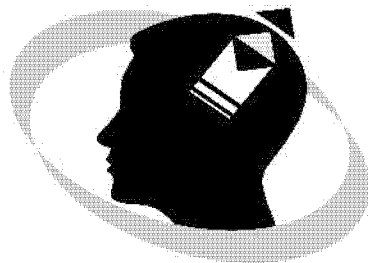


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1. INTRODUCTION TO TAX**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1****Computation of Tax liability of Mr.Arun (Normal Route)**

| Tax slabs | Computation | Tax Rs. |
|--|---|------------------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | $(5,00,000 - 2,50,000) \times 5\%$ | 12,500 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(1,04,00,000 - 10,00,000) \times 30\%$ | 28,20,000 |
| Total | | 29,32,500 |
| Add: Surcharge @ 15% on above | | 4,39,875 |
| Sub-total | | 33,72,375 |
| Add: EC @ 2% and SHEC @ 1% on above | | 1,01,171 |
| Total tax liability (rounded off) | | 34,73,550 |

Computation of Tax liability of Mr.Arun (Marginal relief route)

| Tax slabs | Computation | Tax Rs. |
|---|---|------------------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | $(5,00,000 - 2,50,000) \times 5\%$ | 12,500 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(1,00,00,000 - 10,00,000) \times 30\%$ | 27,00,000 |
| Total | | 28,12,500 |
| Add: Surcharge @ 10% on above | | 2,81,250 |
| Sub-total | | 30,93,750 |
| Add: Rs.4,00,000 in excess of Rs.10 crores | | 4,00,000 |
| Total tax liability (rounded off) | | 34,93,750 |

In the present case, the tax liability considering the marginal relief is higher than the tax liability under the normal route. So the tax liability of Rs. 34,73,550 can be the tax liability and no marginal relief is available.

Computation of Tax liability of Mr.Murthy (Normal Route)

| Tax slabs | Computation | Tax Rs. |
|--|---|------------------|
| UP TO 3,00,000 | - | Nil |
| From 3,00,000 to Rs.5,00,000 | $(5,00,000 - 3,00,000) \times 5\%$ | 10,000 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(1,04,00,000 - 10,00,000) \times 30\%$ | 28,20,000 |
| Total | | 29,30,000 |
| Add: Surcharge @ 15% on above | | 4,39,500 |
| Sub-total | | 33,69,500 |
| Add: EC @ 2% and SHEC @ 1% on above | | 1,01,085 |
| Total tax liability (rounded off) | | 34,70,590 |

Computation of Tax liability of Mr.Murthy (Marginal relief route)

| Tax slabs | Computation | Tax Rs. |
|---|---|------------------|
| UP TO 3,00,000 | - | Nil |
| From 3,00,000 to Rs.5,00,000 | $(5,00,000 - 3,00,000) \times 5\%$ | 10,000 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(1,00,00,000 - 10,00,000) \times 30\%$ | 27,00,000 |
| Total | | 28,30,000 |
| Add: Surcharge @ 10% on above | | 2,83,000 |
| Sub-total | | 31,13,000 |
| Add: Rs.4,00,000 in excess of Rs.10 Crores | | 4,00,000 |
| Total tax liability (rounded off) | | 35,13,000 |

In the present case, the tax liability considering the marginal relief is higher than the tax liability under the marginal relief route. So the tax liability of Rs. 34,70,590 can be the tax liability and no marginal relief is available.

Computation of Tax liability of Mr. Shekhar (Normal Route)

| Tax slabs | Computation | Tax Rs. |
|--|---|------------------|
| UP TO 5,00,000 | - | Nil |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(1,04,00,000 - 10,00,000) \times 30\%$ | 28,20,000 |
| Total | | 29,20,000 |
| Add: Surcharge @ 15% on above | | 4,38,000 |
| Sub-total | | 33,58,000 |
| Add: EC @ 2% and SHEC @ 1% on above | | 1,00,740 |
| Total tax liability (rounded off) | | 34,58,740 |

Computation of Tax liability of Mr. Shekhar (Marginal relief route)

| Tax slabs | Computation | Tax Rs. |
|---|---|------------------|
| UP TO 5,00,000 | - | Nil |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(1,00,00,000 - 10,00,000) \times 30\%$ | 27,00,000 |
| Total | | 28,00,000 |
| Add: Surcharge @ 10% on above | | 2,80,000 |
| Sub-total | | 30,80,000 |
| Add: Rs.4,00,000 in excess of Rs.10 crores | | 4,00,000 |
| Total tax liability (rounded off) | | 34,80,000 |

In the present case, the tax liability considering the marginal relief is higher than the tax liability under the normal route. So the tax liability of Rs. 34,58,740 can be the tax liability and no marginal relief is available.

PROBLEM NO.2

Computation of total income of Mr. Sai for the A.Y. 18-19

| Particulars | Amount Rs. |
|------------------------------------|-----------------|
| Income from salary | 1,80,000 |
| Income from house property | Nil |
| PGBP | 40,000 |
| Capital Gains: | |
| LTCG | 40,000 |
| STCG | 30,000 |
| Other Sources: | |
| Interest on Bank Deposits | 90,000 |
| Winnings | 20,000 |
| Gross Total Income | 4,00,000 |
| Less: Chapter VIA deduction | (30,000) |
| Net Income | 3,70,000 |

Tax liability

| Particulars of source of income | Computation | Amount |
|--|--|---------------|
| Winnings | $20,000 \times 30\%$ | 6,000 |
| LTCG | $40,000 \times 20\%$ | 8,000 |
| Other income | $[3,70,000 - 20,000 - 40,000 - 2,50,000(\text{Exemption limit})] \times 5\%$ | 3,000 |
| Total | | 17,000 |
| Add: EC @ 2% and SHEC @ 1% on above | | 510 |
| Total tax liability | | 17,510 |

PROBLEM NO.3

X Ltd, Indian co having total income of Rs.1,01,00,000

Computation of Tax Liability

| Particulars | Computation | Amount Rs. |
|--|----------------------|------------------|
| Gross tax liability | Rs.1,01,00,000 x 30% | 30,30,000 |
| Add: Surcharge @ 7% | (Rs.30,30,000 x 7%) | 2,12,100 |
| Subtotal | | 32,42,100 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs. 32,42,100 x 3%) | | 97,263 |
| Total tax liability (rounded off) | | 33,39,360 |

Computation of Tax Liability (Marginal relief route)

| Particulars | Computation | Amount Rs. |
|--|----------------------|------------------|
| Gross tax liability | Rs.1,00,00,000 x 30% | 30,00,000 |
| Add: Rs.1,00,000 being the excess amount of total income of Rs.1 crore | | 1,00,000 |
| Subtotal | | 31,00,000 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs. 31,00,000 x 3%) | | 93,000 |
| Total tax liability (rounded off) | | 31,93,000 |

In the present case, the tax liability considering the marginal relief is lower than the tax liability under the normal route. So the tax liability of Rs. 31,93,000 can be the tax liability and Rs.1,46,360 (Rs.32,42,100 – Rs.31,00,000) is the marginal relief.

PROBLEM NO.4

X Ltd, Indian co having total income of Rs.10,01,00,000

Computation of Tax Liability

| Particulars | Computation | Amount Rs. |
|--|-------------------------|--------------------|
| Gross tax liability | Rs.10,01,00,000 x 30% | 3,00,30,000 |
| Add: Surcharge @ 7% | (Rs. 3,00,30,000 x 12%) | 36,03,600 |
| Subtotal | | 3,36,33,600 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs. 3,36,33,600 x 3%) | | 10,09,008 |
| Total tax liability (rounded off) | | 3,46,42,608 |

Computation of Tax Liability (Marginal relief route)

| Particulars | Computation | Amount Rs. |
|--|------------------------|--------------------|
| Gross tax liability | Rs.10,00,00,000 x 30% | 3,00,00,000 |
| Add: Surcharge @ 7% | (Rs. 3,00,00,000 x 7%) | 21,00,000 |
| Add: Rs.1,00,000 being the excess amount of total income of Rs.1 crore | | 1,00,000 |
| Subtotal | | 3,22,00,000 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs. 3,22,00,000 x 3%) | | 9,66,000 |
| Total tax liability (rounded off) | | 3,31,66,000 |

In the present case, the tax liability considering the marginal relief is lower than the tax liability under the normal route. So the tax liability of Rs.3,31,66,000 can be the tax liability and Rs.14,33,600 (Rs.3,46,42,608 – Rs. 3,31,66,000) is the marginal relief.

SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO: 1**

i. Mr. Mohan: Resident(Individual) of 40 years having total income of Rs.12,80,000

Computation of Tax liability

| Tax slabs | Computation | Tax Rs. |
|------------------------------|--------------------------|---------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | (5,00,000-2,50,000) x 5% | 12,500 |

| | | |
|--|---------------------------------------|-----------------|
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(12,80,000 - 10,00,000) \times 30\%$ | 84,000 |
| Total | | 1,96,500 |
| Add: EC @ 2% and SHEC @ 1% on above (Rs.1,96,500 x 3%) | | 5,895 |
| Total tax liability | | 2,02,395 |

- ii. **Mrs. Swathi:** Non-resident Individual of 52 years having total income of Rs.19,25,000

Computation of Tax Liability

| Tax slabs | Computation | Tax Rs. |
|--|---------------------------------------|-----------------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | $(5,00,000 - 2,50,000) \times 5\%$ | 12,500 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(19,25,000 - 10,00,000) \times 30\%$ | 2,77,500 |
| Total | | 3,90,000 |
| Add: EC @ 2% and SHEC @ 1% on above (Rs.3,90,000 x 3%) | | 11,700 |
| Total tax liability | | 4,01,700 |

- iii. **Mr. Bansal:** Resident Individual of 75 years having total income of Rs.10,28,000

Computation of Tax Liability

| Tax slabs | Computation | Tax Rs. |
|--|---------------------------------------|-----------------|
| UP TO 3,00,000 | - | Nil |
| From 3,00,000 to Rs.5,00,000 | $(5,00,000 - 3,00,000) \times 5\%$ | 10,000 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(10,28,000 - 10,00,000) \times 30\%$ | 8,400 |
| Total | | 1,18,400 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs.1,18,400 x 3%) | | 3,552 |
| Total tax liability | | 1,21,952 |

Note: Students are advised to rectify the answer in our material according to this solution.

- iv. **M/s Vasavi firm** having total income of Rs.10,10,000

Computation of Tax Liability

| Particulars | Computation | Amount Rs. |
|--|------------------------------------|-----------------|
| Gross tax liability | $\text{Rs.} 10,10,000 \times 30\%$ | 3,03,000 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs.3,03,000 x 3%) | | 9,090 |
| Total tax liability | | 3,12,090 |

- v. **Mrs. Resham:** Non-resident individual of 80 years having total income of Rs.12,00,000

Computation of Tax Liability

| Tax slabs | Computation | Tax Rs. |
|--|---------------------------------------|-----------------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | $(5,00,000 - 2,50,000) \times 5\%$ | 12,500 |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(12,00,000 - 10,00,000) \times 30\%$ | 60,000 |
| Total | | 1,72,500 |
| Add: EC @ 2% and SHEC @ 1% on above (Rs.1,72,500 x 3%) | | 5,175 |
| Total tax liability | | 1,77,675 |

- vi. **Mrs. Radhika:** Resident Individual of 80 years of total income of Rs.12,00,000

Computation of Tax Liability

| Tax slabs | Computation | Tax Rs. |
|--|---------------------------------------|-----------------|
| UP TO 5,00,000 | - | Nil |
| From 5,00,000 to Rs.10,00,000 | $(10,00,000 - 5,00,000) \times 20\%$ | 1,00,000 |
| In excess of 10,00,000 | $(12,00,000 - 10,00,000) \times 30\%$ | 60,000 |
| Total | | 1,60,000 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs.1,60,000 x 3%) | | 4,800 |

| | |
|----------------------------|-----------------|
| Total tax liability | 1,64,800 |
|----------------------------|-----------------|

vii. **Srinivas Ltd** : Indian co having total income of Rs.10,00,001

Computation of Tax Liability

| Particulars | Computation | Amount Rs. |
|--|--------------------|-----------------|
| Gross tax liability | Rs.10,00,001 x 30% | 3,00,000.30 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs.3,00,000 x 3%) | | 9,000.00 |
| Total tax liability (rounded off) | | 3,09,000 |

viii. **Prakash Ltd**: Foreign co having total income of Rs.20,00,002

Computation of Tax Liability

| Particulars | Computation | Amount Rs. |
|--|--------------------|-----------------|
| Gross tax liability | Rs.20,00,001 x 40% | 8,00,000.80 |
| Add: EC @ 2% and SHEC @ 1% on tax (Rs.8,00,000 x 3%) | | 24,000.00 |
| Total tax liability (rounded off) | | 8,24,000 |

PROBLEM NO: 2

Computation of Tax liability of Mr.X (Normal Route)

| Tax slabs | Computation | Tax Rs. |
|--|--------------------------------|--------------------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | (5,00,000-2,50,000) x 5% | 12,500 |
| From 5,00,000 to Rs.10,00,000 | (10,00,000-5,00,000) x 20% | 1,00,000 |
| In excess of 10,00,000 | (10,02,00,000-10,00,000) x 30% | 2,97,60,000 |
| Total | | 2,98,72,500 |
| Add: Surcharge @ 15% on above | | 44,80,875 |
| Sub-total | | 3,43,53,375 |
| Add: EC @ 2% and SHEC @ 1% on above | | 10,30,301 |
| Total tax liability (rounded off) | | 3,53,83,976 |

Computation of Tax liability of Mr.X (Marginal relief route)

| Tax slabs | Computation | Tax Rs. |
|--|--------------------------------|--------------------|
| UP TO 2,50,000 | - | Nil |
| From 2,50,000 to Rs.5,00,000 | (5,00,000-2,50,000) x 5% | 12,500 |
| From 5,00,000 to Rs.10,00,000 | (10,00,000-5,00,000) x 20% | 1,00,000 |
| In excess of 10,00,000 | (10,00,00,000-10,00,000) x 30% | 2,97,00,000 |
| Total | | 2,98,12,500 |
| Add: Surcharge @ 15% on above | | 44,71,875 |
| Sub-total | | 3,42,84,375 |
| Add: Rs.2,00,000 in excess of Rs.10 crores | | 2,00,000 |
| Total tax liability (rounded off) | | 3,44,84,375 |

In the present case, the tax liability considering the marginal relief is lower than the tax liability under the normal route. So the tax liability of Rs. 3,44,84,375 can be the tax liability and Rs.8,99,601 (Rs.3,53,83,976 – Rs.3,44,84,375) is the marginal relief.

Note: Students are advised to rectify the answer in our material according to this solution.

THE END

2. RESIDENTIAL STATUS – I & II**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

For the purpose of determination of his residential status in India for A.Y. 2018-19, the relevant previous year is 2017-18.

Step 1: The total stay of Steve Waugh in the last 4 years preceding the previous year is 400 days (i.e., 100×4) and his stay in the previous year is 100 days. Therefore, since he has satisfied the second condition in section 6(1), he is a resident.

Step 2: Since his total stay in India in the last 7 years preceding the previous year is 700 days (i.e., 100×7), he does not satisfy the minimum requirement of 730 days in 7 years. Any one of the conditions not being satisfied, the individual is resident but not ordinarily resident.

Therefore, the residential status of Steve Waugh for the assessment year 2018-19 is resident but not ordinarily resident.

PROBLEM NO.2

During the previous year 2017-18, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2017-18, he was in India for 355 days (i.e. $55 + 60 + 90 + 150$ days).

Thus, he does not satisfy section 6(1). Therefore, he is a non-resident for the previous year 2017-18.

PROBLEM NO.3

During the previous year 2017-18, Mr. C was in India for 173 days (i.e. $22 + 30 + 31 + 31 + 28 + 31$ days). His stay in the last 4 years is:

| Previous Year | 2016-17 | 2015-16 | 2014-15 | 2013-14 |
|---------------------|---------|---------|---------|---------|
| No. of days of stay | 46 | 62 | 365*** | 365*** |

***Since he left India on 1.6.2015 after 10 years

Total stay of Mr.C in the last 4 years = 838 days ($46 + 62 + 365 + 365$ days)

Mr. C is a resident since his stay in the previous year 2017-18 is 173 days and in the last 4 years is more than 365 days.

For the purpose of being ordinarily resident, it is evident from the above calculations, that

- his stay in the last 7 years is more than 729 days and
- Since he was in India for 10 years prior to 1.6.2015, he was a resident in at least 2 out of the last 10 years preceding the relevant previous year.

Therefore, Mr. C is a resident and ordinarily resident for the A.Y. 2018-19.

PROBLEM NO.4**Determination of residential status of Mr. Soham**

An individual being an Indian citizen leaving India for the purposes of employment outside India during the previous year or an Indian citizen, who being outside India, comes on a visit to India in any previous year is said to be resident in India in any previous year if he satisfies any of the conditions:-

- He has been in India during the previous year for a total period of 182 days or more, or
- He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 182 days in the previous year.

In this case, Mr. Soham is an Indian citizen who left India to set up a software firm in Singapore on 20.04.2015. Therefore, he is an Indian citizen living in Singapore, who comes on a visit to India during the P.Y. 2017-18. His stay in India during the period of his visit is only 99 days (i.e., $17 + 30 + 31 + 21$ days). Since his stay in India during the previous year 2017-18 is only 99 days, he does not satisfy the minimum criterion of 182 days stay in India for being a resident. Hence, his residential status for A.Y. 2018-19 is Non-Resident.

Taxability of income

In case of a non-resident, only income which accrues or arises or which is deemed to accrue or arise to him in India or which is received or deemed to be received in India in the relevant previous year is taxable in India.

In this case, Mr. Soham, a non-resident, charges fees from LK Ltd., an Indian company, for transfer of technical documents and designs to set up an automobile factory in Faridabad shall be taxable in India for the P.Y. 2017-18. business / professional income derived from India is regarded as Indian income.

PROBLEM NO.5

An individual being an Indian citizen leaving India for employment, is said to be resident in India in any previous year if he satisfies any one of the following conditions -

- a) He has been in India during the previous year for a total period of 182 days or more, or
- b) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 182 days in the previous year.

During the previous year 2017-18, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days).

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2018-19.

PROBLEM NO.6

- a) During the P.Y. 2017-18, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy any of the conditions for being ordinarily resident.

Therefore, the residential status of Mr. E for the P.Y. 2017-18 is resident but not ordinarily resident.

- b) Since the business of the HUF is transacted from Australia and nothing is mentioned regarding its control and management, it is assumed that the control and management is also wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2017-18.

PROBLEM NO.7

An individual is said to be resident in India in any previous year if he satisfies any of the conditions:-

- a) He has been in India during the previous year for a total period of 182 days or more, or
- b) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

Since the sailer stays inside the territorial waters of India (i.e., in India) for a period of 182 days, he is a resident in India for the P.Y. 2017-18.

PROBLEM NO.8**Computation of total income for the A.Y. 2018-19**

| Particulars | ROR (Rs.) | RBNOR (Rs.) | NR (Rs.) |
|--|-----------|-------------|----------|
| Interest on UK Development Bonds, 50% of interest received in India | 10,000 | 5,000 | 5,000 |
| Income from a business in Chennai (50% is received in India) | 20,000 | 20,000 | 20,000 |
| Profits on sale of shares of an Indian company received in London (assuming that they are in the nature of short-term capital gains) | 20,000 | 20,000 | 20,000 |
| Dividend from British company received in London | 5,000 | - | - |
| Profits on sale of plant at Germany, 50% of profits are received in India | 40,000 | 20,000 | 20,000 |
| Income earned from business in Germany which is controlled from Delhi, out of which Rs. 40,000 is received in India | 70,000 | 70,000 | 70,000 |
| Profits from a business in Delhi but managed entirely from London | 15,000 | 15,000 | 15,000 |
| Income from property in London deposited in a Bank at London, later on remitted to India | 50,000 | - | - |
| Interest on debentures in an Indian company received in London | 12,000 | 12,000 | 12,000 |

| | | | |
|--|-----------------|-----------------|-----------------|
| Fees for technical services rendered in India but received in London | 8,000 | 8,000 | 8,000 |
| Profits from a business in Bombay managed from London | 26,000 | 26,000 | 26,000 |
| Pension for services rendered in India but received in Burma | 4,000 | 4,000 | 4,000 |
| Income from property situated in Pakistan received there | 16,000 | - | - |
| Past foreign untaxed income brought to India during the previous year | - | - | - |
| Income from agricultural land in Nepal received there and then brought to India | 18,000 | - | - |
| Income from profession in Kenya which was set up in India, received there but spent in India | 5,000 | 5,000 | - |
| Gift received on the occasion of his wedding [not taxable] | - | - | - |
| Interest on savings bank deposit in State Bank of India | 12,000 | 12,000 | 12,000 |
| Income from a business in Russia, controlled from Russia | 20,000 | - | - |
| Dividend from Reliance Petroleum Limited, an Indian Company [Exempt under section 10(34)] | - | - | - |
| Agricultural income from a land in Rajasthan [Exempt under section 10(1)] | - | - | - |
| Gross Total Income | 3,51,000 | 2,17,000 | 1,82,000 |
| Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of Rs. 10,000] | (10,000) | (10,000) | (10,000) |
| Total Income | 3,41,000 | 2,07,000 | 1,72,000 |

PROBLEM NO.9

The residential status of Mrs. Geetha and Mrs. Leena has to be determined on the basis of the number of days of their stay in India. Since Mrs. Geetha is settled in Malaysia since 1986, she would be a non-resident for A.Y. 2018-19. Her visit to India for a month every year would not change her residential status. However, Mrs. Leena would be resident and ordinarily resident for A.Y. 2018-19, since she is settled in India permanently since 1994.

Based on their residential status, the total income of Mrs. Geetha and Mrs. Leena would be determined as follows:

Computation of total income of Mrs. Geetha & Mrs. Leena for the A.Y. 2018-19

| Particulars | Mrs. Geetha (Non-Resident) (Rs.) | Mrs. Leena (Resident) (Rs.) |
|---|--|-----------------------------------|
| Income from profession in Malaysia (set up in India) received there (Note 1) | - | - |
| Profit from business in Delhi, but managed directly from Malaysia (Note 1) | 40,000 | - |
| Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (Note 1) | - | - |
| Dividend from PQR Ltd. an Indian Company [Exempt under section 10(34)] | - | - |
| Dividend from Malaysian Company received in Malaysia (Note 1) | - | 8,000 |
| Cash gift received from a friend on Mrs. Leena's 50th birthday Note: As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year. | - | 51,000 |
| Agricultural income from land in Maharashtra [Exempt under section 10(1), both in the hands of non-resident and resident]. | - | - |
| Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2017-18]. | - | - |
| Fees for technical services rendered in India, but received in Malaysia (Note 1) | 25,000 | - |
| Income from a business in Pune (Mrs. Geetha receives 50% of the income in India) (Note 2) | 12,000 | 15,000 |
| Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia) (Note 2) | 18,500 | 14,000 |
| Short-term capital gain on sale of shares of an Indian company (Note 2) | 15,000 | 25,500 |

| | | |
|---|-----------------|-----------------|
| Interest on savings account with SBI (Note 2) | 12,000 | 8,000 |
| Gross Total income | 1,22,500 | 1,21,500 |
| Less: Deductions under Chapter VIA | | |
| Section 80C [Life insurance premium paid] [Assuming that premium paid is within the specified percentage (10%/20%, as the case may be) of capital sum assured] | - | 30,000 |
| Section 80TTA | 10,000 | 8,000 |
| (In case of an individual, interest upto Rs. 10,000 from savings account the, inter alia, a bank is allowable as deduction under section 80TTA) | | |
| Total Income | 1,12,500 | 83,500 |

Notes:

1. As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non resident:

- Income received or deemed to be received in India; and
- Income accruing or arising or deemed to accrue or arise in India.

Therefore, income from profession in Malaysia, rent from property in Malaysia and dividend from Malaysian company received in Malaysia by Mrs. Geetha, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Delhi would be taxable in India in the hands of Mrs. Geetha, even though it is managed directly from Malaysia.

Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mrs. Geetha, since it is deemed to accrue or arise in India.

2. The income referred to in S. No. 10, 11, 12 and 13 are taxable in the hands of both Mrs. Geetha and Mrs. Leena due to their accrual/deemed accrual in India, even though a part of income from business in Pune and the entire interest on debentures in Indian company is received by Mrs. Geetha outside India.

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2018-19

| S.No. | Particulars | Mr. Ramesh (Non-Resident) (Rs.) | Mr. Suresh (Resident) (Rs.) |
|-------|--|---------------------------------------|-----------------------------------|
| 1. | Interest on Canada Development Bond (See Note 2) | 17,500 | 40,000 |
| 2. | Dividend from British Company received in London (See Note 3) | - | 20,000 |
| 3. | Profit from a business in Nagpur but managed directly from London (See Note 2) | 1,00,000 | 1,40,000 |
| 4. | Short term capital gain on sale of shares of an Indian company received in India (See Note 2) | 60,000 | 90,000 |
| 5. | Income from a business in Chennai (See Note 2) | 80,000 | 70,000 |
| 6. | Fees for technical services rendered in India, but received in Canada (See Note 2) | 1,00,000 | - |
| 7. | Interest on savings bank deposit in UCO Bank, Delhi (See Note 2) | 7,000 | 12,000 |
| 8. | Agricultural income from a land in Andhra Pradesh (See Note 4) | - | - |
| 9. | Income from house property at Bhopal (See Note 5) | 70,000 | 42,000 |
| | Gross Total income | 4,34,500 | 4,14,000 |
| | Less: Deduction under chapter VIA- | | |

| | | | |
|--|---|-----------------|-----------------|
| | Section 80C-Life insurance premium paid | - | 30,000 |
| | Section 80TTA (See Note 6) | 7,000 | 10,000 |
| | Total Income | 4,27,500 | 3,74,000 |

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1995. Mr. Suresh, who is settled in Delhi, is a resident.
2. In case of a resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - a) Income received or deemed to be received in India; and
 - b) Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

The income referred to in Sl. No. 3, 4, 5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50% which is received in India is taxable in the hands of Mr. Ramesh.

3. Dividend received from British company in London by Mr. Ramesh is not taxable since it accrues and is received outside India. However, dividend received by Mr. Suresh is taxable, since he is a resident. Exemption under section 10(34) would not be available in respect of dividend received from a foreign company.
4. Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
5. Income from house property-

| | Mr. Ramesh | Mr. Suresh |
|--|----------------------|----------------------|
| | (Rs.) | (Rs.) |
| Rent received | 1,00,000 | 60,000 |
| Less: Deduction under section 24 @ 30% | <u>30,000</u> | <u>18,000</u> |
| Net income from house property | <u>70,000</u> | <u>42,000</u> |

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

6. In case of an individual, interest up to Rs. 10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA.

Note: students are advised to rectify in the question year 1996 as 1995.

PROBLEM NO.2

Mr. Dey is a resident in A.Y.2017-18 and A.Y.2018-19 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y.2016-17 and P.Y.2017-18, respectively.

As per section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person:

- a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- b) Has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

In the instant case, applying the above, the status of Mr. Dey for the previous year 2016-17 (A.Y. 2017-18) will be "Resident but not ordinarily resident".

For the previous year 2017-18 (A.Y. 2018-19) his status would continue to be Resident but not ordinarily resident since he was non-resident in 9 out of 10 previous years immediately preceding the previous year and also had stayed for less than 729 days in 7 previous years immediately preceding the previous year.

Therefore his status for

A.Y. 2017-18 – “Resident but not ordinarily resident”

A.Y. 2018-19 – “Resident but not ordinarily resident”

Note: students are advised to rectify in the question, the date 01.04.2015 as 01.04.2016.

PROBLEM NO.3

As per section 6(1), Mr. David is a non-resident for the A.Y. 2018-19, since he was not present in India at any time during the previous year 2017-18. 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 deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Pakistan and income from house property in Pakistan would not be chargeable to tax in the hands of David, assuming that the same were received in Pakistan.

Income from „Salaries” payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident. It has been assumed that Mr. David is a citizen of India.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of ₹ 4,00,000 is exempt under section 10(7).

Gross Total Income of Mr. David for A.Y. 2018-19

| Particulars | Rs. |
|--|-----------------|
| Salaries | 5,00,000 |
| Income from other sources (Interest on fixed deposit in India) | 1,00,000 |
| Gross Total Income | 6,00,000 |

Note: students are advised to rectify in the question, the date 31.03.2016 as 31.03.2017.

PROBLEM NO.4

Computation of total income of Mr. Anirudh for the A.Y. 2018-19

| Particulars | Resident & ordinary Resident | Resident but not ordinarily Resident | Non-Resident |
|--|------------------------------|--------------------------------------|---------------|
| 1. Short term capital gain on sale of shares of an Indian company, received in Germany | 15,000 | 15,000 | 15,000 |
| 2. Dividend from a Japanese company, received in Japan | 10,000 | - | - |
| 3. Rent from property in London deposited in a bank in London [See Note (i) below] | 52,500 | - | - |
| 4. Dividend from RP Ltd., an Indian Company [See Note (ii) below] | - | - | - |
| 5. Agricultural income from land in Gujarat [See Note (iii) below] | - | - | - |
| Total income | 77,500 | 15,000 | 15,000 |

Notes:

- i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @ 30% under section 24, has been provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.
- | | |
|---|---------------|
| Rent received (assumed as gross annual value) | 75,000 |
| Less: Deduction under section 24 (30% of Rs.75,000) | <u>22,500</u> |
| Income from house property | <u>52,500</u> |
- ii) Dividend from Indian company is exempt under section 10(34) .
- iii) Agricultural income is exempt under section 10(1).

PROBLEM NO.5

- a) **True:** A person is said to be "not-ordinarily resident" in India if he satisfies either of the conditions given in sub-section (6) of section 6. This sub-section relates to only individuals and Hindu Undivided Families. Therefore, only individuals and Hindu Undivided Families can be resident, but not ordinarily resident in India. All other classes of assesseees can be either a resident or non-resident for the purpose of income-tax. Firms and companies can, therefore, either be a resident or non-resident.
- b) **True:** *Explanation* below section 9(2) clarifies that income by way of interest, royalty or fee for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not
- non-resident has a residence or place of business or business connection in India; or
 - the non-resident has rendered services in India
- c) **True:** A HUF is considered to be a non-resident where the control and management of its affairs are situated wholly outside India. In the given case, since all the policy decisions of HUF are taken from UK, the HUF is a non-resident.

THE END

3. INCOME FROM SALARIES**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

- a) Value of the rent free unfurnished accommodation
 = 15% of salary for the relevant period
 = 15% of [(Rs. 6000 × 5) + (Rs. 2,000 × 30% × 5) + (Rs. 1,500 × 5)] = 15% of Rs. 40,500
 = Rs. 6,075.
- b) In the case of accommodation owned by the employer in cities having a population exceeding Rs. 25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.
- Value of the rent free unfurnished accommodation = Rs. 6,075
 Less: Rent paid by the employee (Rs. 1,000 × 5) = Rs. 5,000
 Perquisite value of unfurnished accommodation given at concessional rent = Rs. 1,075
- c) In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.
- Value of the rent free unfurnished accommodation [Note1] = Rs. 6,000
 Less: Rent paid by the employee (Rs. 1,000 × 5) = Rs. 5,000
 ∴ Value of unfurnished accommodation given at concessional rent = Rs. 1,000
- Note 1:** Value of the rent free unfurnished accommodation is lower of
 (i) Lease rent paid by the company for relevant period = Rs. 1,200 × 5 = Rs. 6,000
 (ii) 15% of salary for the relevant period (computed earlier) = Rs. 6,075
- d) In the case of accommodation owned by the Employer in a city having a population exceeding Rs. 25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.
- Value of the rent free unfurnished accommodation (computed earlier) = Rs. 6,075
 Add: Value of furniture provided by the employer [Note 1] = Rs. 4,625
 Value of rent free furnished accommodation = Rs. 10,700
 Less: Rent paid by the employee (Rs. 1,000 × 5) = Rs. 5,000
 Value of furnished accommodation given at concessional rent = Rs. 5,700
- Note 1:** Value of the furniture provided = (Rs. 400 p.m. × 2 × 5 months) + (Rs. 25,000 × 10% p.a. for 3 months) = Rs. 4,000 + Rs. 625 = Rs. 4,625
- e) Value of the rent free unfurnished accommodation (Rs. 700 × 5) = Rs. 3,500
 Add: Value of furniture provided by the employer (computed earlier) = Rs. 4,625
 Value of rent free furnished accommodation = Rs. 8,125
 Less: Rent paid by the employee (Rs. 1,000 × 5) = Rs. 5,000
 Perquisite value of furnished accommodation given at concessional rent = Rs. 3,125

PROBLEM NO. 2

1. The eligible exemption under section 10(13A) in respect of house rent allowance received would be least of the following:

| Particulars | Rs. | Rs. |
|---|-----|----------|
| Actual house rent allowance (HRA) received | | 1,00,000 |
| Excess of rent paid over 10% of basic salary: | | |

| | | |
|---|----------|----------|
| Rent paid (10,000 x 12) | 1,20,000 | |
| Less: 10% of basic pay (i.e. 10% of Rs. 1,20,000) | (12,000) | 1,08,000 |
| 50% of salary (i.e. 50% of Rs. 1,20,000) | | 60,000 |

Least of the above is Rs. 60,000.

The house rent allowance received by Mr. Khanna would be exempt to the extent of Rs. 60,000 under section 10(13A). The balance of Rs. 40,000 is includible in his total income.

2. Perquisite value in respect of concessional accommodation

As per rule 3(1), where the accommodation is taken on lease or rent by the employer, the actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee is the value of the perquisite.

a) Actual rent paid by the employer = Rs. 10,000 x 12 = Rs. 1,20,000

b) 15% of salary = 15% of basic pay plus special allowance = 15% of Rs. 1,50,000 = Rs. 22,500

Lower of the above is Rs. 22,500, which should be reduced by the rent of Rs. 30,000 paid by the employee (i.e., 2,500 x 12 = Rs. 30,000). The perquisite value is, therefore, nil.

3. We have to see the cash flow from both the options to find out which is more beneficial.

| Particulars | Rs. | Rs. |
|--|----------|-----------------|
| Option 1: HRA | | 2,50,000 |
| Cash inflows [Basic Pay + HRA + Special Allowance] | | |
| Less: Cash outflows: | | |
| Rent paid (10,000 x 12) | 1,20,000 | |
| Tax (See Working Note 1 below) | Nil | (1,20,000) |
| Net cash flow | | 1,30,000 |
| Option 2: Concessional Accommodation | | |
| Cash inflows [Basic Pay + Special Allowance] | | 1,50,000 |
| Less: Cash outflows: | | |
| Rent recovery | 30,000 | |
| Tax (See Working Note 2 below) | Nil | (30,000) |
| Net cash flow | | 1,20,000 |

Since the net cash flow is higher in Option 1, Mr. Khanna should opt for HRA, which would be more beneficial to him.

Working Notes:

1. Computation of tax under Option 1 (HRA):

Salary = Basic Pay + HRA (Taxable) + Special Allowance = Rs.1,20,000+Rs.40,000+Rs.30,000

= Rs.1,90,000

Tax on Above Rs.1,90,000 is Nil

2. Computation of tax under Option 2 (Concessional accommodation)

Salary = Basic Pay + Special Allowance + Concessional Accommodation = Rs.1,20,000 + Rs.30,000 + Nil = Rs.1,50,000

Tax on Above Rs.1,50,000 is Nil

PROBLEM NO. 3

1. The following are eligible for exemption to the extent of 15,000

| | |
|--------------------------|-------|
| a) Treatment of X | 4,200 |
| b) Treatment of Mrs. X | 3,600 |
| c) Treatment of X mother | 1,200 |
| | 9,000 |

Since the amount doesn't exceeded 15,000 it is totally exempted

Taxable perquisite

| | |
|--|-------|
| Treatment of X's brother (non – dependent) | 400 |
| Treatment of grand father (not covered in family definition) | 1500 |
| | 1,900 |

2. Since the expenditure is incurred in an approved private hospital the value of medical facility is totally exempted.

3. Taxable perquisite

| | |
|----------------------------|----------|
| Medical expenses | 15,000 |
| Loading expenses | 20,000 |
| Traveling expenses (W.N.1) | 1,20,000 |
| | 1,55,000 |

Gross total income

| | |
|------------------|----------|
| Other income | 180,000 |
| (+) Staying Exp. | 20,000 |
| (+) Medical Exp. | 15,000 |
| G.T.I | 2,15,000 |

Since GTI has exceeded 2L, no exemption is available in respect of traveling expenses.

