₹ 45 lakhs on 29-8-2018 and ₹ 50 lakhs on 12-10-2018.

Compute the income chargeable under the head “Capital Gains” for A.Y. 2019-20. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06	117	
F.Y. 2007-08	129	
F.Y. 2018-19	280	(RTP – May 2018)

Q.2. Mr. Sahu entered into an agreement with Mr. Devansh to sell his residential house located at New Delhi on 27.07.2018 for ₹ 82,00,000. Mr. Devansh was handed over the possession of the property on 16.12.2018 and the registration process was completed on 24.02.2019.

Mr. Devansh had paid the sale proceeds in the following manner;

- (i) 25% through account payee bank draft on the date of agreement.
- (ii) 50% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

The value determined by the Stamp Duty Authority on 27.07.2018 was ₹ 92,00,000 whereas on 24.02.2019 it was ₹ 94,50,000.

Mr. Sahu had acquired the property on 01.04.2002 for ₹ 21,00,000. After recovering the sale proceeds from Devansh, he purchased another residential house property in Navi Mumbai for ₹ 35,00,000.

Cost Inflation Index for Financial Year(s)

2002 – 03	-	105
2003 – 04	-	109
2018 – 19	-	280

Compute the total income of Mr. Sahu for the Assessment Year 2019-20 and his net tax liability/refund due for that year, assuming that he has earned income of ₹ 12,000 from Savings Bank A/c and received income of ₹ 84,000 (Net of TDS) from lotteries. Assume that the tax deductible at source, if any, on consideration for sale of residential house has been deducted.

(RTP – Nov 2018)

Q.3. Star Enterprises has transferred its unit R to A Ltd. by way of Slump Sale on January 23, 2019. The summarized Balance Sheet of Star Enterprises as on that date is given below:

Liabilities	Amount (₹ in lacs)	Assets	Amount (₹ in lacs)
<u>Own Capital</u>	1,750	<u>Fixed Assets :</u>	
<u>Accumulated P & L balance</u>	670	Unit P	200
<u>Liabilities:</u>		Unit Q	150
Unit P	90	Unit R	600
Unit Q	160	<u>Other Assets :</u>	
Unit R	140	Unit P	570
		Unit Q	850
		Unit R	440
Total	2,810	Total	2,810

Using the further information below, compute the Capital Gains arising from slump sale of Unit R for Assessment year 2019 – 20.

- (i) Slump sale consideration on transfer of Unit R was ₹ 930 lacs.
- (ii) Fixed Assets of Unit R includes land which was purchased at ₹ 110 lacs in the year 2008 and was revalued at ₹ 140 lacs.
- (iii) Other fixed assets are reflected at ₹ 460 lacs. (i.e. ₹ 600 lacs less value of land) which represents written down value of those assets as per books. The written down value of these asset is ₹ 430 lacs.
- (iv) Unit R was set up by Star Enterprises in Oct, 2007.

Note : Cost of Inflation Indices for the financial year 2006 – 08 and financial year 2018-19 are 122 and 272 respectively. (May 2018)

Ans. **Computation of capital gain on slump sale of Unit R for A.Y. 2018-19**

Particulars	₹
Full value of consideration	9,30,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	<u>8,40,00,000</u>
Long-term capital gain [Since the Unit is held for more than 36 months]	<u>90,00,000</u>

Working Note : Net worth of Unit –R

Particulars	₹
Cost of Land (Revaluation not to be considered)	1,10,00,000
WDV of other depreciable fixed assets as per the Income - tax Act, 1961	<u>4,30,00,000</u>
Other Assets (book value)	9,80,00,000
	<u>1,40,00,000</u>
Less: Liabilities	<u>8,40,00,000</u>
Net worth	

Notes:

- (1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.
- (2) “Net worth” of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.
However, any change in the value of assets on account of revaluation shall not be considered for this purpose
- (3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- (4) Since Unit R is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sales

CHAPTER 7 – AGRICULTURAL INCOME

Q.1. Mr. Charan grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for the financial year 2018 -19:

- Cost of cultivation of 40% of paddy produce is ₹ 9,00,000 which is sold for ₹ 18,50,000.
- Cost of cultivation of balance 60% of paddy is ₹ 14,40,000 and the market value of such paddy is ₹ 28,60,000.
- Incurred ₹ 3,60,000 in the manufacturing process of rice on the balance (60%) paddy.

The rice was sold for ₹ 38,00,000.

(RTP – Nov 2018)

Compute the Business income and Agricultural Income of Mr. Charan for A.Y. 2019-20.

Ans. Computation of Business Income and Agriculture Income of Mr. Charan for A.Y. 2018-19

Particulars	Business Income	Agricultural Income	
	₹	₹	₹
<u>Sale of Rice</u>			
Business income			
Sale Proceeds of Rice	38,00,000		
Less: Market Value of paddy (60%)	28,60,000		
Less: Manufacturing expenses	<u>3,60,000</u>		
Agricultural Income	<u>5,80,000</u>		
Market value of paddy (60%)		28,60,000	
Less: Cost of cultivation		<u>14,40,000</u>	14,20,000
<u>Sale of Paddy</u>			
Agricultural Income			
Sale proceeds of paddy produce (40%)		18,50,000	
Less: Cost of cultivation		<u>9,00,000</u>	<u>9,50,000</u>
			<u>23,70,000</u>

Q.2. Mr. Avani, a resident aged 25 years, manufactures tea leaves from the tea plants grown by him in India. These are then sold in the Indian market for ₹ 40 lakhs. The cost of growing tea plants was ₹ 15 lakhs and the cost of manufacturing tea leaves was ₹ 10 lakhs. Compute her tax liability for the Assessment Year 2019-20. **(May 2018)**

Ans. Computation of tax liability of Ms. Avani for the A.Y. 2018-19

In cases where the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 of 40% of profit on sale of tea is taxable as business income under the head "Profits and gains from business or profession", and the balance 60% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of tea = ₹ 40 lakhs – ₹ 15 lakhs – ₹ 10 lakhs = ₹ 15 lakhs.