PROBLEM NO. 4

- a) Since laptop is given for usage to employee nothing is taxable in the hands of employee.

b) Amount of perquisite = $15,000 \times 10\% \times \frac{5.5}{12} = 687.5$

- c) i) Name of the employee: Z

Value of perquisite (car)

| Particulars | | Rs. |
|--|----------|----------|
| 1. Value of asset sold | | |
| Original Cost | 6,96,000 | |
| (-) Dep. for 1 st completed year of usage (15-5-15 to 14-5-16) | 1,39,200 | |
| | 5,56,800 | |
| (-) Dep. for 2 nd completed year of usage (15-5-16 to 14-5-17) | 1,11,360 | 4,45,440 |
| 2. Asset sold for | | 2,10,000 |
| 3. Value of perquisite (1-2) | | 2,35,440 |

- ii) Name of the employee: A

| Particulars | | Rs. |
|--|----------|--------|
| 1. Value of asset sold | | |
| Original Cost | 1,17,000 | |
| (-) Dep. for 1 st completed year of usage (15-5-15 to 14-5-16) | 58,500 | |
| | 58,500 | |
| (-) Dep. for 2 nd completed year of usage (15-5-16 to 14-5-17) | 29,250 | 29,250 |
| 2. Asset sold for | | 24,270 |
| 3. Value of perquisite (1-2) | | 4,980 |

- iii) Name of the employee: B

| Particulars | | Rs. |
|-----------------------------------|--------|-----|
| 1. Value of asset sold for | | |
| Cost of the asset | 40,000 | |

| | | |
|--|-------|--------|
| (-) Dep. for 2 nd completed years of usage (40,000 × 10% × 2y) | 8,000 | 32,000 |
| 2. Asset sold for | | 1,000 |
| 3. Value of perquisite (1-2) | | 31,000 |

PROBLEM NO. 5**a) He is a government employee:**

| Particulars | Rs. |
|---|----------|
| Uncommuted pension received (October - March) [(Rs.5,000 × 4 months) + (40% of Rs.5,000 × 2 months)] | 24,000 |
| Commuted pension received | 3,00,000 |
| Less: Exempt u/s 10(10A) | 3,00,000 |
| Taxable pension | Nil |

b) He is a non-government employee, receiving gratuity Rs.5,00,000 at the time of retirement:

| Particulars | Rs. |
|---|-----------------|
| Uncommuted pension received (October - March) [(Rs.5,000 × 4 months) + (40% of Rs.5,000 × 2 months)] | 24,000 |
| Commuted pension received | Rs.3,00,000 |
| Less: Exempt u/s 10(10A) | |
| $\left(\frac{1}{3} \times \frac{\text{Rs.3,00,000}}{60\%} \times 100\%\right)$ | Rs.1,66,667 |
| Taxable pension | 1,33,333 |
| | 1,57,333 |

c) He is a non-government employee and is not in receipt of gratuity at the time of retirement:

| Particulars | Rs. |
|---|---------------|
| Uncommuted pension received (October - March) [(Rs.5,000 × 4 months) + (40% of Rs.5,000 × 2 months)] | 24,000 |
| Commuted pension received | Rs.3,00,000 |
| Less: Exempt u/s 10(10A) | |
| $\left(\frac{1}{2} \times \frac{\text{Rs.3,00,000}}{60\%} \times 100\%\right)$ | Rs.2,50,000 |
| Taxable pension | 50,000 |
| | 74,000 |

PROBLEM NO. 6**a) He is a government employee:**

| Particulars | Rs. |
|---|----------|
| Leave Salary received at the time of retirement | 5,00,000 |
| Less : Exemption under section 10(10AA) | 5,00,000 |
| Taxable Leave salary | Nil |

b) He is a non-government employee:

| Particulars | Rs. |
|---|----------|
| Leave Salary received at the time of retirement | 5,00,000 |
| Less: Exemption under section 10(10AA) (Note 1) | 26,400 |
| Taxable Leave salary | 4,73,600 |

Note 1: Exemption under section 10(10AA) is least of the following:

- i) Leave salary received Rs.5,00,000
- ii) Statutory limit Rs.3,00,000
- iii) 10 months salary based on average salary of last 10 months

$$\left[10 \times \frac{\text{Salary of last 10 months i.e., Feb – Nov}}{10 \text{ months}} \right]$$

$$\text{i.e.,} = \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] = \text{Rs.66,000}$$

- iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (max. 30 days per year of service)

$$\begin{aligned} \text{Leave Due} &= \text{Leave allowed} - \text{Leave taken} \\ &= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days} \end{aligned}$$

$$\left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p.m.} \right]$$

$$\text{i.e.,} = \left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{\text{Rs.66,000}}{10} \right] = \text{Rs.26,400}$$

PROBLEM NO. 7

Computation of total income of Mr. Narendra for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|--------|-----------------|
| Income from Salaries | | |
| Gross salary received during 1.4.2017 to 31.1.2018 @ | | |
| Rs.16,000 p.m. (Rs.16,000 x 10) | | 1,60,000 |
| Pension for 2 months @ 30% of the basic salary of Rs.10,000 p.m. | | 6,000 |
| Leave Salary | 75,000 | |
| Less: Exempt under section 10(10AA) (Note1) | 50,000 | 25,000 |
| Gratuity | 50,000 | |
| Less: Exempt under section 10(10) (Note2) | 25,000 | 25,000 |
| Total Income | | 2,16,000 |

Notes:

1. Leave encashment is exempt to the extent of least of the following:

| | Particulars | Rs. |
|------|---|----------|
| i. | Statutory limit | 3,00,000 |
| ii. | Cash equivalent of leave for 30 days for 5 years (Rs.10,000 x 150/30) | 50,000 |
| iii. | 10 months average salary (10 x Rs.10,000) | 1,00,000 |
| iv. | Actual amount received | 75,000 |

Therefore, Rs.50,000 is exempt under section 10(10AA).

2. Gratuity is exempt to the extent of least of the following:

| | Particulars | Rs. |
|------|---|-----------|
| i. | Statutory limit | 10,00,000 |
| ii. | Half month's salary for 5 years of service (5 x Rs.5,000) | 25,000 |
| iii. | Actual gratuity received | 50,000 |

Therefore, Rs. 25,000 is exempt under section 10(10).

- a) It is assumed that the employee is not covered under The Payment of Gratuity Act, 1972.
b) It assumed that DA is not forming part of retiring benefits

Alternative 2: It assumed that DA is forming part of retiring benefits (Solution change accordingly)

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PROBLEM NO. 8

1. **Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2018 - 19 is computed here under:**

| Particulars | Rs. |
|---|----------|
| <u>Amount taxable under the head "Salaries"</u> | |
| Employer's share in the payment received from the URPF | 2,20,000 |
| Interest on the employer's share | 50,000 |
| Total | 2,70,000 |
| <u>Amount taxable under the head "Income from other sources"</u> | |
| Interest on the employee's share | 60,000 |
| Total amount taxable from the amount received from the fund | 3,30,000 |

Note: Since the employees is not eligible for deduction under section 80C for contribution to URPF a the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

2. Since the fund is a recognized one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

PROBLEM NO. 9**Computation of gross salary of Mr. Mohit for A.Y. 2018-19**

| Particulars | Rs. |
|---|-----------------|
| Basic salary [(Rs. 10,000 × 10) + (Rs. 11,000 × 2)] | 1,22,000 |
| Dearness Allowance (100% of basic salary) | 1,22,000 |
| House Rent Allowance (See Note below) | 21,300 |
| Gross Salary | 2,65,300 |

Note: Computation of Taxable House Rent Allowance (HRA)

| Particulars | April-May (Rs.) | June-Oct (Rs.) | Nov-Dec (Rs.) | Jan (Rs.) | Feb-March (Rs.) |
|--|--------------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|
| Basic salary per month | 10,000 | 10,000 | 10,000 | 10,000 | 11,000 |
| Dearness allowance (included in salary as per terms of employment) (50% of basic salary) | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Salary per month for the purpose of computation of house rent allowance | 15,000 | 15,000 | 15,000 | 15,000 | 16,500 |
| Relevant period (in months) | 2 | 5 | 2 | 1 | 2 |
| Salary for the relevant period (Salary per month × relevant period) | 30,000 | 75,000 | 30,000 | 15,000 | 33,000 |
| Rent paid for the relevant period | Nil | 30,000 (Rs.6,000×5) | 16,000 (Rs.8,000×2) | 8,000 (Rs.8,000×1) | 16,000 (Rs.8,000×2) |
| Least of the following is exempt [u/s 10(13A)] | | | | | |
| 1. Actual HRA Received | 12,000 | 30,000 | 12,000 | 7,000 | 14,000 |
| 2. Rent paid – 10% of salary | N.A. | 22,500 | 13,000 | 6,500 | 12,700 |
| 3. 40% of salary (Residence at Ghaziabad–June to Oct, 2017) 50% of salary (Residence at Delhi–Nov'17- March'18) | N.A. | 30,000 (40% × Rs. 75,000) | 15,000 (50% × Rs. 30,000) | 7,500 (50% × Rs. 15,000) | 16,500 (50% × Rs. 33,000) |
| Exempt HRA (B) | Nil | 22,500 | 12,000 | 6,500 | 12,700 |
| Taxable HRA (Actual HRA – Exempt HRA) (A-B) | 12,000 | 7,500 | Nil | 500 | 1,300 |

Taxable HRA (total) = Rs. 12,000 + Rs. 7,500 + Rs. 500 + Rs. 1,300 = Rs. 21,300

COMPREHENSIVE PROBLEMS**PROBLEM NO. 10****Computation of Gross Total Income of Mr. X for A.Y. 2018-19**

| Particulars | Rs. |
|---|-----------------|
| Basic Salary = Rs.20,000 x 10 | 2,00,000 |
| Dearness Allowance = 50% of basic salary | 1,00,000 |
| Gift Voucher (See Note - 1) | 6000 |
| Transfer of car (See Note - 2) | 56,000 |
| Gratuity (See Note - 3) | 80,769 |
| Leave encashment (See Note - 4) | 1,30,000 |
| Uncommuted pension = Rs.5000 x 2 | 10,000 |
| Commuted pension (See Note - 5) | 1,50,000 |
| Taxable Salary /Gross Total Income | 7,32,769 |

Note:

- An alternate view possible is that only the sum in excess of Rs.5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto Rs.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 Rs.1,000 and gross taxable income would be Rs.7,27,769.
- Perquisite value of transfer of car:**

| Particulars | Rs. |
|----------------------------|---------------|
| Purchase price (1.2.2015) | 5,00,000 |
| Less: Depreciation @ 20% | 1,00,000 |
| WDV on 31.1.2016 | 4,00,000 |
| Less: Depreciation @ 20% | 80,000 |
| WDV on 31.1.2017 | 3,20,000 |
| Less: Depreciation @ 20% | 64,000 |
| WDV on 31.1.2018 | 2,56,000 |
| Less: Amount recovered | 2,00,000 |
| Value of perquisite | 56,000 |

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. X.

- Taxable gratuity:**

| Particulars | Rs. |
|--|-----------------|
| Gratuity received | 6,00,000 |
| Less: Exempt under section 10(10) - Least of the following: | |
| a) Notified limit = Rs.10,00,000 | |
| b) Actual gratuity = Rs.6,00,000 | |
| c) $15/26 \times 30,000 \times 30 = \text{Rs.}5,19,231$ | |
| Taxable Gratuity | 5,19,231 |
| | 80,769 |

- Taxable leave encashment:**

| Particulars | Rs. |
|---|-----------------|
| Leave Salary received | 3,30,000 |
| Less: Exempt under section 10(10AA) - Least of the following: | |
| i. Notified limit | Rs.3,00,000 |
| ii. Actual leave salary | Rs.3,30,000 |
| iii. 10 months x Rs.20,000 | Rs.2,00,000 |
| (Assuming that dearness allowance does not form part of pay for retirement benefit) | |
| iv. Cash equivalent of leave to his credit | Rs. 2,20,000 |
| | 2,00,000 |

| | |
|---|----------|
| $\left(\frac{330}{30} \times 20,000 \right)$ | 1,30,000 |
| Taxable Leave encashment | |

Note: It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be Rs.3,00,000 (i.e. 10 x Rs.30,000) and the fourth limit Rs.3,30,000, in which case, the taxable leave encashment would be Rs.30,000 (Rs.3,30,000 - Rs.3,00,000). In such a case, the gross total income would be Rs.6,32,769.

5. Commuted Pension:

| Particulars | Rs. |
|---|-----------------|
| Amount received | 3,00,000 |
| Exemption under section 10(10A) $= \frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$ | 1,50,000 |
| Taxable amount | 1,50,000 |

6. The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

PROBLEM NO. 11

Computation of taxable income of Mr. Harish for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|-----------------|------------------------------------|
| Income from Salaries | | |
| Basic salary (Rs. 50,000 x 12) | | 6,00,000 |
| Dearness allowance @ 40% of basic salary | | 2,40,000 |
| Transport allowance (Rs. 3,000 x 12) | 36,000 | |
| Less: Exempt under section 10(14)(Rs. 1,600 x 12) | <u>(19,200)</u> | 16,800 |
| Motor car running & maintenance charges paid by employer (See Note-1) | | 28,800 |
| Expenditure on accommodation in hotels while touring on official duty is not a perquisite in the hands of employee and hence not chargeable to tax | | |
| Gratuity | | Nil |
| Loan from recognized provident fund – not chargeable to tax | | Nil |
| Value of lunch provided during office hours | 24,000 | |
| Less: Exempt under Rule 3(7)(iii) (See Note-2) | <u>(15,000)</u> | 9,000 |
| Computer provided in the residence of employee by the employer not chargeable to tax [Rule 3(7)(vii)] | | Nil |
| Gross Salary | | 8,94,600 |
| Less : Deduction under Chapter VI-A | | |
| Deduction under section 80D in respect of medical insurance premium paid by cheque amounting to Rs. 25,700 but restricted to Rs.25,000 (See Note-3) | | |
| Total Income | | <u>(25,000)</u> 8,69,600 |

Notes:

- As per Rule 3(2), if the motor car (whose engine cubic capacity is above 1.60 litres) is owned by the employer and is used for both official and personal purpose by the employee, then, the value of perquisite for use of motor car would be Rs. 2,400 per month. Therefore, value of perquisite for use of motor car would be Rs. 2,400 x 12 = Rs. 28,800
- As per Rule 3(7)(iii), lunch provided by the employer during office hours is not considered as perquisite upto Rs. 50 per meal. Since, the number of working days is not given in the question, it is assumed to be 300 days during the F.Y. 2017-18. Therefore, Rs. 15,000 (i.e. 300 x Rs. 50) would be exempt and the balance Rs. 9,000 (i.e. Rs. 24,000 - Rs. 15,000) would be taxable.
- Medical insurance premium paid in cash of Rs. 4,800 is not allowable as deduction under section 80D. Further, deduction for medical insurance premium paid through cheque is restricted to Rs. 25,000, which is the maximum deduction allowable.

PROBLEM NO. 12**Computation of Income from salaries of Mr.X for the A.Y.2018-19**

| | |
|--|----------|
| Basic Pay (9K × 9M) | 81,000 |
| H.R.A (5K × 9M) (W.N. 1) | 45,000 |
| Medical allowance (1200 × 9M) | 10,800 |
| Leave travel concession 5600 | |
| (-) Exemption u/s 10(5) 5600 | 0 |
| Car facility (1800 + 900) X 9 months | 24,300 |
| Employer contribution to R.P.F (up to 12%) | Exempted |
| Club facility | 270 |
| Gratuity (W.N.2) | 800 |
| Leave encashment (W.N.3) | 18,000 |
| Gross Salary | 1,80,170 |
| (-) Deduction U/s 16 | Nil |
| Gross total income | 1,80,170 |
| (-) Chapter VI A Deductions | |
| Employees' contribution to R.P.F u/s 80C (9K × 20% × 9M) | 16,200 |
| Net Taxable Income | 1,63,970 |

W.N. 1: Since he lives in his own house, no exemption will be given.

W.N. 2: Gratuity:

| | |
|--|----------|
| 1. Gratuity received | 1,35,800 |
| 2. Gratuity exempted: | |
| a) Statutory Limit = 10,00,000 | |
| b) Actually received = 1,35,800 | |
| c) $\frac{1}{2} M \times 30 \times 9,000 = 1,35,000$ | |
| least of above three | 1,35,000 |
| 3. Taxable portion (1-2) | 800 |

The last increment was obtained by 'X' on 1st of January 2017. The relevant period for the purpose of computation of average salary is February, 2017 to November, 2017. Since no increment was obtained during this period no need of calculating the Average salary.

W.N.3: Leave encashment:

| | |
|---|----------|
| 1. Leave encashment received | 1,08,000 |
| 2. Exempted | |
| a) Statutory Limit 3,00,000 | |
| b) Actually received 1,08,000 | |
| c) 10 Months Salary (10M × 9K) 90,000 | |
| d) Cash equivalent of surplus leave (12M × 9K) 1,08,000 | |
| Least of above four | 90,000 |
| 3. Taxable portion (1-2) | 18,000 |

PROBLEM NO. 13**Computation of taxable salary of Mr. X for A.Y. 2018-19**

| Particulars | Amount Rs. |
|--|------------|
| Basic pay [(Rs. 20,000×9) + (Rs. 21,000×3)] = Rs. 1,80,000 + Rs. 63,000 | 2,43,000 |
| Dearness allowance [10% of basic pay] | 24,300 |
| Bonus | 21,000 |
| Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of Rs. 2,67,300) [See Note 1 below] | 8,019 |
| Taxable allowances | |

| | |
|--|-----------------|
| Telephone allowance | 6,000 |
| Taxable perquisites | |
| Rent-free accommodation [See Note 1 & 2 below] | 44,145 |
| Medical reimbursement (Rs. 25,000 - Rs. 15,000) [See Note 4 below] | 10,000 |
| Reimbursement of salary of housekeeper | 12,000 |
| Gift voucher [See Note 6 below] | 10,000 |
| Salary income chargeable to tax | 3,78,464 |

Notes:

- It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- Basic salary i.e., Rs. 2,43,000
- Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. Rs. 24,300
- Bonus i.e., Rs. 21,000
- Telephone allowance i.e., Rs. 6,000

Therefore, salary works out to Rs. 2,43,000 + Rs. 24,300 + Rs. 21,000 + Rs. 6,000 = Rs. 2,94,300.

15% of salary = Rs. 2,94,300 × 15/100 = Rs. 44,145

Value of rent-free house = Lower of rent paid by the employer (i.e. Rs. 1,20,000) or 15% of salary (i.e., Rs. 44,145).

Therefore, the perquisite value is Rs. 44,145.

- Facility of use of laptop is not a taxable perquisite.
- Clause (v) of the proviso to section 17(2) exempts any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of Rs. 15,000. Therefore, in this case, the balance of Rs. 10,000 (i.e., Rs. 25,000 – Rs. 15,000) is a taxable perquisite. Medical insurance premium paid by employer is exempt.
- Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below Rs. 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs. 5,000.

Therefore, the entire amount of Rs. 10,000 is liable to tax as perquisite.

Note - An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto Rs. 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 Rs. 5,000.

- Premium of Rs. 5,000 paid by the company for personal accident policy is not liable to tax.

PROBLEM NO. 14**Computation of taxable income of Mr. Vignesh for the Assessment Year 2018-19**

| | Particulars | Rs. | Rs. |
|----|--|-------|----------|
| a) | Income from salaries (See Working Note below) | | 7,62,800 |
| b) | Income from other sources | | |
| | i) Interest on fixed deposit with a company | 5,000 | |
| | ii) Income from specified mutual fund exempt under section 10(35) | Nil | |
| | (iii) Interest on Fixed Deposit received by minor daughter (Rs.3,000 - | 1,500 | 6,500 |

| | | | |
|--|--|----------|-----------------|
| | Rs.1500) | | |
| | Gross total income | | 7,69,300 |
| | Less: Deductions under Chapter VI-A | | |
| | Section 80C – PPF | 40,000 | |
| | Section 80CCC | 1,00,000 | 1,40,000 |
| | Total Income | | 6,29,300 |
| | Tax on total income | | 38,360 |
| | Add : Education cess @ 2% | | 767 |
| | Add : Secondary and Higher Education cess @ 1% | | 384 |
| | Total tax liability | | 39,511 |
| | Total tax liability (rounded off) | | 39,510 |

Working Note:**Computation of salary income of Mr. Vignesh for the Assessment Year 2018-19**

| Particulars | | Rs. |
|---|----------|-----------------|
| Income under the head “salaries” | | |
| Salary [Rs. 46,000 x 12] | | 5,52,000 |
| Medical facility [in the hospital maintained by the company is exempt] | | — |
| Rent free accommodation | | |
| 15% of salary is taxable (i.e. Rs. 5,52,000 × 15% as per Rule 3(1)) | | 82,800 |
| Use of dining table for 4 months [Rs. 60,000 x 10 /100 x 4 /12] | | 2,000 |
| Valuation of perquisite of interest on loan | | |
| [Rule 3(7)(i)] – 10% is taxable which is to be reduced by actual rate of interest charged i.e. [10% - 6% = 4%] | | 24,000 |
| Gift given on the occasion of wedding anniversary Rs. 4,000 is exempt, since its value is less than Rs. 5,000 | | - |
| Perquisite on sale of dining tables | | |
| Cost | 60,000 | |
| Less: Depreciation on straight line method @ 10% for 3 years | (18,000) | |
| Written Down Value | 42,000 | |
| Less: Amount paid by the assessee | (30,000) | 12,000 |
| Purchase through credit card – not being a privilege but covered by section 17(2)(iv) | | 10,000 |
| Perquisite on sale of car | | |
| Original cost of car | 2,50,000 | |
| Less: Depreciation from 16.7.2014 to 15.7.2015 @ 20% | (50,000) | |
| | 2,00,000 | |
| Less: Depreciation from 16.7.2015 to 15.7.2016 @ 20% | (40,000) | |
| Value as on 14.06.2017- being the date of sale to employee | 1,60,000 | |
| Less : Amount received from the assessee on 14.06.2017 | (80,000) | 80,000 |
| Income from Salaries | | 7,62,800 |

Note: 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 ambassador car is completed on 15.7.2016 where as the car was sold to the employee on 14.6.2017. The solution worked out above provides for wear and tear for only two years.

PROBLEM NO. 15**Computation of taxable salary of Mr. Anand for the Assessment Year 2018-19**

| Particulars | Amount |
|-------------------------------|----------|
| Basic Salary (Rs. 80,000 x 9) | 7,20,000 |

| | |
|---|------------------|
| Bonus | 36,000 |
| House Rent Allowance (Working Note 1) | 1,17,000 |
| Employer's contribution towards recognized provident fund in excess of 12% of salary [i.e., Rs. 1,10,000 – Rs. 86,400 (12% of Rs. 7,20,000)]. | 23,600 |
| Gratuity (Working Note 2) | 10,51,640 |
| Uncommuted Pension [(Rs. 8,000 x 1) + (Rs. 2,000 x 2)] | 12,000 |
| Commuted Pension (Working Note 3) | 2,50,000 |
| Gross Salary | 22,10,240 |
| Less: Professional tax paid by Mr. Anand [deductible under section 16(iii)] | 2,000 |
| Taxable salary | 22,08,240 |

Working Notes:

| | Particulars | Amount | Amount |
|--|---|-----------|------------------|
| 1) Taxable House Rent Allowance | | | |
| | Actual HRA Received | | 1,35,000 |
| | As per section 10(13A), least of the following is exempt: | | |
| | (i) Actual HRA received | 1,35,000 | |
| | (ii) Excess of rent paid over 10% of salary (basic pay, in this case) | | |
| | - Rent paid (Rs. 10,000 x 9) | 90,000 | |
| | - Less: 10% of salary (i.e., 10% of Rs. 7,20,000) | 72,000 | 18,000 |
| | (iii) 50% of salary (i.e., 50% of Rs. 7,20,000) 3,60,000 | 3,60,000 | |
| | Least of the above 18,000 | | 18,000 |
| | Taxable HRA | | 1,17,000 |
| 2) Taxable Gratuity | | | |
| | Actual Gratuity received | | 20,51,640 |
| | As per section 10(10), least of the following is exempt: | | |
| | (i) Statutory limit | 10,00,000 | |
| | (ii) Actual gratuity received | 20,51,640 | |
| | (iii) 15 days salary for each completed year of service or part thereof in excess of 6 months i.e., $15/26 \times 80,000 \times 34$ | | |
| | Least of the above | 15,69,231 | <u>10,00,000</u> |
| | Taxable Gratuity | | 10,51,640 |
| 3) Commuted Pension | | | |
| | Since Mr. Anand 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 pension which he would have received had he commuted the whole of the pension. Amount received (Commuted value of 75% of pension) 4,50,000 | | 4,50,000 |
| | Amount exempt from tax = $(Rs. 4,50,000 \times 100/75) \times 1/3$ | | 2,00,000 |
| | Taxable amount | | 2,50,000 |
| 4) Accumulated balance of Recognized Provident Fund (RPF) | | | |
| | Rs.6 lakh, representing the accumulated balance of RPF, received on retirement is exempt since Mr. Anand has rendered a continuous service for a period of 5 years or more (33 years and 7 months) in XYZ Ltd. | | |

SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO.1****a) Accommodation is owned by the company****Computation of taxable value of RFA:**

Taxable value = 15% of salary i.e. Rs.22,860 (Rs.1,52,400 x 15%)

Computation of salary:

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|--------------|--------------|
| Salary (10,000 x 12) | | 1,20,000 |
| Bonus | | 19,200 |
| Conveyance Allowance (70% spent on official duties) | 24,000 | |
| Less: Exempted (24,000 x 70%) | (16,800) | 7,200 |
| Medical Allowance (500 x 12) | | 6,000 |
| | | 1,52,400 |

b) Accommodation has been taken on rent by the company**Computation of taxable value of RFA:**

Taxable value = 15% of salary as per above calculation i.e. Rs.22,860 (Rs.1,52,400 x 15%)

(or)

Actual rent paid by the employer (Rs.7000 x 12) Rs.84,000

Whichever is lower.

Therefore taxable value = Rs.22,860.

PROBLEM NO.2**a) Calculate the value of perquisite of rent free accommodation:**

| Particulars | Rs. |
|---------------------------|---------------|
| RFA 15%(15000+2500)x12 | 31,500 |
| Add: furniture 27,000x10% | 2,700 |
| Taxable value | 34,200 |

b) If, instead of providing the accommodation free of rent, the employer charges Rs.2,000 p.m. as rent from Mr. X, what will be the value of taxable perquisite

| Particulars | Rs. |
|------------------------------------|---------------|
| RFA 15% (15000 + 2500) x 12 | 31,500 |
| Add: furniture (27,000 x 10%) | 2,700 |
| Less: amount recovered (2000 x 12) | (24,000) |
| Taxable value | 10,200 |

c) If rent payable by X to his employer is Rs.4,000 p.m.

| Particulars | Rs. |
|------------------------------------|------------|
| RFA 15% (15000 + 2500) x 12 | 31,500 |
| Add: Furniture (27,000 x 10%) | 2,700 |
| Less: Amount recovered (4000 x 12) | (48,000) |
| Taxable value | Nil |

PROBLEM NO.3

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2018-19

| Particulars | Amount (Rs.) |
|---|------------------|
| 1. Reimbursement of following medical expenses incurred by Ms. Rakhi | |
| a) On treatment of her self employed daughter in a private clinic | Rs.4,000 |
| b) On treatment of herself by family doctor | Rs.8,000 |
| | Rs.12,000 |
| Since the amount doesn't exceeded 15,000 it is totally exempted | Exempted |
| c) On treatment of her mother-in-law dependent on her, in a nursing home (Note-2) | 5,000 |

| | |
|---|---------------|
| 2. Payment of premium on Medi claim Policy taken on her health | Exempted |
| 3. Medical Allowance (Rs.2,000x12) | 24,000 |
| 4. Medical expenses reimbursed on her son's treatment in a government hospital | Exempted |
| 5. Expenses incurred by company on the treatment of her minor son abroad (Note-1) | Exempted |
| 6. Expenses in relation to foreign travel and stay of Rakhi and her son abroad for medical treatment (Note-1) | Exempted |
| Taxable value | 29,000 |

Note-1: Assuming that medical treatment for her minor son below the prescribed limit specified by the RBI and ms. Rakhi gross total income is also less than Rs.2,00,000. So that entire value is exempted.

Note-2: Since the term mother-in-law is not covered in the definition of "family", amount spend of Rs.5,000 was fully taxable.

PROBLEM NO.4

Computation of taxable value of perquisite in the hands of Mr. G

| Particulars | Rs. | Rs. |
|---|----------|---------------|
| Treatment of Mrs. G in a Government hospital | | - |
| Treatment of Mr. G's father (75 years and dependant) abroad | 50,000 | |
| Expenses of staying abroad of the patient and attendant | 30,000 | |
| | 80,000 | |
| Less : Exempt up to limit specified by RBI | (75,000) | 5,000 |
| Medical premium paid for insuring health of Mr. G | | - |
| Treatment of Mr. G by his family doctor | 5,000 | |
| Treatment of Mr. G's mother (dependant) by family doctor | 8,000 | |
| Treatment of Mr. G's sister (dependant) in a nursing home | 3,000 | |
| | 16,000 | |
| Less: Exempt up to Rs. 15,000 | (15,000) | 1,000 |
| Add: Treatment of Mr. G's grandfather in a private clinic | | 12,000 |
| Add: Treatment of Mr. G's brother (independent) | | 6,000 |
| Taxable value of perquisite | | 24,000 |

Note: Grandfather and independent brother are not included within the meaning of family of Mr. G.

PROBLEM NO.5

Computation of Income from Salary of Mr. X for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|--------|-----------------|
| Basic salary [Rs. 25,000 × 12] | | 3,00,000 |
| Commission [Rs. 1,000 × 12] | | 12,000 |
| Entertainment allowance [Rs. 1,000 × 12] | | 12,000 |
| Rent free accommodation [Note 1] | 48,600 | |
| Add: Value of furniture [Rs. 2,40,000 × 10% p.a. for 8 months] | 16,000 | 64,600 |
| Interest on personal loan [Note 2] | | 22,500 |
| Use of motor cycle [Rs. 60,000 × 10% p.a. for 4 months] | | 2,000 |
| Transfer of motor cycle [Note 3] | | 12,000 |
| Gross Salary | | 4,25,100 |
| Less: Deduction under section 16(iii) | | |
| Professional tax paid | | 2,000 |
| Income from Salary | | 4,23,100 |

Note 1: Value of rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of (Rs. 3,00,000 + Rs. 12,000 + Rs. 12,000) = Rs. 48,600

Note 2: Value of perquisite for interest on personal loan

= [Rs. 5,00,000 × (12.75% - 6.75%) for 9 months] = Rs. 22,500

Note 3: Depreciated value of the motor cycle

= Original cost – Depreciation @ 10% p.a. for 3 completed years.

= Rs. 60,000 – (Rs. 60,000 × 10% p.a. × 3 years) = Rs. 42,000.

Perquisite = Rs. 42,000 – Rs. 30,000 = Rs. 12,000.

PROBLEM NO.6

a) He is covered by the Payment of Gratuity Act 1972.

| Particulars | Rs. |
|---|-----------------|
| Gratuity received at the time of retirement | 6,00,000 |
| Less: Exemption under section 10(10) | |
| Least of the following: | |
| i. Gratuity received | Rs.6,00,000 |
| ii. Statutory limit | Rs.10,00,000 |
| iii. $\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$ | |
| i.e., $\frac{15}{26} \times (\text{Rs.5,000} + \text{Rs.3,000}) \times 27 =$ | Rs.1,24,615 |
| Taxable Gratuity | 4,75,385 |

b) He is not covered by the Payment of Gratuity Act 1972.

| Particulars | Rs. |
|---|-----------------|
| Gratuity received at the time of retirement | 6,00,000 |
| Less: Exemption under section 10(10) (Note 1) | 1,01,400 |
| Taxable Gratuity | 4,98,600 |

Note 1: Exemption under section 10(10) is least of the following:

i. Gratuity received Rs.6,00,000

ii. Statutory limit Rs.10,00,000

iii. $\frac{1}{2} \times \text{Average salary} \times \text{years of service}$

$$\text{i.e., } = \frac{1}{2} \times \frac{\left[(5,000 \times 10) + (3,000 \times 60\% \times 10) + \left(1\% \times 12,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26 = \text{Rs.1,01,400.}$$

c) He is a government employee:

| Particulars | Rs. |
|---|-------------|
| Gratuity received at the time of retirement | Rs.6,00,000 |
| Less: Exemption under section 10(10) | Rs.6,00,000 |
| Taxable gratuity | Nil |

PROBLEM NO.7

a) As per section 10(10)(i), gratuity received by a Government employee on retirement is fully exempt from tax. Since Mr. Arpan is a government employee, gratuity amounting to Rs. 12,00,000 received would be fully exempt.

The taxable portion of gratuity shall be Nil.

- b) If Mr. Arpan is not a Government employee but covered by the Payment of Gratuity Act, 1972, then, gratuity received by him would be exempt up to least of the following:

| Particulars | Amount (Rs.) |
|--|--------------|
| i) Statutory limit | 10,00,000 |
| ii) Actual gratuity received | 12,00,000 |
| iii) $15/26 \times$ last drawn salary \times years of service (including part of the year in excess of 6 months) $15/26 \times$ Rs. 63,000 \times 28 years | 10,17,692 |

Therefore, Rs. 10,00,000 is exempt under section 10(10)(ii).

Taxable gratuity = Rs. 12,00,000 – Rs. 10,00,000 = **Rs. 2,00,000**

Salary, for the purpose of computing exempt gratuity in this case, means basic salary plus dearness allowance i.e. Rs. 63,000 (Rs. 38,000 + Rs. 25,000).

- c) If Mr. Arpan is not a Government employee and not covered under the Payment of Gratuity Act, 1972 then, gratuity received by him would be exempt up to the least of the following:

| Particulars | Amount(Rs.) |
|--|-------------|
| i) Statutory limit | 10,00,000 |
| ii) Actual gratuity received | 12,00,000 |
| iii) $1/2 \times$ Average salary of 10 months immediately preceding the month of retirement \times years of service (shall not include part of the year in excess of 6 months) $1/2 \times$ Rs. 38,000 \times 27 years | 5,13,000 |

Therefore, Rs.5,13,000 is exempt under section 10(10)(iii) The taxable gratuity is Rs.6,87,000 (Rs.12,00,000 – Rs. 5,13,000)

Salary, for the purpose of computation of exempt gratuity, means basic salary of Rs.38,000 p.m. [Average salary for 10 months = (Rs. 38,000 \times 10)/10]

Note: It is assumed that dearness allowance does not form part of salary for retirement benefits.

PROBLEM NO.8

Computation of gratuity taxable in the hands of Mr. Shah for the P.Y. 2017-18: As per section 10(10)(iii), gratuity received by an employee would be exempt upto the least of the following limits

| S.No. | Particulars | Amount |
|-------|--|-----------|
| (i) | Gratuity received | 8,00,000 |
| (ii) | Half-month's salary for every year of completed service (See Note below) | 4,00,500 |
| (iii) | Monetary limit | 10,00,000 |

Therefore, Rs. 4,00,500 would be exempt under section 10(10) (iii). The balance Rs.3,99,500 (i.e. Rs.8,00,000 – Rs.4,00,500) would be taxable.

Note: One of the limits for calculation of gratuity exempt under section 10(10) (iii) is one- half month's salary for each year of completed service (fraction of a year to be ignored), {{on the basis of average salary for the ten months immediately preceding the month of retirement. In this case, the month of retirement is January, 2018. Therefore, average salary for the months of March 2017 to December 2017 has to be considered. The salary is Rs. 25,000 p.m. up to 30.9.2017 and Rs. 27,000 p.m. from 1.10.2017. Hence, average salary would be Rs. 26,700 $\{[(Rs. 25,000 \times 7) + (Rs. 27,000 \times 3) + (2000 \times 55\% \times 10)]/10\}$. Further, half-month's salary should be multiplied by the number of years of completed service and any fraction of a year has to be ignored. Therefore, in this case, half-month's salary should be multiplied by 30 and the fraction of 7 months should be ignored.

| Computation of average salary | Amount |
|--|----------|
| Basic salary March 2017 to December 2017 $[(25,000 \times 7) + (27,000 \times 3)]$ | 2,56,000 |
| Dearness allowance $(2,000 \times 10 \times 55\%)$ | 11,000 |

| | |
|---|----------|
| | 2,67,000 |
| Average salary = $2,67,000/10 = \text{Rs.}26,700$ | |
| Half-month's salary for every year of completed service (fraction is to be ignored) [$30 \times 26,700/2$] | 4,00,500 |

PROBLEM NO.9**Computation of taxable income of Shri Hari for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Basic salary (Rs. 20,000 x 12) | | 2,40,000 |
| Dearness allowance @ 30% | | 72,000 |
| Transport allowance (Rs. 2,000 x 12) | 24,000 | |
| Less: Exemption under section 10(14) (read with Rule 2BB @ Rs.1,600 p.m.) | (19,200) | 4,800 |
| Motor car maintenance borne by employer [Rs.36,000 – Rs.21,600(Rs.1,800 x 12)] | | 14,400 |
| Expenditure on accommodation while on official duty not a perquisite and hence not chargeable to tax | | Nil |
| Loan from recognized provident fund – not chargeable to tax | | Nil |
| Value of lunch provided during working hours (not chargeable to tax as per rule 3(7)(iii) - Free food provided by the employer during working hours is not treated as perquisite provided that the value thereof does not exceed fifty rupees per meal) | | Nil |
| Computer provided in the residence of employee by the employer – not chargeable to tax [Rule 3(7)(vii)] | | Nil |
| Gross Salary | | 3,31,200 |
| Less: Deduction under Chapter VI-A | | |
| Deduction under section 80D in respect of medical insurance premium paid by cheque, restricted to Rs. 25,000 | 25,000 | |
| Premium paid in cash not eligible for deduction | Nil | 25,000 |
| Taxable income | | 3,06,200 |

PROBLEM NO.10**Computation of total income of Mr. Madhav for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Basic salary (Rs.22,500 x 12) | | 2,70,000 |
| Dearness allowance (1/4th of basic salary) | | 67,500 |
| Transport allowance (Rs.2,000 x 12) | 24,000 | |
| Less: Exemption (Rs.1600 p.m. x12) | (19,200) | 4,800 |
| Facility for use of laptop | | Nil |
| Conveyance Allowance received | 12,000 | |
| Less: Expenditure incurred for official purpose | (10,000) | 2,000 |
| Expenditure on accommodation while on official duty not a perquisite and hence, not chargeable to tax | | Nil |
| Value of lunch provided during working hours not exceeding Rs.50 per meal. | | Nil |
| Value of concessional accommodation [See Note 1] | | 37,520 |
| Gross Total Income | | 3,81,820 |
| Less: Deduction under Chapter VI-A | | |
| Under section 80C Contribution to PPF | 1,00,000 | |

| | | |
|---|-------|-----------------|
| Under section 80D | | |
| Medical insurance premium paid by cheque | 4,500 | |
| Premium paid in cash not eligible for deduction | Nil | 1,04,500 |
| Total income | | 2,77,320 |

Notes:**1. Perquisite Value of Furnished Accommodation provided at concessional rent:**

| Particulars | Rs. | Rs. |
|--|--------|---------------|
| Basic Salary | | 2,70,000 |
| Transport Allowance (the portion which is chargeable to tax) | | 4,800 |
| Conveyance Allowance | | 2,000 |
| "Salary" for the purpose of perquisite value of accommodation | | 2,76,800 |
| 15% of salary (A) | 41,520 | |
| Rent paid by the company for the accommodation @ Rs. 3,500 p.m. (B) | 42,000 | |
| Lower of (A) and (B) would be taken as the perquisite value of accommodation | | 41,520 |
| Less: Rent paid by Madhav (Rs. 1,000 × 12) | | (12,000) |
| | | 29,520 |
| Add: Value of furniture provided by employer: | | |
| Rent for furniture (Rs. 500 × 12) | 6,000 | |
| Television (Rs. 20,000 × 10% p.a.) | 2,000 | 8,000 |
| Value of furnished accommodation given at concessional rent | | 37,520 |

Note: It is assumed that dearness allowance does not form part of retirement benefits and therefore, the same has not been considered for computation of value of furnished accommodation.