Agricultural Income = 60% of ₹ 15 lakhs = ₹ 9 lakhs.

Business Income = 40% of ₹ 15 lakhs = ₹ 6 lakhs.

The tax liability of Ms. Avani has to be computed applying the concept of partial integration, since her total income comprises of both agricultural income and non-agricultural income and her agricultural income exceeds ₹ 5,000 p.a and her non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in her case).

Accordingly, her tax liability would be computed in the following manner:

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹11,50,000 [₹ 9,00,000 plus ₹ 2,50,000]	1,57,500
	1,05,000
Add: Health & Education Cess @ 4%	4,200
Total Tax liability	1,09,200

CHAPTER 8 – INCOME FROM OTHER SOURCES

Q.1. Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to 'the year ended 31 – 3 – 2019:

(a) Analysis of her bank account in her ledger reveals the under-mentioned data:

(i) Winnings from a TV Games how.(Net)	70,000
(ii) Gift received from mother's father	80,000
(iii) Gift received from Ramya, her close friend	60,000
(iv) Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (@ 15%p.a.)	3,00,000
(v) Rent received for a vacant plot of land	2,00,000
(vi) Amount received from Sharks Pvt Ltd., for a house at Salem for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2017.	1,50,000
(vii) Amount received under Key Man Insurance Policy	2,20,000
(viii) Amount forfeited by a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000

(b) Donation given in cash to a charitable trust registered u/s 12AA 12,000

(c) She owns agricultural lands at Colombo, Sri Lanka. She has derived agricultural income therefrom. 1,80,000

(d) (i) Public Provident Fund paid in the name of her minor daughter 75,000

(ii) Interest credited in the said PPF account during the year 8,900

(e) Share of profits received from Vidyut & Co., 1,90,000

You are required to compute the total income of the assessee and the tax payable for the assessment year 2019-20.

Computation should be made under proper heads of income.

(Nov 2018)

Q.2. Mr. Subramani sold a house plot to Mrs. Vimala for ₹ 45 lakhs on 12 – 5 – 2018. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Discuss the tax consequences of above, in the hands of each one of them, viz, Mr. Subramani & Mrs. Vimala. Mrs. Vimala has sold this plot to Ms. Padmaja on 21 – 3 – 2019 for ₹ 55 lakhs.

The valuation as per stamp valuation authority remains the same at ₹ 53 lakhs.

Compute the capital gains arising on sale of the house plot by, Mrs. Vimala.

Note: None of the parties viz Mr. Subramani, Mrs. Vimala & Ms. Padmaja are related to each other; the transactions are between outsiders.

(Nov 2018)

Q.3. Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income Tax Act, 1961:

- (i) Allowance received by an employee Mr. Ram working in a transport system at ₹ 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
- (ii) During the previous year 2018-19, Mrs. Aishwarya, resident, received a sum of ₹ 8,50,000 as dividend from Indian companies and ₹ 4,00,000 as dividend from Indian equity oriented mutual fund units. **(Nov 2018)**

Q.4. From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2019-20. Your answer should be supported by reasons:

- (i) Received cash gifts on the occasion of her marriage on 19-11-2018 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non – relatives.
- (ii) On 1-1-2018, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.
- (iii) On 12-2-2018, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.
- (iv) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000.

(RTP – May 2018)

Ans. Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2019-20

Particulars		₹
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2018-19 does not exceed ₹ 50,000.	Nil
(iii)	Purchase of vacant site for inadequate consideration on 12.2.2018 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000 the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual. Therefore, in the given case ₹ 80,000 (₹ 1,92,000 - ₹ 1,12,000) is taxable in the hands of Mrs. Sonu.	80,000
(iv)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is ₹ 58,000 (₹ 1,33,000 - ₹ 75,000) i.e. it exceeds ₹ 50,000, the difference would be taxable under section 56(2)(x).	58,000
Amount chargeable to tax		1,38,000

Q.5. Mr. Pranav has 15% shareholding in TRP (P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is ₹ 30 lakh. Pranav & Sons had taken a loan of ₹ 35 lakh from TRP (P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961. **(RTP – Nov 2018)**

Ans. Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern) is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm).

However, the amount of loan would be deemed as dividend only to the extent TRP (P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 35 lakhs given to Pranav & Sons, only ₹ 30 lakhs, i.e., to the extent of accumulated profit of TRP (P) Ltd., would be deemed as dividend.

Q.6. Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- (i) MNS Private Limited, a closely held company, issued 12,000 shares at ₹ 125 per share. (The face value of the share is ₹ 80 per share and the fair market value of the share is ₹ 110 per share).
- (ii) Mr. Arun received an advance of ₹ 56,000 on 11-09-2018 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.
- (iii) Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.
- (iv) Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000. **(Nov 2018)**

Ans.

S. No.	Taxable / Not Taxable	Reason
(i)	Taxable	Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2)(viib) in its hands under the head "Income from other sources". Therefore, ₹ 1,80,000 [12,000 × ₹ 15 (₹ 125 – ₹ 110)] shall be taxable as income in the hands of MNS Private Limited under the head "Income from other sources".

(ii)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head “Income from other sources”, if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head “Income from other sources”, since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.
(iii)	Not Taxable	As per section 56(2)(x), immovable property received without consideration by any person from his relative is not taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iv)	Not Taxable	Refrigerator is not included in the definition of “property”, for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head “Income from other sources”. Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of a her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

Q.7. Discuss the taxability of the following receipts in die hands of Mr. Sanjay Kamboj under the Income Tax Act, 1961 for A.Y. 2019-20:

- (i) ₹ 51,000 received from his sister living in US on 1-6-2018.
- (ii) Received a car from his friend on payment of ₹ 2,50,000, the FMV of which was ₹ 5,50,000.

Provisions of taxability or Non-taxability must be discussed.

(May 2018)

Ans. (i) Not taxable

Cash gift of ₹ 51,000 received from his sister, being a relative, would not be taxable in the hands of Mr. Sanjay Kamboj under section 56(2)(x), even though the amount exceeds ₹ 50,000.

(ii) Not Taxable

Car is not included in the definition of “property”, for the purpose of taxability of gifts in kind, in the hands of the recipient under the head “Income from other sources”.

Hence, ₹ 5,50,000, being the fair market value of car received for inadequate consideration from his friend is not taxable under section 56(2)(x) in the hands of Mr. Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ₹ 50,000 and the gift is received from a non – relative.

CHAPTER 9 – CLUBBING OF INCOME

Q.1. Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2019:

- (i) M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.
- (ii) M won a prize money of ₹ 3,00,000 in National Quiz competition.
This was invested in debentures of a company, from which interest of ₹ 19,000 (gross) accrued during the year.
- (iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. **(Nov 2018)**

Q.2. Mr. Madhav made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2017, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. compounded annually. The balance in this account as on 1st April, 2018 was ₹ 2,75,000 and the bank credited a sum of ₹ 27,500 as interest on 31st March, 2019.

Madhav's father gifted equity shares worth ₹ 50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2011) in July 2011 which were purchased by him on 8th December, 2005 for ₹ 80,000. Manan received a dividend of ₹ 5,000 on these shares in October 2018. He sold these shares on 1st November, 2018 for ₹ 5,00,000 and deposited ₹ 3,00,000 in a company at 15% interest per annum.

Cost Inflation Index Financial Year	Cost Inflation Index
2005 - 06	113
2011 - 12	167
2018 - 19	280

Mr. Madhav has a taxable income of ₹ 3.50,000 from his profession during the financial year 2018-19.

Compute his Gross Total Income for the A.Y. 2019-20.

(May 2018)

Ans. Computation of Gross Total Income of Mr. Madhav for the A.Y. 2018-19

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [₹ 80,000 x 280/113]	<u>1,98,230</u>	3,01,770	
Income from Other Sources			
Dividend of ₹ 80,000 on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [₹ 3,00,000 x 15% x 5/12]	<u>18,750</u>	<u>18,750</u>	
		3,20,500	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	<u>3,19,020</u>
Gross Total Income			<u>6,69,020</u>

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav
- (2) Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Manan held the asset, i.e., F.Y.2010-11, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

Q.3. Compute the income to be included in the hands of Mr. Sharma for the Assessment year 2019-20 with reasons from the following information:

A proprietary business was started by Mrs. Sharma in the year 2015. As on 1.4.2017 her capital in business was ₹ 5,00,000. Her husband gifted ₹ 3,00,000 on 2.4.2017, which Mrs. Sharma invested in her business on the same date. Mrs. Sharma earned profits from her proprietary business for the financial year 2017 – 18, ₹ 2,00,000 and financial year 2018 – 19 ₹ 4,20,000. **(RTP – May 2018)**

Ans. Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mrs. Sharma received a gift of ₹ 3,00,000 from her husband which she invested in her business. In a case where gift from spouse has been invested in business, as per Explanation 3 to section 64(1), the income or loss from such business for any previous year has to be apportioned between the spouses on the basis of the ratio of their capital employed as on 1st April of the relevant previous year. Accordingly, the income to be included in the hands of Mr. Sharma for A.Y.2019-20 has to be computed as under:

Particulars	Mrs. Sharma's Capital Contribution	Capital Contribution out of gift from husband	Total
	₹	₹	₹
Capital as on 1.4.2017	5,00,000	--	5,00,000
Investment on 02.04.2017 out of gift received from her husband		3,00,000	3,00,000
Profit for F.Y. 2017-18 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2017	5,00,000	3,00,000	8,00,000
	2,00,000		2,00,000
Capital employed as on 1.4.2018	7,00,000	3,00,000	10,00,000
Profit for F.Y. 2018-19 to be apportioned on the basis of capital employed as on 1.4.2018 (i.e., 7:3)	2,94,000	1,26,000	4,00,000

Therefore, the income to be included in the hands of Mr. Sharma for A.Y.2019-20 is ₹ 1,26,000.