PROBLEM NO.11**Computation of taxable salary of Mr. Anand for A.Y. 2018-19**

| Particulars | Rs. |
|--|-----------------|
| Basic pay [(Rs. 25,000×11) + (Rs. 27,500×1)] = Rs. 2,75,000 + Rs. 27,500 | 3,02,500 |
| Dearness allowance [15% of basic pay] | 45,375 |
| Bonus [Rs. 27,500 × 1.5] | 41,250 |
| Employer's contribution to Recognized Provident Fund in excess of 12% (18% - 12% = 6% of Rs. 3,47,875) | 20,873 |
| Taxable allowances: | |
| Telephone allowance | 12,000 |
| Taxable perquisites: | |
| Rent-free accommodation [Note 1] | 60,169 |
| Medical reimbursement [Note 2] (40,000 -15,000) | 25,000 |
| Reimbursement of salary of housekeeper [Rs. 2,000 × 12] | 24,000 |
| Gift voucher [Note 4] | - |
| Motor car owned and driven by employee, running and maintenance charges borne by the employer [Rs. 36,600 - Rs. 21,600 (i.e., Rs. 1,800 × 12)] | 15,000 |
| Value of free lunch facility less than Rs.50 per meal [Note 5] | - |
| Salary income chargeable to tax | 5,46,167 |

Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

| S.No. | Particulars | Rs. |
|-------|---------------------|-----------------|
| 1. | Basic salary | 3,02,500 |
| 2. | Dearness allowance | 45,375 |
| 3. | Bonus | 41,250 |
| 4. | Telephone allowance | 12,000 |
| | Total | 4,01,125 |

15% of salary = Rs. 4,01,125 × 15/100 = Rs. 60,169

Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. Rs.1,80,000) or
- 15% of salary (i.e., Rs.60,169),

Whichever is lower.

Therefore, the perquisite value is Rs. 60,169.

2. Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of Rs.15,000. Therefore, in this case, the balance of Rs.25,000 (i.e., Rs.40,000 – Rs.15,000) is a taxable perquisite.
3. Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt.
4. If the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is less than Rs. 5,000 in aggregate during the previous year, the perquisite value is Nil. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is less than Rs.5,000. Therefore, the perquisite value of gift voucher is Nil.
5. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed Rs.50 per meal.

PROBLEM NO.12

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

| Particulars | Rs. |
|--|---------------|
| Medical facility | Exempted |
| Domestic servant (Rs.1500x12) | 18,000 |
| Education facility provided to his children arthy not exceeding Rs.1,000 p.m | Exempted |
| Education facility provided to his children ashok exceeding Rs.1,000 p.m (Rs.200 x 12) | 2,400 |
| Taxable value of television, refrigerator and air conditioner (Rs.1,10,000 x 10%) | 11,000 |
| Gift | Rs.10,000 |
| Less: exempted | (Rs.5,000) |
| Telephone facility | Exempted |
| The value of concessional loan | 20,880 |
| Total taxable value of perquisites | 57,280 |

Note:

1. The cost of free education provided to his child Ashok would be taxable. However, only the sum in excess of Rs. 1,000 per month is taxable. In such a case, the value of perquisite would be Rs. 2,400.
2. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up to Rs. 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 Rs. 5,000.

3. The value of the benefit to the assessee resulting from the provision of interest free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

| Month | Maximum outstanding balance as on last date of month (Rs.) | Perquisite value at 4% for the month (Rs.) |
|--------------------------------|--|--|
| April, 2017 | 5,88,000 | 1,960 |
| May, 2017 | 5,76,000 | 1,920 |
| June, 2017 | 5,64,000 | 1,880 |
| July, 2017 | 5,52,000 | 1,840 |
| August, 2017 | 5,40,000 | 1,800 |
| September, 2017 | 5,28,000 | 1,760 |
| October, 2017 | 5,16,000 | 1,720 |
| November, 2017 | 5,04,000 | 1,680 |
| December, 2017 | 4,92,000 | 1,640 |
| January, 2018 | 4,80,000 | 1,600 |
| February, 2018 | 4,68,000 | 1,560 |
| March, 2018 | 4,56,000 | 1,520 |
| Total value of this perquisite | | 20,880 |

Total value of taxable perquisite = Rs. 74,280 i.e. Rs. 18,000 + Rs. 14,400 + Rs. 11,000 + Rs. 10,000 + Rs.20,880].

PROBLEM NO.13

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y. 2018-19

| Particulars | Amount (Rs.) | | |
|--|--------------|----------|-----------------|
| 1. Value of concessional accommodation | | | |
| Actual amount of lease rental paid by X Ltd. | 1,80,000 | | |
| 15% of salary i.e., 15% of Rs. 10,00,000 | 1,50,000 | | |
| Lower of the above | | 1,50,000 | |
| Less: Rent paid by Mr.Y (Rs. 5,000 × 12) | | (60,000) | |
| | | 90,000 | |
| Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr.Y | | 36,000 | 1,26,000 |
| 2. Perquisite value of santro car owned by X Ltd. and provided to Mr.Y for his personal and official use [(Rs. 1,800 + Rs. 900) × 12] | | | 32,400 |
| 3. Value of gift voucher | | | 10,000 |
| Value of perquisites chargeable to tax | | | 1,68,400 |

PROBLEM NO.14

Computation of taxable salary of Mr. M. for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|----------|----------|
| Basic Salary (Rs.20,000 × 5) + (Rs.25,000 × 7) | | 2,75,000 |
| Transport allowance (Rs.2,000 × 12) | 24,000 | |
| Less: Exempt under section 10(14) (Rs.1600 × 12) | (19,200) | 4,800 |

| | | |
|---|----------------|-----------------|
| Children education allowance (Rs.500 x 12) | 6,000 | |
| Less: Exempt under section 10(14) (Rs.100 x 2 x 12) | <u>(2,400)</u> | 3,600 |
| City Compensatory Allowance (Rs.300 x 12) | | 3,600 |
| Hostel Expenses Allowance (Rs.380 x 12) | 4,560 | |
| Less: Exempt under section 10(14) (Rs.300 x 2 x 12 i.e. Rs.7,200 but restricted to the actual allowance of Rs.4,560) | <u>(4,560)</u> | Nil |
| Tiffin allowance (fully taxable) | | 5,000 |
| Tax paid on employment [See Note Below] | | 2,500 |
| Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of Rs.2,75,000) | | 8,250 |
| Gross Salary | | 3,02,750 |
| Less : Tax on employment under section 16(iii) | | <u>(2,500)</u> |
| Taxable salary | | 3,00,250 |

Note: Professional tax paid by employer should be included in the salary of Mr. M as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.

PROBLEM NO.15

Computation of total income of Mr. Rishi for the A.Y. 2018-19

| No. | Particulars | Rs. |
|-----|--|---|
| 1. | Basic Salary | 6,00,000 |
| 2. | Dearness allowance (40% of basic salary) | 2,40,000 |
| 3. | Motor car (engine cubic capacity above 1.6 litres), owned by employer, running expenses met by Mr. Rishi. Perquisite value Rs. 900 per month. | 10,800 |
| 4. | Cost of laptop Less: amount recovered from Mr. Rishi | <div>Rs.40,000</div> <div><u>Rs.5,000</u></div> <div>35,000</div> |
| 5. | Leased accommodation: Actual lease rent Rs.3 lakhs or 15% of salary i.e. 15% of Rs.8,40,000 = Rs.1,26,000; whichever is lower. Rs.1,26,000, being the lower figure, less amount recovered from employee is the value of perquisite i.e. Rs.1,26,000 minus 60,000 | 66,000 |
| 6. | Leave travel concession (See note) | Exempted |
| 7. | Employer contribution to PF (Rs.6,00,000 x 15%) Less: 12% of basic pay and D.A. (Rs.8,40,000 x 12%) | <div>Rs.90,000</div> <div><u>(Rs.1,00,800)</u></div> <div>Nil</div> |
| 8. | Professional tax paid by employer | 2,000 |
| | Gross Salary | 9,53,800 |
| | Less: Deduction u/s 16(iii) Professional tax | 3,000 |
| | Net Salary / Gross Total Income | 9,50,800 |
| | Less: Deduction under section 80C PF contribution at 15% of basic pay | 90,000 |
| | Total Income | 8,60,800 |

Notes: Mr. Rishi can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

PROBLEM NO.16

Computation of Taxable Salary of Mr. Balaji for A.Y. 2018-19

| Particulars | Rs. |
|--|----------|
| Basic salary [(Rs. 50,000 x 7) + (Rs. 60,000 x 5)] | 6,50,000 |
| Dearness Allowance (40% of basic salary) | 2,60,000 |

| | |
|--|------------------|
| Bonus (Rs. 50,000 + 40% of Rs. 50,000) [Note 1] | 70,000 |
| Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs. 6,50,000 [Note 4] | 26,000 |
| Professional tax paid by employer | 2,000 |
| Laptop facility | Exempted |
| Perquisite of Motor Car exceeding 1.6ltrsCC (Rs.2400x5) [See Note 5] | 12,000 |
| Leave travel concession (Note 5) | Exempted |
| Gross Salary | 10,20,000 |
| Less: Deduction under section 16 | |
| Professional tax (Note 6) | 3,000 |
| Taxable Salary | 10,17,000 |

Notes:

- Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
- As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child. It is assumed that the Leave Travel Concession was availed for journey within India.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2017, therefore the perquisite value has been calculated for 5 months.
- As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs. 3,000 is provided from salary.

PROBLEM NO.17**Computation of tax payable by Mr. Hari for the A.Y.2018-19**

| Particulars | Incl. arrears of salary (Rs.) | Excl. arrears Of salary (Rs.) |
|---------------------------------------|-------------------------------|-------------------------------|
| Current year salary | 10,20,000 | 10,20,000 |
| Add: Arrears of salary | 3,45,000 | |
| Taxable Salary | 13,65,000 | 10,20,000 |
| Income-tax thereon | 2,19,500 | 1,16,000 |
| Add : Education cess @2% plus SHEC@1% | 6,585 | 3,480 |
| Total payable | 2,26,085 | 1,19,480 |

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

| Particulars | A.Y. 2011-12 | | A.Y. 2012-13 | | A.Y. 2013-14 | |
|------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Incl. arrears (Rs.) | Excl. arrears (Rs.) | Incl. arrears (Rs.) | Excl. arrears (Rs.) | Incl. arrears (Rs.) | Excl. arrears (Rs.) |
| Taxable salary | 7,10,000 | 7,10,000 | 8,25,000 | 8,25,000 | 9,50,000 | 9,50,000 |
| Add: Arrears of Salary | 1,03,000 | - | 1,17,000 | - | 1,25,000 | - |

| | | | | | | |
|--------------------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Taxable salary | 8,13,000 | 7,10,000 | 9,42,000 | 8,25,000 | 10,75,000 | 9,50,000 |
| Tax on the Above | 97,900 | 76,000 | 1,34,600 | 99,500 | 1,47,500 | 1,15,000 |
| Add: Cess@3% | 2,937 | 2,280 | 4,038 | 2,985 | 4,425 | 3,450 |
| Tax payable | 1,00,837 | 78,280 | 1,38,638 | 1,02,485 | 1,51,925 | 1,18,450 |

Computation of relief under section 89

| | Particulars | Rs. | Rs. |
|------|--|-----------------|---------------|
| (i) | Tax payable in A.Y.2018-19 on arrears: | | |
| | Tax on income including arrears | 2,26,085 | |
| | Less : Tax on income excluding arrears | <u>1,19,480</u> | 1,06,605 |
| (ii) | Tax payable in respective years on arrears : | | |
| | Tax on income including arrears (Rs. 1,00,837 + Rs. 1,38,638 + Rs. 1,51,925) | 3,91,400 | |
| | Less: Tax on income excluding arrears (Rs. 78,280 + Rs. 1,02,485 + Rs. 1,18,450) | <u>2,99,215</u> | 92,185 |
| | Relief under section 89 - difference between tax on arrears in A.Y 2018-19 and tax on arrears in the respective years | | 14,420 |

Tax payable for A.Y.2018-19 after relief under section 89

| Particulars | Rs. |
|--|-----------------|
| Income-tax payable on total income including arrears of salary | 2,26,085 |
| Less : Relief under section 89 as computed above | <u>14,420</u> |
| Tax payable after claiming relief | 2,11,665 |

PROBLEM NO.18**Computation of gross total income of Mr. Dinesh for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|-------------------|-----------------|
| Salaries | | |
| Salary including dearness allowance | | 6,50,000 |
| Bonus | | 50,000 |
| Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit). | | Nil |
| Value of perquisites: | | |
| Salary of servant [Rule 3(3)] | 48,000 | |
| Free gas, electricity and water [Rule 3(4)] | 82,000 | |
| Cost of free education provided by employer (Rs. 2,500 x 12) is fully taxable, since the cost of education exceeds Rs.1,000 per month [Rule 3(5)]. | <u>30,000</u> | <u>1,60,000</u> |
| Income chargeable under the head "Salaries" | | 8,60,000 |
| Income from house property | | |
| Let-out property (At Rohini) | | |
| Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (Rs. 35,000 x 12) | 4,20,000 | |
| Less: Municipal taxes paid | <u>12,000</u> | |
| Net Annual Value (NAV) | 4,08,000 | |
| Less: Deduction under section 24(a): 30% of NAV | <u>1,22,400</u> | |
| (A) | 2,85,600 | |
| Self-occupied property (At Dwarka) | | |
| Net Annual Value (NAV) [Since the property is self-occupied] | Nil | |
| Less: Deduction under section 24(a) | | |
| Interest on loan from Bank of India @11% of Rs. 18,50,000 restricted to 2,03,500 | <u>(2,00,000)</u> | |
| (B) | (2,00,000) | |
| Income from house property [A - B] | | 85,600 |
| Income from Other Sources | | |

| | | |
|--|-----------------------|------------------|
| i) Interest earned by minor son from advances made out of money gifted to him by his father, Mr. Dinesh, is includible in the hands of Dinesh as per section 64(1A), since all income arising to a minor child is includible in the hands of parent whose total income (before including the income of minor child) is greater (Rs. 40,000 x 18%) Less: Exempt under section 10(32) | 7,200 <u>1,500</u> | |
| | 5,700 | |
| ii) Interest income earned by Dinesh's wife from advances made out of money gifted to her by her husband, Mr. Dinesh, has to be included in the total income of Mr. Dinesh as per section 64(1) (Rs. 40,000 x 18%) | 7,200 | |
| iii) Gift received from two friends [taxable under section 56(2)(x)] since the aggregate amount received during the year exceeds Rs. 50,000 (Rs. 45,000 x 2) | <u>90,000</u> | <u>1,02,900</u> |
| Gross Total Income | | 10,48,500 |

PROBLEM NO.19**Computation of Gross Salary of Mr. B for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|---------------|-----------------|
| Basic Salary [Rs. 10,000 × 12] | | 1,20,000 |
| Dearness Allowance [Rs. 8,000 × 12] | | 96,000 |
| Commission on turnover [0.1% × Rs. 50,00,000] | | 5,000 |
| Bonus | | 40,000 |
| Gratuity [Note 1] | | 25,000 |
| Employee's contribution to RPF [Note 2] | | - |
| Employers contribution to RPF [20% of Rs. 1,20,000] | 24,000 | |
| Less : Exempt [Note 3] | <u>20,760</u> | 3,240 |
| Interest accrued in the RPF @ 13% p.a. | 13,000 | |
| Less : Exempt @ 9.5% p.a. | <u>9,500</u> | <u>3,500</u> |
| Gross Salary | | 2,92,740 |

THE END

4. INCOME FROM HOUSE PROPERTY**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

According to sec-27 (deemed ownership)

- a) A person who acquires any right in or with respect to any building or part there of, i.e. transfer by way of lease is more than 12 years, shall be deemed to be owner of that building or part there of
- b) In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transfer is deemed to be owner of the transferred property.

According to above provisions Mr. Rahul Jadav will not be deemed as owner of his first house (as the period of lease is less than 12 years) he is deemed owner of the second house.

Computation of total income of Mr. Rahul Jadav for the A.Y- 2018-19

| Particulars | Amt. (Rs.) | Amt. (Rs.) |
|--|------------|---------------|
| Income from house property (WN :1) | | Nil |
| Income from business | 64,000 | |
| Less: Adjustment for setoff with H.P loss (sec.71) | (6,000) | 58,000 |
| Income from other sources (WN :2) | | 12,000 |
| Gross Total Income | | 70,000 |

W.N: 1:**Computation of income from house property (self-occupied)**

| Particulars | Amt. (Rs.) | Amt. (Rs.) |
|-----------------------------------|------------|----------------|
| Net annual value | | Nil |
| Less: Deduction u/s 24 | | |
| a) Standard deduction @ 30% | Nil | |
| b) Interest on loan | 6,000 | (6,000) |
| Income from house property | | (6,000) |

W.N: 2:**Computation of Income from other sources**

| Particulars | Amt. (Rs.) | Amt. (Rs.) |
|----------------------------------|------------|---------------|
| Lease rent (2,400 x 12) | | 28,800 |
| Less: Expenses | | |
| Lease rent (1,000 x 12) | 12,000 | |
| Salary of Durban (200 x 12) | 2,400 | |
| Interest on loan (200 x 12) | 2,400 | (16,800) |
| Income from other sources | | 12,000 |

PROBLEM NO.2**Computation of income from house property of Mr. R for the A.Y.2018-19**

| Particulars | Amount |
|---|-----------------|
| Net annual value | 0 |
| Less: Deduction under section 24 | |
| Interest on loan (WN) | (60,000) |
| Income from house property | (60,000) |

Working Notes:**Calculation of interest u/s 24: -****Loan -1**

- a) Pre construction period interest = Nil
(Because the five equal installment have been exhausted) (From 2010-11 to 2014-15)
- b) Current year interest
Current year interest = $3,00,000 \times 12\% = 36,000$
- c) Total interest = Pre construction period interest + Current year interest = $0 + 36,000 = 36,000$

Loan -2

- a) Pre construction period interest = Nil
(Because the loan was taken in the year of construction completion) (From 2010-11 to 2014-15)
- b) Current year interest
Current year interest = $2,00,000 \times 12\% = 24,000$
- c) Total interest = Pre construction period interest + Current year interest = $0 + 24,000 = 24,000$

PROBLEM NO.3**Computation of income from house property of Smt. Poorna for A.Y.2018-19**

| Particulars | Rs. |
|---|-------------------|
| Annual Value of one house used for self-occupation under section 23(2) | Nil |
| Less: Deduction under section 24 | |
| Interest on borrowed capital | 2,00,000 |
| Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within 5 years - interest paid or payable subject to a maximum of Rs.2,00,000 (including apportioned preconstruction interest) will be allowed as deduction. In this case the total interest is Rs. 1,80,000 + Rs. 30,000 (Being 1/5th of Rs. 1,50,000) = Rs. 2,10,000. However, the interest deduction is restricted to Rs. 2,00,000 | |
| Loss from house property. | (2,00,000) |

PROBLEM NO.4**Computation of income from house property of Ganesh for the A.Y.2018-19**

Let us first calculate the income from each house property assuming that they are deemed to be let out.

| Particulars | Amount in Rs. | |
|--|---------------|----------|
| | House I | House II |
| Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR | 90,000 | 1,60,000 |
| Less: Municipal taxes (paid by the owner during the previous year) | 12,000 | 12,000 |
| Net Annual Value (NAV) | 78,000 | 1,48,000 |
| Less: Deductions under section 24 | | |
| (a) 30% of NAV | 23,400 | 44,400 |
| (b) Interest on borrowed capital | - | 55,000 |
| Income from house property | 54,600 | 48,600 |

OPTION 1 (House I – self-occupied and House II – deemed to be let out)

If House I is opted to be self-occupied, the income from house property shall be

| Particulars | Amount Rs. |
|-----------------------------------|---------------|
| House I (Self-occupied) | Nil |
| House II (Deemed to be let-out) | 48,600 |
| Income from house property | 48,600 |

OPTION 2 (House I – deemed to be let out and House II – self-occupied)

If House II is opted to be self-occupied, the income from house property shall be

| Particulars | Amount in Rs. |
|---|-----------------|
| House I (Deemed to be let-out) | 54,600 |
| House II (Self-occupied) (interest deduction restricted to Rs. 30,000) | <u>(30,000)</u> |
| Income from house property | 24,600 |

Since Option 2 is more beneficial, Ganesh should opt to treat House II as self-occupied and House I as deemed to be let out. His income from house property would be Rs. 24,600 for the A.Y. 2018-19.

PROBLEM NO.5

Computation of income from house property of Ganesh for A.Y.2018-19

| S.No. | Particulars | Amount in Rs. |
|-----------------------------------|--|-----------------|
| Computation of GAV | | |
| Step 1 | Compute ER ER = Higher of MV of Rs. 2,50,000 p.a. and FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a. | 2,10,000 |
| Step 2 | Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = Rs. 2,00,000 - Rs. 20,000 | 1,80,000 |
| Step 3 | Compare ER and Actual rent received/receivable | |
| Step 4 | In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (Rs.1,80,000 + Rs.40,000). Therefore, actual rent is the GAV. | 1,80,000 |
| Gross Annual Value (GAV) | | 1,80,000 |
| Less: | Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000 | 20,000 |
| Net Annual Value (NAV) | | 1,60,000 |
| Less: | Deductions under section 24 | 48,000 |
| | (a) 30% of NAV = 30% of Rs. 1,60,000 | |
| | (b) Interest on borrowed capital (actual without any ceiling limit) | 65,000 |
| Income from house property | | 47,000 |

PROBLEM NO.6

Computation of income from house property of Smt. Rajya lakshmi for the A.Y.2018-19

| Particulars | | Amount in Rs. | |
|--------------------------|--|---------------|----------|
| Computation of GAV | | | |
| Step 1 | Compute ER for the whole year ER = Higher of MV of Rs. 5,00,000 and FR of Rs. 4,20,000, but restricted to SR of Rs. 4,80,000 | 4,80,000 | |
| Step 2 | Compute Actual rent received / receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (Rs. 50,000×9) – (Rs. 50,000 × 2) = Rs. 4,50,000 - Rs. 1,00,000 = | 3,50,000 | |
| Step 3 | Compare ER for the whole year with the actual rent received / receivable for the let out period i.e. Rs.4,80,000 and Rs. 3,50,000 | | |
| Step 4 | GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period. | 4,80,000 | |
| Gross Annual Value (GAV) | | | 4,80,000 |
| Less: | Municipal taxes (paid by the owner during the previous year) = 12% of Rs. 5,00,000 | | 60,000 |

| | | | |
|----------------------------|--------------------------------------|----------|----------|
| Net Annual Value (NAV) | | | 4,20,000 |
| Less: | Deductions under section 24 | | |
| | (a) 30% of NAV = 30% of Rs. 4,20,000 | 1,26,000 | |
| | (b) Interest on borrowed capital | 25,000 | 1,51,000 |
| Income from house property | | | 2,69,000 |

PROBLEM NO.7

Computation of income from house property of Mr. R for the A.Y.2018-19

| Particulars | Unit-A (8M-SOP) (4M-LOP) | Unit-B (6M-SOP) (6M-LOP) |
|-------------------------------------|--------------------------------|--------------------------------|
| Gross annual value (See note below) | 1,20,000 | 96,000 |
| Less: Municipal taxes (61 4) | (24,000) | (16,000) |
| Net annual value | 96,000 | 80,000 |
| Less : Deduction under section 24 | | |
| (a) 30% of net annual value | (28,800) | (24,000) |
| (b) interest (61 4) | (12,000) | (8,000) |
| Income From House Property | 55,200 | 48,000 |

Total income from house property = Rs.1,03,200

Notes:

1. In the absence of information relating to fair rental value, then actual rent for full year shall be considered as fair rental value.
2. Sec. 23 (1) (c) is not applicable in the present case, because the property was never vacant during previous year.

PROBLEM NO.8

Computation of income from house property of Mr. Vikas for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|---------------|-----------------|
| Income from house property | | |
| I. Self-occupied portion (Two third) | | |
| Net Annual value | | Nil |
| Less: Deduction under section 24(b) | | |
| Interest on loan (See Note below) (Rs.18,600 x 2/3) | | 12,400 |
| Loss from self occupied property | | (12,400) |
| II. Let-out portion (One third) | | |
| Gross Annual Value | | |
| a) Actual rent received ((Rs. 5,000 x 12) | Rs.60,000 | |
| b) Expected rent [higher of municipal valuation (i.e., Rs. 96,000) and fair rent (i.e., Rs. 1,26,000) but restricted to standard rent (i.e., Rs.1,08,000)] = Rs.1,08,000 x 1/3 Higher of (a) or (b) | Rs.36,000 | |
| | 60,000 | |
| Less: Municipal taxes (Rs. 96,000 x 11% x 1/3) | 3,520 | |
| Net Annual Value | 56,480 | |
| Less: Deductions under section 24 | | |
| a) 30% of NAV | 16,944 | |
| b) Interest on loan (See Note below) (Rs.18,600 x 1/3) | 6,200 | 33,336 |
| Income from house property | | 20,936 |

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2017 to 31.3.2018) = 12% of Rs.1,00,000 = Rs.12,000

Pre-construction period interest = 12% of Rs.1,00,000 for 33 months (from 1.07.2010 to 31.3.2013) = Rs.33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs.6,600 from the year of completion of construction i.e. from F.Y. 2013-14 till F.Y. 2017-18.

Therefore, total interest deduction under section 24 = Rs.12,000 + Rs.6,600 = Rs.18,600.

PROBLEM NO.9

Computation of income from house property of Mr. X for the A.Y.2018-19

| Particulars | 3/4 th (SOP) | 1/4 th (9M-LO) (3M-SO) |
|-----------------------------------|-------------------------|---|
| Gross annual value | 0 | 8,400 |
| Less: Municipal taxes | 0 | - |
| Net annual value | 0 | 8,400 |
| Less : Deduction under section 24 | | |
| (a) 30% of net annual value | 0 | (2,520) |
| (b) interest (See note below) | (6,750) | (2,520) |
| Income From House Property | (6,750) | 3,630 |

Total income from house property = (3,120)

Working Note:

a) Pre construction period interest = Nil

(Because the loan was taken in the year in which the construction was completed)

(From 2010-11 to 2014-15)

b) Current year interest

Current year interest = 60,000 × 15% = 9,000

c) Total interest = Pre construction period interest + Current year interest = 0 + 9,000 = 9,000

Note: In the absence of information relating to fair rental value, then actual rent for full year shall be considered as fair rental value.**PROBLEM NO.10**

Computation of Income from house property of Mr. Krishna for A.Y. 2018-19

| | Particulars | Rs. | Rs. |
|-----|---|----------|-----------------|
| (A) | Rented unit (50% of total area) | | |
| | Step I - Computation of Expected Rent | | |
| | Municipal valuation (Rs. 2,44,000 × 1/2) | 1,22,000 | |
| | Fair rent (Rs. 2,35,000 × 1/2) | 1,17,500 | |
| | Standard rent (Rs. 2,20,000 × 1/2) | 1,10,000 | |
| | Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent | 1,10,000 | |
| | Step II - Actual Rent | | |
| | Rent receivable for the whole year (Rs. 12,000 × 12) | 1,44,000 | |
| | Step III - Computation of Gross Annual Value | | |
| | Actual rent received owing to vacancy (Rs. 1,44,000 – Rs. 36,000) | 1,08,000 | |
| | Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual value | | |
| | Gross Annual Value (GAV) | | 1,08,000 |
| | Less: Municipal taxes (12% of Rs. 1,22,000) | | 14,640 |
| | Net Annual Value (NAV) | | 93,360 |
| | Less : Deductions under section 24 | | |
| | (a) 30% of NAV | 28,008 | |
| | (b) Interest on borrowed capital (Rs. 1,000 × 12) | 12,000 | 40,008 |
| | Taxable income from let out portion | | 53,352 |
| (B) | Self occupied unit (50% of total area) | | |
| | Annual value | Nil | |
| | Less : Deduction under section 24: | | |
| | Interest on borrowed capital (Rs. 1,000 × 12) | 12,000 | (12,000) |
| | Income from house property | | 41,352 |

Note: No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.

PROBLEM NO.11

Computation of total income for the A.Y. 2018-19

| Particulars | Arun Rs. | Bimal Rs. |
|---|-----------------|-----------------|
| Income from house property | | |
| I. Self-occupied portion (25%) | | |
| Annual value | - | - |
| Less: Deduction under section 24(b) Interest on loan taken for construction Rs. 37,500 (being 25% of Rs.1.5 lakh) restricted to maximum of Rs. 30,000 for each co-owner since the property was constructed before 1.04.1999 | 30,000 | 30,000 |
| Loss from self occupied property | 30,000 | 30,000 |
| II. Let-out portion (75%) – See Working Note below | 1,25,850 | 1,25,850 |
| Income from house property | 95,850 | 95,850 |
| Other Income | 2,90,000 | 1,80,000 |
| Total Income | 3,85,850 | 2,75,850 |

Working Note – Computation of income from let-out portion of house property

| Particulars | Rs. | Rs. |
|---|----------|----------|
| Let-out portion (75%) | | |
| Gross Annual Value | | |
| (a) Municipal value (75% of Rs. 9 lakh) | 6,75,000 | |
| (b) Actual rent [(Rs. 12000 x 6 x 12) – (Rs. 12,000 x 1 x 4)] | 8,16,000 | |
| = Rs. 8,64,000 - Rs.48,000 - whichever is higher | | 8,16,000 |
| Less: Municipal taxes 75% of 1,80,000 (20% of Rs. 9 lakh) | | 1,35,000 |
| Net Annual Value (NAV) | | 6,81,000 |
| Less: Deduction under section 24 | | |
| (a) 30% of NAV | 2,04,300 | |
| (b) Interest on loan taken for the house [75% of Rs. 8 lakh] | 2,25,000 | 4,29,300 |
| Income from let-out portion of house property | | 2,51,700 |
| Share of each co-owner (50%) | | 1,25,850 |

PROBLEM NO.12

Computation of income from house property of Mr. A for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|----------|-------------------|
| Annual value is nil (since house is self occupied) | | Nil |
| Less: Deduction under section 24(b) | | |
| Interest paid on borrowed capital Rs. 20,00,000 @ 12% | 2,40,000 | |
| Pre-construction interest Rs. 2,40,000 / 5 | 48,000 | |
| | 2,88,000 | |
| As per second proviso to section 24(b), interest deduction restricted to | | 2,00,000 |
| Loss under the head “Income from house property” of Mr. A | | (2,00,000) |

Computation of income from house property of Mr. B for A.Y. 2018-19

| Particulars | Ground floor (Self occupied) | First floor |
|---|---------------------------------|-------------|
| Gross annual value (See note below) | Nil | 90,000 |
| Less: Municipal taxes (for first floor) | | 4,000 |
| Net annual value (A) | Nil | 86,000 |
| Less: Deduction under section 24 | | |
| (a) 30% of net annual value | | 25,800 |
| (b) interest on borrowed capital | | |
| Current year interest | 60,000 | 60,000 |
| Rs. 12,00,000 x 10% = Rs. 1,20,000 | | |
| Pre-construction interest | | |
| Rs. 12,00,000 x 10% x 9/12 = Rs. 90,000 | | |

| | | |
|---|----------|--------|
| Rs. 90,000 allowed in 5 equal installments | | |
| Rs. 90000 / 5 = Rs. 18,000 per annum | 9,000 | 9,000 |
| Total deduction under section 24 (B) | 69,000 | 94,800 |
| Income from house property (A)-(B) | 69,000 | 8,800 |
| Loss under the head "income from house property" of Mr. B (both ground floor and first floor) | (77,800) | |

Note: Computation of Gross Annual Value (GAV) of first floor of B's house

If a single unit of property (in this case the first floor of B's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2017.

Expected rent = Rs. 75,000 being higher of -

Fair rent = $1,00,000 \times 9/12$ = Rs. 75,000

Municipal value = $72,000 \times 9/12$ = Rs. 54,000

Actual rent = Rs. 90,000 (Rs. 15,000 p.m. for 6 months from July to December, 2017)

Gross Annual Value = Rs.90,000 (being higher of Expected Rent of Rs.75,000 and actual rent of Rs.90,000)

PROBLEM NO.13

Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. At her option, one house shall be treated as self-occupied, whose annual value will be nil. The other self occupied house property will be treated as "deemed let out property".

The annual value of the Los Angeles house is Rs. 12,00,000 and the Chennai flat is Rs. 3,15,000. Since the annual value of Los Angeles house is obviously more it will be beneficial for her to opt for choosing the same as self-occupied. The Chennai house will, therefore, be treated as "deemed let out property".

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction. Accordingly, the income from house property of Mrs. Rohini Ravi will be calculated as under:

| | Particulars | Rs. | Rs. |
|-----------|---|----------|-----------------|
| 1. | Self-occupied house at Los Angeles | | |
| | Annual value | - | |
| | Less: Deduction under section 24 | - | |
| | Chargeable income from this house property | | - |
| 2. | Deemed let out house property at Chennai | | |
| | Annual value (Higher of municipal value and fair rent) [$4,20,000 \times 9/12$] | | 3,15,000 |
| | Less: Municipal Taxes (Property tax + Sewerage tax) | | 18,000 |
| | Net Annual Value (NAV) | | 2,97,000 |
| | Less: Deductions under section 24 | | |
| | 30% of NAV | 89,100 | |
| | Interest on borrowed capital (See Note below) | 1,91,940 | 2,81,040 |
| | | | 15,960 |
| 3. | Arrears in respect of Bangalore property (Section 25A) | | |
| | Arrears of rent received | 60,000 | |
| | Less: Deduction @ 30% U/S 25A(2) | 18,000 | 42,000 |
| | Income chargeable under the head "Income from house property" | | 57,960 |

| Note : Interest on borrowed capital | Rs. |
|--|-----------------|
| Interest for the current year (Rs. 50,800 + Rs. 1,31,300) | 1,82,100 |
| Add: 1/5th of pre-construction interest (Rs. 49,200 x 1/5) | 9,840 |
| Interest deduction allowable under section 24 | 1,91,940 |

PROBLEM NO.14

Computation of income from house property of Mr. Raphael for A.Y.2018-19

| | Particulars | Rs. | Rs. |
|-----------|--|----------|-------------------|
| 1. | Shopping complex | | |
| | Gross Annual Value [Rs. 30,000 × 12]1 | | 3,60,000 |
| | Less: Municipal Taxes | | 8,000 |
| | Net Annual Value (NAV) | | 3,52,000 |
| | Less: Deductions under section 24 | | |
| | 30% of NAV | 1,05,600 | |
| | Interest on borrowed capital (See Working Note below) | 2,83,333 | (3,88,933) |
| | | | (36,933) |
| | Arrears of rent received taxable under section 25A | 1,20,000 | |
| | Less: Deduction@30% | 36,000 | 84,000 |
| | | | 47,067 |
| 2. | Self-occupied residential house | | |
| | Annual value (since the house property is self occupied) 2 | Nil | |
| | Less: Deduction under section 24 | | |
| | Interest on loan from SBI Rs. 3 lakhs, restricted to | 2,00,000 | |
| | Chargeable income from this house property | | (2,00,000) |
| | Income chargeable under the head "Income from house property" | | (1,52,933) |

Working Note:

| Interest on borrowed capital (Shopping Complex) | Rs. |
|---|-----------------|
| Interest for the current year (10% of Rs. 25 lakhs) | 2,50,000 |
| Add: 1/5th of pre-construction interest (interest for the period from 1.8.2014 to 31.3.2015 for 8 months (Rs. 1,66,667 × 1/5) | 33,333 |
| Interest deduction allowable under section 24 | 2,83,333 |

Note:

- In case all the conditions specified in Section 80EE are satisfied, out of the remaining interest of Rs.1 lakh (Rs. 3 lakh – Rs. 2 lakh) Mr. Raphael can claim deduction of Rs. 50,000 towards interest paid for acquisition of self occupied resident house.
- It has been assumed that loan of Rs. 25 lakhs has to be repaid after the five year period. Hence, there has been no repayment upto 31.3.2018. Interest computation has been made accordingly.

SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO.1**

In this case, Nisha has more than one house property for self-occupation. As per section 23(4), Nisha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the expected rent would be the gross annual value. Nisha should, therefore, consider the most beneficial option while deciding which house property should be treated by her as self-occupied.

OPTION 1 [House I – Self-occupied and House II – Deemed to be let out]

If House I is opted to be self-occupied, Nisha's income from house property for A.Y.2018-19 would be –

| Particulars | Amount in Rs. |
|--|---------------|
| House I (Self-occupied) [Annual value is Nil] | Nil |
| House II (Deemed to be let-out) [See Working Note below] | 54,060 |
| Income from house property | 54,060 |

OPTION 2 [House I – Deemed to be let out and House II – Self-occupied]

If House II is opted to be self-occupied, Nisha's income from house property for A.Y.2018-19 would be –

| Particulars | Amount in Rs. |
|---|---------------|
| House I (Deemed to be let-out) [See Working Note below] | 70,000 |
| House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs. 30,000. In case of money borrowed for repair of self-occupied property , the interest deduction would be restricted to Rs.30,000, irrespective of the date of borrowal]. | (30,000) |
| Income from house property | 40,000 |

Since Option 2 is more beneficial, Nisha should opt to treat House - II as Self occupied and House I as Deemed to be let out, in which case, her income from house property would be Rs.40,000 for the A.Y. 2018-19.