Q.4. Saharsh gifted ₹ 12 lakhs to his wife, Sandhya on her birthday on, 1st February, 2018. Sandhya lent ₹ 6,00,000 out of the gifted amount to Karuna on 1st April, 2018 for six months on which she received interest of ₹ 60,000. The said sum of ₹ 60,000 was invested in shares of a listed company on 3rd October, 2018, which were sold for ₹ 85,000 on 30th March, 2019. Securities transactions tax was paid on such sale. The balance amount of gift was invested on 1st April 2018, as capital by Sandhya in her new business. She suffered loss of ₹ 25,000 in the business in Financial Year 2018 – 19.

In whose hands the above income and loss shall be included in Assessment Year 2019-20, assume that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons. **(RTP – Nov 2018)**

Ans. In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 60,000, being the amount of interest on loan received by Mrs. Sandhya, wife of Mr. Saharsh, would be includible in the total income of Mr. Saharsh, since such loan was given by her out of the sum of money received as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 25,000 from the business carried on by Mrs. Sandhya would be includible in the total income of Mr. Saharsh, since as on 1st April 2018, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: The short-term capital gain of ₹ 25,000 (₹ 85,000, being the sale consideration less ₹ 60,000, being the cost of acquisition) arising in the hands of Mrs. Sandhya from sale of shares acquired by investing the interest income of ₹ 60,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Saharsh. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@15%

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, such income is taxable in the hands of Mrs. Sandhya.

CHAPTER 10 – SET OFF & CARRY FORWARD OF LOSSES

Q.1. Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2018-19 :

Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35 AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from betting's	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2019-20, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30 – 7 – 2019. **(Nov 2018)**

Q.2. The following are the details relating to Mr. Gupta, a resident Indian, relating to the year ended 31.3.2019: (RTP – May 2018)

Particulars	₹
Income from salaries	2,20,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of sale and acquisition of shares)	1,50,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	45,000
Long-term capital gains from sale of urban land	2,50,000
Loss from house property	2,50,000
Loss from card games	40,000
Income from betting (Gross)	35,000
Life Insurance Premium paid (Sum assured ₹ 5,00,000)	25,000

Compute his total income for A.Y. 2019-20 and show the items eligible for carry forward.

Ans. Computation of total income of Mr. Gupta for the A.Y.2019-20

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property [See Note (i)]	<u>2,00,000</u>	20,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business set off [See Note (iv)]	<u>30,000</u>	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital Loss on listed Shares	<u>1,50,000</u>	
Less: Loss from cloth business set off [See Note (iv)]	<u>1,00,000</u>	Nil
Income from other sources		
Income from betting		<u>35,000</u>
Gross Total Income		55,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (vi)]		<u>20,000</u>
Total income		<u>35,000</u>

Losses to be carried forward:

Particulars	₹
(1) Loss from house property (₹ 2,50,000 - ₹ 2,00,000)	50,000
(2) Loss from cloth business (₹ 2,40,000 - ₹ 30,000 - ₹ 1,00,000)	1,10,000
(3) Loss from specified business covered by section 35AD	45,000

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against income under any other head to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year(s).

- (iii) Since inter-source set-off of losses is permissible as per section 70(1), loss from cloth business to the extent of ₹ 30,000 can be set-off against income from speculation business. The remaining business loss cannot be set off against salary income due to restriction contained in section 71(2A). However, the remaining business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000) can be set-off against long-term capital gains of ₹ 1,00,000 from sale of urban land. Consequently, the taxable long-term capital gains would be Nil.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹ 1,05,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)].
- (vi) Income from betting is chargeable to tax at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Q.3. From following information furnished for the year ended 31-03-2019, compute the total income of Mr. Arihant for A.Y. 2019-20 and show the items eligible for carry forward and upto which assessment year:

Particulars	Amount (₹)
Long-term capital gain from sale of urban land	2,30,000
Long-term capital loss on sale of shares (STT not paid)	85,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered under section 35AD	40,000
Income from salary	3,50,000
Loss from house property	2,20,000
Income from trading business	75,000

Following are details of unabsorbed depreciation and the brought forward losses:

- (1) Unabsorbed depreciation of ₹11,000 pertaining to A.Y 2018-19.
- (2) Losses from owning and maintaining of race horses pertaining to A.Y. 2018-19 ₹ 5,000.
- (3) Brought forward loss from trading business ₹ 8,000 relating to A.Y.2015-16.

(RTP – Nov 2018)

Ans. Computation of total income of Mr. Arihant for the A.Y. 2019-20

Particulars	₹	₹
Salaries		
Income from Salary	3,50,000	
Less: Loss from house property set-off against salary income as per section 71(3A), restricted to	<u>2,00,000</u>	1,50,000
Profits and gains of business or profession		
Income from trading business	75,000	
Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set- off is permitted has not expired.	<u>8,000</u>	

	67,000	
Less: Unabsorbed depreciation	<u>11,000</u>	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X to be set-off as per section 73(1)	<u>15,000</u>	
Loss from speculative business X to be carried forward to A.Y.2020-21 as per section 73(2)	10,000	
Capital Gains		
Long term capital gain on sale of urban land	2,30,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]	<u>85,000</u>	43,000
Less: Long term Capital Loss on sales of listed shares on Which STT is paid	1,02,000	
Total Income		2,49,000

Items eligible for carried forward to A.Y.2019-20

Particulars	₹
<p><u>Loss from House Property</u> As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.</p>	20,000
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2027-28, in this case.	
<p><u>Loss from speculative business X</u> Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., up to A.Y. 2023-24 in this case, as specified under section 73(4).</p>	10,000
<p><u>Loss from specified business under section 35AD</u> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.</p>	40,000
<p><u>Loss from the activity of owning and maintaining race horses</u> Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., up to A.Y.2022-23, in this case as specified under section 74A (3).</p>	5,000