WORKING NOTE:

Computation of income from House I and House II assuming that both are deemed to be let out

| Particulars | Amount in Rupees | |
|---|------------------|-----------------|
| | House I | House II |
| Gross Annual Value (GAV) | | |
| Annual Letting Value (ALV) is the GAV of house property | | |
| ALV = Higher of Municipal Value and Fair Rent but restricted to Standard Rent | 1,00,000 | 1,65,000 |
| Less: Municipal taxes (paid by the owner during the previous year) | Nil | 9,200 |
| Net Annual Value (NAV) | 1,00,000 | 1,55,800 |
| Less: Deductions under section 24 | | |
| (a) 30% of NAV | 30,000 | 46,740 |
| (b) Interest on borrowed capital (allowed in full in case of deemed let out property) | - | 55,000 |
| Income from deemed to be let-out house property | 70,000 | 54,060 |

PROBLEM NO.2

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no benefit is derived from that unit, hence it will be treated as self - occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2018-19

| Particulars | Amount in Rs. | |
|--|---------------|----------------|
| Unit I (2/3rd area – self-occupied) | | |
| Annual Value | | Nil |
| Less: Deduction under section 24(b) | | |
| 2/3rd of Rs.1,20,000 | | 80,000 |
| Income from Unit I (self-occupied) | | -80,000 |
| Unit II (1/3rd area – let out) | | |
| Computation of GAV | | |
| Step I – Compute ER | | |
| ER = Higher of MV and FR, restricted to SR. However, in this case, SR of Rs.1,10,000 (1/3rd of Rs.3,30,000) is more than the higher of MV of Rs.1,00,000 (1/3rd of Rs.3,00,000) and FR of Rs.90,000 (1/3rd of Rs.2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV. | 1,00,000 | |
| Step 2 – Compute actual rent received/ receivable Rs.8,000 x12 = Rs.96,000 | 96,000 | |

| | | |
|--|----------|-----------------|
| Step 3 – GAV is the higher of ER and actual rent received/receivable i.e. higher of Rs. 1,00,000 and Rs. 96,000 | 1,00,000 | |
| Gross Annual Value (GAV) | | 1,00,000 |
| Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of Rs.3,00,000) = Rs.30,000/3 = Rs.10,000 | | 10,000 |
| Net Annual Value (NAV) | | 90,000 |
| Less: Deductions under section 24 | | |
| (a) 30% of NAV = 30% of Rs. 90,000 | 27,000 | |
| (b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of Rs.1,20,000 | 40,000 | 67,000 |
| Income from Unit II (let-out) 23,000 | | |
| Loss under the head "Income from house property" = Rs. -80,000 + Rs. 23,000 = -57,000 | | |

PROBLEM NO.3**Computation of Income from house property of Mr. X for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|--------|---------------|
| A) Rented unit (50% of total area – See Note 1 below) | | |
| Step I - Computation of Expected Rent | | |
| Municipal valuation (Rs.1,90,000 x ½) | 95,000 | |
| Fair rent (Rs.1,85,000 x ½) | 92,500 | |
| Standard rent (Rs.1,62,000 x ½) | 81,000 | |
| Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent | 81,000 | |
| Step II - Actual Rent | | |
| Rent receivable for the whole year (Rs. 8,000 x 12) | 96,000 | |
| Step III – Computation of Gross Annual Value | | |
| Actual rent received owing to vacancy (Rs. 96,000 – Rs. 16,000) | 80,000 | |
| Since, owing to vacancy the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value | | |
| Gross Annual Value | | 80,000 |
| Less: Municipal taxes (15% of Rs. 95,000) | | 14,250 |
| Net Annual value | | 65,750 |
| Less : Deductions under section 24 - | | |
| i) 30% of net annual value | 19,725 | |
| ii) Interest on borrowed capital (Rs.750 x 12) | 9,000 | 28,725 |
| Taxable income from let out portion | | 37,025 |
| B) Self occupied unit (50% of total area – See Note 1 below) | | |
| Annual value | Nil | |
| Less : Deduction under section 24 - | | |
| Interest on borrowed capital (Rs. 750 x 12) | 9,000 | 9,000 |
| Income from house property | | 28,025 |

Note: No deduction will be allowed separately for light and water charges, lease money paid insurance charges and repairs.

PROBLEM NO.4**Computation of income from house property of Shri Raman for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|-----|-----------------|
| Gross Annual Value (See Note 1 below) | | 1,80,000 |
| Less: Municipal taxes – paid by the tenant, hence not deductible | | Nil |
| Net Annual Value (NAV) | | 1,80,000 |

| | | |
|---|--------|---------------|
| Less: Deductions under section 24 | | |
| (i) 30% of NAV | 54,000 | |
| (ii) Interest on housing loan (See Note 2 below) | | |
| - Interest on loan taken from bank | 25,000 | |
| - Interest on fresh loan to repay old loan for this property | 5,000 | 84,000 |
| Income from house property | | 96,000 |
| 50% share taxable in the hands of Shri Raman (See Note 3 below) | | 48,000 |

Notes:**1. Computation of Gross Annual Value (GAV)**

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

| Particulars | Rs. | Rs. | Rs. | Rs. |
|---|----------|----------|----------|----------|
| a) Municipal value of property | 1,60,000 | | | |
| b) Fair rent | 1,50,000 | | | |
| c) Higher of (a) and (b) | | 1,60,000 | | |
| d) Standard rent | | 1,70,000 | | |
| e) Expected rent [lower of (c) and (d)] | | | 1,60,000 | |
| f) Actual rent [15,000 x 12] | | | 1,80,000 | |
| g) Gross Annual Value [higher of (e) and (f)] | | | | 1,80,000 |

- Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
- Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

PROBLEM NO.5**Computation of Income from House Property of Mrs. Indu for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|------------------|----------|
| House property in USA | | |
| GAV– Rent received {treated as fair rent} (\$2,000 p.m. x Rs. 60 per USD x 12 months) | 14,40,000 | |
| Less : Municipal taxes paid (\$1,500 x Rs. 60 per USD) | 90,000 | |
| Net Annual Value (NAV) | 13,50,000 | |
| Less : Deduction under section 24 | | |
| 30% of NAV | 4,05,000 | 9,45,000 |
| House property in Mumbai (Let-out portion - First Floor) | | |
| Expected rent (lower of standard rent and fair rent) | | |
| Standard Rent (Rs. 11,000 x 12) Rs. 1,32,000 | | |
| Fair rent (Rs. 10,000 x 12) Rs. 1,20,000 | 1,20,000 | |
| Actual rent received (10,000 × 12) | 1,20,000 | |
| Gross Annual Value (higher of Expected rent and actual rent) | 1,20,000 | |
| Less : Municipal taxes paid (50% of Rs. 7,500) | 3,750 | |
| Net Annual Value (NAV) | 1,16,250 | |
| Less : Deduction under section 24 | | |
| 30% of NAV Rs. 34,875 | | |

| | | |
|---|--------|------------------|
| Interest on housing loan (50% of Rs. 24,000) Rs. 12,000 | 46,875 | 69,375 |
| Income from House property in Mumbai (Self-occupied portion - Ground Floor) | - | |
| Gross annual value | - | |
| Net Annual Value (NAV) | - | |
| Less: Deduction under section 24 | | |
| 30% of NAV | - | |
| Interest on housing loan (50% of Rs. 24,000) | 12,000 | (-) 12,000 |
| Income from house property | | 10,02,375 |

THE END

MASTER MINDS

5. INCOME FROM BUSINESS OR PROFESSION

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Computation of depreciation allowable in the hands of Mr. Gamma for the A.Y. 2018 - 19.

| Particulars | | Rs. in crore | |
|---|--------------|----------------|---------------------|
| Total cost of plant and machinery | | 120.00 | |
| Less: Used for Scientific Research (Note 1) | | <u>15.00</u> | |
| | | 105.00 | |
| Normal Depreciation at 15% on Rs.105 crore | | | 15.75 |
| Additional Depreciation: | | | |
| Cost of plant and machinery | | 120.00 | |
| Less: Second hand plant and machinery (Note 2) | 20.00 | | |
| Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35(2)(ia) | <u>15.00</u> | <u>(35.00)</u> | |
| | | 85.00 | |
| Additional Depreciation at 20% on Rs.85 Crores | | | <u>17.00</u> |
| Depreciation allowable for A.Y.2018-19 | | | <u>32.75</u> |

Note:

- As per section 35(2)(iv) no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, **since deduction is allowable under section 35 in respect of such capital expenditure.**
- As per section 32(1)(iia) additional depreciation is allowable in the case of **any new machinery or plant** acquired and installed after 31.3.2005 by an assessee engaged in the business of manufacture or production of any article or thing, at the **rate of 20% of the actual cost of such machinery or plant.**

PROBLEM NO. 2

Computation of depreciation allowable for A.Y.2018-19

| | Asset | Rate | Depreciation |
|---------|--|------|---------------|
| Block 1 | Furniture | 10% | 30,000 |
| Block 2 | Plant (Computer, computer software, laptop, printer & books) | 40% | 34,500 |
| | Total depreciation allowable | | 64,500 |

Notes:

1. Computation of depreciation

| Block of Assets | Rs. |
|--|----------------------|
| Block 1: Furniture – rate 10% | |
| Put to use for more than 180 days [Rs.3,00,000@10%] | 30,000 |
| Block 2: Plant – rate 40% | |
| a) Computer (put to use for more than 180 days) [Rs.35,000 @ 40%] | 14,000 |
| b) Computer printer (put to use for more than 180 days) [12,500 @ 40%] | 5,000 |
| c) Laptop (put to use for less than 180 days) [Rs. 43,000 @ 20%] | 8,600 |
| d) Computer Software (put to use for less than 180 days) [Rs.8,500@ 20%] | 1,700 |
| e) Books (other than annual publications) (Put to use for more than 180 days) [Rs.1,000 @ 40%] | 400 |
| f) Books (being annual publications) put to use for more than 180 days [12,000 @ 40%] | <u>4,800</u> |
| | <u>34,500</u> |

2. Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2017-18 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer software.

PROBLEM NO. 3

Computation of depreciation in the case of transfer of business:

| Depreciation is to be calculated as if there is no succession | Rs. |
|---|----------|
| WDV as on 1st April | 3,00,000 |
| Add : Additions made before succession | 1,20,000 |
| | 4,20,000 |
| Less : Sale consideration of the asset sold | Nil |
| | 4,20,000 |
| Depreciation @ 15% | 63,000 |

Allocation of depreciation between sole proprietary concern and the successor company:

The depreciation of Rs. 63,000 is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the company.

Ex-sole proprietary concern:

1st April to 31st August = 153 days Rs. 63,000 x 153 / 365 = **Rs. 26,408**

Successor company:

Rs. 63,000 - Rs. 26,408 = **Rs. 36,592** (i.e. Rs. 63,000 x 212 / 365)

The depreciation of Rs. 12,000 [50% of 15% on Rs. 9,60,000] in respect of asset purchased by the successor company on 1st January is fully allowable in the hands of the successor company.

Note: Since it has not been specified that the company is a manufacturing company or a company engaged in the generation or generation and distribution of power, additional depreciation has not been provided for.

PROBLEM NO. 4

- a) Statement showing allocation of depreciation between Harish Jayaraj Pvt. Ltd and Harish Jayaraj LLP

| | Computation | Depreciation in Rs. | Ratio | Harish jayaraj Pvt Ltd | Harish jayaraj LLP |
|--------------|-----------------|---------------------|--------|------------------------|--------------------|
| Machinery | Rs.3,30,000x15% | 49,500 | 275:31 | 44,485 | 5,015 |
| Patents | Rs.3,00,000x25% | 75,000 | 214:31 | 65,510 | 9,490 |
| Total | | 1,34,500 | | 1,09,995 | 14,505 |

- b) Statement showing unabsorbed business loss to be carried forward by LLP

| Particulars | Amount Rs. |
|--|-------------------|
| Profits before depreciation | 8,00,000 |
| Less: Current year depreciation (Harish Jayaraj Pvt Ltd) | (1,09,995) |
| | 6,90,005 |
| Less: Unabsorbed business loss (Harish Jayaraj Pvt Ltd) | (9,00,000) |
| Business loss to be carried forward by Harish Jayaraj LLP | (2,09,995) |

- c) Statement showing cost of assets to be recorded in the books of accounts of Harish Jayaraj LLP

| Particulars | Total Value in Rs. | Depreciation in Rs. | Book Value in Rs. as on 31.12.2017 |
|-------------|--------------------|---------------------|------------------------------------|
| Land | 5,00,000 | - | 5,00,000 |
| Machinery | 3,30,000 | 44,485 | 2,85,515 |
| Patents | 3,00,000 | 65,510 | 2,34,490 |
| Building | 7,00,000 | 7,00,000 | - |

PROBLEM NO. 5**Computation of depreciation and additional depreciation for A.Y. 2018-19**

| Particulars | Plant & Machinery (15%) | Computer (40%) |
|--|----------------------------|-------------------|
| Normal depreciation: | | |
| • @ 15% on Rs. 50,00,000 [See Working Notes 1 & 2] | 7,50,000 | - |
| • @ 7.5% (50% of 15%, since put to use for less than 180 days) on Rs. 8,00,000 | 60,000 | - |
| • @ 20% (50% of 40%, since put to use for less than 180 days) on Rs. 3,00,000 | - | 60,000 |
| Additional Depreciation: | | |
| • @ 20% on Rs. 20,00,000 (new plant and machinery put to use for more than 180 days) | 4,00,000 | - |
| • @10% (50% of 20%, since put to use for less than 180 days) on Rs. 8,00,000 | 80,000 | - |
| Total depreciation* | 12,90,000 | 60,000 |

Working Notes:**(1) Computation of written down value of Plant & Machinery as on 31.03.2018**

| Particulars | Plant & Machinery | Computer |
|--|-------------------|-----------------|
| Written down value as on 1.4.2017 | 30,00,000 | - |
| Add: Plant & Machinery purchased on 08.6.2017 | 20,00,000 | - |
| Add: Plant & Machinery acquired on 15.12.2017 | 8,00,000 | - |
| Computer acquired and installed in the office premises | - | 3,00,000 |
| Written down value as on 31.03.2018 | 58,00,000 | 3,00,000 |

(2) Composition of plant and machinery included in the WDV as on 31.3.2018

| Particulars | Plant & Machinery | Computer |
|--|-------------------|-----------------|
| Plant and machinery put to use for 180 days or more [Rs. 30,00,000 (Opening WDV) + Rs. 20,00,000 (purchased on 8.6.2017)] | 50,00,000 | - |
| Plant and machinery put to use for less than 180 days | 8,00,000 | - |
| Computers put to use for less than 180 days | - | 3,00,000 |
| | 58,00,000 | 3,00,000 |

Notes:

- As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2017 and computer acquired and installed on 02.01.2018, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to Rs.80,000, being 10% (i.e., 50% of 20%) of Rs.8 lakh

- As per third proviso to section 32(1)(ii), the balance additional depreciation of Rs.80,000 being 50% of Rs.1,60,000 (20% of Rs.8,00,000) would allowed as deduction in the A.Y.2019-20.
- As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, @ 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

PROBLEM NO. 6

Computation of depreciation under section 32 for B Ltd. (manufacturer) for A.Y. 2017-18

| Particulars | Block I Plant & Machinery (Rs. in Crores) | Block II Plant & Machinery (Rs. in Crores) |
|---|--|---|
| Opening WDV | 25.00 | - |
| Add: Cost of additions | | |
| Second hand machine used for more than 180 days | 12.00 | - |
| New computer used for less than 180 days | - | 0.40 |
| New Plant & Machinery used for more than 180 days | 50.00 | - |
| New Plant & Machinery used for less than 180 days | 40.00 | - |
| Air conditioner used for more than 180 days | 0.15 | - |
| Total | 127.15 | 0.40 |
| Less: Sale of plant & machinery | (4.00) | - |
| Depreciable Value | 123.15 | 0.40 |
| Less: Depreciation under Sec.32 (Refer note 1) | (29.47) | (0.08) |
| WDV as on 01.04.2017 | 93.68 | 0.32 |

Computation of depreciation under section 32 for B Ltd. (manufacturer) for A.Y. 2018-19

| Particulars | Block I Plant & Machinery (Rs. in Crores) | Block II Plant & Machinery (Rs. in Crores) |
|---|--|---|
| Opening WDV | 93.68 | 0.32 |
| Add: Cost of additions | | |
| New Plant & Machinery used for more than 180 day | 15.00 | - |
| Less: Depreciable value | 108.68 | 0.32 |
| Less: Depreciation under Sec.32 (Refer note 2) | (19.31) | (0.128) |
| Closing W.D.V | 89.38 | 0.192 |

Note: In addition that the assessee is eligible for claiming balance 50% of additional depreciation relating to new plant & machinery (4 CR) for the A.Y. 2017-18 in the year 2018-19 as an expense. Proviso 3 to sec 32(1)(ii).

Working Notes:

- For the FY 2016-17, Total Value of Block I is Rs.123.15 Crores will be divided into two parts namely the cost of additions, opening WDV which amounts to Rs.102.15 Crores and Rs.21 Crores (Rs.25 Crores – Rs.4 Crores), respectively.

Computation of depreciation

| Particulars | Amount Rs. In Crores |
|--|-------------------------|
| Block I (15% rate) | |
| Depreciation on Opening WDV (Rs.21 Croresx15%) | 3.15 |
| Depreciation on cost of additions: | |
| Second hand machinery used for more than 180 days (Rs.12 Croresx15%) | 1.80 |
| New plant & Machinery: | |
| i) Normal Depreciation: used for more than 180 days (Rs.50 Croresx15%) | 7.50 |
| used for less than 180 days (Rs.40 Croresx7.5%) | 3.00 |
| ii) Additional Depreciation: used for more than 180 days (Rs.50 Croresx20%) | 10.00 |
| used for less than 180 days (Rs.40 Croresx10%) | 4.00 |
| Air conditioner used for more than 180 days (Rs.0.15 Croresx15%) | 0.02 |
| Total | 29.47 |
| Block II (40% rate) | |
| Depreciation on New computers used for less than 180 days (Rs.0.40 Croresx20%) | 0.08 |

- For the FY 2017-18, Total Value of Block I is Rs.108.68 Crores will be divided into two parts namely the cost of additions, opening WDV which amounts to Rs.15 Crores and Rs.93.68 Crores.

Computation of depreciation

| Particulars | Amount Rs. In Crores |
|--|-------------------------|
| Block I (15% rate) | |
| Depreciation on Opening WDV: | |
| i) Normal Depreciation: used for more than 180 days (Rs.93.68 Croresx15%) | 14.05 |
| ii) Additional Depreciation: used for less than 180 days (Rs.40 Croresx20%x50%) | 4.00 |
| | <u>18.05</u> |
| Depreciation on cost of additions: | |
| iii) Normal Depreciation: used for more than 180 days (Rs.15 Croresx15%) | 2.25 |
| iv) Additional Depreciation: used for more than 180 days (Rs.15 Croresx20%) | 3.00 |
| | <u>5.25</u> |
| Total (18.05+5.25) | 23.30 |
| Block II (40% rate) | |
| Depreciation on New computers used for more than 180 days (Rs.0.32 Croresx40%) | 0.128 |

PROBLEM NO. 7

Computation of depreciation under section 32 for Mr.X for A.Y. 2018-19

| Particulars | | Rs. in crores |
|--|--------------|---------------|
| Plant and machinery acquired on 01.06.2017 | | 30.000 |
| Plant and machinery acquired on 01.11.2017 | | <u>25.000</u> |
| WDV as on 31.03.2018 | | 55.000 |
| Less: Depreciation @ 15% on Rs. 30 crore | 4.500 | |
| Depreciation @ 7.5% (50% of 15%) on Rs. 25 crore | 1.875 | |
| Additional Depreciation@35% on Rs. 30 crore | 10.500 | |
| Additional Depreciation@17.5% (50% of 35%) on Rs. 20 crore | <u>3.500</u> | <u>20.375</u> |
| WDV as on 01.04.2018 | | 34.625 |

Computation of deduction under section 32AD for Mr.X for A.Y. 2018-19

| Particulars | Rs. in crores |
|--|---------------|
| Deduction under section 32AD @ 15% on Rs. 50 crore | <u>7.50</u> |
| Total benefit | 7.50 |

No, the answer would be same, where the manufacturing unit is set up by a firm. The deduction under section 32AD is available to any manufacturing units and therefore, the deduction of Rs. 7.50 crore under section 32AD would be available even if the manufacturing unit is set up by X & Co., a firm.

Notes:

- As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage. Therefore, normal depreciation on plant and machinery acquired and put to use on 1.11.2017 is restricted to 7.5% (being 50% of 15%) and additional depreciation is restricted to 17.5% (being 50% of 35%).
- The balance additional depreciation of Rs. 3.5 crores, being 50% of Rs. 7 crores (35% of Rs. 20 crores) would be allowed as deduction in the A.Y.2019-20.
- As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing. In this case, since new plant and machinery acquired was installed by a manufacturing unit set up in a notified backward area in the State of Telengana, the rate of additional depreciation is 35% of actual cost of new plant and machinery. Since plant and machinery of Rs. 20 crores was put to use for less than 180 days, additional depreciation@17.5% (50% of 35%) is allowable as deduction. However, additional depreciation shall not be allowed in respect of second hand plant and machinery of Rs. 5 crores. Likewise, the benefit available under sections 32AD would not be allowed in respect of second hand plant and machinery.

Accordingly, additional depreciation and investment allowance under sections 32AD have not been provided on Rs. 5 crores, being the actual cost of second hand plant and machinery acquired and installed in the previous year.

PROBLEM NO. 8**Computation of deduction allowable under section 35**

| Particulars | Amount (Rs. in lakhs) | % of weighted deduction | Amount of deduction (Rs. in lakhs) |
|---|--------------------------|----------------------------|--|
| Payment for scientific research | | | |
| K Research Ltd.[see Note 3] | 20 | 150% | 30.00 |
| LMN College | 15 | 150% | 22.50 |
| OPQ College.[see Note 1] | 10 | Nil | Nil |
| National Laboratory.[see Note 4] | 8 | 150% | 12.00 |
| In-house research | | | |
| Capital expenditure.[see Note 2] | 25 | 100% | 25.00 |
| Revenue expenditure | 12 | 100% | 12.00 |
| Deduction allowable under section 35 | | | 101.50 |

Notes:-

- 1. Payment to OPQ College:** Since the note in the question below item (vi) clearly mentions that only K Research Ltd. and LMN College (mentioned in item (i) and (ii), respectively) are approved research institutions, it is a logical conclusion that OPQ College mentioned in item (iii) is not an approved research institution. Therefore, payment to OPQ College would not qualify for deduction under section 35.
- 2. Deduction for in-house research and development:** Only company assessee are entitled to weighted deduction @150% under section 35(2AB) in respect of inhouse-research and development expenditure incurred. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.
- 3. Payment to K Research Ltd. (Alternative Answer):** Any sum paid to a company registered in India which has as its main object scientific research, as is approved by the prescribed authority, qualifies for a weighted deduction of 100% under section 35(1)(iia). Therefore, it is also possible to take a view that payment of Rs. 20 lakhs to K Research Ltd. qualifies for a weighted deduction of 100% under section 35(1)(iia) since K Research Ltd. is a company. The weighted deduction under section 35(1)(iia) would be Rs. 20 lacs (i.e., 100% of Rs. 20 lacs) in which case, the total deduction under section 35 would be **Rs. 91.50 lacs**.
- 4. Payment to National Laboratory:** The percentage of weighted deduction under section 35(2AA) in respect of amount paid to National Laboratory is 150%.

PROBLEM NO. 9

- As per section 35(2AB), the eligible deduction for the expenditure (as approved by the prescribed authority) on scientific research during the current year for a company engaged in the business of biotechnology, is 150% of such expenditure.
- The deduction available under section 35 for scientific research will, therefore, be:

| Particulars | Rs. |
|---|------------------|
| Land | Nil |
| Building (100%) | 25,00,000 |
| Revenue expenses of last 3 years (100%) | 2,20,000 |
| Capital expenditure of last 3 years: Plant and machinery (100%) | 5,00,000 |
| Expenditure allowable under section 35(1) | 32,20,000 |
| Current year revenue expenditure Rs. 1,80,000 [150% of Rs. 2,70,000 is allowable under section 35(2AB)] | 2,70,000 |
| Total deduction under section 35 | 34,90,000 |

- Section 41(3) provides that where a capital asset used for scientific research is sold, without having been used for other purposes, the lower of sale proceeds or the total amount of deduction earlier allowed under section 35 will be considered as income from business of the previous year in which the sale took place.

Therefore, the income chargeable to tax under section 41(3) would be lower of the following:

- Sale proceeds i.e., Rs. 8,00,000
- Total amount of deduction earlier allowed under section 35 i.e., Rs. 5,00,000

Rs. 5,00,000 will be deemed to be the income chargeable to tax under section 41(3).

4. The difference between sale proceeds and business income under section 41(3) will be treated as short-term capital gain.

| | |
|--|-----------------|
| | Rs. |
| Sale proceeds of plant and machinery | 8,00,000 |
| Less: Business Income as per section 41(3) | <u>5,00,000</u> |
| Short-term capital gain | <u>3,00,000</u> |

PROBLEM NO. 10

Concept of Sec.35ABB was deleted in New SM

As per section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services, shall be allowed as deduction in equal installments during the number of years for which the licence is in force. Therefore, the year of actual payment is relevant and not the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee.

1. Rs.3,70,000 paid on 30.03.2017 [P.Y.2016-17]

Unexpired period of licence 10 years

Hence Rs.37,000 [i.e. Rs.3,70,000/10] can be claimed under section 35ABB for period of 10 years commencing from A.Y.2017-18.

2. Rs.11,70,000 paid during year ended 31.03.2018 [P.Y.2017-18]

Unexpired period of license 9 years

Hence, Rs.1,30,000 [i.e. Rs.11,70,000/9] can be claimed under section 35ABB for a period of 9 years commencing from A.Y.2018-19.

3. Amount of deduction u/s 35ABB

| Assessment year | Amount (Rs.) |
|-----------------|------------------------------|
| 2017-18 | 37,000 |
| 2018-19 | 37,000 + 1,30,000 = 1,67,000 |

4. Where deduction under section 35ABB is claimed and allowed, deduction under section 32(1) cannot be allowed for the same previous year or any subsequent previous year.

PROBLEM NO. 11

Since the capital asset, in respect of which deduction of Rs. 50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2017-18, the deeming provision under section 35AD(7B) is attracted during the A.Y.2018-19.

| Particulars | Amount(Rs.) |
|--|------------------|
| Deduction allowed under section 35AD for A.Y.2017-18 | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y.2017-18 [10% of Rs. 50 lacs] | 5,00,000 |
| Deemed income under section 35AD(7B) | 45,00,000 |

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be :

| Particulars | Amount(Rs.) |
|---|------------------|
| Actual cost to the assessee | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y.2017-18 [10% of Rs. 50 lacs] | 5,00,000 |
| Actual cost in the hands of Mr. Arnav in respect of building in its Unit B | 45,00,000 |

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PROBLEM NO. 12

Computation of income under the head "Profit and gains of business or profession" of MNP Ltd. for A.Y.2018 – 19.

| Particulars | Rs. | Rs. |
|---|-----------|------------|
| Profits from the specified business of new four-star hotel in Chennai (before providing deduction under section 35AD) | | 80 |
| Less: Deduction under section 35AD | | |
| Capital expenditure incurred during the P.Y. 2017-18 (excluding the expenditure incurred on acquisition of land) = Rs.250 lakh - Rs.100 lakh | 150 | |
| (See Notes 1 & 2 below) | | |
| Capital expenditure incurred during January 2017 to March 2017 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2017 (See Note 3 below) | <u>40</u> | |
| Total deduction under section 35AD for A.Y.2018-19 | | <u>190</u> |
| Income from the specified business of new hotel in Chennai | | (110) |
| Profit from the existing business of running a four-star hotel in Kanpur | | <u>130</u> |
| (See Note 4 below) | | |
| Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A | | <u>20L</u> |

Notes:

1. According to the provisions of section 35AD, an assessee shall be allowed a deduction in respect of 100% of the capital expenditure incurred wholly and exclusively for the purpose of the specified business
2. The expenditure on acquisition of land, however, does not qualify for deduction under section 35AD.
3. The capital expenditure incurred prior to commencement of specified business shall be allowed as deduction under section 35AD(1) in the year of commencement of specified business, if the same is capitalized in the books of accounts of the assessee on the date of commencement of its operations.
4. As per section 73A, the loss computed under section 35AD in respect of a specified business can be set off against the profit of another specified business. Building and operating a hotel of two-star and above category, anywhere in India, is a specified business, therefore, the loss from the business of new four-star hotel in Chennai can be set-off against the income of the existing four-star hotel in Kanpur.
5. Section 35AD(6A) provides that where the assessee, MNP Ltd., builds a hotel of two-star or above category as classified by the Central Government and subsequently, while continuing to own the hotel, transfers the operation of the said hotel to another person, the assessee shall be deemed to be carrying on the specified business of building and operating a hotel. Therefore, in this case, MNP Ltd. would be eligible to claim investment linked deduction under section 35AD even if it transfers the operation of the Chennai hotel to PQR Ltd.

PROBLEM NO. 13

Computation of profits and gains of business or profession for A.Y.2018-19

| Particulars | Rs. |
|--|-----------|
| Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32) | 31 |
| Less: Depreciation under section 32 | |
| 10% of Rs.30 lakh, being (Rs.50 lakh - Rs.30 lakh + Rs.10 lakh) | <u>3</u> |
| Income chargeable under "Profits and gains from business or profession" | <u>28</u> |

Computation of income/loss from specified business under section 35AD

| | Particulars | Food Grains | Sugar | Total |
|----|--|-------------|-------|-------|
| A. | Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD) | 16 | 14 | 30 |
| | Less: Deduction under section 35AD | | | |

| | | | | |
|----|---|-----------|-----------|-----------|
| B. | Capital expenditure incurred prior to 1.4.2017 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2017 (excluding the expenditure incurred on acquisition of land) = Rs.30 lakh (Rs.80 lakh - Rs.50 lakh) and Rs.20 lakh (Rs.60 lakh - Rs.40 lakh) | 30 | 20 | 50 |
| C. | Capital expenditure incurred during the P.Y.2017-18 | 20 | 15 | 35 |
| D. | Total capital expenditure (B + C) | <u>50</u> | <u>35</u> | <u>85</u> |
| E. | Deduction under section 35AD | | | |
| | 100% of capital expenditure (food grains, sugar) | 50 | 35 | |
| | Total deduction u/s 35AD for A.Y.2018-19 | <u>50</u> | <u>35</u> | <u>85</u> |
| F. | Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E) | (34) | (21) | (55) |

PROBLEM NO. 14

**Computation of income under the head "Profits and gains of business or profession"
for the A.Y.2018-19**

| Particulars | Rs. in Lakhs | |
|---|-----------------|-------------------------|
| Net profit as per profit and loss account | | 15,25,890 |
| Add: Items debited to profit and loss account, but to be disallowed | | |
| Purchase price of Land used in in-house research and development - being capital expenditure not allowable as deduction under section 35 | 5,00,000 | |
| Purchase price of building used in in-house research and development - being capital expenditure, 100% of which is allowable as deduction u/s 35(1)(iv) read with section 35(2) | - | |
| Expenditure incurred on notified agricultural extension project (to be treated separately) | 1,50,000 | |
| Expenditure incurred on notified skill development project - | | |
| Purchase of land - being capital expenditure not qualifying for deduction under section 35CCD | 2,00,000 | |
| Expenditure incurred on notified skill development project - | | |
| Expenditure on training for skill development (to be treated separately) | 2,50,000 | |
| Expenditure incurred on advertisement in the souvenir published by a political party not allowed as deduction as per section 37(2B) | <u>75,000</u> | <u>11,75,000</u> |
| | | 27,00,890 |
| Less: | | |
| Purchase price of raw material used for in-house research and development qualifies for 150% deduction under section 35(2AB). Since, it is already debited to profit and loss account balance 50% is allowed. | 90,000 | |
| Expenditure incurred on notified agricultural extension project qualifies for 150% deduction under section 35CCC | 2,25,000 | |
| Expenditure incurred on training for skill development in a notified skill development project qualifies for 150% deduction under section 35CCD. | <u>3,75,000</u> | <u>(6,90,000)</u> |
| Profit and gains from business | | <u>20,10,890</u> |

Note: The expenditure incurred on advertisement in the souvenir published by a political party is disallowed as per section 37(2B), while computing income under the head "Profit and Gains of Business or Profession" but the same would be allowed as deduction under section 80GGB from the gross total income of the company.

PROBLEM NO. 15

This Sec.36(1)(viia) was deleted in the New SM

| Particulars | Rs. in Lakhs | |
|---|--------------|-----|
| Bad debts written off (for the first time) in the books of account | | 210 |
| Less: Credit balance in the "Provision for bad and doubtful debts" under section 36(1)(viia) as on 31.3.2018 | | |

| | | |
|---|-----|-----------|
| a) Provision for bad and doubtful debts under section 36(1)(viia) upto A.Y.2017-18 | 100 | |
| b) Current year provision for bad and doubtful debts under section 36(1)(viia) [7.5% of Rs. 800 lakhs + 10% of Rs. 300 lakhs] | 98 | 198 |
| Deduction under section 36(1)(vii) in respect of bad debts written off for A.Y.2018-19 | | 12 |

PROBLEM NO. 16

According to sec.40(a)(ia), where tax has not been deducted or the amount of tax deducted has not been remitted to the credit of central government as per the provisions of tax deduction at source, then, 30% of such expenditure shall be disallowed while computing income under the head "profits and gains from business or profession". Accordingly, in respect of various situations given in question, the following shall be the consequences u/s.40(a)(ia):

| S.No. | Nature of payment | Compliance / violation | Tax consequence |
|-------|----------------------|---|--|
| a) | Contract payment | Tax not deducted at source | Rs.72,000 shall be disallowed (Rs.2,40,000*30%) |
| b) | Salary to a resident | Tax not deducted at source | Rs.1,50,000 shall be disallowed (Rs.5,00,000*30%) |
| c) | Rent | TDS remitted within stipulated time limit. | The assessee has remitted the amount of TDS on 28.09.2018 which is within the time limit for filing return of income. i.e. 30.09.2018. accordingly, no disallowance of expenditure u/s.40(a)(ia) is warranted. |
| d) | Interest | Tax not deducted at source during the financial year. | Rs.60,000 shall be disallowed in A.Y 2018-19. However, the same shall be allowed as a deduction in AY 2019-20. (Rs.2,00,000*30%) |
| e) | Professional charges | Delay in remittance of TDS. | Rs.1,50,000 shall be disallowed in A.Y 2018-19 since the same is not remitted within time limit stipulated u/s 139 (1). However the same shall be allowed as a deduction in AY 2019-20 (Rs.5,00,000*30%) |
| f) | Non-compete fee | Tax not deducted at source | Rs.3,00,000 shall be disallowed (Rs.10,00,000*30%) |

PROBLEM NO. 17

Disallowance under section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y. 2016-17 exceeds Rs. 100 lakhs. Thus, in present case, since the turnover of the assessee is less than Rs. 100 lakhs, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed Rs. 100 lakhs in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

- The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2016-17 exceeds Rs. 100 lakhs. Thus, in present case, since the turnover of the assessee is less than Rs. 100 lakhs, he is not liable to deduct tax at source. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PROBLEM NO. 18

Allowability of the expenses incurred by Mr. MN, a wholesale dealer in commodities, while computing profits and gains from business or profession

- i) **Construction of school building in compliance with CSR activities:** Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of Rs. 5,60,000 incurred by Mr. MN, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

- ii) **Purchase of building for setting up a warehousing facility for storage of food grains:** Mr. MN, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs. 4,50,000 invested in purchase of building for setting up a warehousing facility for storage of food grains which commences operation on or after 1st April, 2012 (P.Y.2017-18, in this case).

Therefore, the deduction under section 35AD while computing business income would be Rs. 6,75,000.

- iii) **Interest on loan paid to Mr. X (a resident) Rs. 50,000 on which tax has not been deducted:** As per section 194A, Mr. MN, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2016-17 exceeds the monetary limit of Rs. 100 lacs. Therefore, Rs. 15,000, being 30% of Rs. 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. MN for non-deduction of tax at source under section 194A on interest of Rs. 50,000 paid by it to Mr. X. The balance Rs. 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

- iv) **Commodities transaction tax of Rs. 20,000 paid on sale of bullion:** Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. MN, the commodity transaction tax of Rs. 20,000 paid is allowable as deduction under section 36(1)(xvi).

PROBLEM NO. 19

- a) **Calculation of Book Profits:**

| Particulars | Amount |
|--------------------------------------|------------|
| Net Loss as per P&L A/c | (1,72,000) |
| Add: Interest to partners | 7,100 |
| Other expenses to be disallowed | 13,600 |
| Profit as per P.G.B.P | (1,51,300) |
| Add: Remuneration to partners | 68,000 |
| Book profit | (83,300) |

- b) Permissible Remuneration in case of losses = 1,50,000 (or) 68,000 which ever is lower = 68,000

- c) **Income of Partnership Firm:**

| Particulars | Amount |
|---|------------|
| Net loss as per P/L A/c | (1,72,000) |
| Add: Other expenses | 13,600 |
| | (1,58,400) |
| Add: Interest Disallowed [Sec.40(b)] | 7,100 |
| Excess remuneration (68,000 – 68,000) | |
| Loss | (1,51,300) |

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PROBLEM NO. 20

Case -1:

Taxable Income of the Partnership Firm

| Particulars | Amount |
|---|-----------------|
| Net Profit as per P&L A/c | 1,00,000 |
| Add: Interest Paid in excess [Sec.40 (b)] [1.5L×12%-36K] | 18,000 |
| | 1,18,000 |
| Add: Excess Remuneration paid [1.8L-allowable remuneration (W.N.1)] | 48,000 |
| Taxable Income | 1,66,000 |

W.N.1:

Calculation of Book profits

| | |
|--|-----------------|
| Net Profit as per P & L A/c | 1,00,000 |
| Add: Excess interest paid U/s 40(b) | 18,000 |
| Add: Remuneration | 1,80,000 |
| Book Profit | 2,98,000 |

Remuneration as per Slab system

On Rs.2,98,000 – Rs.1,50,000 (or) 90% of Book Profit which ever is higher.

∴ Remuneration = Rs.2,68,200

Remuneration as per Partnership Deed (60,000 + 72,000) or as per Sec.40 (b) (2,68,200) which ever is lower

∴ Allowable Remuneration = 1,32,000

Taxable Income of Partners

| Particulars | A | B | C | D |
|---|-----------|---------------|---------------|---------------|
| Share of profits (Exempted U/s.10 (2A)) | -- | -- | -- | -- |
| Interest (To the extent it is allowed as deduction) | -- | -- | -- | 18,000 |
| Remuneration | -- | 60,000 | 72,000 | -- |
| Taxable Income | -- | 60,000 | 72,000 | 18,000 |

Case - 2:

a)

Taxable Income of the Partnership Firm

| Particulars | Amount |
|--|-----------------|
| Net Profit as per P&L A/c | 1,00,000 |
| Add: Interest Paid in excess – U/s 40 (b) | 36,000 |
| | 1,36,000 |
| Add: Remuneration | 1,80,000 |
| Taxable Income | 3,16,000 |

b) Nothing is allowed as expenditure in the hands of partnership firm, no income is taxable in the hand of partners.

PROBLEM NO. 21**The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be**

| Particulars | Rs. |
|---|-----------------|
| On first Rs. 3 lakh of book profit [Rs. 3,00,000 × 90%] | 2,70,000 |
| On balance Rs. 7 lakh of book profit [Rs. 7,00,000 × 60%] | 4,20,000 |
| | 6,90,000 |

The excess amount of Rs. 60,000 (i.e., Rs. 7,50,000 – Rs. 6,90,000) would be disallowed as per section 40(b)(v).

PROBLEM NO. 22

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of Rs. 15,00,000 due to Andhra Pradesh State Financial Corporation (APSFC) and of Rs. 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of Rs. 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year.

Accordingly, the amount of interest eligible for deduction for the A.Y.2018-19 shall be calculated as follows:

| | Interest Outstanding | Number of Installments | Amount per installment | Installments Paid | Interest Allowable (Rs.) |
|--|----------------------|------------------------|------------------------|-------------------|--------------------------|
| APSFC | 15 lakh | 60 | 25,000 | 5 | 1,25,000 |
| Indian Bank | 30 lakh | 60 | 50,000 | 3 | 1,50,000 |
| Total amount eligible for deduction | | | | | 2,75,000 |

PROBLEM NO. 23**Computation of Taxable Income of X & Co. for the A.Y.2018-19**

| Particulars | Amount |
|--|-----------------|
| <u>PGBP</u> | |
| Construction business (Note-1) – 25,000 | |
| Other business – 1,90,000 | 2,15,000 |
| <u>Capital Gains</u> | |
| Long term Capital Gains | <u>40,000</u> |
| Gross total income | 2,55,000 |
| Less: Chapter VI – A Deductions (Sec.80G) | <u>5,000</u> |
| Net taxable income | 2,50,000 |

Calculation of Presumptive income

| | |
|--|-----------------|
| Gross Presumptive income (37,80,000×6%) | 2,26,800 |
| Less: Interest & salary to partners | <u>60,000</u> |
| Taxable presumptive Income | 1,66,800 |

Note - 1: Since the actual income of the Assessee is less than the presumptive income. Assessee can declare the actual income as taxable income by satisfying following two conditions:

- Maintaining books of accounts U/s.44AA
- By getting them audited U/s.44AB

PROBLEM NO. 24**Computation of Taxable Income of Mr.Sukhvindar for the A.Y.2018-19**

| Particulars | Amount |
|--------------------------------------|-----------------|
| Business Income (W.N.1) | 4,45,000 |
| Other Income | 70,000 |
| Gross Total Income | 5,15,000 |
| Less: Chapter VI A Deductions | - |
| Net taxable income | 5,15,000 |

W.N.1:

Calculation of Presumptive Income as per Sec.44 AE

| Type of Vehicle | Duration | No. of Months | Income |
|-------------------------|-------------------|---------------|----------------------|
| 9 – Heavy good vehicles | 1-4-17 to 31-3-18 | 12 | (9x12x7500) 8,10,000 |
| 1 – Heavy good vehicle | 1-4-17 to 2-5-17 | 2 | (1x2x7500) 15,000 |
| 1 – Light good vehicle | 6-5-17 to 31-3-17 | 11 | (1x11x7500) 82,500 |
| | | | 9,07,500 |

Actual Income = Rs.4,45,000

Conclusion: Since the actual income is less than the presumptive income, assessee can declare actual income as taxable income subject to the satisfaction of the following two conditions:

- Maintaining Books of accounts U/s.44 AA
- By getting them audited U/s 44 AB

PROBLEM NO. 25

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2017-18, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 7,500 per month or part of month for which each goods carriage is owned by him would be deemed as his profits and gains from such goods carriage.

| (1) Number of Vehicles | (2) Date of purchase | (3) No. of months for which vehicle is owned | (4) No. of months × No. of vehicles [(1) × (3)] |
|---------------------------|-------------------------|---|---|
| 2 | 10.04.2017 | 12 | 24 |
| 1 | 15.03.2018 | 1 | 1 |
| 3 | 16.07.2017 | 9 | 27 |
| 1 | 2.01.2018 | 3 | 3 |
| 2 | 29.08.2017 | 8 | 16 |
| 1 | 23.02.2018 | 2 | 2 |
| 10 | TOTAL | | 73 |

Therefore, presumptive income of Mr. X under section 44AE for A.Y.2018-19 is **Rs. 5,47,500**, being 73 × Rs. 7,500.

The answer would remain the same even if the two vehicles purchased in April, 2017 were put to use only in July, 2017, since the presumptive income of Rs. 7,500 per month has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

PROBLEM NO. 26**S.44BBA was deleted in the New SM**

Under section 44BBA, in case of an assessee, being a non-resident, engaged in the business of operation of aircraft, a sum equal to 5% of the aggregate of the following amounts shall be deemed to be his business income:

- The amount paid or payable, whether in or out of India, to the assessee on account of carriage of passengers, goods etc. from any place in India; and
- The amount received or deemed to be received in India by the assessee on account of carriage of passengers, goods etc. from any place outside India.

Hence, the income of Mr. B.A. Patel chargeable to tax in India under the head "Profits and Gains of business or profession" is determined as under:

| Particulars | Rs. |
|---|--------------------|
| For carrying passengers from Ahmedabad | 50,00,000 |
| For carrying passengers from London, amount received in India | 75,00,000 |
| For carrying goods from Ahmedabad | 25,00,000 |
| Total | 1,50,00,000 |

Hence, income from business computed on presumptive basis as per section 44BBA is Rs. 7,50,000, being 5% of Rs. 1,50,00,000.

Note: No deduction is allowable in respect of any expenditure incurred for the purpose of the business.

PROBLEM NO. 27**Computation of Taxable Income of Mr.D for the A.Y.2018-19**

| | |
|--|---------------|
| Net profit as per P & L A/c | 25,500 |
| (+) Expenses to be disallowed | |
| Excess salary paid | 3,100 |
| Reserve for bad debts | 10,000 |
| Interest on D's capital | 3,000 |
| Expenditure on acquisition of patents | 28,000 |
| Depreciation in excess (10,000-9,500) | 500 |
| Provision for income tax (Sec.40(a)) | 4,000 |
| (-) Allowable expenses | |
| Depreciation on patents (28K×25%×1/2) | 3,500 |
| Outstanding sales tax liability (Note-1) | 5,000 |
| Taxable Income | 65,600 |

Assumption: Assumed that assessee as satisfied the conditions as given in Sec.36(1) for the allowability of deduction towards bad debts

Note-1: As per Sec. 43B to get deduction towards the taxes for the P.Y 2016-17 will be allowed only if the payment was made before 31-07-17. Since the payment was not made with in the due date the same will be allowed as deduction in the year of actual payment 2017-18.

Note – 2: The cut off date for payment of customs duty is 31st July, 2017. Since the amount was made within the cut off date it should have been allowed as deduction for the previous year 2016-17. So, it will not be allowed as deduction again in 2017-18 (i.e., year of payment)

PROBLEM NO. 28

As per Sec.43B, the following expenses shall be allowed in the relevant previous year if and only if paid on or before the due date for furnishing the return of income under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred and the evidence of such payment is furnished by the assessee along with such return

- Any sum payable by way of tax, duty, cess or fee, by whatever name called, under any law for the time being in force.
- Bonus or Commission for services rendered payable to employees.
- Any sum paid by the assessee as an employer in lieu of earned leave of his employee.

Computation of Business income of X Ltd. For the AY 2018-19

| Particulars | Rs. | Rs. |
|---|---------------|------------------------|
| Income from Business or profession | | |
| Net profit as per Profit and Loss Account | | 5,45,000 |
| Add: Expenses to be disallowed | | |
| Sales tax (Note 1) | | 6,000 |
| | | <u>5,51,000</u> |
| Less: Expense allowed | | |
| Bonus paid to employees (Note 2) | 15,000 | |
| Outstanding customs duty (Note 2) | 25,000 | |
| Leave salary (Note 2) | <u>45,000</u> | <u>(85,000)</u> |
| Income under the Head PGBP | | <u>4,66,000</u> |

Notes:

- Total sales tax paid on or before the due date of ROI (i.e. 30.09.2018) = Rs.44,000 (40,000+4,000)
Sales tax paid after the due date of ROI (i.e. 30.09.2018) = Rs.3,000
Total sales tax that attracts disallowance under Sec.43B = Rs.6,000 [Rs.3,000 (not paid yet) + Rs.3,000 (paid on 01.12.2018)]
- No disallowance shall be made under Sec.43B as the expenditure not pertains to the current PY 2017-18.

PROBLEM NO. 29**Computation of Taxable Income of P for the A.Y.2018-19**

| Particulars | Amount |
|--|-----------------|
| Net profit as per the P & L A/c | 1,76,300 |
| (+) Expenses to be disallowed: | |
| Prop. Salary | 60,000 |
| Donation | 1,000 |
| Small machine – capital exp. | 5,000 |
| Adv. Income tax | 4,000 |
| Wooden show case – capital exp. | 6,000 |
| Depreciation | 2,000 |
| Motor car Exp. @ 1/4 th | 2,125 |
| Int. on prop. Capital | 15,000 |
| Reserve for future losses | 4,000 |
| Income tax paid | 7,100 |
| Life insurance premium | 6,000 |
| (-) Allowable Exp. | |
| Depreciation on small mach. @ 15% | 750 |
| Depreciation on show case @ 10% | 600 |
| Donation to Delhi university. (10K x 125% - 10K) | 2,500 |
| (-) Income taxable under other heads | |
| L.T.C.G | 90,000 |
| Bad debts recovered (Note:2) | 24,000 |
| Int. on govt. Securities | 14,000 |
| Dividends | 6,000 |
| Interest from bank account | 2,000 |
| Income from Horse racing | 10,000 |
| Business profits | 1,38,675 |

Note 1: Assumed that the conditions as given in Sec 36 (1) were satisfied (Bad debts)

Note 2: Bad debts recovered are not taxable as Business income

PROBLEM NO. 30**Computation of Gross Total Income of Mr. Gupta for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|----------|------------------|
| Income from Business or profession | | |
| 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 (Note-5) | 25,000 | 3,25,000 |
| | | 14,75,000 |
| Less: Expense allowed | | |
| Depreciation as per Income- tax Rules, 1962 | | 40,000 |
| | | 14,35,000 |
| Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note-6) | | 25,000 |
| Business Income / Gross Total Income | | 14,60,000 |

Notes:

1. Donation to Prime Minister Relief Fund is not allowed as deduction from the business income. 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)(viii) (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. Gupta.

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. Gupta.
4. Income-tax paid is not allowed as deduction as per the provisions of section 40(a)(ii).
5. Since, Mr. Gupta'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.
6. 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. It has been assumed that it has not been already debited in the given profit and loss account.
7. 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.

PROBLEM NO. 31**Calculation of Business income of Mr. S for the AY 2018 - 19**

| Particulars | Plant & Machinery (15%) | Buildings (10%) |
|--|-------------------------|----------------------|
| | Amount Rs. | |
| Net Profit as per profit and loss account | | 16,300 |
| Add: Inadmissible expenses / losses | | |
| Purchases | 21,000 | |
| Depreciation (See Note) | 900 | |
| Office salaries | 10,400 | |
| Interest on capital | 3,300 | |
| Income tax | 6,000 | |
| Diwali expenses (Gifts of Rs.1,000 was disallowed as it is not a business expenditure) | 1,000 | |
| Medical expenses of proprietor | 3,000 | |
| Bonus payable | 20,000 | |
| Provision for sales tax (disallowance under sec.43B attracts for Rs.5,000 (Rs.25,000 – Rs.20,000)) | 5,000 | |
| General reserve | <u>26,000</u> | <u>96,600</u> |
| | | 1,30,900 |
| Less: Incomes to be disallowed | | |
| Over valuation of closing stock (Rs.26,400 × 10% = 2,640) | 2,400 | |
| Refund of Income tax | 2,000 | |
| Sale of machinery | 25,000 | |
| Recovery of Bad debts | <u>6,000</u> | <u>(35,400)</u> |
| Income under the PGBP | | <u>77,500</u> |

Note:

Plant & Machinery for depreciation = Rs.34,000 [Rs.59,000 – Rs.25,000 (sold)]

Depreciation on above P&M @ 15% on Rs.34,000 = Rs.5,100

Depreciation on Buildings of Rs.90,000 @ 10% = Rs.9,000

Total depreciation allowable (Rs.9,000 + Rs.5,100) = Rs.14,100

Depreciation not allowed under income tax = Rs.15,000 – Rs.14,100

PROBLEM NO. 32**Computation of PGBP of Mr.s for A.Y. 2018-19**

| Particulars | Rs. | Amount |
|---|---------------|-----------------|
| Net profit | | 1,40,900 |
| Add: Expenses to be disallowed | | |
| Outstanding liability for excise duty (disallowed because payment is made after the due date of ROI. i.e., 31-7-18) | 3,500 | 3,500 |
| Less: Incomes to be disallowed | | |
| Customs duty recovered | 15,300 | |
| Gift from son | <u>40,000</u> | <u>(55,300)</u> |
| Less: Expenses to be allowed | | |

| | | |
|--|-------|---------------|
| General expenses on scientific research [(9,000x150%)-9,000] | 4,500 | |
| Expenditure on in house research (5,000x100%) | 5,000 | (9,500) |
| Add: Incomes to be allowed | | - |
| PGBP | | 79,600 |

PROBLEM NO. 33**Computation of business income of Mr. Sivam for the A.Y. 2018-19**

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Net Profit as per profit and loss account | | 50,000 |
| Add: Inadmissible expenses / losses | | |
| Under valuation of closing stock | 18,000 | |
| Salary paid to brother – unreasonable [Section 40A(2)] | 2,000 | |
| Printing and stationery paid in cash [Section 40A(3)] | 23,200 | |
| Depreciation (considered separately) | 1,05,000 | |
| Short term capital loss on shares | 8,100 | |
| Donation to public charitable trust | 2,000 | 1,58,300 |
| Less: Deductions items: | | 2,08,300 |
| Under valuation of opening stock | 9,000 | |
| Income from UTI [Exempt under section 10(35)] | 2,400 | 11,400 |
| Business income before depreciation | | 1,96,900 |
| Less: Depreciation (See Note 1) | | 66,000 |
| | | 1,30,900 |

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received inter alia by way of account payee cheque or use of electronic clearing system through bank, the presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 / 100 = Rs. 6,72,690

The business income under section 44AD is Rs. 6,72,690.

In this case, Mr. Sivam is eligible to opt for presumptive taxation under section 44AD, since his turnover does not exceed Rs. 2 crores in the P.Y. 2017-18. However, in his case, business income as per the normal provisions of the Act is lower than the presumptive income of Rs. 6,72,690 computed under section 44AD. Therefore, it is beneficial for him to compute business income as per the normal provisions of the Act. However, since his turnover exceeds Rs. 1 crore, he has to get his books of account audited under section 44AB, if he does not opt to declare his income as per the presumptive tax provisions of section 44AD.

Further, if he declares income as per presumptive tax provisions of section 44AD this year i.e., P.Y. 2017-18, and he does not opt for presumptive taxation in any of the five succeeding previous years (i.e., from P.Y. 2018-19 to P.Y. 2022-23), say, for instance, in P.Y. 2018-19, then he will not be eligible to opt for presumptive taxation for five assessment years succeeding the A.Y. 2019-20 relevant to the P.Y. 2018-19.

Notes:**1. Calculation of depreciation**

| Particulars | Amount |
|---|---------------|
| WDV of the block of plant & machinery as on 1.4.2017 | 4,20,000 |
| Add : Cost of new plant & machinery | 70,000 |
| | 4,90,000 |
| Less : Sale proceeds of assets sold | 50,000 |
| WDV of the block of plant & machinery as on 31.3.2018 | 4,40,000 |
| Depreciation @ 15% | 66,000 |
| No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article. | |

2. Since sales-tax liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

PROBLEM NO. 34

Computation of total income of Mr. X for the A.Y. 2018-19

| Particulars | Amount |
|--------------------------------------|-----------------|
| Salary income | - |
| House property | 40,600 |
| PGBP | 58,700 |
| Capital gains | - |
| Other sources | 46,000 |
| Gross total income | 1,45,300 |
| Less: Chapter VI A deductions | |
| Life insurance premium (Sec. 80C) | (8,000) |
| Net income | 1,37,300 |

Computation of Tax liability of Mr.X for the A.Y. 2018-19

| Particulars | Amount |
|-----------------------------------|---------------|
| Total income | 1,37,300 |
| Less: Other income | (91,300) |
| Taxable income | 46,000 |
| Tax payable (46,000x30%) | 13,800 |
| Less: Rebate u/s 87A | (2,500) |
| | 11,300 |
| Add: Education cess and SHEC @ 3% | 339 |
| Net tax liability | 11,639 |
| Tax liability rounded off | 11,640 |

Working Notes:

1. PGBP (cash basis)

| Particulars | Amount | |
|---|----------|---------------|
| Taxable receipts | | |
| Fee from clients (1,30,500+11,500+13,000) | 1,55,000 | |
| Presents from clients | 24,000 | 1,79,000 |
| Less: Allowable expenses | | |
| Deprecation on type writer (6,000x15%) | 900 | |
| Car expenses (18,000x40%) | 7,200 | |
| Office expenses | 40,000 | |
| Salary to staff (32,000+11,000) | 43,000 | |
| Deprecation on car (2.4lx7.5%x40%) | 7,200 | |
| Repairs of office | 12,000 | |
| Interest on loan | 10,000 | (1,20,300) |
| PGBP | | 58,700 |

2. Income from House Property

| Particulars | Amount |
|-----------------------------------|---------------|
| Gross Annual Value | 60,000 |
| Less: Municipal taxes paid | (2,000) |
| Net Annual Value | 58,000 |
| Less: Deductions u/s 24 | |
| Standard deduction (58,000x30%) | (17,400) |
| Interest on loan | - |
| Income from house property | 40,600 |

PROBLEM NO. 35**Cash system of Accounting**

| Taxable receipts | Amount |
|-------------------------------|---------------|
| Audit Fees | 60,000 |
| Consultancy Fees | 5,000 |
| (-) Allowable Expenses | |
| Rent | 8,000 |
| Salary (10K-1800) | 8,200 |
| Membership Fee | 1,000 |
| Repairs | 125 |
| Municipal Taxes | 250 |
| Dep. on books (1,200×60%) | 720 |
| Dep. on professional Assets | 2,500 |
| Taxable Income | 44,205 |

Mercantile system of accounting

| Taxable Income | Amount |
|--|---------------|
| Audit Fees (WN- 1) | 55,000 |
| Consultancy | 5,000 |
| (-) Allowable Exp. | |
| Rent $\left(\frac{8K}{10} \times 12M\right)$ | 9,600 |
| Salary [10K – 1800] | 8,200 |
| Member ship fee | 1,000 |
| Repairs | 125 |
| Municipal Taxes | 250 |
| Dep. on books | 720 |
| Dep. On Professional assets | 2,500 |
| Taxable Income | 37,605 |

W.N.1:

| | |
|-------------|--------|
| Audit Fees | 60,000 |
| (-) Advance | 15,000 |
| (+) O/s | 10,000 |
| | 55,000 |

PROBLEM NO. 36

- a) **Allowable as deduction:** As per section 36(1)(viia)(d), deduction is allowed to a non banking financial company on account of provision for bad and doubtful debts of an amount not exceeding 5% of total income (before making any deduction under section 36(1)(viia) and Chapter VI-A). Accordingly, XYZ Credit Corporation, a non-banking finance company would be eligible for deduction in respect of provision for bad and doubtful debt provided such amount does not exceed 5% of total Income (before making any deduction under section 36(1)(viia) and Chapter VI-A).
- b) **Allowable as deduction:** As per section 43B, the allowability of deduction in respect of any sum payable by an assessee to the Indian Railways for use of Railway Assets is subject to actual payment of such sum on or before the due date of filing return of income under section 139(1). Thus, in the present case, Rs. 45,000 paid by ABC Ltd. to Indian Railways for use of railway assets would be allowed as deduction while computing the business income for the previous year 2017-18, since such payment is made on or before the due date for filing return of income for the previous year 2017-18, being the year in which such liability incurred.
- c) **Not allowable as deduction:** Income-tax paid by the employer in respect of non monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income. Therefore, income-tax of Rs. 55,000 paid by the MNO Ltd. in respect of non-monetary perquisites provided to an employee would not be allowed as deduction while computing its business income.

- d) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft is Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriage to a transporter.

Therefore, in the present case, no disallowance under section 40A(3) would be attracted in the hands of S Ltd. in respect of payment of Rs. 32,000 made in cash for carriage of goods to a transporter. Further, disallowance under section 40(a)(ia) for non-deduction of tax at source would also not be attracted, since the provisions for deduction of tax at source under section 194C are not applicable, in case of a transporter owning not more than 10 goods carriages at any time during the previous year.

- e) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even if the cash payment for the expense exceeds Rs. 10,000.

Therefore, disallowance under section 40A(3) would not be attracted in this case, since cash payment for purchase of wheat is made directly to the farmer

PROBLEM NO. 37

- (a) As per section 32AD, manufacturing companies would be entitled to deduction @ 15% of aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2015-16 and F.Y. 2019-20.

Further, Sec.32AD provides that deduction @15% would be available to a manufacturing company located in the notified backward areas (i.e. A.P., Telangana, West Bengal, Bihar).

In **this** case, ABC Ltd. is not entitled for deduction under section 32AD, since the assessee was not located in the notified backward areas (assumed as the problem does not specify clearly).

Computation of depreciation and additional depreciation under section 32

| Particulars | Rs. (in Crores) |
|--|-----------------|
| Written down value as on 01.04.2016 (See Note below) | 45.50 |
| Add: Plant and Machinery acquired during the previous year 2016-17 | 30.00 |
| Written down value as on 31.03.2017 | 75.50 |
| Less: Normal Depreciation @ 15% | (11.33) |
| Less: Additional Depreciation (20% of Rs. 30 crore) | (6.00) |
| WDV as on 01.04.2017 | 58.17 |
| Total deduction under section 32 (Rs. 11.33 crore + Rs. 6.0 crore) | 17.33 |

Notes:

1. Computation of written down value as on 1st April 2016

| | |
|--|--------------------|
| Cost of the machinery acquired | 70.00 crore |
| Less: Normal Depreciation @ 15% | 10.50 crore |
| Less: Additional Depreciation @ 20% | 14.00 crore |
| Written Down Value as on 01st April 2016 | 45.50 crore |

2. It **has** been assumed that the new plant and machinery was put to use for more than 180 days during the P.Y. 2016-17 and P.Y 2017-18.

3. It is also assumed that the new plant and machinery does not include any plant or machinery which is previously used at any time within or outside India or which is installed in any office premises or residential accommodation or guest house or any office appliance or any vehicle, ship or aircraft.

- (b) As per section 40(a)(i), interest, royalty, fee for technical services or other sum chargeable under the Act which is payable to a non-resident is not allowable as deduction while computing business income if tax on such payment has not been deducted during the previous year or after deduction, is not paid on or before the due date specified for filing of return under section 139(1).

In the present case, MNO Ltd deducted tax at source on payment made to a non-resident in the previous year 2017-18 and deposited such amount on 31.08.2018, before the due date under section 139(1) i.e., 30th September 2018. Therefore, the disallowance under section 40(a)(i) would not be attracted, in this case.

- (c) Under section 37(1) of the Income-tax Act, 1961, only expenditure, not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

Explanation 2 to section 37 provides that any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of Rs. 1,80,000 incurred by Bus & Train Pvt. Ltd. towards CSR expenditure referred to in section 135 of the Companies Act, 2013 shall not be allowed as deduction under section 37.

However, the Explanatory Memorandum to the Finance (No.2) Bill, 2014 clarifies that CSR expenditure, which is of the nature described in sections 30 to 36, shall be allowed as deduction under these sections subject to fulfilment of conditions, if any, specified therein.

Therefore, if the CSR expenditure incurred by Bus & Train Pvt. Ltd. is of the nature described in sections 30 to 36, the same would be allowed as deduction under the respective section, subject to fulfilment of the conditions prescribed there under.

- (d) Section 40(a)(ia) provides that 30% of any sum payable to a resident, on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or after deduction has not been paid on or before the due date specified in section 139(1) would be disallowed.

Section 192 of Chapter XVII-B provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

In this case, XYZ Ltd. has not deducted tax at source on the amount of Rs. 7,50,000 paid as salary to Mr. Raghav. Therefore, Rs. 2,25,000 being 30% of Rs. 7,50,000 would be disallowed under section 40(a)(ia).

- (e) As per section 35AD, investment linked deduction is available in respect of any of the specified businesses defined there under. 100% of the capital expenditure is available in respect specified business inter alia business of warehousing facility for storage of sugar. Therefore, in this case, Rise & Co. would be eligible for deduction of Rs. 72,00,000 (100% of Rs. 72 lakhs) in the P.Y. 2017-18 No other deduction is allowable in respect of the said sum under any other provision of the Income-tax Act, 1961.

No, the answer would be same even if the company has set up a warehousing facility of food grain.

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO. 1

Computation of depreciation allowance under section 32 for the A.Y. 2018-19

| Particulars | Rs. | Plant and Machinery (15%) (Rs.) | Plant and Machinery (40%) Rs. |
|--|----------|---------------------------------|-------------------------------|
| Opening WDV as on 01.04.2017 | | 5,78,000 | |
| Add: Plant and Machinery acquired during the year | | | |
| - Second hand machinery | 2,00,000 | | |
| - Machinery Y | 8,00,000 | | |
| - Air conditioner for office | 3,00,000 | | |
| - Machinery Z | 3,25,000 | 16,25,000 | |
| | | - | 2,50,000 |
| | | 22,03,000 | 2,50,000 |
| Less: Asset sold during the year | | 3,10,000 | Nil |
| Written down value before charging depreciation | | 18,93,000 | 2,50,000 |
| Normal depreciation | | | |
| 40% on air pollution control equipment | | | 1,00,000 |
| Depreciation on plant and machinery put to use for less than 180 days@ 7.5% (i.e., 50% of 15%) | 24,375 | | |
| - Second hand machinery (Rs. 2,00,000 × 7.5%) | 15,000 | 39,375 | |
| 15% on the balance WDV being put to use for more than 180 days (Rs. 13,68,000 × 15%) | | 2,05,200 | |
| Additional depreciation | | | |

| | | | |
|--|----------|-----------------|-----------------|
| - Machinery Y (Rs. 8,00,000 × 20%) | 1,60,000 | | |
| - Machinery Z (Rs. 3,25,000 × 10%) | 32,500 | | Nil |
| - Air pollution control equipment (Rs. 2,50,000 × 20%) | 50,000 | 1,92,500 | 50,000 |
| Total depreciation | | 4,37,075 | 1,50,000 |

Notes:

1. Power generation equipments qualify for claiming additional depreciation in respect of new plant and machinery.
2. Additional depreciation is not allowed in respect of second hand machinery.
3. No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.

Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO. 2

Computation of deduction under section 35 for the A.Y.2018-19

| Particulars | Rs. | Section | % of weighted deduction | Amount of deduction (Rs.) |
|---|----------|------------|-------------------------|---------------------------|
| Payment for scientific research | | | | |
| Indian Institute of Science | 1,00,000 | 35(1)(ii) | 150% | 1,50,000 |
| IIT, Delhi | 2,50,000 | 35(2AA) | 150% | 3,75,000 |
| X Ltd. | 4,00,000 | 35(1)(iia) | 100% | 4,00,000 |
| Expenditure incurred on in-house research and development facility | | | | |
| Revenue expenditure | 3,00,000 | 35(1)(i) | 100% | 3,00,000 |
| Capital expenditure (excluding cost of acquisition of land Rs. 5,00,000) | 2,50,000 | 35(1)(iv) | 100% | 2,50,000 |
| Deduction allowable under section 35 | | | | 14,75,000 |

Note: Only company assessee is entitled to weighted deduction @150% under section 35(2AB) in respect of in-house research and development expenditure incurred. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction @100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

PROBLEM NO. 3

1. The amount of deduction allowable to the amalgamating co-operative bank (i.e. Alpha Co-operative bank, in this case) under section 32 has to be determined in accordance with the following formula –

$$A \times \frac{B}{C}$$

A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganization had not taken place. In this case, the amount of deduction is Rs. 2,40,000.

B = the number of days comprised in the period beginning with the 1st day of the financial year (i.e. 1.4.2017, in this case) and ending on the day immediately preceding the date of business reorganization (i.e. 30.11.2017, in this case); and

C = the total number of days in the financial year in which the business reorganization has taken place (i.e. 365 days).

2. The amount of deduction allowable to the amalgamated co-operative bank (i.e. Beta Cooperative bank, in this case) under section 32 has to be determined in accordance with the formula – $A \times \frac{B}{C}$

A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganization had not taken place. In this case, the amount of deduction is Rs. 2,40,000.

B = the number of days comprised in the period beginning with the date of business reorganization (i.e. 1.12.2017, in this case) and ending on the last day of the financial year (i.e. 31.3.2018); and

C = the total number of days in the financial year in which the business reorganization has taken place (i.e. 365 days).

3. In this case, the deduction that would have been allowable under section 32 to Alpha cooperative bank had the business reorganization had not taken place is Rs. 2,40,000 and the business re-organization took place on 1.12.2017. Therefore, the deduction allowable to Alpha co-operative bank under section 32 would be Rs. 1,60,438 i.e., Rs. 2,40,000 x 244/365. The deduction allowable to Beta co-operative bank would be Rs. 79,562 i.e., Rs. 2,40,000 x 121/365.

PROBLEM NO. 4

Computation of written down value of Plant and Machinery of M/s. Dollar Ltd. As on 31-03-18

| Particulars | Rs. |
|--|-----------------|
| Opening written down value (as on 01.04.2017) | 5,00,000 |
| Add: Purchase of plant and machinery during the previous year | 2,00,000 |
| | 7,00,000 |
| Less: Sale proceeds of obsolete plant and machinery sold during the year | 5,000 |
| Closing Written Down Value (as on 31.03.2018) | 6,95,000 |

Computation of Depreciation and Additional Depreciation for A.Y. 2018-19 as per section 32 of the Income-tax Act, 1961

| Particulars | Rs. |
|---|-----------------|
| Normal Depreciation (Rs. 6,95,000 x 15%) | 1,04,250 |
| Additional Depreciation (Refer Note 2) (Rs. 2,00,000 - Rs. 20,000 - Rs. 20,000) x 20% | 32,000 |
| Depreciation on Plant and Machinery | 1,36,250 |

Notes:

- Since the new plant and machinery was purchased and put to use before 1.10.2017, it was put to use for more than 180 days in the year. Hence, full depreciation is allowable for A.Y. 2018-19.
- In view of the above provisions, additional depreciation cannot be claimed in respect of –
 - Plant and machinery of Rs.20,000 used previously for the purpose of business by the seller.
 - Plant and machinery of Rs.20,000, installed in office.

Therefore, in the given case additional depreciation has to be provided only on Rs.1,60,000 (i.e., Rs.2,00,000 - Rs.40,000).

PROBLEM NO. 5

Computation of depreciation under section 32 for A.Y.2018-19

| Particulars | Rs. | Rs. |
|--|-----------------|------------------|
| Normal Depreciation | | |
| Depreciation@15% on Rs. 51,00,000, being machinery (put to use for more than 180 days) [Opening WDV of Rs. 42,00,000 +Purchase cost of imported machinery of Rs. 9,00,000] | 7,65,000 | |
| Depreciation@7.5% on Rs. 10,00,000, being new machinery put to use for less than 180 days | 75,000 | |
| | 8,40,000 | |
| Depreciation@40% on computers purchased Rs. 2,00,000 | 80,000 | 9,20,000 |
| Additional Depreciation (Refer Note below) | | |
| Additional Depreciation@ 10% of Rs. 10,00,000 [being actual cost of new machinery purchased on 12-10-2016] | 1,00,000 | |
| Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of Rs. 2,00,000] | 40,000 | 1,40,000 |
| Depreciation on Plant and Machinery | | 10,60,000 |

Note: The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation or generation and distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing of the unit is eligible for additional depreciation @ 20%.

Since the new machinery was purchased only on 12.10.2017, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2018-19. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

PROBLEM NO. 6

In the case of conversion of sole proprietary concern into a company as per section 47(xiv), the depreciation should be first calculated for the whole year assuming that no succession had taken place. Thereafter, the depreciation should be apportioned between the sole proprietary concern and the company in the ratio of the number of days for which the assets were used by them. It is assumed that in this case, the conditions specified in section 47(xiv) are satisfied.

Computation of depreciation allowable to Sidhant & Co. for A.Y.2018 - 19

| Particulars | Rs. | Rs. |
|--|----------|---------------|
| Building | | |
| WDV as on 1.4.2017 | 3,50,000 | |
| Depreciation @ 10% | | 35,000 |
| Furniture | | |
| WDV as on 1.4.2017 | 50,000 | |
| Depreciation @ 10% | | 5,000 |
| Plant and Machinery | | |
| WDV as on 1.4.2017 | 2,00,000 | |
| Add: Additions during the year (purchased on 15.10.2017) | 1,00,000 | |
| | 3,00,000 | |
| Less: Depreciation for the year (15% of Rs. 2,00,000 + 50% of 15% of Rs. 1,00,000) (Rs.30,000 + Rs.7,500) (Depreciation on new machinery is restricted to 50% of eligible depreciation, since the asset is put to use for less than 180 days in that year) | | 37,500 |
| Total depreciation for the year | | 77,500 |
| Proportionate depreciation allowable to Sidhant & Co. for 242 days | | |
| On existing assets (i.e. 1.4.2017 to 28.11.2017) (i.e. 242/365 x Rs. 70,000) | 46,411 | |
| On new machine for 45 days i.e., 45/168 x Rs. 7,500 | 2,009 | 48,420 |

Computation of depreciation allowable to Sidhant Co. Ltd. for A.Y.2018-19

| Particulars | Rs. |
|---|---------------|
| i) Depreciation on the assets on conversion Proportionately for 123 days i.e. after conversion period (123/365 x Rs. 70,000) + (123/168 x Rs. 7,500) = Rs. 23,589 + Rs. 5,491 | 29,080 |
| ii) Depreciation @ 50% of normal rate of 15% on Rs. 50,000, being the value of plant purchased after conversion, which was put to use for less than 180 days | 3,750 |
| Depreciation allowable to Sidhant Co. Ltd. | 32,830 |

Note: Since it has not been specifically mentioned that M/s Sidhant & Co. and Sidhant Co. Ltd. are manufacturing concerns or companies engaged in the business of generation or generation and distribution of power, additional depreciation is not provided for.

PROBLEM NO. 7

Computation of depreciation for Gopichand Industries for A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|------------------|-----------------|
| Block 1 : Plant & machinery (Rate of depreciation – 15%) | | |
| WDV as on 1st April (10 looms) | 5,00,000 | |
| Add: Additions during the year | | |
| - 5 looms acquired on 5th July | 4,00,000 | |
| - 2 looms acquired on 10th January | 3,00,000 | |
| | <u>12,00,000</u> | |
| Less : Assets sold during the year | | |
| - 15 looms sold on 7th December | 10,00,000 | |
| W.D.V. as on 31st March (2 looms) | 2,00,000 | |
| Depreciation on Rs. 2 lakhs @ 15% (limited to 50%) | | 15,000 |
| Block II: Buildings (Rate of depreciation – 10%) | | |
| WDV as on 1st April (3 buildings) | 12,50,000 | |
| Depreciation on Rs. 12,50,000 @ 10% | | 1,25,000 |
| Total depreciation for the year | | 1,40,000 |

Notes:

- Closing balance of Block 1: Plant and machinery represents the looms acquired on 10th January. These looms have been put to use or less than 180 days during the previous year, and therefore, only 50% of normal depreciation is permissible.
- No additional depreciation @ 20% of the cost of new plant and machinery is provided for assuming that all conditions contained in the section 32(1)(ia) have not been fulfilled.

PROBLEM NO. 8

Computation of depreciation allowable to Honest Industry for the A.Y. 2018-19

| Particulars | Plant & Machinery | Building | Intangible assets (patents) | Total (Rs.) |
|--|-------------------|------------------|-----------------------------|------------------|
| Rate of depreciation | 15% | 10% | 25% | |
| Opening Balance as on 1.04.2017 | 14,50,000 | 25,00,000 | 15,00,000 | |
| Add: Assets acquired during the year | 16,00,000 | 15,00,000 | 5,00,000 | |
| | 30,50,000 | 40,00,000 | 20,00,000 | |
| Less: Moneys payable in respect of asset sold or destroyed | 50,000 | - | 3,00,000 | |
| W.D.V as on 31.03.2018 | 30,00,000 | 40,00,000 | 17,00,000 | |
| Asset held for less than 180 days | 4,00,000 | 15,00,000 | - | |
| Depreciation@50% of applicable rate | 30,000 | 75,000 | - | 1,05,000 |
| Asset held for more than 180 days | 26,00,000 | 25,00,000 | 17,00,000 | |
| Depreciation at the applicable rates | 3,90,000 | 2,50,000 | 4,25,000 | 10,65,000 |
| Total Depreciation allowable | | | | 11,70,000 |

Note: Land is not a depreciable asset. Therefore, Rs.3 lakh being the value of land, has been reduced from Rs.18 lacs, being the value of building acquired during the year, for the purpose of computing depreciation.

PROBLEM NO. 9

Under section 35AD, 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the specified business, which includes the business of building and operating a hotel of two-star or above category anywhere in India which commences its operations on or after 1.4.2010, would be allowed as deduction from the business income. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

Further, the expenditure incurred, wholly and exclusively, for the purpose of specified business prior to commencement of operation would be allowed as deduction during the previous year in which the assessee commences operation of his specified business. A condition has been inserted that such amount incurred prior to commencement should be capitalized in the books of account of the assessee on the date of commencement of its operations.

Accordingly, the deduction under section 35AD for the A.Y.2018-19 in the case of Win Ltd. would be calculated as follows, assuming that the expenditures were capitalized in the books of the company on 1.4.2017, being the date of commencement of operations-

| Particulars | Rs. (in lakhs) |
|---|-------------------|
| Cost of land (not eligible for deduction under section 35AD) | Nil |
| Cost of construction of hotel building (Rs. 30 lakhs + Rs. 150 lakhs) | 180 |
| Cost of plant and machinery | 30 |
| Deduction under section 35AD | 210 |

Note:

- For A.Y.2018-19, the loss from specified business of operating a three star hotel would be Rs.130 lakhs (i.e. Rs.210 lakhs – Rs.80 lakhs). As per section 73A, any loss computed in respect of the specified business referred to in section 35AD shall be set off only against profits and gains, if any, of any other specified business. The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following assessment year.
- Since the entire cost of plant and machinery and building qualifies for deduction under section 35AD, the same does not qualify for deduction under section 32.