CHAPTER 11 – DEDUCTIONS FROM GTI

Q.1. For the A.Y. 2019-20, the Gross Total Income of Mr. Raja, a resident in India, was ₹ 8,00,000 which includes long-term capital gain of ₹ 2,50,000 and Short-term capital gain of ₹ 50,000. The Gross Total Income also includes interest income of ₹ 15,000 from savings bank deposits with banks. Mr. Raja has invested in PPF ₹ 1,40,000 and also paid a medical insurance premium ₹ 35,000 for self. Mr. Raja also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Raja, who is 65 years old as on 31.3.2018. (RTP – May 2018)

Q.2. Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for Assessment year 2019 – 20 is ₹ 1.85 crore and total turnover is ₹ 18.70 crore. On 1st April 2018, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during the previous year 2018 – 19 comprises of:

- (a) 15 casual employees employed on 15th April 2018 till 31st January 2019 on monthly emolument of ₹ 22,000 per month
- (b) 40 regular employees employed on 1st May, 2018 on monthly emolument of ₹ 22,000 per month
- (c) 25 contractual employees employed on 1st July 2018 for 2 years on monthly emolument of ₹ 15,000 per month
- (d) 35 regular employees employed on 1st August, 2018 on monthly emolument of ₹ 30,000 per month
- (e) 25 regular employees employed on 1st October, 2018 on monthly emolument of ₹ 22,000 per month

Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2019-20, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.

Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.

[**Note** – Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2019-20] (RTP – Nov 2018)

Ans.

Computation of deduction under section 80JJAA

Mr. Anay is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2019-20, as his total turnover from business exceeds ₹ 1 crore and he has employed “additional employees” during the P.Y.2018-19.

Additional employee cost = [₹ 22,000 × 40 new regular employees × 11 months] + [₹ 15,000 per month × 9 months × 25 new contractual employees]
= ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000

Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.

Working Note: Number of Additional employees employed during the P.Y.2017 -18

Particulars	No. of additional employees	
Total number of additional employees employed during the year		140
Less: Casual workmen employed on 15 th April 2018, who do not participate in the recognized provident fund	15	
Regular employees employed on 1 st August 2018, since their total monthly emoluments exceed ₹ 25,000	35	
Regular employees employed on 1 st October 2018, for a period of less than 240 days during the P.Y.2018-19	<u>25</u>	<u>75</u>
Total number of additional employees employed during the P.Y.2018 – 19		<u>65</u>

Yes, the answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel. Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2018 would also qualify for deduction under section 80JJAA for A.Y. 2019-20.

$$\begin{aligned} \text{Additional employee cost} &= ₹ 1,30,55,000 + ₹ 33,00,000 \text{ (₹ 22,000} \times 6 \times 25) \\ &= ₹ 1,63,55,000 \end{aligned}$$

Q.3. You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2019-20 from the following information shown in his Profit and Loss Account for the year ended 31st March 2019:

- (i) The net profit was ₹ 8,40,000. **(RTP – Nov 2018)**
- (ii) Depreciation debited in the books of account was ₹ 1,05,000.
- (iii) The following incomes were credited in the Profit & Loss Account :
 - (a) Interest on notified government securities ₹ 32,000
 - (b) Dividend from a foreign company ₹ 28,000.
 - (c) Gold chain worth ₹ 78,000 received as gift from his mother.
- (iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2019.
- (v) General expenses included:
 - (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
 - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

Additional Information:

- (1) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].
- (2) He contributed the following amounts by cheque:
 - (a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.
 - (b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.
 - (c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check-up for self and his wife.
 - (d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

Ans. Computation of total income of Mr. Anoop for the Assessment Year 2018-19

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: Income credited to profit and loss account but not taxable under this head			
Interest securities on notified government	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	<u>78,000</u>	<u>1,38,000</u>	
Add: Depreciation debited in the books of account		7,02,000	
		<u>1,05,000</u>	
		8,07,000	
Add: Expenses debited to profit and loss account but not allowable as deduction			
Interest on capital borrowed for purchase of plant & machinery [As per the proviso to section 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2019 not allowable as deduction. The said amount has to be added to the cost of the asset. Since the amount has been debited to profit and loss account, it has to be added back].	82,000		
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	<u>-</u>	<u>1,00,500</u>	
Less: Depreciation allowable under the Income-tax Act, 1961 [Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2018-19]		9,07,500	7,91,500
		<u>1,16,000</u>	
Income from Other Sources			
Interest on notified Government Securities, exempt under section 10(15)		-	
Dividend from foreign company [(not exempt under section 10(34))]		28,000	
Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (l) of proviso to section 56(2)(x)]		<u>-</u>	<u>28,000</u>
Gross Total Income			8,19,500
Less: Deductions under Chapter VI-A			
Under section 80C			

Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			
Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health checkup, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name, restricted to	<u>35,000</u>	50,000	
Under section 80G	55,000		
Donation to Clean Ganga Fund (qualifies for 100% deduction)	50,000	<u>23,000</u>	<u>1,21,000</u>
Total Income			6,98,500
Tax on total income @ 5% on ₹ 2,50,000 (₹ 5,00,000 less ₹ 2,50,000, being the basic exemption limit) plus @20% on ₹ 1,93,500 (in excess of ₹ 5,00,000)			52,200
Add: Health & Education cess @ 4%			<u>2088</u>
Tax Payable			<u>54,288</u>
Tax Payable (rounded off)			54,290

CHAPTER 12 – TDS & TCS

Q.1. Mr. Dhanapal wishes to purchase a residential house costing ₹ 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for ₹ 65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyers as well as the sellers are residents in India. Advise Mr. Dhanapal suitably. (Nov 2018)

Q.2. Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ₹ 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹ 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost State whether there will be any obligation to collect tax in the above two situations. (Nov 2018)

Q.3. Mention the significant differences between TDS and TCS. (RTP – May 2018)

Ans. Significant Differences between TDS and TCS

TDS		TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
(3)	Generally, tax is required to be deducted at the time of credit to the	Generally, tax is required to be collected at source at the time of debiting of the amount payable by

<p>account of the payee or at the time of payment, whichever is earlier. However, in certain cases, tax is required to be deducted at the time of payment. For e.g., in case of payment of salary, payment in respect of life insurance policy</p>	<p>the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.</p>
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Q.4. Shurya Bank Ltd., a banking company to which the Banking Regulations Act, 1949 applies, has paid interest of ₹ 7,000 to Mr. Bhuwan, a resident Indian, from its Lucknow branch and ₹ 8,000 from Kanpur branch. If the bank has not adopted core banking solutions, is tax required to be deducted at source from such interest payments made on 31 – 3 – 2019? Examine the provisions of the Income – tax Act, 1961 in this regard.

Will your answer be different if the bank has adopted core banking solutions?

(RTP – Nov 2018)

Ans. Tax is deductible @10% under section 194A in respect of interest credited or paid by a banking company, if the same exceeds ₹ 10,000.

This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of ₹ 10,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank.

Therefore, if Shurya Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of ₹ 7,000 and ₹ 8,000 paid by its Lucknow Branch and Kanpur Branch, respectively, to Mr. Bhuwan, since the interest paid by each branch does not exceed ₹ 10,000.

However, if Shurya Bank Ltd. has adopted core banking solutions, it has to deduct tax at source@10% on ₹ 15,000 (₹ 7,000 + ₹ 8,000) under section 194A, since the aggregate interest paid by its Lucknow and Kanpur branches exceed ₹ 10,000.

Q.5. When and at what rate, a seller is required to collect tax source on sale of motor vehicle. Also, discuss whether tax is required to be collected at source on sale of motor vehicle by manufacturers to dealers.

(RTP – Nov 2018)

Ans. As per section 206(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall collect tax from the buyer@1% of the sale consideration. In case of sale of a motor vehicle, tax shall be collected at the time of receipt of such amount. The CBDT has, vide Circular No. 22/2016 dated 8.6.2016 and Circular No.23/2016 dated 24.6.2016, clarified that tax is required to be collected at source on all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

CHAPTER 13 – ADVANCE TAX & INTEREST

Q.1. Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2018-19:

- (i) Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- (ii) Income from other sources ₹ 2,70,000.
- (iii) Tax deducted at source ₹ 25,000.
- (iv) Advance tax paid ₹ 1,03,000 during the P.Y. 2018-19.

Return of income filed on 11-12-2019. Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. (RTP – May 2018)

Ans. **Computation of interest payable under section 234B by Mr. Sachal**

Particulars	₹
Tax on total income of ₹10,80,000 [Business income of ₹ 8,10,000 + Income from other sources of ₹ 2,70,000]	1,36,500
Add: Health and Education cess @ 4%	<u>5,460</u>
Tax on total income	1,41,960
Less: Tax deducted at source	<u>25,000</u>
Assessed Tax	<u>1,16,960</u>
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹ 1,05,264 paid is less than ₹ 1,04,036, being 90% of assessed tax	
Number of months from 1 st April, 2019 to 11 th December, 2019, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 13,900 [i.e., difference between assessed tax of ₹ 16,960 and advance tax of ₹ 1,03,000 paid, being ₹ 13,960 which is rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sachal’s accounts are audited under section 44AB, the due date for filing of return for A.Y. 2019-20, in his case, is 30.09.2019. Mr. Sachal has filed his return on 11.12.2019 i.e., interest under section 234A will be payable for 3 months (from 1.10.2019 to 11.12.2019) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., ₹ 13,960 rounded off to ₹ 12,500 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = ₹ 13,900 x 1% x 3 = ₹ 375

Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2019 and his total income exceeds ₹ 5 lakhs, a fee of ₹ 5,000 will be payable by him.

Q.2. Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2018-19.

Estimated tax liability for the financial year 2018-19	₹ 85,000
Tax deducted at source for this year	₹ 15,000

- (i) Would your answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?
- (ii) What would be your answer if, instead of section 44AD, he is eligible for and has opted for presumptive tax provisions under section 44AE? **(RTP – Nov 2018)**

Ans. Determination of Advance Tax Liability of Mr. Shikhar

Particulars		₹
Estimated tax liability for the financial year 2018 – 19		85,000
Less: Tax deducted at source		<u>15,000</u>
Tax payable		<u>70,000</u>
Due Date of installment	Amount payable	₹
On or before 15 th June, 2018	Not less than 15% of advance tax liability	10,500
On or before 15 th September, 2018	Not less than 45% of advance tax liability less amount paid in earlier installment	21,000 (₹ 31,500, being 45% of ₹ 70,000 - ₹ 10,500)
On or before 15 th December, 2018	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15 th March, 2019	Whole of the advance tax liability less amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire advance tax liability in one installment on or before 15.3.2018, without attracting interest under section 243C.