PROBLEM NO. 10

Computation of taxable profits under the head PGBP & Loss from specified business to be carried forward as per section 73A

| | Particulars | Rs. (in lakhs) |
|----|---|----------------|
| 1. | Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD) | 25 |
| 2. | Less: Deduction under section 35AD | |
| | i) Capital expenditure incurred during the P.Y.2017-18 (excluding the expenditure incurred on acquisition of land) = Rs. 200 lakh – Rs. 150 lakh | 50 |
| | ii) Capital expenditure incurred prior to 1.4.2017 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2017 | 50 |
| | Total deduction u/s 35AD for A.Y.2018-19 | 100 |
| 3. | Loss from the specified business of new hotel in Madurai | (75) |
| 4. | Profit from the existing business of running a hotel in Coimbatore | 120 |
| 5. | Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A | 45 |

PROBLEM NO. 11

Computation of profits and gains of business of Mr. Anirudh for A.Y.2018-19

| Particulars | Rs. (in lakhs) |
|--|-------------------|
| Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32) | 25 |
| Less: Depreciation under section 32 10% of Rs.60lakh, being (Rs.70lakh - Rs.20lakh + Rs.10lakh) | 6 |
| Income chargeable under "profits and gains from business or profession" | 19 |

Computation of loss from specified business to be carried forward as per section 73A

| | Particulars | Rs. (in lakhs) |
|-----|---|----------------|
| 6. | Profits from the specified business of setting up warehousing facility for storage of pulses (before providing deduction under section 35AD) | 14 |
| 7. | Less: Deduction under section 35AD Capital expenditure incurred prior to 1.4.2017 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2017 (excluding the expenditure incurred on acquisition of land) = Rs.20 lacs (Rs.50 lacs - Rs.30 lacs) | 20 |
| 8. | Capital expenditure incurred during the P.Y.2017-18 | 20 |
| 9. | Total capital expenditure (B + C) | 40 |
| 10. | Deduction under section 35AD 100% of capital expenditure | 40 |
| | Total deduction u/s 35AD for A.Y.2018-19 | 40 |
| 11. | Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E) | (26) |

Notes:

1. Deduction @ 100% of the capital expenditure is available under section 35AD for A.Y.2018-19 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2017. Pulses constitute agricultural produce and therefore, the capital expenditure incurred for setting up a warehousing facility for storage of pulses is eligible for deduction @ 100% under section 35AD.
2. However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. Anirudh is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
3. Mr. Anirudh can claim depreciation @ 10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2017-18.
4. Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs. 26 lakh from the specified businesses of setting up and operating a warehousing facility for storage of pulses cannot be set-off against the profits of Rs. 19 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

PROBLEM NO. 12

| S.No. | Particulars | Rs. |
|-------|--|------------------|
| 1. | Skill development project (Rs.75,000 X 150%) | 1,12,500 |
| 2. | Agricultural extension project (Rs.50,000 X 150%) | 75,000 |
| 3. | Building under section 35(1)(iv) (note-1) | 5,00,000 |
| 4. | Purchase of building for setting up and operating a warehousing facility | 20,00,000 |
| 5. | Payment to its employees with a scheme of voluntary retirement(note-2) | 4,00,000 |
| | Total amount allowed as a deduction: | 30,87,500 |

Note 1: Z Ltd. would not be eligible for weighted deduction@200% under section 35(2AB), since the in-house research and development expenditure is incurred on land and building. However, it would be eligible for deduction of actual expenditure of Rs.5 lakh incurred on building under section 35(1)(iv) read with section 35(2).

Note 2: Under section 35DDA, expenditure incurred on payment of any sum to the employees in accordance with a scheme of voluntary retirement is allowable as deduction in five equal installments over a period of five years, commencing from the previous year in which the payment was made.

Therefore, Rs.4 lakh, being one-fifth of Rs.20 lakh, would be allowable as deduction under section 35DDA, while computing the business income of Y Ltd. for A.Y.2018-19.

PROBLEM NO. 13

- i) **The statement is not correct:** As per the third proviso to section 32(1)(ii), 50% of the additional depreciation on new plant and machinery acquired and used for less than 180 days in the year of acquisition and installation which has not been allowed as deduction in that previous year, shall be allowed in the immediately succeeding previous year. Hence, the balance additional depreciation of 10% (i.e. 50% of 20%) can be claimed in the immediately succeeding previous year i.e., P.Y. 2018-19
- ii) **The statement is not correct:** The proviso to section 36(1)(iii) provides that interest paid on capital borrowed for acquisition of an asset (whether capitalized in the books of account or not) for the period upto the date on which such asset was first put to use shall not be allowed as deduction. This is irrespective of whether the acquisition of asset was for extension of existing business or not. Therefore, interest paid on capital borrowed for acquisition of an asset for the period upto the date on which such asset was first put to use shall be capitalized even if the acquisition is not for the extension of existing business or profession.

PROBLEM NO. 14

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance under section 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance@30% under section 40(a)(ia). Whereas in case of salary, tax has to be deducted under section 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y. 2017-18, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y. 2018-19 is as follows –

Computing business income for A.Y.2018-19 is as follows –

| Particulars | Amount paid in Rs. | Disallowance u/s 40(a)(ia) @ 30% of sum paid |
|--|--------------------|--|
| Salary [tax is deductible under section 192] | 12,00,000 | 3,60,000 |
| Directors' remuneration [tax is deductible under section 194J without any threshold limit] | 28,000 | 8,400 |
| Disallowance under section 40(a)(ia) | | 3,68,400 |

If the tax is deducted and paid in the next year i.e., P.Y.2018-19, the amount of Rs.3,68,400 would be allowed as deduction while computing the business income of A.Y.2019-20.

PROBLEM NO. 15

His profits and gains from the 3 trucks shall be deemed to be Rs.2,32,500 [(Rs.7,500 × 10) + (Rs.7,500 × 9) + (Rs.7,500 × 12)]

PROBLEM NO. 16

Mr. Tiwari chargeable to tax in India under the head "Profits and gains of business or profession" is worked out hereunder –

| Particulars | Rs. |
|---|--------------------|
| Amount received in India on account of carriage of passengers from Mumbai | 3,00,00,000 |
| Amount received in India on account of carriage of goods from Mumbai | 2,00,00,000 |
| Amount received in India on account of carriage of passengers from Bangkok | 1,00,00,000 |
| Amount received in Bangkok on account of carriage of passengers from Mumbai | 2,00,00,000 |
| | 8,00,00,000 |

Income from business under section 44BBA at 5% of Rs.8,00,00,000 is Rs.40,00,000, which is the income of Mr.Tiwari chargeable to tax in India under the head "Profits and gains of business or profession" for the A.Y.2018-19.

PROBLEM NO. 17

As per *Explanation 3* to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

1. Computation of Book Profit of the firm under section 40(b)

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Net Profit (before deduction of depreciation, salary and interest) | | 7,00,000 |
| Less: Depreciation under section 32 | 1,50,000 | |
| Less: Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%) | 60,000 | 2,10,000 |
| Book Profit | | 4,90,000 |

2. Salary actually paid to working partners = Rs. 20,000 × 2 × 12 = Rs. 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

| | |
|---|---|
| On the first Rs. 3,00,000 of book profit or in case of loss | Rs. 1,50,000 or 90% of book profit, whichever is More |
| On the balance of book profit | 60% of the balance book profit |

Therefore, the maximum allowable working partners' salary for the A.Y. 2018-19 in this case would be:

| Particulars | Rs. |
|--|-----------------|
| On the first Rs. 3,00,000 of book profit [(Rs. 1,50,000 or 90% of Rs. 3,00,000) whichever is more] | 2,70,000 |
| On the balance of book profit [60% of (Rs. 4,90,000 - Rs. 3,00,000)] | 1,14,000 |
| Maximum allowable partners' salary | 3,84,000 |

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is Rs. 3,84,000.

PROBLEM NO. 18

Computation of total income of Mr. Ramamurthy for A.Y.2018-19

| Particulars | Rs. |
|---|--------|
| Presumptive business income under section 44AE | |
| 4 heavy goods vehicles for 2 months (4 × Rs. 7,500 × 2) | 60,000 |

| | |
|---|-----------------|
| Balance 2 heavy goods vehicles for 10 months (2 x Rs. 7,500 x 10) | 1,50,000 |
| 7 heavy goods vehicles for 10 months (7 x Rs. 7,500 x 10) | 5,25,000 |
| Business Income | 7,35,000 |
| Less: Brought forward business loss of discontinued business | 50,000 |
| Total Income | 6,85,000 |

Note: The assessee is eligible for computing the income from goods carriages applying the presumptive provisions of section 44AE, since he does not own more than 10 goods carriages at any time during the previous year.

PROBLEM NO. 19

Under section 43B, interest on term loans and advances to scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee.

Explanation 3D to section 43B provides that if any interest payable by the assessee is converted into a loan, the interest so converted and not "actually paid" shall not be deemed as actual payment, and hence would not be allowed as deduction. Therefore, the interest of Rs. 1.2 lakhs converted into loan cannot be claimed as business expenditure.

PROBLEM NO. 20

Computation of income under the head "Profits and gains of business or profession" of Mr. Q for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Net profit as per profit and loss account | | 93,950 |
| Add: Expenses not allowable | | |
| Expenses on building a new toilet – Capital expenditure, hence not allowable as per section 37(1). | 1,00,000 | |
| Interest payable on which tax has not been deducted at source [disallowed under section 40(a)] [See Note 1] | 15,000 | |
| Penalty for contravention of Central Sales Tax Act & Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1)] | 24,000 | |
| Payment to IIT, Mumbai for scientific research programme (to be treated separately) | 1,00,000 | 2,39,000 |
| | | 3,32,950 |
| Less: Income not forming part of business income | | |
| Interest from company deposits (chargeable under the head "Income from other sources") (See Note 2 below) | 6,400 | |
| Income-tax refund (not an income chargeable to tax) | 8,100 | 14,500 |
| | | 3,18,450 |
| Less: Weighted deduction@150% under section 35(2AA) for payment to IIT for an approved scientific research program. | | 1,50,000 |
| Profit and gains of business or profession | | 1,68,450 |

Note:

- Section 40(a)(ia) provides for disallowance of 30% of any sum paid, on which tax is deductible under Chapter XVII-B, but the same has not been deducted. Hence, Rs.15,000 being 30% of Rs.50,000 has to be added back while computing business income.
- Interest on company deposits may also be treated as business income presuming that the interest has been earned by Mr. Q out of available temporary surplus funds which are not immediately required for his business purposes but nevertheless meant only for Mr. Q's business activities. In such a case, income under the head "Profit and gains of business or profession" would be Rs. 1,74,850.

PROBLEM NO. 21

Profits and gains of business or profession of Mr. A for the year ended 31.3.2018

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Net profit as per profit and loss account | | 94,500 |
| Add: Expenses not allowable | | |
| i) Expenses on raising compound wall – capital expenditure, hence disallowed | 95,000 | |
| ii) Interest payable outside India to a non-resident, as tax has not been deducted at source [Section 40(a)(ii)] | 12,000 | |
| iii) Penalty for contravention of CST Act [Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1)] | 24,000 | |
| iv) Contribution for scientific research (to be treated separately) | 1,00,000 | 2,31,000 |
| | | 3,25,500 |
| Less: Income not forming part of business income | | |
| Interest from company deposits | 6,400 | |
| Dividend | 3,600 | |
| Income-tax refund | 4,500 | 14,500 |
| | | 3,11,000 |
| Less: Deduction under section 35 for scientific research [See Note below] | | 1,50,000 |
| Profit and gains of business or profession | | 1,61,000 |

Note: Contribution to approved scientific research association qualifies for deduction @ 150% under section 35(1)(ii).

PROBLEM NO. 22

- a) **Yes.** Since his total turnover for the F.Y.2017-18 is below Rs.2 crore, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- b) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs. 6,59,680, being 8% of Rs. 82,46,000.
Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales, turnover or gross receipts exceed Rs.1 crore. However, if an eligible person opts for presumptive taxation scheme as per section 44AD(1), he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed Rs.2 crore. The CBDT, has vide its Press Release dated 20th June, 2016, clarified that the higher threshold for non-audit of accounts has been given only to assessee's opting for presumptive taxation scheme under section 44AD.
- Note:** 6% rate has not been considered for calculations assuming that the assessee not satisfied the required conditions.
- c) In case he does not opt for the presumptive taxation scheme under section 44AD, and claims that his income is Rs. 5,85,600 (which is lower than the presumptive business income of Rs. 6,59,680), he has to maintain books of account as required under section 44AA(2) and also get them audited and furnish a report of such audit under section 44AB, since his total income exceeds the basic exemption limit of Rs. 2,50,000.
- d) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2018.

In case he does not opt for the presumptive taxation scheme and claims that his income is Rs.5,85,600 as per books of account, then he has to get his books of account audited under section 44AB, in which case the due date for filing of return would be 30th September, 2018.

PROBLEM NO. 23

Computation of total income of Mr. Raju for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|--------|----------|
| Profits and gains of business or profession | | |
| Net profit as per profit and loss account | | 5,00,000 |
| Add: Excess commission paid to brother disallowed under section 40A(2) | 10,000 | |

| | | |
|--|----------|-----------------|
| Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is Rs.35,000 in respect of payment to transport operators. Therefore, amount of Rs.33,000 paid in cash to a transport carrier is allowable as deduction. | Nil | |
| Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 30% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below] | 48,000 | |
| Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B | 40,000 | |
| State VAT penalty paid disallowed [See Note 2 below] | 5,000 | |
| Depreciation debited to profit and loss account | 2,00,000 | 3,03,000 |
| | | 8,03,000 |
| Less: Dividend from domestic companies [Exempt under section 10(34)] | 15,000 | |
| Income from agriculture [Exempt under section 10(1)] | 1,80,000 | |
| Depreciation under the Income-tax Act, 1961 (As per working note) | 2,25,000 | 4,20,000 |
| | | 3,83,000 |
| Income from house property | | |
| Annual value of self-occupied property | Nil | |
| Less: Deduction under section 24(b) – interest on housing loan | 23,000 | (23,000) |
| Gross Total Income | | 3,60,000 |
| Less: Deduction under section 80C in respect of Principal repayment of housing loan | | 50,000 |
| Total Income | | 3,10,000 |

WORKING NOTE:**Computation of depreciation under the Income-tax Act, 1961**

| Particulars | Rs. |
|---|-----------------|
| Depreciation @ 15% on Rs. 14 lakh (Opening WDV of Rs. 12 lakh plus assets purchased during the year and used for more than 180 days Rs. 2 lakh) | 2,10,000 |
| Depreciation @ 7.5% on Rs. 2 lakh (Cost of assets used for less than 180 days) | 15,000 |
| | 2,25,000 |

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT but for contravention of provisions of the Sales Tax Act (or VAT Act), the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.
Since the question only mentions "State VAT penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be Rs. 3,05,000.

PROBLEM NO. 24

| Particulars | Amount (Rs.) |
|---|--------------|
| 1. Scientific research expenditure related to its business (note-1) (2,40,000 X 100%) | 2,40,000 |
| 2. Building acquired for scientific research excluding cost of land is allowed as capital | 7,00,000 |

| | |
|--|------------------------------|
| expenditure (12,00,000-5,00,000) | |
| 3. Amount paid to Indian Institute of Science (50,000 X 150%) | 75,000 |
| 4. Demerger expenses allowed for five successive previous years (5,00,000 X 1/5) | 1,00,000 |
| 5. Contribution to the account of employees as per pension scheme (note-2) | 23,00,000 |
| 6. Amount recovered from employees towards provident fund contribution | 7,00,000 |
| 7. Non-monetary perquisites provided to the employees | It should be Disallowed |
| 8. Gain due to change in the rate of exchange of foreign currency | Reduced from the actual cost |

Note –1: If Raghav Industries Ltd. is a company engaged in the business of biotechnology or in any business of manufacture or production of any article or thing, not being an article or thing specified in the list of the Eleventh Schedule, it would be entitled to a weighted deduction of Rs. 3,60,000 (150% of Rs. 2,40,000, being the revenue expenditure on scientific research related to its business) under section 35(2AB), if the in-house research and development facility is approved by the prescribed authority and the company has entered into an agreement with the prescribed authority for cooperation in such research and development facility and for audit of accounts maintained for that facility.

Note –2: The employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD, upto 10% of salary of the employee in the previous year, is allowable as deduction under section 36(1)(iva) while computing business income.

Disallowance under section 40A(9) would be attracted only in respect of the amount in excess of 10% of salary. Accordingly, Rs. 23 lakhs would be allowed as deduction and Rs. 7 lakhs would be disallowed.

PROBLEM NO. 25

- As per section 43B, municipal tax is not deductible for A.Y. 2018-19 since it is not paid on or before 30.09.2018, being the due date of filing the return for A.Y. 2018-19.

Note – It is assumed that the company has not undertaken any international transaction during the year, and therefore, does not have to file a transfer pricing report under section 92E. Therefore, the due date of filing of return of the company would be 30th September, 2018.

- Patent is an intangible asset eligible for depreciation @ 25%, as per section 32(1)(ii). Since it has been acquired and put to use for more than 180 days during the previous year 2017-18, full depreciation of Rs. 6,25,000 (i.e. 25% of Rs. 25,00,000) is allowable as deduction.
- Weighted deduction @ 150% is available under section 35(2AB) in respect of expenditure incurred by a company on scientific research on in-house research and development facility as approved by the prescribed authority. However, cost of land is not eligible for deduction.

Deduction under section 35(2AB) = 150% of Rs. 10 lakhs = Rs. 15,00,000.

Note: It is presumed that the in-house research and development facility is approved by the prescribed authority and is hence, eligible for weighted deducted @ 150% under section 35(2AB).

- Bad debts i.e. Rs. 4,00,000 written off in the books of account as irrecoverable is deductible under section 36(1)(vii), provided the debt has been taken into account in computing the income of the company in the current previous year or any of the earlier previous years.
- As per section 40(a)(v), income-tax of Rs. 1,10,000 paid by the company in respect of non-monetary perquisites provided to its employees, exempt in the employee's hands under section 10(10CC), is not deductible while computing business income of the employer-company.
- Expenditure towards advertisement in souvenir of a political party is disallowed under section 37(2B) while computing business incomes.

However, the same is deductible under section 80GGB from gross total income provided the payment is made by any mode other than cash.

- Refund of a trading liability is taxable under section 41(1), if a deduction was allowed in respect of the same to the taxpayer in an earlier year.

Since sales tax was claimed as expenditure in an earlier year, refund of the same during the year would attract the provisions of section 41(1).

PROBLEM NO. 26

- a) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- b) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding Rs. 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of electronic payment system, then the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- c) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business / profession whether or not the assessee has claimed the same while computing his total income.
- d) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- e) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- f) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or generation and distribution of power. In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(ia).

PROBLEM NO. 27

- a) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
- where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;
 - where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.
- Therefore, in the present case, the provision made on the basis of actuarial valuation or payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.
- Note:** It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.
- b) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds Rs. 10,000. Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.
- c) **Not allowable as deduction:** Income-tax of Rs.20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.
- d) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment by credit card is covered under Rule 6DD, which contains the exceptions to section 40A(3), disallowance under section 40A(3) is not attracted in this case.
- e) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs. 2,00,000 outside India by a company without deduction of tax at source.

- f) **Allowable as deduction:** As per Rule 6DD, if the payment is made to the Government and, under the rules framed by it, such payment is required to be made in legal tender, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds Rs. 10,000.

Therefore, in the given case, no disallowance under section 40A(3) is attracted since payment of sales tax is covered by the above mentioned exception contained in Rule 6DD.

- g) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft is Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A (3) is not attracted for payment of Rs. 30,000 made in cash to a transporter for carriage of goods.

PROBLEM NO. 28

- a) Recovery of a bad debt claim disallowed in the earlier year cannot be brought to tax under section 41(4). Section 41(4) can be invoked only in a case where bad debts or part thereof has been allowed as deduction earlier under section 36(1)(vii).
- b) The scope of section 40(a)(ia) has been expanded to cover all sums in respect of which tax is deductible under Chapter VII-B. Section 192, which requires deduction of tax at source from salary income, forms part of Chapter VII-B. Therefore, salary payment without deduction of tax at source would attract disallowance under section 40(a)(ia). However, only 30% of salary paid without deduction tax at source would be disallowed under section 40(a)(ia).
- c) It is deductible in 5 equal annual instalments commencing from the previous year of payment. Rs. 24 lakhs, being 1/5th of Rs. 120 lakhs, is deductible under section 35DDA for the A.Y.2018-19.
- d) As per section 41(4), any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received.

Therefore, in this case, Rs. 50,000 would be taxable in the F.Y.2017-18 (A.Y.2018-19).

PROBLEM NO. 29

- a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque or draft or use of electronic payment system. Payment through a cheque crossed as "& Co." will attract disallowance under section 40A(3).
- b)
- True:** It is mandatory to write off the amount due from a debtor as not receivable, in order to claim the same as bad debt under section 36(1)(vii).
 - True:** Section 40(a)(ia) provides that failure to deduct tax at source from rent or royalty payable to a resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of 30% of such expenditure, where the resident payee has not paid the tax due on such income.
- c) **False:** Sub-clause (a) of section 36(1)(viia) allows the co-operative banks to claim deduction for provision for bad and doubtful debts in respect of advances made by rural branches of such banks. However, the deduction should not exceed 10% of the aggregate average advances made by the rural branches of such banks computed in the prescribed manner.

PROBLEM NO. 30

- Yes.** Since his total turnover for the F.Y.2017-18 is below Rs. 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs. 15,88,000, being 8% of Rs. 1,98,50,000.

Note: 6% rate has not been considered for calculations assuming that the assessee not satisfied the required conditions.

- In case he does not opt for the presumptive taxation scheme under section 44AD, and claims that his income is Rs.13,20,000 (which is lower than the presumptive business income of Rs.15,88,000), he has to maintain books of account as required under section 44AA(2) and also get them audited and furnish a report of such audit under section 44AB, since his total income exceeds the basic exemption limit of Rs. 2,50,000.

Note: Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales, turnover or gross receipts exceed Rs. 1 crore. However, if an eligible person opts for presumptive taxation scheme as per section 44AD(1), he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed Rs. 2 crore. The CBDT, has vide its Press Release dated 20th June, 2016, clarified that the higher threshold for non-audit of accounts has been given only to assessees opting for presumptive taxation scheme under section 44AD.

- iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2018. In case he does not opt for the presumptive taxation scheme and claims that his income is Rs.13,20,000 as per books of account, then he has to get his books of account audited under section 44AB, in which case the due date for filing of return would be 30th September, 2018.

PROBLEM NO. 31

Allowability of expenses of M/s. Arora Ltd. for the A.Y. 2017-18

- i) Payment of professional fees is subject to TDS under section 194J. Since no tax is deducted at source, Rs. 15,000, being 30% of the expenditure of Rs. 50,000 is disallowed under section 40(a)(ia).
- ii) Since the tax was deducted in March, 2018 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2018), the expenditure on interior works will be allowed as deduction. Hence, disallowance under section 40(a)(ia) is not attracted.
- iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., 30th September, 2018. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, Rs. 4,50,000 being 30% of Rs.15,00,000 is disallowed under section 40(a)(ia) for the previous year 2017-18.
- iv) The tax deducted at source can be deposited on or before the due date of filing of return to avoid disallowance under section 40(a)(ia). In this case, disallowance would not be attracted since tax deducted during December 2017 was deposited before 30th September 2018 i.e. on 28.09.2018.

PROBLEM NO. 32

- i) The entire revenue expenditure of Rs. 5,65,000 on scientific research related to the business of the company qualifies for deduction under section 32(1)(i).
- ii) As per section 35(1)(iv) read with section 35(2), if any capital expenditure (other than expenditure on acquisition of land) is incurred on scientific research related to the business carried on by the assessee, the whole of such capital expenditure is allowable as deduction in the previous year in which it is incurred. Therefore, Rs.12,50,000 (i.e. Rs. 22,00,000 – Rs. 9,50,000, being the cost of land) is allowable as deduction for the A.Y.2018-19. It is assumed that the scientific research is related to the business of Purnit Agro Industries.
- iii) The employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD, upto 10% of salary of the employee in the previous year, is allowable as deduction under section 36(1)(iva) while computing business income. Disallowance under section 40A(9) would be attracted only in respect of the amount in excess of 10% of salary. Accordingly, Rs.38,20,000 would be allowed as deduction under section 36(1)(iva) and Rs. 6,80,000 would be disallowed as per section 40A(9).
- iv) The tax of Rs.5,50,000 borne by the employer on non-monetary perquisites provided to the employees is disallowed under section 40(a)(v).

PROBLEM NO. 33

Statement showing computation of depreciation allowable to Sai Ltd. & Shirdi Ltd. for A.Y. 2018-19

| Particulars | Rs. |
|---|------------------|
| Written down value (WDV) as on 1.4.2017 | 40,00,000 |
| Add: Addition during the year (used for less than 180 days) | 14,40,000 |
| | 54,40,000 |
| Depreciation on Rs. 40,00,000 @ 15% | 6,00,000 |
| Depreciation on Rs. 14,40,000 @ 7.5% | 1,08,000 |
| Total depreciation for the year | 7,08,000 |

Apportionment between two companies:**a) Amalgamating company, Sai Ltd.**

Rs. 6,00,000 × 275/365

4,52,055

Rs. 1,08,000 × 61/151

43,629

4,95,684**b) Amalgamated company, Shirdi Ltd.**

Rs. 6,00,000 × 90/365

1,47,945

Rs. 1,08,000 × 90/151

64,371

2,12,316**Notes:**

- i) The aggregate deduction, in respect of depreciation allowable to the amalgamating company and amalgamated company in the case of amalgamation shall not exceed in any case, the deduction calculated at the prescribed rates as if the amalgamation had not taken place. Such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.
- ii) The price at which the assets were transferred, i.e., Rs.60 lacs, has no implication in computing eligible depreciation.

THE END

MASTER MINDS

6. CAPITAL GAINS

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Computation of capital gain of Mr. C for the A.Y. 2017-18

| Particulars | Rs. | Rs. |
|---|-----------|-----------|
| Gross sale consideration | | 90,00,000 |
| Less: Expenses on transfer | | 50,000 |
| Net sale consideration | | 89,50,000 |
| Less: Indexed cost of acquisition (Note 1) | 50,62,500 | |
| Less: Indexed cost of improvement (Note 2) | 42,67,677 | 93,30,177 |
| Long-term capital loss | | 3,80,177 |

Notes:

Indexed cost of acquisition is computed as follows: Rs. 4,50,000 × 1125/100 = Rs. 50,62,500

Fair market value on April 1, 1981 (actual cost of acquisition is ignored as it is lower than market value on April 1, 1981.)

| Indexed cost of improvement is determined as under: | Amount (Rs.) |
|---|------------------|
| Construction of first floor in 1972-73 (expenses incurred prior to April 1, 1981 are not considered) | Nil |
| Construction of second floor in 1983-84 (i.e., Rs. 3,10,000 × 1125/116) | 30,06,466 |
| Alteration/reconstruction in 1992-93 (i.e., Rs. 2,50,000 × 1125/223) | 12,61,211 |
| Indexed cost of improvement | 42,67,677 |

PROBLEM NO. 2

Since the shares were not sold through the stock Exchange, the transaction is not eligible for Sec. 10(38)

Computation of long term capital gains

| Particulars | Option 1 | Option 2 |
|-----------------------------------|------------------------------|--------------|
| Consideration | 1,00,000 | 1,00,000 |
| (-) Indexed COA/COA | 1,12,500 (10,000 × 1125/100) | 10,000 (FMV) |
| LTCL | (12,500) | 90,000 |
| Tax rate | @ 20% | @ 10% |
| Tax there on incl. education cess | - | 9,270 |

Decision: Option 1 is to be selected.

Since the assessee has satisfied all the conditions u/s 10(38), he is eligible for that exemption.

PROBLEM NO. 3

- Treatment of compensation for loss of stock:** compensation (Rs.4,80,000) is less than the value of the stock lost (Rs.6,50,000), there is a business loss of Rs.1,70,000 (Rs.6,50,000 - Rs.4,80,000).
- Treatment of compensation for damage to Machinery:** Sec.45 (1A) clearly states that the value of money received towards any such damage/destruction shall be treated as sale consideration.

| Particulars | Amount (Rs.) |
|--|--------------|
| Opening W.D.V of the Machinery | 10,80,000 |
| Less: Insurance Compensation received | 6,00,000 |
| STCL | 4,80,000 |

- Treatment of compensation for loss of Jewellery:** Any Jewellery, except those held as Stock-in-trade shall be treated as capital asset. By virtue of Sec.45 (1A) any compensation received towards loss or damage to the capital asset shall be treated as sale consideration.

| Particulars | Amount (Rs.) |
|--|--------------|
| Compensation received | 1,80,000 |
| Less: Indexed cost of acquisition - 1,20,000 × 1125/480 | 2,81,250 |
| Long Term Capital Loss | (1,01,250) |

PROBLEM NO. 4**Computation of capital gains of Mr. Y for the A.Y. 2017-18**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|--|--------------|--------------|
| Compensation granted | | 3,00,000 |
| Less: Indexed Cost of Acquisition (ICOA) | | |
| Cost of acquisition as on 1980-81 | - 20,000 | |
| Fair market value as on 1-4-81 | - 80,000 | |
| so, FMV will be taken as COA i.e. 80,000 | | |
| Indexation = COA x $\frac{\text{In the year of transfer (i.e. in the year of Govt acquired)}}{\text{In the year of Asset first held by the assessee}}$ | | |
| = 80,000 x $\frac{1024}{281}$ | | |
| ICOA | | (2,91,530) |
| Long term capital gain | | 8,470 |

Computation of capital gains of Mr. Y for the A.Y. 2017-18

| Particulars | Amount | Amount |
|-------------------------|--------|---------------|
| Additional compensation | | 1,00,000 |
| Less: Expenses | | (2,000) |
| Capital gain | | 98,000 |

PROBLEM NO. 5**a) Computation of depreciation for A.Y. 2017-18**

| Particulars | Amount (Rs.) |
|--|--------------|
| W.D.V. of the block as on 1.4.2016 | 8,50,000 |
| Add: Purchase of new plant during the year | 8,50,000 |
| | 17,00,000 |
| Less: Sale consideration of old machinery during the year | 11,00,000 |
| W.D.V of the block as on 31.03.2017 | 6,00,000 |

Note: Since the value of the block as on 31.3.2017 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs.45,000, being 7½% of Rs. 6,00,000.

b) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of the block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value exceeds the sale consideration, the resultant figure would be a short term capital loss.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

c) If the three machines are sold in June, 2016 for Rs. 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

| Particulars | Amount (Rs.) | Amount (Rs.) |
|--|--------------|-----------------|
| Sale consideration | | 21,00,000 |
| Less: W.D.V. of the machines as on 1.4.2016 | 8,50,000 | |
| Purchase of new plant during the year | 8,50,000 | 17,00,000 |
| Short term capital gains | | 4,00,000 |

PROBLEM NO. 6**Computation of capital gains on slump sale of Unit 1**

| Particulars | Amount (Rs.) |
|---|--------------|
| Sale value | 25,00,000 |
| Less: Expenses on sale | (28,000) |
| Net sale consideration | 24,72,000 |
| Less: Net worth (See Note 1 below) | (12,50,625) |
| Long term capital gain | 12,21,375 |

Notes:**1. Computation of net worth of Unit 1 of Akash Enterprises**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|--|--------------|------------------|
| Building (excluding Rs. 3 lakhs on account of revaluation) | | 9,00,000 |
| Machinery | | 3,00,000 |
| Debtors | | 1,00,000 |
| Patents (See Note 2 below) | | 28,125 |
| Other assets (Rs.1,50,000 - Rs.50,000) | | 1,00,000 |
| Total assets | | 14,28,125 |
| Less: Creditors | 37,500 | |
| Bank Loan | 1,40,000 | (1,77,500) |
| Net worth | | 12,50,625 |

2. Written down value of patents as on 1.4.2017

| Value of patents | Amount (Rs.) |
|--|--------------|
| Cost as on 1.7.2015 | 50,000 |
| Less: Depreciation @ 25% for Financial Year 2015-16 | (12,500) |
| WDV as on 1.4.2016 | 37,500 |
| Less: Depreciation for Financial Year 2016-17 | (9,375) |
| WDV as on 1.4.2017 | 28,125 |

For the purposes of computation of net worth the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs.3 lakh and Rs.6 lakh (Rs.12 lakh - Rs.3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

PROBLEM NO.7**Computation of total income of M s. Mohini for A.Y. 2017-18**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|--------------|------------------------------|
| Long-term capital gain | | |
| Full value of consideration (As per section 50C read with section 155(15), in case the actual sale consideration is less than the stamp duty value fixed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration. Where the assessee contests the stamp valuation, and the value is reduced by the Divisional Revenue Officer, such reduced value will be regarded as the full value of consideration accruing as a result of transfer. Hence, in this case, Rs.41,00,000, being the valuation by Divisional Revenue Officer on which stamp duty is paid, would be deemed as full value of consideration, since the same is lower than the valuation by the Sub-registrar) | 41,00,000 | |
| Less: Indexed cost of acquisition [Rs. 26,50,000 x 1125/785] | 37,97,771 | 3,02,229 |
| Other Income | | 2,80,000 |
| Total Income | | 5,82,229 |
| Note: Cost of acquisition includes purchase price plus registration expenses i.e., Rs. 25,00,000 + Rs. 1,50,000 | | or 5,82,230 |

Computation of total income of M/s. Ragini for A.Y. 2017-18

| Particulars | Rs. |
|---|-----------------|
| Income from other sources | |
| Immovable property received for inadequate consideration | 6,00,000 |
| As per section 56(2)(vii), where an individual receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the Divisional Revenue Officer, as in this case) by an amount exceeding Rs. 50,000, then, the difference between such value and actual consideration of such property would be chargeable to tax as income from other sources. | |
| Therefore, Rs. 6,00,000 (i.e., Rs. 41,00,000 - Rs. 35,00,000) would be chargeable to tax as income from other sources. | |
| Other Income | 3,45,000 |
| Total Income | 9,45,000 |

PROBLEM NO. 8

Computation of capital gain in the hands of Mr. A for the A.Y.-2017-18

| Particulars | Amount (Rs.) |
|---|-------------------|
| Sale proceeds | 12,00,000 |
| Less: Indexed cost of acquisition [Note 1] | 5,62,500 |
| | 6,37,500 |
| Indexed cost of improvement [Note 2] | 13,60,939 |
| Long term capital loss | (7,23,439) |

Note 1: Indexed cost of acquisition is determined as under:

| | |
|--|-----------------|
| Cost of acquisition: Actual cost (or) FMV as on 1-4-81. (1,05,000 (or) 1,50,000) (Whichever is Higher) | 1,50,000 |
| Less: Amount forfeited by Mr. A (as per sec. 51) | 80,000 |
| Note: Amount forfeited by the previous owner should be ignored | 70,000 |
| Indexed cost of acquisition (Rs.70,000 × 1125/140) | 5,62,500 |

Note 2: Indexed cost of Improvement is determined as under:

| | |
|--|---------------------|
| Expenditure incurred before 1 st April, 1981 should not be considered | Nil |
| Expenditure incurred on or after 1st April, 1981 | |
| During 1983-84 Indexed cost of Improvement [Rs.50,000 × 1125/116] | 4,84,914 |
| During 1993-94 Indexed cost of Improvement [Rs.1,20,000 × 1125/244] | 8,76,025 |
| Total Indexed Cost of Improvement | Rs.13,60,939 |

PROBLEM NO. 9

Computation of capital gains in the hands of Mr. R for the A.Y. 2017-18

| Particulars | Amount (Rs.) |
|--|------------------|
| Consideration | 17,50,000 |
| Less: Transfer Expenses | 12,000 |
| | 17,38,000 |
| Less: Indexed cost of acquisition (1,50,000 × 1125/100) | 16,87,500 |
| Gross LTCG | 50,500 |
| Case A: | |
| Gross LTCG | 50,500 |
| Less: Exemption U/s 54 | 50,500 |
| [Amt. of Investment (or) C.G.] | |
| Net LTCG | 0 |
| Case B: | |
| Gross LTCG | 50,500 |
| Less: Exemption U/s 54 (Note - 1) | 50,500 |
| (Amt. of Investment 3,00,000 (Land + Deposit) or C.G.) | |
| Net LTCG | 0 |
| Case C: | |
| Gross LTCG | 50,500 |
| Less: Exemption U/s 54 | 50,500 |
| (Amt. of Investment 3,15,000 (or) C.G.) | |
| Net LTCG | 0 |

| | |
|--|--------|
| Case D: | |
| Gross LTCG | 50,500 |
| Less: Exemption U/s 54 (Note - 1) | 50,500 |
| (Amt. of Investment 4,00,000 (or) C.G !) | |
| Net LTCG | 0 |

Case B:**Note-1: Eligible investment**

Cost of land acquired before 1 year = 2,00,000

Amount of deposit = 1,00,000

Total = 3,00,000

Deposit made after the due date for filing the income is not eligible.

Case D:

Note-2: The deposit made on 1st August will not eligible (or) qualify for exemption since it was made after the cutoff date. Unused amount = 4L-2.5L = 1.5L

Since the actual amount of Investment (2,50,000) is more than the required amount of investment (50,500). Nothing is taxable in the hands of the Assessee even though the amount is lying unused (or) unutilized.

PROBLEM NO. 10**i) Computation of Capital Gains in the hands of Mr. G for the A.Y-2017-18**

| Value of patents | Rs. |
|--|---------------|
| Consideration | 10,00,000 |
| Less: Indexed Cost of Acquisition (1,20,000x1125/223) | (6,05,381) |
| Less: Indexed cost of Improvement (70,000x1125/259) | (3,04,054) |
| Gross LTCG | 90,565 |
| Less: Exemption U/s 54 | |
| (Investment 3,00,000 (or) CG) | <u>90,565</u> |
| Taxable Gains | <u>0</u> |

Note-1: Cut-off date for investment = 27.06.17 (purchase)

Actual investment made = 27.10.16.

Since the investment was made before the due date for filing the return of income i.e. 31.7.16, no need of making deposit in capital Gains deposit scheme.

ii) Sale of Newly Acquired Asset:**Computation of Capital Gains in the hands of Mr. G for the A.Y-2018-19**

| | |
|---|-----------------|
| Consideration | 6,00,000 |
| Less: Adjusted cost of acquisition (3L - 90,565) | 2,09,435 |
| STCG | <u>3,90,565</u> |

Note-2: Within the period of 3 years from the date of acquisition of the new Asset (up to 20.10.19), it should not be sold. However it was given that such an asset was sold within the locking Period.

∴ The capital Gains will be taxable on the sale of such Asset & the previously exempted capital Gains will also be indirectly taxed.

Note-3: No further exemption will be allowed on acquisition of a new house property as the asset sold was a STCA. What is required to be sold is LTCA.

PROBLEM NO. 11**i) Computation of Capital Gains in the hands of Mr. M for the A.Y-2017-18**

| | |
|---|-------------------|
| Consideration | 10,00,000 |
| Less: Indexed cost of Acquisition (1,00,000 x 1125/1125) | <u>(1,00,000)</u> |
| Gross LTCG | 9,00,000 |
| Less: Exemption U/s 54F [9,00,000 × 70% (7L/10L)] | <u>(6,30,000)</u> |
| Net taxable LTCG's | <u>2,70,000</u> |
| Eligible Investments | Cut off dates |

| | |
|--|-------------------------|
| 1. Amount incurred for construction = 2,00,000 | Purchase : 15.07.18 |
| 2. Amount deposited = 5,00,000 | Construction : 15.07.19 |
| Total = 7,00,000 | Deposit : 31.07.17 |

ii) **Computation of Capital Gains in the hands of Mr. M for the A.Y-2020-21**

| Particulars | Amount (Rs.) |
|--|--------------|
| Exemption previously given $[9,00,000 \times 70\% (7L/10L)]$ | 6,30,000 |
| Less: Exemption to be granted $[9,00,000 \times 60\% (6L/10L)]$ | (5,40,000) |
| Taxable LTCG | 90,000 |

PROBLEM NO. 12**Computation of Capital Gains in the hands of Ashwin for the A.Y 2017-18****1. Sale of residential house**

| | |
|---|------------|
| Consideration | 7,50,000 |
| Less: Indexed cost of acquisition $(4,00,000 \times 1125/632)$ | (7,12,025) |
| Gross LTCG | 37,975 |
| Less: Exemption U/s 54 [10 L (or) C.G's] | 37,975 |
| Taxable capital gains | 0 |

2. Sale of house plot

| | |
|---|------------|
| Consideration | 5,00,000 |
| Less: Indexed cost of acquisition $(2,00,000 \times 1125/632)$ | (3,56,013) |
| Gross LTCG | 1,43,987 |
| Less: Exemption U/s 54F (Invest required - 5 lakhs, Actual - 9,62,025) | 1,43,987 |
| Taxable capital gains | 0 |

Note: Amount required to be invested = 5,00,000.

Actually invested = 10,00,000 - 37,975 = 9,62,025

PROBLEM NO. 13**Computation of capital gains in the hands of Mr. 'X' for A.Y. 2017-18**

| | Particulars | Rs. | Rs. |
|----|---|-----------|-----------------|
| | Sale consideration received on sale of 10,000 Shares @ Rs.500 each | | 50,00,000 |
| | Less: Indexed cost of acquisition | | |
| a) | 5,000 shares received as gift from father on 06.1980 | | |
| | Indexed cost $(Rs.5000 \times 50 \times 1125/100)$ | 28,12,500 | |
| b) | 2,000 bonus shares received from AB Ltd | Nil | |
| | Bonus shares are acquired on 21.7.1985 (i.e., after the year 1981 when the original shares were purchased). Hence, the cost is Nil. | | |
| c) | 3000 shares purchased on 1.2.1994 @ Rs.125 per share. The Indexed Cost is $3000 \times 125 \times 1125/244$ | 17,28,996 | 45,41,496 |
| | Long term capital gain | | 4,58,504 |
| | Less: Exemption under section 54F $(Rs.4,58,504 \times Rs.25,00,000 / Rs.50,00,000)$ | | 2,29,252 |
| | Taxable long term capital gain | | 2,29,252 |

PROBLEM NO. 14**Computation of taxable capital gain of Mr. Malik for A.Y. 2017-18**

| Particulars | Rs. | Rs. |
|--|-----------|------------------|
| Factory building | | |
| Sale price of building | 8,00,000 | |
| Less: WDV as on 1.4.2016 | 8,74,800 | |
| Short-term capital loss on sale of building | | (74,800) |
| Land appurtenant to the above building | | |
| Sale value of land | 40,00,000 | |
| Less: Indexed cost of acquisition $(Rs. 11,50,000 \times 1125/447)$ | 28,94,295 | |
| Long-term capital gains on sale of land | | 11,05,705 |
| Chargeable long term capital gain | | 10,30,905 |

Investment under section 54EC: In this case, both land and building have been held for more than 36 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset are invested in long-term specified assets like bonds of National Highways Authority of India and Rural Electrification Corporation Ltd., within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is Rs. 10,30,905 (rounded off to Rs. 10,30,910) in this case.

Notes:

1. Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. Rs. 12,00,000 - Rs. 50,000 = Rs. 11,50,000. It may be noted that in cases where the advance money is forfeited during the previous year 2015-16 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains.
2. Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
3. Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for more than 36 months), indexation benefit is available.
4. As per section 74, short term capital loss can be set-off against any income under the head "Capital gains", long-term or short-term. Therefore, in this case, short-term capital loss of Rs. 74,800 can be set-off against long-term capital gain of Rs. 11,05,705.

PROBLEM NO. 15

Where an assessee shifts an existing undertaking from an urban area to a SEZ and incurs expenses for shifting and acquires new assets for the undertaking in the SEZ, exemption under section 54GA would be available in such a case.

The capital gain, short-term or long-term, arising from transfer of land, building, plant and machinery in the existing undertaking would be exempt under section 54GA if the assessee, within a period of one year before or three years after the date on which the transfer took place,

- i) Acquires plant and machinery for use in the undertaking in the SEZ;
- ii) Acquires land or building or constructs building for the business of the undertaking in the SEZ;
- iii) Incurs expenses on shifting of the undertaking.

| Particulars | Amount | Amount |
|---|-------------|-------------------|
| a) Land: | | |
| Sale price | 22,00,000 | |
| Less: Indexed cost of acquisition $4,26,000 \times 1125/447$ | (10,72,148) | |
| Long-term capital gain | | 11,27,852 |
| b) Building: | | |
| Sale value | 11,39,000 | |
| Less: Opening WDV | (8,20,000) | |
| Short-term capital gain under section 50 | | 3,19,000 |
| c) Plant: car | | |
| Sale value | 6,00,000 | |
| Less: Opening WDV | (7,40,000) | |
| Short term capital loss under section 50 | | (1,40,000) |
| Net short term capital gain (Rs. 3,19,000 - Rs. 1,40,000) | | 1,79,000 |
| Total capital gain (LTCG+STCG) i.e. Rs. 11,27,852 + Rs. 1,79,000 | | 13,06,852 |

Exemption under section 54GA is available in respect of the following assets acquired and expenses incurred:

| Particulars | Amount (Rs.) |
|---------------|--------------|
| Land | 3,00,000 |
| Building | 5,00,000 |
| Plant: | |
| Computers | 1,00,000 |

| | |
|------------------------|------------------|
| Car | 4,20,000 |
| Machinery | 2,00,000 |
| Expenses of shifting | 1,15,000 |
| Total Exemption | 16,35,000 |

Note:

1. The total exemption available under section 54GA is the lower of capital gains of Rs. 13,06,852 or the amount of investment which is Rs. 16,35,000. Hence, the amount of exemption available under section 54GA is Rs. 13,06,852. The taxable capital gains would be Nil.
2. Furniture purchased is not eligible for exemption under section 54GA.
3. There is no restriction regarding purchase of second hand machinery.
4. Computers and car would constitute Plant.

PROBLEM NO. 16**IN THE HANDS OF THE MR. RAJ KUMAR(SELLER):****Computation of capital gains in the hands of Mr. Raj kumar for A.Y. 2017-18**

| Particulars | Rs. |
|--|------------------|
| <u>On sale of land</u> | |
| Consideration received or accruing as a result of transfer of land | 22,00,000 |
| Less: Indexed cost of acquisition Rs.5,19,000 x 1125 / 711 | 8,21,203 |
| Long-term capital gain (A) | 13,78,797 |
| <u>On sale of building</u> | |
| Consideration received or accruing from transfer of building | 10,00,000 |
| Less: Cost of acquisition | 14,00,000 |
| Short term capital loss (B) | 4,00,000 |

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be **Rs.9,78,797 (i.e., Rs.13,78,797 - Rs.4,00,000)**.

Note: In the given problem, land has been held for a period exceeding 36 months and building for a period less than 36 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

In the hands of Mr. Dhuruv (buyer): As per section 56(2)(vii), where an individual receives from a non – relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the appellate authority, as in this case by an amount exceeding Rs. 50,000, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, Rs. 7,00,000 (i.e. Rs. 32,00,000 – Rs. 25,00,000) would be charged to tax as income from other sources under section 56(2)(vii)

PROBLEM NO.17**Computation of total income and tax liability of Mr. C for A.Y. 2017-18**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|--------------|--------------|
| Capital Gains on sale of residential house property | | |
| Value declared by Mr. C Rs. 75,00,000 | | |
| Value adopted by Stamp Valuation Authority Rs. 98,00,000 | | |
| Valuation as per Valuation Officer Rs. 1,05,00,000 | | |
| Gross Sale consideration (See Note 1) | | 98,00,000 |
| Less: Brokerage @ 1% of sale consideration | | 75,000 |
| Net Sale consideration | | 97,25,000 |
| Less: Indexed cost of acquisition (Rs. 35,00,000 x 1125/519) | 79,22,535 | |
| Indexed cost of improvement (Rs. 5,00,000 x 1125/551) | 10,83,815 | 90,06,350 |
| Long-term capital gains (Total Income) | | 7,18,650 |
| Tax on total income (See Note 2) | | |
| Long-term capital gain taxable @ 20% (Rs. 7,18,650 - Rs. 2,50,000) | | 93,730 |
| Add: Education cess @ 2% | | 1,875 |
| Secondary and higher education cess @ 1% | | 977 |
| Total tax liability | | 96,542 |
| Tax liability (rounded off) | | 96,540 |

Notes: As per section 50C, in case the value of sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In case the valuation is referred to the Valuation Officer and the value determined is more than the value adopted by the Stamp Valuation Authority, the value determined by the Valuation Officer shall be ignored. Therefore, in the present case, the sale consideration would be the stamp valuation of Rs.98,00,000, since the same is more than the sale value declared by Mr. C and less than the value determined by the Valuation Officer.

As per section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of Rs. 2,50,000 is exhausted against the long-term capital gains of Rs. 7,18,650, Mr. C is a resident individual below the age of 60 years.

PROBLEM NO.18

Computation of taxable capital gains in the hands of Mr. Akash for A.Y. 2017-18

| Particulars | Amount (Rs.) |
|--|-----------------|
| Gross consideration | 90,00,000 |
| Less: Expenses on transfer (1% of the gross consideration) | (90,000) |
| Net consideration | 89,10,000 |
| Less: Indexed cost of acquisition (Rs. 24,36,000 × 1125/406) | (67,50,000) |
| | 21,60,000 |
| Less: Exemption under section 54GB (Rs. 21,60,000 × Rs. 60,00,000 /Rs. 89,10,000) | (14,54,545) |
| Taxable capital gains | 7,05,455 |

Deemed cost of new plant and machinery for exemption under section 54GB

| Particulars | Rs. | Rs. |
|--|----------|------------------|
| Purchase cost of new plant and machinery acquired in July, 2017 | | 65,00,000 |
| Less: Cost of office appliances, i.e., computers | 6,00,000 | |
| Cost of vehicles, i.e., cars | 8,00,000 | |
| Cost of air-conditioners installed at the residence of Mr. Akash | 1,00,000 | 15,00,000 |
| | | 50,00,000 |
| Amount deposited in the specified bank before the due date of filing of return | | 10,00,000 |
| Deemed cost of new plant and machinery for exemption under section 54GB | | 60,00,000 |

PROBLEM NO.19

Computation of Capital Gains in the hands of Mr. Roy for the A.Y. 2017-18

| Particulars | Rs. | Rs. |
|--|-----------|-----------------|
| Gross Sale Consideration on transfer of residential house (W.N : 1) | | 72,00,000 |
| Less: Brokerage @ 2% of actual sale consideration of Rs. 53,00,000 (65,00,000 × 2%) | | (1,30,000) |
| Net Sale Consideration | | 70,70,000 |
| Less: Indexed cost of acquisition [Rs. 6,00,000 × 1125/140] | | (48,21,429) |
| Long-term capital gain | | 22,48,571 |
| Less: Exemption under section 54 (W.N:- 2) | 11,00,000 | |
| Exemption under section 54EC (W.N:- 3) | 3,00,000 | 14,00,000 |
| Long-term capital gain | | 8,48,571 |

Computation of Tax Liability of Mr. Roy for A.Y. 2017-18

| Particulars | Rs. | Rs. |
|---|------------|----------|
| L.T.C.G | 8,48,571 | |
| Less: Basic Exemption Limit | (2,50,000) | |
| | 5,98,571 | |
| Tax @ 20% on 5,98,571 | | 1,19,714 |
| Add: Education Cess @ 2% and SHEC @ 1% | | 3,591 |
| Tax liability | | 1,23,306 |
| Rounded off | | 1,23,310 |

W.N:- 1

As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration.

W.N:- 2**Eligible Amount u/s 54:**

| | |
|--|-----------|
| Acquisition of residential house property at Kolkata on 10.12.2016 (i.e., within the prescribed time of two years from 4.11.2016, being the date of transfer of residential house at Ghaziabad) | 7,00,000 |
| Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kolkata. Since Mr. Roy has no other source of income, his due date for filing return of income is 31 st July, 2017. Therefore, Rs. 4,00,000 deposited on 6.7.2017 will be eligible for exemption whereas Rs.9,00,000 deposited on 1.11.2017 will not be eligible for exemption under section 54. | 4,00,000 |
| | 11,00,000 |

Amount of Exemption u/s 54:

L.T.C.G
 or
 Eligible Amount

} Whichever is lower

i.e., 22,48,571 (OR) 11,00,000, Whichever is lower = 11,00,000

W.N:- 3

Exemption under section 54EC: Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before (3.5.2017) would qualify for exemption.

Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 10.4.2017 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 15.6.2017 would not qualify for exemption u/s 54EC

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO: 1

Self-study

PROBLEM NO: 2

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

PROBLEM NO: 3**Computation of Capital Gains of Mr. B for the A.Y.2017-18**

| Particulars | Amount (Rs.) |
|--|-----------------|
| Sale consideration | 15,00,000 |
| Less: Expenses on transfer i.e. Brokerage paid | 50,000 |
| Net consideration | 14,50,000 |
| Less: Indexed cost of acquisition (Rs.5,00,000 x 1125/351) | 16,02,564 |
| Long term capital Loss | 1,52,564 |

Note: For the purpose of computing capital gains, the holding period is considered from the date of purchase of convertible debentures i.e., August 1998 - August 2016.

PROBLEM NO: 4

Section 10(37) exempts the capital gains arising to an individual or a Hindu Undivided Family from transfer of agricultural land by way of compulsory acquisition, or a transfer, the consideration for which is determined or approved by the RBI or the Central Government.

Such exemption is available where the compensation or the enhanced compensation or consideration, as the case may be, is received on or after 1st April, 2004 and the land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such Hindu undivided family.

Since all the above conditions are fulfilled in this case, Cheeku is entitled to exemption under section 10(37) of the entire capital gains arising on sale of agricultural land.

PROBLEM NO: 5**Computation of total income and tax liability of Mr. Mithun for A.Y. 2017-18**

| Particulars | Rs. |
|---|-----------------|
| Short term capital gains on sale of bonus shares | |
| Gross sale consideration (100 x Rs.4,000) | 4,00,000 |
| Less: Brokerage @ 1% | 4,000 |
| Net sale consideration | 3,96,000 |
| Less: Cost of acquisition of bonus shares | NIL |
| Total income (Short term Capital Gains) | 3,96,000 |
| Tax Liability | |
| 15% of (Rs.3,96,000-Rs.3,00,000) | 14,400 |
| Less: Rebate U/s 87A | 5,000 |
| | 9,400 |
| Add: Education cess @ 2% | 188 |
| Secondary and higher education cess @ 1% | 94 |
| Tax payable | 9,682 |
| Tax payable (Rounded off) | 9,680 |

Notes:

- Long-term capital gains on sale of original shares through a recognized stock exchange (STT paid) is exempt under section 10(38).
- Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short term capital gain chargeable to tax @ 15% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of Rs. 3,00,000 for A.Y. 2017-18.
- Dividend income is exempt under section 10(34).
- Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- Cost of bonus shares will be Nil as such shares are allotted after 1.04.1981.
- Securities transaction tax is not allowable as deduction.

PROBLEM NO: 6**Computation of business loss**

| Particulars | Amount (Rs) |
|-----------------------------|-----------------|
| Insurance compensation | 5,15,000 |
| Less: value of goods | 7,30,000 |
| PGBP loss | 2,15,000 |

Computation of capital loss for loss of machinery

| Particulars | Amount (Rs) |
|-----------------------------------|-----------------|
| Full value of consideration | 8,07,000 |
| Less: WDV of the machinery | 12,35,000 |
| Short term capital loss | 4,28,000 |

Computation capital loss for loss for Jewellery

| Particulars | Amount (Rs.) |
|---|-----------------|
| Full value of consideration | 2,05,000 |
| Less: indexed cost of acquisition (1,45,000X1125/ 480) | 3,39,844 |
| Long term capital loss | 1,34,844 |

PROBLEM NO: 7

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence A is not liable to capital gains tax.

PROBLEM NO: 8

Since the capital asset is converted into stock-in-trade during the previous year relevant to the A.Y. 2014 - 15, it will be a transfer under section 2(47) during the P.Y.2013-14. However, the profits or gains arising from the above conversion will be chargeable to tax during the P.Y. 2016-17, since the stock-in-trade has been sold only on June 10, 2016. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2014) will be the full value of consideration.

The capital gains will be computed after deducting the indexed cost of acquisition from the full value of consideration. The cost inflation index for 1988-89 i.e., the year of acquisition is 161 and the index for the year of transfer i.e., 2013-14 is 939. The indexed cost of acquisition is $60,000 \times 939/161 = \text{Rs. } 3,49,938$. Hence, Rs. 2,00,062 (i.e. Rs. 5,50,000 - Rs. 3,49,938) will be treated as long term capital gains chargeable to tax during the A.Y.2017 - 18. During the same assessment year, Rs. 50,000 (Rs. 6,00,000 - Rs. 5,50,000) will be chargeable to tax as business profits.

PROBLEM NO: 9

a) Computation of depreciation for the A.Y. 2017 - 18

| Particulars | Rs. |
|--|-----------------|
| Opening WDV as on 01.04.2016 | 6,50,000 |
| Add: additions as on 30.09.2016 | 6,50,000 |
| Less: sale of asset on 10.06.2016 | 9,00,000 |
| Depreciable value | 4,00,000 |
| Less: depreciation @ 15% | 60,000 |
| Closing WDV as on 31.03.2017 | 3,40,000 |

b) Computation of capital gain for the A.Y. 2017 - 18

| Particulars | Rs. |
|--------------------------------------|-----------------|
| Sale proceeds | 14,00,000 |
| Less: Opening WDV + additions | 13,00,000 |
| Short term capital gain | 1,00,000 |

Note: There is no depreciable value if the capital asset is sold for Rs.14,00,000. Then sec.50 is applicable.

PROBLEM NO: 10

a) Assessing officer is not correct. Since the value determined by the valuation officer is more than the value adopted by the assessing authority.

b) Computation of capital gain of Mr. X for the A.Y. 2017-18.

| Particulars | Rs. |
|--|-------------------|
| Full value of consideration | |
| Sale proceeds or stamp duty value whichever is higher | 12,50,000 |
| Less: Expenses in connection with transfer | Nil |
| Net consideration | 12,50,000 |
| Less: Indexed cost of acquisition (2,25,000 x 1125/161) | 15,75,250 |
| Long term capital loss | (3,22,250) |

PROBLEM NO: 11

Computation of capital gains of Bala kumari for the A.Y. 2017-18

| Particulars | Rs. |
|--|-----------|
| Deemed sale consideration as per section 50C | 13,00,000 |

| | |
|---|-----------------|
| Less: Indexed cost of acquisition (Rs 1,50,000 x 1125/281) | 6,00,534 |
| Taxable long term capital gain | 6,99,466 |

Note: According to section 50C(1), where the consideration received or accruing as a result of the transfer of land or building or both is less than the value adopted or assessed or assessable by the State Stamp Valuation Authority for the purpose of payment of stamp duty in respect of such transfer, then the value so adopted or assessed or assessable by the State Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of the transfer.

In this case, since the consideration of Rs.7,00,000 received on transfer of land is less than the value of Rs 13,00,000 fixed by the State Stamp Valuation Authority, the value adopted by the State Stamp Valuation Authority is deemed to be the full value of consideration and capital gains is calculated accordingly.

PROBLEM NO: 12**Computation of Capital gains in the hands of Mr. X for the A.Y. 2017-18**

| Particulars | Rs. |
|--|---------------|
| Sale proceeds | 40,00,000 |
| Less: Indexed cost of acquisition [Note 1] | 39,37,500 |
| Indexed cost of improvement [Note 2] | - |
| Long term capital gain | 62,500 |

Note 1: Computation of indexed cost of acquisition

Cost of acquisition (Higher of fair market value as on April 1, 1981 and the actual cost of acquisition) 3,90,000

Less: Advance taken and forfeited 40,000

Cost for the purposes of indexation 3,50,000

Indexed cost of acquisition (Rs. 3,50,000 x 1125/100) 39,37,500

Note 2: Any improvement cost incurred prior to 1.4.1981 is to be ignored when fair market value as on 1.4.1981 is taken into consideration.

PROBLEM NO: 13**Computation of net taxable capital gains of Smt. Megha for the A.Y. 2017-18**

| Particulars | Rs. |
|---|------------------|
| Sale consideration | 16,00,000 |
| Less: Indexed cost of acquisition (See Working note below) | 12,91,541 |
| Long term capital gain | 3,08,459 |
| Less: Exemption under section 54 (See Note 1 below) | 3,00,000 |
| Taxable long term capital gain | 8,459 |

WORKING NOTE:

| Indexed cost of acquisition | Rs. |
|---|-----------------|
| Purchase price | 4,50,000 |
| Less: Amount forfeited (See Note 2 below) | 70,000 |
| Cost of acquisition | 3,80,000 |
| Indexed cost of acquisition Rs. 3,80,000 X 1125/331 | 12,91,541 |

Notes:

- Exemption under section 54 is available if one new residential house is purchased within two years from the date of transfer of existing residential house, which is a long-term capital asset. Since the cost of new residential house is less than the long-term capital gains, capital gains to the extent of cost of new house, i.e., Rs. 3 lakh, is exempt under section 54.
- As per section 51, any advance received and retained by the assessee, as a result of earlier negotiations for sale of the asset, shall be deducted from the purchase price for computing the cost of acquisition of the asset.

PROBLEM NO: 14

The house is sold before 36 months from the date of purchase. Hence, the house is a short term capital asset and no benefit of indexation would be available.

| Particulars | Rs |
|--------------------|-----------|
| Sale consideration | 20,00,000 |

| | |
|----------------------------------|-----------------|
| Less: Cost of acquisition | 10,00,000 |
| Cost of improvement | 2,00,000 |
| Short term capital gain | 8,00,000 |

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs 8,00,000.

PROBLEM NO: 15

Computation of total income of Mr. Sagar for the A.Y. 2017-18

| Particulars | Rs. | Rs. |
|---|-----------------|-----------------|
| Capital Gains | | |
| Sale consideration | | 15,00,000 |
| Less: Indexed cost of land (Rs. 75,000 X 1125/389) | 2,16,902 | |
| Indexed cost of building (Rs 1,25,000 X 1125/426) | <u>3,30,106</u> | <u>5,47,008</u> |
| | | 9,52,992 |
| Less: Exemption under section 54 (See Note 2 below) | | <u>8,00,000</u> |
| Long-term capital gain | | 1,52,992 |
| Profit and gains from business or profession / Income from other sources | | |
| Insurance agency commission earned (Gross) (Rs 45,000 + Rs 5,000) | | 50,000 |
| Gross Total Income | | 202992 |
| Less: Deduction under Chapter VI-A | | <u>20,000</u> |
| Section 80C – Investment in NSC VIII | | <u>1,82,992</u> |
| Total Income | | |

Notes:

- Since the building and the land are held for more than 36 months, the same are long-term capital assets and the capital gain arising on sale of such assets is a long-term capital gain.
- As per the provisions of section 54, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of a residential house property one year before or two years after the date of transfer of original asset or constructed a residential house property within three years after such date. Since Mr. Parri has purchased another residential house in June, 2016 for Rs.8,00,000, the capital gain arising on transfer of residential house property in May, 2016 is exempt under section 54 to that extent.

PROBLEM NO: 16

Computation of Long term Capital Gain for A.Y. 2017-18.

| Particulars | Rs. | Rs. |
|--|------------------|------------------|
| Sale consideration as per section 50C (Note-1) | | 47,25,000 |
| Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs.37.50 lacs | | <u>37,500</u> |
| | | 46,87,500 |
| Less: Indexed cost of acquisition (Note-2) (Rs. 2,70,000 X 1125/463) | 6,56,048 | |
| Indexed cost of improvement (Rs.7,00,000 X 1125/497) | <u>15,84,507</u> | <u>22,40,555</u> |
| Long term capital gain | | 24,46,945 |

Notes:

- As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

| | |
|---|---------------|
| Sale consideration | Rs.37,50,000 |
| Valuation made by registration authority for stamp duty | Rs.47,25,000 |
| Valuation made by the valuation officer on a reference | Rs.47,50,000 |
| Applying the provisions of section 50C to the present case, | Rs.47,25,000, |

Being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

2. The house was inherited by Mr. Thomas under the will of his father and therefore, the cost incurred by the previous owner shall be taken as the cost. Fair market value as on 01.04.81, accordingly, shall be adopted as the cost of acquisition of the house property. However, indexation benefit will be given from the year in which Mr. Thomas first held the asset i.e. P.Y.2003-04.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

As per this view, the indexation cost of acquisition of house would be Rs.30,37,500 and long term capital gain would be Rs 65,493.

PROBLEM NO: 17

Computation of capital gains in the hands of PQR Ltd. for the A.Y.2017-18

| Particulars | Rs. |
|---|-----------------|
| Sale proceeds (Compensation received) | 12,00,000 |
| Less: Indexed cost of acquisition [Rs. 4,00,000 × 1125/463] | <u>9,71,922</u> |
| | 2,28,078 |
| Less: Exemption under section 54D (Cost of acquisition of new undertaking) | 2,00,000 |
| Taxable long term capital gain | 28,078 |

PROBLEM NO: 18

Computation of Capital Gains of Ms. Anshu for the A.Y. 2017-18

| Particulars | Rs. | Rs. |
|--|-----------------|------------------|
| Full value of consideration [See Notes (i) & (ii) below] | | 25,00,000 |
| Less: Indexed Cost of acquisition [See Note (iii) below] | | |
| Indexed Cost of land (Rs 1,10,000 × 1125/100) | 12,37,500 | |
| Indexed Cost of building (Rs 3,20,000 × 1125/447) | <u>8,05,369</u> | <u>20,42,869</u> |
| Long-term capital gain | | 4,57,131 |
| Less: Brought forward short-term capital loss set off [See Note (iv) below] | | <u>1,50,000</u> |
| Taxable capital gains (Amount to be invested in NHAI bonds to get full exemption for tax on capital gains) [See Note (v) below] | | 3,07,131 |

Notes:

- As per section 50C(1), where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration would be Rs 25 lacs in this case.
- As per section 50C(3), where the valuation is referred by the Assessing Officer to Valuation Officer and the value ascertained by such Valuation Officer exceeds the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, the value adopted by the Stamp Valuation Authority shall be taken as the full value of the consideration received or accruing as a result of the transfer. Since the value ascertained by the Valuation Officer (i.e. Rs 27 lakhs), is higher than the value adopted by the Stamp Valuation Authority (i.e. Rs. 25 lakhs), the full value of consideration in this case would be Rs. 25 lakhs.
- Since the cost of land acquired by Anshu on 1.4.1981 is not given in the question, the fair market value as on 1.4.1981 is taken as the cost of acquisition. Indexation benefit is available since land and building are both long-term capital assets, as they are held by Anshu for more than 36 months.
- As per section 74, brought forward unabsorbed short term capital loss can be set off against any capital gains, short term or long term, for 8 assessment years immediately succeeding the assessment year for which the loss was first computed. Therefore, short term capital loss on sale of shares during the F.Y.2011-12 can be set-off against the current year long-term capital gains on sale of land and building.

- v) As per section 54EC, an assessee can avail exemption in respect of long-term capital gains, if such capital gains are invested in the bonds issued by the NHAI redeemable after 3 years. Such investment is required to be made within a period of 6 months from the date of transfer of the asset. The exemption shall be the amount of capital gains or the amount of such investment made, whichever is less. Therefore, in this case, if Anshu invests the entire capital gains in bonds of NHAI, she can get full exemption from tax on capital gains.

PROBLEM NO: 19**Computation of Capital Gains of Mr. Selvan for A.Y. 2017-18**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|-----------------|-------------------------|
| Sale consideration (i.e. Stamp Duty Value) (Note 1) | | 80,00,000 |
| Less: Indexed Cost of Acquisition (Rs. 10,00,000 X 1125/389) | 28,92,031 | |
| Indexed Cost of Improvement (Rs.2,00,000 X 1125/480) | <u>4,68,750</u> | <u>33,60,781</u> |
| | | 46,39,219 |
| Less: Exemption under section 54 (Note 2) | | <u>25,00,000</u> |
| Taxable Capital Gains | | <u>21,39,219</u> |

Notes:

- As per the provisions of section 50C, in case the stamp duty value adopted by the stamp valuation authority is higher than the actual sale consideration, the stamp duty value shall be deemed as the full value of consideration.
- Exemption under section 54 is available if a new residential house is purchased within one year before or two years after the date of transfer. Since the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt under section 54.
- Exemption under section 54EC is available in respect of investment in bonds of National Highways Authority of India only if the investment is made within a period of six months after the date of such transfer. In this case, since the investment is made after six months, exemption under section 54EC would not be available.
 - If the new asset purchased by the assessee on the basis of which exemption under section 54 is claimed, is transferred within 3 years from the date of its acquisition, then for computing the taxable short-term capital gain on such transfer, the cost of acquisition of such asset shall be taken as Nil.

| Particulars (A.Y. 2018-19) | Rs. |
|----------------------------------|------------------|
| Sale consideration | 40,00,000 |
| Less: Cost of acquisition | Nil |
| Short-term capital gains | <u>40,00,000</u> |

PROBLEM NO: 20**Computation of taxable capital gain of Ms. Vimala for A.Y. 2017-18**

| Particulars | Rs. | Rs. |
|---|---------------|------------------------|
| Sale price of residential building | 15,00,000 | |
| Less: Brokerage @ 2% | <u>30,000</u> | |
| Net consideration | | 14,70,000 |
| Less: Indexed cost of acquisition Rs.1,50,000 X 1125/331 | | <u>5,09,819</u> |
| | | 9,60,181 |
| Less: Deduction under section 54 for purchase of new residential house in December, 2015 | | <u>7,00,000</u> |
| Taxable long term capital gain | | <u>2,60,181</u> |

Note: One of the conditions for claiming exemption under section 54EC for the investment in RECL/NHAI Capital Gains bonds is that the deposit should be made within 6 months from the date of transfer. In this case, the transfer took place on 1.7.2016 and the 6 months period within which the deposit should be made for the purpose of section 54EC would expire by 31.12.2016. The investment in REC/NHAI Capital Gains bonds was made only in March 2017. Therefore, the assessee is not eligible for exemption under section 54EC.

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PROBLEM NO: 21**Computation of total income of Mr. Kumar for the A.Y.2017-18**

| Particulars | Rs. | Rs. |
|---|---------------|-----------|
| Capital Gains: | | |
| Sale price of the residential house | 24,00,000 | |
| Valuation as per Stamp Valuation authority (Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C) | 43,00,000 | |
| Therefore, Consideration for the purpose of Capital Gains | 43,00,000 | |
| Less: Indexed Cost of Acquisition Rs.5,00,000 X 1125/244 | 23,05,328 | |
| | 19,94,672 | |
| Less: Exemption under section 54 | Rs. 10,00,000 | |
| Exemption under section 54EC | Rs. 5,00,000 | 15,00,000 |
| Long-term capital gains | | 4,94,672 |
| Income from other sources: | | |
| Interest on bank deposits | | 32,000 |
| Gross Total Income | | 5,26,672 |
| Less: Deduction under Chapter VI-A Section 80C – Deposit in PPF (restricted to Rs. 32,000) | | 32,000 |
| Total Income | | 4,94,672 |

Computation of Tax liability of Mr. Kumar for A.Y. 2017-18

| | |
|--|--------|
| Tax on Rs 2,44,672 @ 20% [i.e. long term capital gain less basic exemption limit (Rs.4,94,672- Rs 2,50,000)] | 48,934 |
| Less: Rebate u/s 87A | 5,000 |
| | 43,934 |
| Add: Education Cess @ 2% & SHEC @ 1% | 1318 |
| Tax Payable | 45,252 |
| Tax Payable (Rounded off) | 45,250 |

Notes:

1. The basic exemption limit of Rs. 2,50,000 can be adjusted against long term capital gains.
2. Deduction under section 80C should be restricted to gross total income excluding long term capital gain.

PROBLEM NO: 22**Computation of capital gains and business income of Ms. Gunjan for A.Y. 2017-18**

| Particulars | Amount(Rs.) |
|---|-------------|
| Capital Gains | |
| Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2) | 3,20,00,000 |
| Less: Indexed cost of acquisition [Rs. 50,00,000 × 852/406] | 1,04,92,611 |
| | 2,15,07,389 |
| Proportionate capital gains arising during the A.Y. 2017-18 (2,15,07,389 × 5/8) | 1,34,42,118 |
| Less: Exemption under section 54EC (restricted to Rs. 50 lakh) | 50,00,000 |
| Capital gains chargeable to tax for A.Y. 2017-18 | 84,42,118 |
| Business Income | |
| Sale price of flats [5 × Rs. 90 lakh] | 4,50,00,000 |
| Less: Cost of flats | |
| Fair market value of land on the date of conversion (3,20,00,000 × 5/8) | 2,00,00,000 |
| Cost of construction of flats [5 × Rs. 36 lakh] | 1,80,00,000 |
| | 70,00,000 |

Notes:

1. The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
2. However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.

3. The indexation benefit for computing indexed cost of acquisition would be available only up to the year of conversion of capital asset to stock-in-trade and not up to the year of sale of stock-in-trade.
4. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 5/8th of stock-in trade (5 flats out of 8 flats) is sold in the P.Y. 2016-17 only proportionate capital gains (i.e. 5/8th) would be chargeable to tax in the A.Y. 2017-18.

5. On sale of such stock-in-trade (i.e., flats, in this case), business income would arise. The business income chargeable to tax would be the price at which the flats are sold as reduced by the fair market value on the date of conversion of the capital asset (i.e., land) into stock-in-trade and the cost of construction of flats.
6. In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months, for the purpose of exemption under section 54EC, is to be reckoned from the date of sale of stock-in-trade [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC, subject to a maximum of Rs. 50 lakh.

PROBLEM NO: 23

- a) **False:** The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL, redeemable after 3 years) to Rs. 50 lakh during any financial year.

Therefore, in this case, the exemption under section 54EC can be availed only to the extent of Rs. 50 lakh, provided the investment is made within six months from the date of transfer.

- b) **True:** As per section 47(xa), any transfer by way of conversion of bonds referred to in section 115AC into shares and debentures of any company is not regarded as transfer. Therefore, there will be no capital gains on conversion of foreign currency exchangeable bonds into shares or debentures.
- c) The definition of capital asset under section 2(14) includes jewellery. Therefore, capital gains is attracted on sale of jewellery, since jewellery is excluded from personal effects. The cost to the previous owner or the fair market value as on 1.4.1981, whichever is more beneficial to the assessee, would be treated as the cost of acquisition. Accordingly, in this case, long term capital gain @ 20% will be attracted in the year in which the gold and jewellery is sold by Mrs. X.

PROBLEM NO: 24

Computation of Taxable Capital Gains for A.Y. 2017-18

| Particulars | Rs. |
|---|---------------|
| Gross Consideration | 11,50,000 |
| Less: Expenses on transfer | 7,000 |
| Net consideration | 11,43,000 |
| Less: Indexed cost of acquisition (Rs.1,82,000 x 1125/182) | 11,25,000 |
| | 18,000 |
| Less: Exemption under section 54F (Rs.18,000 x Rs.5,00,000/ Rs. 11,43,000) | 7874 |
| Taxable capital gains | 10,126 |

PROBLEM NO: 25

Computation of taxable capital gain of Mr. Amit for A.Y. 2017-18

| Particulars | Rs. | Rs. |
|---|-----------|---------------|
| Sale consideration received on sale of 9,500 shares @ Rs. 300 each | | 28,50,000 |
| Less: Indexed cost of acquisition | | |
| (a) 3,500 shares received as gift from father on 27.9.1980 Indexed cost Rs. 3500 x 40 x 1125/100 | 15,75,000 | |
| (b) 3,500 bonus shares received from Paras Ltd. Bonus shares are acquired on 27.8.1985. Hence, the cost is Nil. | Nil | |
| (c) 2500 shares purchased on 2.2.1994 @ Rs. 120 per share. The indexed cost is 2500 x 100 x 1125/244 | 11,52,664 | 27,27,664 |
| Long term capital gain | | 1,22,336 |
| Less : Exemption under section 54F (See Note below) | | |
| Rs. 1,22,336 x Rs. 20,00,000 / Rs. 28,50,000 | | 85,850 |
| Taxable long term capital gain | | 36,486 |

Note: Exemption under section 54F can be availed by the assessee subject to fulfillment of both the following conditions:

- The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;
- The assessee should purchase a residential house within a period of 1 year before or 2 years after the date of transfer or construct a residential house within a period of 3 years from the date of transfer of the long-term capital asset.