This benefit would, however, not be available if he is eligible for and has opted for presumptive tax provisions under section 44AE, in which case he has to pay his advance tax in four installments as indicated above, failing which interest under section 234C would be attracted.

CHAPTER 14 – ASSESSMENT PROCEDURE

Q.1. Explain the quantum of late fees under section 234 F for delay in furnishing return of income within the prescribed time limit under section 139 (1) for A.Y. 2019-20.

(Nov 2018)

Q.2. Every person is required to file a return of income on or before due date in the prescribed form and manner as per Section 139 (1). What is the meaning of due date of filing Income Tax Returns for different categories of assessee as per Section 139 (1) of the Income Tax Act 1961?

(Nov 2018)

Q.3. Ms. Geetha submits her return of income on 29-09-2019 for A.Y 2019-20 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 01-02-2020, she realized that she had not claimed deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid for her mother. She wants to revise her return of income. Can she do so? Examine. Would your answer be different if she discovered this omission on 02-04-2020? **(RTP – May 2018)**

Ans. Since Ms. Geetha has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, she does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961. Therefore, the due date of filing return for A.Y.2019-20 under section 139(1), in her case, is 31st July, 2019. Since Ms. Geetha had submitted her return only on 29.9.2019, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, a belated return under section 139(4) can also be revised. Therefore, Ms. Geetha can revise the return of income filed by her under section 139(4) in February 2020, to claim deduction under section 80D, since the time limit for filing a revised return is upto the end of the relevant assessment year, which is 31.03.2020.

However, she cannot revise return had she discovered this omission only on 02-04-2020, since it is beyond 31.03.2020, being the end of A.Y. 2019-20.

Q.4. Briefly mention the provisions of Income Tax Act with regard to Quoting Aadhar Number u/s139AA of the Act.

Indicate the three situations where the Return of Income has to be compulsorily filed u/s 139(1) of the Income Tax Act, 1961. **(May 2018)**

Ans. Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

- (a) In the application form for allotment of Permanent Account Number (PAN)
- (b) In the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) Residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) A non-resident as per Income-tax Act, 1961;
- (iii) Of the age of 80 years or more at any time during the previous year;
- (iv) Not a citizen of India.

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.

Q.5. Mr. Atharv filed his return of income on 30th September, 2019 related to Assessment Year 2019-20. In the month of October 2019, his tax consultant found that the interest on fixed deposit was omitted in the tax return. Can Mr. Atharv file a revised return?

Assume that the due date for furnishing return of income in his case, was 31st July, 2019 and the assessment was not completed till the month of October 2019. **(RTP – Nov 2018)**

Ans. As per section 139(5), if any person, having furnished a return under section 139(1), within the due date or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (a) Before the end of the relevant assessment year or
- (b) Before the completion of assessment, whichever is earlier.

For assessment year 2019-20, the belated return has to be furnished before 31st March 2019 or before completion of assessment, whichever is earlier.

Since Mr. Atharv has filed his return after 31.7.2019, being the due date of filing return of income under section 139(1) in his case, but before 31.3.2020/completion of assessment, the said return is a belated return.

Thus, in the present case, Mr. Atharv can file a revised return, since he has found an omission in the belated return filed by him for A.Y.2019-20 and assessment is yet to be completed and 31.3.2019, being the end of A.Y.2019-20 has not elapsed.

CHAPTER 15 – INCOME EXEMPT FROM TAX

Q.1. Mrs. Vibha Gupta, a resident individual, is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2019, pertaining to these two units (₹ in lakhs)

	DTA Unit	SEZ Unit
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10 AA :

- (i) When the SEZ unit had been set up on 12-3-2011, and
When the SEZ unit had been set up on 12-8-2016

(Nov 2018)

Q.2. Examine with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961.

(RTP – May 2018)

- (a) Rent of ₹ 60,000 received for letting out agricultural land for a movie shooting.
- (b) Dividend of ₹ 17 lakhs received by Mr. Yatin during P.Y. 2018-19 from A Ltd., a domestic company.
- (c) Agricultural income of ₹ 1,30,000 of Mr. Sunil from a land situated in Canada.

Ans. **Taxability of receipts under the provisions of Income - tax Act, 1961**

	Taxable / Not taxable	Reason
(a)	Taxable	Agricultural income is exempt from income-tax as per section 10(1). Agriculture income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In this case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 60,000, being rent received from letting out agricultural land for movie shooting, is not exempt under section 10(1) and the same is chargeable to tax.
(b)	Partly	Dividend received from a domestic company is subject to dividend

	Taxable	distribution tax in the hands of domestic company under section 115-O. Dividend income received from an Indian company, which is subject to dividend distribution tax, is exempt under section 10(34). However, dividend in excess of ₹ 10 lakhs received, inter alia, by an individual is chargeable to tax under section 115BBDA and not exempt under section 10(34). Therefore, in this case, dividend received upto ₹ 10 lakh is exempt in the hands of Mr. Yatin under section 10(34). ₹ 7 lakh, being dividend in excess of ₹ 10 lakh, is taxable in his hands @10% as per section 115BBDA.
(c)	Taxable	Agricultural income from a land situated in any foreign country is not exempt under section 10(1) and hence, is chargeable to tax. Therefore, in this case, agricultural income of ₹ 1,30,000 of Mr. Sunil from land situated in Canada is taxable.

CHAPTER 16 – COMPUTATION OF TOTAL INCOME

Q.1. Mr. Yusuf Khan, a resident individual aged 55, furnishes the following information pertaining to the year ended 31.3.2019:

- (i) He is a working partner in ABC & Co. He has received the following amounts from the firm:

Interest on capital at 15% : ₹ 3,00,000

Salary as working partner (at 1% of firm's sales) (allowed fully to the firm): ₹ 90,000

- (ii) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarised form) is as under:

Particulars	₹	Particulars	₹
To Salaries	1,20,000	By Gross profit	12,50,000
To Bonus	48,000	By Interest on Bank FD	45,000
To Car expenses	50,000	(Net of TDS)	
To Machinery repairs	2,34,000	By Agricultural income	60,000
To Advance tax	70,000	By Pension from LIC	
To Depreciation on:		Jeevan Dhara	24,000
- Car	3,00,000		
- Machinery	1,25,000		
To Net profit	<u>4,32,000</u>		
	<u>13,79,000</u>		<u>13,79,000</u>

Details of assets:

Particulars	₹
Opening WDV of assets are as under:	
Car	3,00,000
Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	
Purchased on 23.9.2018 by cash in single payment	2,00,000
Purchased on 12.11.2018 by account payee cheque	3,00,000
Second hand machinery purchased on 12.4.2018 by bearer cheque in single payment	1,25,000

(All assets added during the year were put to use immediately after purchase)

One-fifth of the car expenses are towards estimated personal use of the assessee.

Salary includes ₹ 15,000 paid by way of a single cash payment to manager.

(iii) In February, 2016, he had sold a house at Chennai. Arrears of rent relating to this house amounting to ₹ 75,000 was received in March, 2019.

(iv) Details of his Savings and Investments are as under:

Particulars	₹
Life insurance premium for policy in the name of his major son employed in a multinational company, at a salary of ₹ 10 lakhs p.a. (Sum assured ₹ 2,00,000) (Policy taken on 1.07.2013)	30,000
Contribution to PPF	70,000
Medical Insurance premium for his father aged 79, who is not dependent on him	32,000

You are required to compute the total income of Mr. Yusuf Khan for the assessment year 2019-20. (RTP – May 2018)

Ans. Computation of total income of Mr. Yusuf Khan for the A.Y. 2018-19

Particulars	₹	₹
Income from house property		
Arrears of rent received in respect of the Chennai house taxable under section 25A [Note 1]	75,000	
Less: Deduction @ 30%	<u>22,500</u>	52,500
Profits and gains of business or profession		
(a) Own business [Note 3]		6,37,000
(b) Income from partnership firm [Note 2]		
Interest on capital	2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]		
Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)	<u>90,000</u>	3,30,000
Income from other sources		
(a) LIC Jeevan Dhara pension	24,000	
(b) Interest from bank FD (gross)	<u>50,000</u>	<u>74,000</u>
Gross Total Income		10,93,500
Less: Deductions under Chapter VIA		
Section 80C		

Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of ₹ 2,00,000.	20,000		
Contribution to PPF	<u>70,000</u>	90,000	
Section 80D			
Mediclaime premium for father, a senior citizen	32,000		
(qualifies for deduction, even though the father is not dependent on the assessee, subject to a maximum of ₹ 30,000)		<u>30,000</u>	<u>1,20,000</u>
Total Income			<u>9,73,500</u>

Notes:

- (1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.
- (2) The income by way of interest on capital and salary of Mr. Yusuf Khan from the firm, ABC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, ₹ 3,30,000 [i.e., ₹ 90,000 (salary) + ₹ 2,40,000 (interest@12%)] should be included in his business income.
- (3) Computation of income from own business

Particulars	₹	₹
Net profit as per profit and loss account		4,32,000
<i>Less:</i> Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	45,000	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	<u>24,000</u>	<u>1,29,000</u>
<i>Add:</i> Items debited to profit and loss account to be disallowed/considered separately		3,03,000
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds ₹ 10,000	<u>15,000</u>	<u>5,20,000</u>
		<u>8,23,000</u>
<i>Less:</i> Depreciation (See Working Note below)		<u>1,86,000</u>
Income from business		<u>6,37,000</u>

Working Note:

Computation of depreciation allowable under the income-tax Act, 1961

Particulars		₹	₹
On Car:			36,000
Depreciation @15% on 3,00,000		45,000	
Less: 1/5 th for personal use		<u>9,000</u>	
Depreciation on Car allowable as deduction			
On Machinery:			
Opening WDV	6,50,000		
Additions during the year (used for more than 180 days)			
- New Machinery purchased on 23.9.18	2,00,000		
- Second hand machinery purchased on 12.4.18	1,25,000		
Additions during the year (used for less than 180 days)	3,00,000		
Normal Depreciation			
Depreciation @15% on ₹ 6,50,000		97,500	
[As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 12.4.2018 and on new machinery purchased on 23.9.2018 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]			
Depreciation @ 7.5% on ₹ 3,00,000		<u>22,500</u>	
Total normal depreciation on machinery (A)			1,20,000
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.			
Additional depreciation (B)			
New machinery			
Used for less than 180 days = 10% of ₹ 3,00,000		<u>30,000</u>	