In this case, Mr. Amit has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

PROBLEM NO: 26

Computation of taxable capital gains of Mr. Udbhav Kumar for A.Y. 2017-18

| Particulars | Amount(Rs.) |
|---|------------------|
| Gross consideration | 80,00,000 |
| Less: Expenses on transfer (1% of the gross consideration) | 80,000 |
| Net consideration | 79,20,000 |
| Less: Indexed cost of acquisition (Rs. 20,00,000 × 1125/426) | 52,81,690 |
| | 26,38,310 |
| Less: Exemption under section 54GB (Rs. 65,00,000 × Rs. 26,38,310 / Rs. 79,20,000) | 21,65,280 |
| Taxable capital gains | 4,73,030 |

Deemed cost of new plant and machinery for exemption under section 54GB

| Particulars | Amount (Rs.) | Amount (Rs.) |
|--|--------------|------------------|
| Purchase cost of new plant and machinery acquired in August, 2015 | | 70,00,000 |
| Less: Cost of office appliances, i.e., computers | 6,00,000 | |
| Cost of vehicles, i.e., cars | 8,00,000 | |
| Cost of air-conditioners installed at the residence of Mr. Udbhav Kumar | 1,00,000 | 15,00,000 |
| | | 55,00,000 |
| Amount deposited in the specified bank before the due date of filing of return | | 10,00,000 |
| Deemed cost of new plant and machinery for exemption under sec. 54GB | | 65,00,000 |

Note: Mr. Udbhav Kumar can avail exemption under section 54GB on long-term capital gains on transfer of a residential house, since all the conditions given below are satisfied:

- The sale proceeds are used for subscription in the equity shares of an eligible company, being a newly incorporated SME company engaged in the business of manufacturing of any article or thing,
- He holds more than 50% of the share capital in the said SME.
- Further, the amount of subscription as share capital has been utilized by the eligible company for purchase of new plant and machinery within a period of one year from the date of subscription in the equity shares.

PROBLEM NO: 27

- False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- False:** In view of the provisions of section 56(2)(i), dividend income is taxable under the head "Income from other sources" in the case of all assesseees.
- False:** As per section 10(37), where an individual owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer, and the same is compulsorily acquired under any law and the compensation is determined or approved by the Central Government or the Reserve Bank of India, resultant capital gain will be exempt.

In this case, the compensation has been fixed by the State Government and hence the exemption will not be available.

- True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

- vi) **False:** Only 60% of the income derived from the sale of tea grown and manufactured by the seller in India is treated as agricultural income and the balance 40% of the income shall be non-agricultural income chargeable to tax [Rule 8 of Income-tax Rules, 1962].

PROBLEM NO: 28

| Particulars | Rs. | Rs. |
|---|------------|-----------------|
| Long-term capital gain | | |
| Full value of consideration [As per section 50C, in case the actual sale consideration (i.e., Rs.70 lakhs, in this case) is less than the stamp duty value (i.e., Rs.80 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration] | 80,00,000 | |
| Less: Expenses in connection with transfer (brokerage paid for sale of property) | (1,00,000) | |
| | 79,00,000 | |
| Less: Indexed cost of acquisition $[20,00,000 \times 1125 / 497]$ | 45,27,163 | 38,72,837 |
| Less: Exemption under section 54: | | |
| • Purchase of new residential house property within two years from the date of sale of residential house | 15,00,000 | |
| • Deposit in Capital Gains Accounts Scheme on or before the due date of filing of return of income u/s 139(1) for construction of additional floor on such house property. | 10,00,000 | |
| | 25,00,000 | |
| Exemption under section 54EC: | | |
| Investment in capital gains bond of NHAI within 6 months from the date of transfer (i.e., before 8.12.2016) | 5,00,000 | 30,00,000 |
| Taxable Capital Gains / Total Income | | 3,72,837 |
| Total Income (rounded off) | | 3,72,840 |

Computation of tax liability of Mr. Martin for A.Y. 2017-18

| Particulars | Rs. |
|---|--------|
| Tax on Rs. 1,22,840 @ 20% [i.e., long term capital gain less basic exemption limit (3,72,840 - 2,50,000)] | 24,568 |
| | 5,000 |
| Less: Rebate under section 87A | 19,568 |
| Add: Education cess@2% & SHEC@ 1% | 587 |
| Tax Payable | 20,155 |
| Tax Payable (rounded off) | 20,160 |

Notes:

- (1) Since Mr. Martin is a resident individual, the basic exemption limit of Rs. 2,50,000 has been adjusted against long term capital gains and the balance long-term capital gains is chargeable to tax @ 20% under section 112. Further, since his total income is less than Rs. 5 lakh, he is eligible for rebate under section 87A.
- (2) Exemption under section 54 is available in respect of reinvestment of capital gains on sale of residential house in one residential house in India. In this case, exemption would be available for amount invested in purchase of new residential house and amount deposited for construction of additional floor in the same house, since they together constitute one residential house.

PROBLEM NO: 29**Computation of long term capital gain of Mr. Dinesh for the A.Y. 2017-18**

| Particulars | Rs. | Rs. |
|--|-------------|------------------|
| Full value of consideration | | 65,00,000 |
| Less: Indexed cost of acquisition-land $(Rs.3,00,000 \times 1125/447)$ (Note 2 & 3) | (7,55,036) | |
| Indexed Cost of acquisition-building $(Rs.15,00,000 \times 1125/ 480)$ (Note 3) | (35,15,625) | |
| Indexed Cost of improvement-building $(Rs.5,00,000 \times 1125/551)$ | (10,20,871) | (52,91,532) |
| LTCG | | 12,08,468 |

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration will be Rs. 65 lakhs in this case.

2. Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., Rs. 3,00,000, in this case.
3. Indexation benefit is available since both land and building are long-term capital assets. However, as per the definition of indexed cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit for land will be available only from the previous year in which Mr. Dinesh first held the land i.e., P.Y. 2002-03.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High court held that indexation cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of land would be Rs. 18,54,396 and long term capital gain would be Rs. 1,09,108.

PROBLEM NO: 30

- i) Section 72A(6A), provides that where a private company is succeeded by a LLP fulfilling the conditions laid down in the proviso to section 47(xiiib), then, notwithstanding anything contained in any other provision of the Income-tax Act, 1961, the accumulated loss and unabsorbed depreciation of the predecessor company shall be deemed to be the loss or allowance for depreciation of the successor LLP for the purpose of the previous year in which the business re-organisation was effected and other provisions of the Act relating to set-off and carry forward of losses and depreciation allowance shall apply accordingly. Therefore, All Trade LLP can carry forward and set-off the business loss of Rs. 6 lakh of erstwhile X Co (P) Ltd. against its business income for the F.Y.2016-17. The unabsorbed business loss of Rs. 1 lakh, relating to A.Y. 2016-17, will be carried forward to the next year.
- ii) Section 47(xiiib) requires that the shareholders of the company become partners of the LLP in the same proportion as their shareholding in the company. Further, the aggregate of the profit sharing ratio of the shareholders of the company in the LLP should be not less than 50% at any time during the period of 5 years from the date of conversion. If the entity fails to fulfill this condition, the benefit of set-off of business loss availed by the LLP would be deemed to be the profits and gains of the LLP chargeable to tax in the previous year in which the LLP fails to fulfill the condition.

PROBLEM NO: 31

Section 56(2)(vii) would get attracted in case of transfer of immovable property for inadequate consideration, since the difference between the stamp duty value and sale consideration is more than Rs. 50,000 and therefore Rs. 1,75,000 (i.e. Rs. 6,00,000 - Rs. 4,25,000) will be taxed under the head "Income from other sources" in the hands of transferee, i.e., Ms. Dayama. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

| Particulars | Chhaya (Transferor) (Rs.) | Dayama (Transferor) (Rs.) |
|--|------------------------------|------------------------------|
| Capital gains | | |
| Deemed sale consideration under section 50C | 6,00,000 | |
| Less: Indexed cost of acquisition | (4,00,000) | |
| | 2,00,000 | |
| Income from other sources | | |
| Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(vii) | | 1.75.000 |
| Other income (computed) | 50,000 | 2,05,000 |
| Total Income | 2,50,000 | 3,80,000 |

PROBLEM NO: 32

Computation of Gross Total Income of Mr. Jaiprakash for A.Y. 2017-18

| Particulars | Rs. | Rs. |
|---|-------------|-------------|
| Sale consideration as per section 50C (Note 1) | | 95,25,000 |
| Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs.85,50,000 | | (85,500) |
| | | 94,39,500 |
| Less: Indexed cost of acquisition (Note 2) (Rs. 1,80,000 × 1125/497) | (4,07,445) | |
| Indexed cost of improvement (Rs. 10,50,000 × 1125/551) | (21,43,829) | (25,51,274) |
| | | 68,88,226 |
| Less: Deduction under section 54EC (Note 3) | | (50,00,000) |
| LTCG | | 18,88,226 |

| | | |
|--|--|------------------|
| Income from Other Sources: | | |
| Advance received and forfeited on or after 01.04.2014 (Note 4) | | 7,00,000 |
| Gross Total Income | | 25,88,226 |

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the Valuation Officer, and the value ascertained by the Valuation Officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

| | |
|---|---------------|
| Sale consideration | Rs. 85,50,000 |
| Valuation made by registration authority for stamp duty | Rs. 95,25,000 |
| Valuation made by the Valuation Officer on a reference | Rs. 98,00,000 |

Applying the provisions of section 50C in the present case, Rs. 95,25,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the full value of consideration for the purpose of computing capital gains.

2. Since the house was inherited by Mr. Jaiprakash under the will of his father and his father, the previous owner, had purchased the house before 01.04.81, Mr. Jaiprakash has the option to adopt cost incurred by the previous owner or fair market value as on 01.04.81 as cost of acquisition as per section 55(2)(b)(ii). In this case, it is more beneficial to him to adopt the FMV on 01.04.1981 as the cost of acquisition of the house property. However, indexation benefit will be given effect from the year in which Mr. Jaiprakash first held the asset i.e., P.Y.2005-06. As per section 51, the advance money forfeited and retained before 01.04.2014, as a result of failure of the negotiations, would be reduced from the cost of acquisition for determining the indexed cost of acquisition for the purpose of computing capital gains.

Computation of Indexed Cost of Acquisition

| Particulars | Rs. |
|---|-----------------|
| Cost of acquisition | 8,30,000 |
| Less: Advance taken in the previous year 2011-12 and forfeited | (6,50,000) |
| Cost for the purpose on indexation | 1,80,000 |

3. Exemption under section 54EC is available if the capital gains arising from transfer of long-term capital assets are invested in long-term specified assets, namely, bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. within 6 months from the date of transfer. As per second proviso to section 54EC(1), out of capital gains arising from transfer of one or more capital assets in a financial year, the investment eligible for exemption cannot exceed Rs. 50 lakhs, whether such investment is made in the same financial year or in the subsequent financial year or in both the years in this case, Mr. Jaiprakash has invested Rs. 30 lakhs in RECL bonds in the F.Y. 2015-17 and Rs. 35 lakhs in NHAI bonds in the F.Y. 2017-18, both within six months from the date of transfer. However, he would be eligible for exemption of only Rs. 50 lakhs under section 54EC for investment in such bonds.
4. Advance of Rs. 7,00,000 taken by Mr. Jaiprakash in June, 2016, which was forfeited due to the transaction not materializing, is taxable under section 56(2)(ix). Hence, such amount would not be reduced to compute the indexed cost of acquisition while computing capital gains on sale of the property in November, 2016.

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THE END

6. CAPITAL GAINS

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Computation of capital gain of Mr. C for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|-------------|-----------|
| Gross sale consideration | | 68,00,000 |
| Less: Expenses on transfer | | 50,000 |
| Net sale consideration | | 67,50,000 |
| Less: Indexed cost of acquisition (Note 1) | (23,12,000) | |
| Less: Indexed cost of improvement (Note 2) | (26,52,000) | 49,64,000 |
| Long-term capital loss | | 17,86,000 |

Notes:

1. Indexed cost of acquisition = Rs. 8,50,000 × 272/100 = Rs. 23,12,000
2. Fair market value on April 1, 2001 (actual cost of acquisition is ignored as it is lower than market value on April 1, 2001.)

| Indexed cost of improvement is determined as under: | Rs. |
|---|-----------|
| Construction of first floor in 1982-83 (expenses incurred prior to April 1, 2001 are not considered) | Nil |
| Construction of second floor in 2002-03 (i.e., Rs. 7,35,000 × 272/100) | 19,04,000 |
| Alteration/reconstruction in 2012-13 (i.e., Rs. 5,50,000 × 272/200) | 7,48,000 |
| Indexed cost of improvement | 26,52,000 |

PROBLEM NO. 2

Since the shares were not sold through the stock Exchange. The transaction is not eligible for Sec. 10(38)

Computation of long term capital gains of Mr. R for the A.Y 2018 - 19

| Particulars | Option 1 | Option 2 |
|-----------------------------------|-----------------------------|--------------|
| Consideration | 1,00,000 | 1,00,000 |
| (-) Indexed COA/COA | 27,200 (10,000×272/100) | 10,000 (FMV) |
| LTCG | 72,800 | 90,000 |
| Tax rate | @ 20% | @ 10% |
| Tax there on incl. education cess | 14,997 (or) Rs.15000 | 9,270 |

Decision: Option 2 is to be selected.

Since the assessee has satisfied all the conditions u/s 10(38), he is eligible for that exemption.

PROBLEM NO. 3

1. **Treatment of compensation for loss of stock:** As the insurance compensation (Rs.4,80,000) is less than the value of the stock lost (Rs.6,50,000), there is a business loss of Rs.1,70,000 (Rs.6,50,000 – Rs.4,80,000).
2. **Treatment of compensation for damage to Machinery:** Sec.45(1A) clearly states that the value of money received towards any such damage/destruction shall be treated as sale consideration.

| Particulars | Rs. |
|---------------------------------------|------------|
| Opening W.D.V of the Machinery | 10,80,000 |
| Less: Insurance Compensation received | (6,00,000) |
| STCL | 4,80,000 |

3. **Treatment of compensation for loss of Jewellery:** Any Jewellery, except those held as Stock-in-trade shall be treated as capital asset. By virtue of Sec.45(1A) any compensation received towards loss or damage to the capital asset shall be treated as sale consideration.

| Particulars | Rs. |
|---|-------------------|
| Compensation received | 1,80,000 |
| Less: Indexed cost of acquisition – 1,20,000 X 272/113 | <u>(2,88,850)</u> |
| Long Term Capital Loss | <u>(1,08,850)</u> |

PROBLEM NO. 4**Computation of capital gains of Mr. Y for the A.Y. 2017-18**

| Particulars | Amount | Amount |
|---|----------|-------------------|
| Compensation granted | | 3,00,000 |
| less: indexed cost of acquisition (ICOA) | | |
| Cost of acquisition as on 1980-81 | - 20,000 | |
| Fair market value as on 1-4-2001 | - 80,000 | |
| So, FMV will be taken as COA i.e. 80,000 | | |
| Indexation | | |
| = COA x $\frac{\text{In the year of transfer (i.e. in the year of Govt acquired)}}{\text{In the year of Asset first held by the assessee}}$ | | |
| = 80,000 X $\frac{240}{100}$ | | |
| = 1,92,000 | | |
| ICOA | | <u>(1,92,000)</u> |
| Long term capital gain | | 1,08,000 |

Computation of capital gains of Mr. Y for the A.Y. 2018-19

| Particulars | Amount | Amount |
|-------------------------|--------|----------------|
| Additional compensation | | 1,00,000 |
| Less: Expenses | | <u>(2,000)</u> |
| Capital gain | | 98,000 |

PROBLEM NO. 5**a) Computation of depreciation for A.Y. 2018-19**

| Particulars | Rs. |
|---|--------------------|
| W.D.V. of the block as on 1.4.2017 | 8,50,000 |
| Add: Purchase of new plant during the year | <u>8,50,000</u> |
| | 17,00,000 |
| Less: Sale consideration of old machinery during the year | <u>(11,00,000)</u> |
| W.D.V of the block as on 31.03.2018 | 6,00,000 |

Note: Since the value of the block as on 31.3.2018 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs.45,000, being 7½% of Rs. 6,00,000.

b) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of the block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value exceeds the sale consideration, the resultant figure would be a short term capital loss.

In the given case, **capital gains will not arise** as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- c) If the three machines are sold in June, 2017 for Rs. 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

| Particulars | Rs. | Rs. |
|---------------------------------------|-----------------|-----------------|
| Sale consideration | | 21,00,000 |
| Less: | | |
| W.D.V. of the machines as on 1.4.2017 | 8,50,000 | |
| Purchase of new plant during the year | <u>8,50,000</u> | (17,00,000) |
| Short term capital gains | | 4,00,000 |

PROBLEM NO. 6**Computation of capital gains on slump sale of Unit 1**

| Particulars | Rs. |
|------------------------------------|--------------------|
| Sale value | 25,00,000 |
| Less: Expenses on sale | <u>(28,000)</u> |
| Net sale consideration | 24,72,000 |
| Less: Net worth (See Note 1 below) | <u>(12,50,625)</u> |
| Long term capital gain | <u>12,21,375</u> |

Notes:**1. Computation of net worth of Unit 1 of Akash Enterprises**

| Particulars | Rs. | Rs. |
|--|-----------------|-------------------|
| Building (excluding Rs. 3 lakhs on account of revaluation) | | 9,00,000 |
| Machinery | | 3,00,000 |
| Debtors | | 1,00,000 |
| Patents (See Note 2 below) | | 28,125 |
| Other assets (Rs.1,50,000 – Rs.50,000) | | <u>1,00,000</u> |
| Total assets | | 14,28,125 |
| Less: Creditors | 37,500 | |
| Bank Loan | <u>1,40,000</u> | <u>(1,77,500)</u> |
| Net worth | | 12,50,625 |

2. Written down value of patents as on 1.4.2017

| Value of patents | Rs. |
|---|-----------------|
| Cost as on 1.7.2015 | 50,000 |
| Less: Depreciation @ 25% for Financial Year 2015-16 | <u>(12,500)</u> |
| WDV as on 1.4.2016 | 37,500 |
| Less: Depreciation for Financial Year 2016-17 | <u>(9,375)</u> |
| WDV as on 1.4.2017 | <u>28,125</u> |

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs.3 lakh and Rs.9 lakh (Rs.12 lakh - Rs.3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

PROBLEM NO.7**Computation of total income of M s. Mohini for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|-----------|-----|
| Long-term capital gain | | |
| Full value of consideration | 41,00,000 | |
| (As per section 50C read with section 155(15), in case the actual sale consideration is less than the stamp duty value fixed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration. | | |

| | | |
|---|-------------|------------------------|
| Where the assessee contests the stamp valuation, and the value is reduced by the Divisional Revenue Officer, such reduced value will be regarded as the full value of consideration accruing as a result of transfer. Hence, in this case, Rs.41,00,000, being the valuation by Divisional Revenue Officer on which stamp duty is paid, would be deemed as full value of consideration, since the same is lower than the valuation by the Sub-registrar) | | |
| Less: Indexed cost of acquisition [Rs. 26,50,000 x 272/184] | | |
| Other Income | (39,17,391) | 1,82,609 |
| Total Income | | <u>2,80,000</u> |
| Note: Cost of acquisition includes purchase price plus registration expenses i.e., Rs. 25,00,000 + Rs. 1,50,000 | | <u>4,62,609</u> |
| | | or |
| | | 4,62,610 |

Computation of total income of Ms. Ragini for A.Y. 2018-19

| Particulars | Rs. |
|---|-----------------|
| Income from other sources | |
| i) Immovable property received for inadequate consideration | |
| As per section 56(2)(x), where an individual receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the Divisional Revenue Officer, as in this case) by an amount exceeding Rs. 50,000, then, the difference between such value and actual consideration of such property would be chargeable to tax as income from other sources. Therefore, Rs. 6,00,000 (i.e., Rs. 41,00,000 – Rs. 35,00,000) would be chargeable to tax as income from other sources. | 6,00,000 |
| ii) Other Income | |
| Total Income | <u>3,45,000</u> |
| | 9,45,000 |

PROBLEM NO. 8

Computation of capital gain in the hands of Mr. A for the A.Y.-2018-19

| Particulars | Rs. |
|--|-------------------|
| Sale proceeds | 12,00,000 |
| Less: Indexed cost of acquisition [Note 1] | (3,34,426) |
| Indexed cost of improvement [Note 2] | <u>(3,59,680)</u> |
| Long term capital gain | (5,05,893) |

Note 1:

Indexed cost of acquisition is determined as under:

| | |
|--|-----------------|
| Cost of acquisition: actual cost (or) FMV as on 1-4-2001 ↑ 1,05,000 (or) 1,50,000 | 1,50,000 |
| Note: amount forfeited by the previous owner and the assessee should be ignored | |
| Indexed cost of acquisition (Rs.1,50,000 × 272/122) | 3,34,426 |

Note 2:

Indexed cost of Improvement is determined as under:

| | |
|--|--------------------|
| Expenditure incurred before 1st April, 2001 should not be considered | Nil |
| Expenditure incurred on or after 1st April, 2001 | |
| During 2003-04 Indexed cost of Improvement [Rs.50,000 × 272/109] | 1,24,771 |
| During 2013-14 Indexed cost of Improvement [Rs.1,90,000 × 272/220] | <u>2,34,901</u> |
| Total indexed cost of improvement | Rs.3,59,680 |

Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO. 9

Computation of capital gains in the hands of Mr. R for the A.Y. 2018-19

| | |
|-----------------------|-----------------|
| Consideration | 17,50,000 |
| (-) Transfer Expenses | <u>(12,000)</u> |

| | |
|--|------------|
| Net consideration | 17,38,000 |
| (-) Indexed cost of acquisition (1,50,000 x 272/100) | (4,08,000) |
| Gross LTCG | 13,30,000 |
| Case A: | |
| Gross LTCG | 13,30,000 |
| (-) Exemption U/s 54 | (3,00,000) |
| [Amt. of Invst. (or) C.G.] | |
| Net LTCG | 10,30,000 |
| Case B: | |
| Gross LTCG | 13,30,000 |
| (-) Exemption U/s 54 (Note – 1) | (3,00,000) |
| (Amt. of Invst. 3,00,000 (Land + Deposit) or C.G.) | |
| Net LTCG | 10,30,000 |
| Case C: | |
| Gross LTCG | 13,30,000 |
| (-) Exemption U/s 54 | (3,15,000) |
| (Amt. of Invst. 3,15,000 (or) C.G.) | |
| Net LTCG | 10,15,000 |
| Case D: | |
| Gross LTCG | 13,30,000 |
| (-) Exemption U/s 54 (Note – 2) | (4,00,000) |
| (Amt. of Invst. 4,00,000 (or) C.G.) | |
| Net LTCG | 9,30,000 |

Note-1: Case B:**Eligible investment**

Cost of land acquired before 1 year = 2,00,000

Amount of deposit = 1,00,000

Total = 3,00,000

Deposit made after the due date for filing the income is not eligible.

Note-2: Case D:

The deposit made on 1st August will not eligible for qualify for exemption since it was made after the cut-off date. Unused amount = 4L-2.5L = 1.5L

PROBLEM NO. 10**i) Computation of Capital Gains in the hands of Mr.G for the A.Y-2018-19**

| | Value of patents | Rs. |
|--|------------------|-----------------|
| Consideration | | 10,00,000 |
| (-) Indexed Cost of Acquisition (1,20,000x272/105) | | (3,10,857) |
| (-) Indexed cost of Improvement (70,000x272/113) | | (1,68,496) |
| Gross LTCG | | 5,20,647 |
| (-) Exemption U/s 54 | | |
| (Investment 3,00,000 (or) CG) | | (3,00,000) |
| Taxable Gains | | <u>2,20,647</u> |

Note-1: Cut-off date for investment = 27.06.18 purchase)

Actual investment made = 21.10.17.

Since the investment was made before the due date for filing the return of income i.e. 31.7.18, no need of making deposit in capital Gains deposit scheme.

ii) SALE OF NEWLY ACQUIRED ASSET**Computation of Capital Gains in the hands of Mr.G for the A.Y-2019-20**

| | |
|---------------|----------|
| Consideration | 6,00,000 |
| STCG | 6,00,000 |

Note-2: Within the period of 3 years from the date of acquisition of the new Asset (up to 20.10.2020), it should not be sold. However it was given that such an asset was sold within the locking Period.

∴ The capital Gains will be taxable on the sale of such Asset & the previously exempted capital Gains will also be indirectly taxed.

Note-3: No further exemption will be allowed on acquisition of a new house property as the asset sold was a STCA. What is required to be sold is LTCA.

PROBLEM NO. 11

i) Computation of Capital Gains in the hands of Mr. M for the A.Y-2018-19

| | |
|---|-------------------------|
| Consideration | 10,00,000 |
| (-) Indexed cost of Acquisition $(1,00,000 \times 272/272)$ | <u>(1,00,000)</u> |
| Gross LTCG | 9,00,000 |
| (-) Exemption U/s 54F $[9,00,000 \times 70\% (7L/10L)]$ | <u>(6,30,000)</u> |
| Net taxable LTCG's | 2,70,000 |
| Eligible Investments | Cut off dates |
| 1. Amount incurred for construction = 2,00,000 | Purchase : 15.07.19 |
| 2. Amount deposited = <u>5,00,000</u> | Construction : 15.07.20 |
| Total = 7,00,000 | Deposit : 31.07.18 |

ii) Computation of Capital Gains in the hands of Mr.M for the A.Y-2021-22

| Particulars | Amt. |
|---|-------------------|
| Exemption previously given $[9,00,000 \times 70\% (7L/10L)]$ | 6,30,000 |
| (-) Exemption to be granted $[9,00,000 \times 60\% (6L/10L)]$ | <u>(5,40,000)</u> |
| Taxable LTCG | 90,000 |

PROBLEM NO. 12

Computation of Capital Gains in the hands of Nehru for the A.Y-2018-19

1. Sale of residential house

| | |
|---|-------------------|
| Consideration | 7,50,000 |
| (-) Indexed cost of acquisition $(4,00,000 \times 272/148)$ | <u>(7,35,135)</u> |
| Gross LTCG | 14,865 |
| (-) Exemption U/s 54 [10 L (or) C.G's] | <u>(14,865)</u> |
| Taxable capital gains | 0 |

2. Sale of house plot

| | |
|---|-------------------|
| Consideration | 5,00,000 |
| (-) Indexed cost of acquisition $(2,00,000 \times 272/148)$ | <u>(3,67,568)</u> |
| Gross LTCG | 1,32,432 |
| (-) Exemption U/s 54F | <u>(1,32,432)</u> |
| (Invest required – 5 lakhs, Actual – 9,85,135) | |
| Taxable capital gains | 0 |

Note: Amount required to be invested = 5,00,000.

Actually invested = $10,00,000 - 14,865 = 9,85,135$

PROBLEM NO. 13

Computation of capital gains in the hands of Mr. 'X' for A.Y. 2018-19

| | Particulars | Rs. | Rs. |
|----|---|----------|-----------|
| | Sale consideration received on sale of 10,000 shares @ Rs.500 each | | 50,00,000 |
| | Less: Indexed cost of acquisition | | |
| a) | 5,000 shares received as gift from father on 1.6.2000 | | |
| | Indexed cost Rs.5000 x 50 x 272/100 | 6,80,000 | |
| b) | 2,000 bonus shares received from AB Ltd | Nil | |
| | Bonus shares are acquired on 21.7.2008 (i.e., after the year 2001 when the original shares were purchased). Hence, the cost is Nil. | | |

| | | | |
|----|--|----------|------------------|
| c) | 3000 shares purchased on 1.2.2011 @ Rs.125 per share. The indexed cost is $3000 \times 125 \times 272/167$ | 6,10,778 | (12,90,778) |
| | Long term capital gain | | 37,09,222 |
| | Less : Exemption under section 54F | | |
| | Rs. 37,09,222 x Rs.25,00,000 / Rs.50,00,000 | | (18,54,611) |
| | Taxable long term capital gain | | 18,54,611 |

Note: Answer printed in our material varies from the printed solution. Answer given at the printed solutions prevails over the answer given at the material.

PROBLEM NO. 14

Computation of taxable capital gain of Mr. Malik for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-------------|-----------------|
| Factory building | | |
| Sale price of building | 8,00,000 | |
| Less: WDV as on 1.4.2017 | (8,74,800) | |
| Short-term capital loss on sale of building | | (-) 74,800 |
| Land appurtenant to the above building | | |
| Sale value of land | 40,00,000 | |
| Less: Indexed cost of acquisition (Rs. 11,50,000 x 272/105) | (29,79,047) | |
| Long-term capital gains on sale of land | | 10,20,953 |
| Chargeable long term capital gain | | 9,46,153 |

Investment under section 54EC: In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset are invested in long-term specified assets like bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is Rs. 9,46,153 (rounded off to Rs. 9,46,150) in this case.

Notes:

- Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. Rs. 12,00,000 – Rs. 2,50,000 = Rs. 11,50,000. It may be noted that in cases where the advance money is forfeited during the previous year 2015-16 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains.
- Factory building on which depreciation has been claimed is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
- Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.
- As per section 74, short term capital loss can be set-off against any income under the head "Capital gains", long-term or short-term. Therefore, in this case, short term capital loss of Rs. 74,800 can be set-off against long-term capital gain of Rs. 10,20,953.

PROBLEM NO. 15

In the hands of Mr. Raj kumar (Seller):

Computation of capital gains in the hands of Mr. Raj kumar for A.Y. 2018-19

| Particulars | Rs. |
|--|------------------|
| On sale of land | |
| Consideration received or accruing as a result of transfer of land | 22,00,000 |
| Less: Indexed cost of acquisition Rs. 5,19,000 x 272 / 167 | (8,45,317) |
| Long-term capital gain (A) | 13,54,682 |
| On sale of building | |
| Consideration received or accruing from transfer of building | 10,00,000 |

| | |
|------------------------------------|-----------------|
| Less: Cost of acquisition | (14,00,000) |
| Short term capital loss (B) | 4,00,000 |

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be **Rs.9,54,682 (i.e., Rs.13,54,682 - Rs.4,00,000)**.

Note: In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

In the hands of Mr. Dhuruv (Buyer):

As per section 56(2)(x), where an individual receives from a non – relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the appellate authority, as in this case) by an amount exceeding Rs. 50,000, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, Rs. 7,00,000 (i.e. Rs. 32,00,000 – Rs. 25,00,000) would be charged to tax as income from other sources under section 56(2)(x).

PROBLEM NO.16

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

| Particulars | Amount | Amount |
|--|-------------|------------------|
| Capital Gains on sale of residential house property | | |
| Value declared by Mr. C | 75,00,000 | |
| Value adopted by Stamp Valuation Authority | 98,00,000 | |
| Valuation as per Valuation Officer. | 1,05,00,000 | |
| Gross Sale consideration (See Note 1) | | 98,00,000 |
| Less: Brokerage@1% of sale consideration | | (75,000) |
| Net Sale consideration | | 97,25,000 |
| Less: Indexed cost of acquisition (Rs. 35,00,000 × 272/122) | 78,03,279 | |
| Indexed cost of improvement (Rs. 5,00,000 × 272/129) | 10,54,264 | (88,57,543) |
| Long-term capital gains (Total Income) | | 8,67,457 |
| Tax on total income (See Note 2) | | |
| Long-term capital gain taxable@20% (Rs. 8,67,457 – Rs. 2,50,000) | | 1,23,491 |
| Add: Education cess @ 2% | | 2,470 |
| Secondary and higher education cess @ 1% | | 1,235 |
| Total tax liability | | 1,27,196 |
| Tax liability (rounded off) | | 1,27,200 |

Notes:

- As per section 50C, in case the value of sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In case the valuation is referred to the Valuation Officer and the value determined is more than the value adopted by the Stamp Valuation Authority, the value determined by the Valuation Officer shall be ignored. Therefore, in the present case, the sale consideration would be the stamp valuation of Rs.98,00,000, since the same is more than the sale value declared by Mr. C and less than the value determined by the Valuation Officer.
- As per section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of Rs. 2,50,000 is exhausted against the long-term capital gains of Rs. 8,67,457, Mr. C is a resident individual below the age of 60 years.
- In the problem the construction has been taken as June 2006 but the same has to be rectified by the students as June 2007. The answer worked out in this printed solutions prevails over the answer given in the material.

PROBLEM NO.17

Computation of Capital Gains in the hands of Mr. Roy for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-----|------------|
| Gross Sale Consideration on transfer of residential house (W.N : 1) | | 72,00,000 |
| Less: Brokerage @ 2% of actual sale consideration of Rs. 65,00,000 | | (1,30,000) |
| Net Sale Consideration | | 70,70,000 |

| | | |
|--|-----------|--|
| Less: Indexed cost of acquisition [Rs. 24,00,000 x 272/129] | | (50,60,465) |
| Long-term capital gain | | 20,09,535 |
| Less: Exemption under section 54 (W.N:- 2) | 11,00,000 | |
| Exemption under section 54EC (W.N:- 3) | 3,00,000 | 14,00,000 |
| Long-term capital gain (rounded off) | | 6,09,535 (or) 6,09,540 |

Computation of tax liability of Mr. Roy for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|------------|---------------|
| L.T.C.G | 6,09,540 | |
| Less: Basic Exemption Limit | (2,50,000) | |
| | 3,59,540 | |
| Tax @ 20% on 3,59,540 | | 71,908 |
| Add: Education Cess @ 2% and SHEC @ 1% | | 2,157 |
| Tax liability | | 74,065 |
| Rounded off | | 74,070 |

W.N:- 1

As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration.

W.N:- 2**Eligible Amount u/s 54:**

| | |
|---|-----------|
| Acquisition of residential house property at Kolkata on 10.12.2017 (i.e., within the prescribed time of two years from 4.11.2017, being the date of transfer of residential house at Ghaziabad). | 7,00,000 |
| Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kolkata. Since Mr. Roy has no other source of income, his due date for filing return of income is 31st July, 2018. [Therefore, Rs. 4,00,000 deposited on 6.7.2018 will be eligible for exemption whereas Rs. 9,00,000 deposited on 1.11.2018 will not be eligible for exemption under section 54] | 4,00,000 |
| | 11,00,000 |

Amount of Exemption u/s 54:

L.T.C.G
 or
 Eligible Amount

} Whichever is lower

i.e., 20,09,535 (OR) 11,00,000, Whichever is lower = 11,00,000

W.N:- 3

Exemption under section 54EC: Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 3.5.2018) would qualify for exemption.

[Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 10.4.2018 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 15.6.2018 would not qualify for exemption].

SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO.1****Self study**

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PROBLEM NO.2

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given is discussed as follows:

- i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

PROBLEM NO.3**Computation of Capital Gains of Mr. B for the A.Y.2018-19**

| Particulars | Rs. |
|---|-----------------|
| Sale consideration | 15,00,000 |
| Less: Expenses on transfer i.e. Brokerage paid | 50,000 |
| Net consideration | 14,50,000 |
| Less: Indexed cost of acquisition (Rs.5,00,000 x 272/105) | 12,95,238 |
| Long term capital Loss | 1,54,762 |

Note:

1. For the purpose of computing capital gains, the holding period is considered from the date of purchase of convertible debentures i.e., August 2002 – August 2007.
2. Conversion of debentures in to shares does not amounts to transfer. Hence, no capital gains would arise.

PROBLEM NO.4

Section 10(37) exempts the capital gains arising to an individual or a Hindu Undivided Family from transfer of agricultural land by way of compulsory acquisition, or a transfer, the consideration for which is determined or approved by the RBI or the Central Government.

Such exemption is available where the compensation or the enhanced compensation or consideration, as the case may be, is received on or after 1st April, 2004 and the land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such Hindu undivided family.

Since all the above conditions are fulfilled in this case, Cheeku is entitled to exemption under section 10(37) of the entire capital gains arising on sale of agricultural land.

PROBLEM NO.5**Computation of total income and tax liability of Mr. Mithun for A.Y. 2018-19**

| Particulars | Rs. |
|---|-----------------|
| Short term capital gains on sale of bonus shares | |
| Gross sale consideration (100 x Rs.4,000) | 4,00,000 |
| Less: Brokerage @ 1% | 4,000 |
| Net sale consideration | 3,96,000 |
| Less: Cost of acquisition of bonus shares | NIL |
| Total income (Short term Capital Gains) | 3,96,000 |

| | |
|--|---------------|
| Tax Liability | |
| 15% of (Rs.3,96,000-Rs.3,00,000) | 14,400 |
| Add: Education cess @ 2% | 288 |
| Secondary and higher education cess @ 1% | 144 |
| Tax payable | 14,832 |
| Tax payable (Rounded off) | 14,830 |

Notes:

1. Long-term capital gains on sale of original shares through a recognized stock exchange (STT paid) is exempt under section 10(38).
2. Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short term capital gain chargeable to tax @ 15% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of Rs. 3,00,000 for A.Y. 2018-19.
3. Dividend income is exempt under section 10(34).
4. Brokerage paid is allowable as deduction since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
5. Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
6. Securities transaction tax is not allowable as deduction.

PROBLEM NO.6**Computation of business loss**

| Particulars | Amount (Rs) |
|---|-----------------|
| Insurance compensation | 5,15,000 |
| Less: value of goods | 7,30,000 |
| PGBP loss (Since goods are not capital assets) | 2,15,000 |

Computation of capital loss for loss of machinery

| Particulars | Amount (Rs) |
|--|-----------------|
| Full value of consideration | 8,07,000 |
| Less: WDV of the machinery (Sec.50) | 12,35,000 |
| Short term capital loss (always short term in the case of depreciable assets) | 4,28,000 |

Computation capital loss for loss for Jewellery

| Particulars | Amount (Rs.) |
|--|-----------------|
| Full value of consideration as per Sec.45(1A) | 2,05,000 |
| Less: indexed cost of acquisition (1,45,000X272/113) | 3,49,027 |
| Long term capital loss | 1,44,027 |

PROBLEM NO.7

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence A is not liable to capital gains tax.

PROBLEM NO.8

Since the capital asset is converted into stock-in-trade during the previous year relevant to the A.Y. 2017-18, it will be a transfer under section 2(47) during the P.Y. 2016-17. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2018-19, since the stock-in-trade has been sold only on June 10, 2017. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2017) will be the full value of consideration.

Note: students are advised to rectify the answer in the material, Year of chargeability is PY 2016-17 as PY 2017-18

PROBLEM NO.9**a) Computation of depreciation for the A.Y. 2018 - 19**

| Particulars | Rs. |
|-------------------------------------|-----------------|
| Opening WDV as on 01.04.2017 | 6,50,000 |
| Add: additions as on 30.11.2017 | 6,50,000 |
| Less: sale of asset on 10.06.2017 | 9,00,000 |
| Depreciable value | 4,00,000 |
| Less: depreciation (See note) | 30,000 |
| Closing WDV as on 31.03.2018 | 3,40,000 |

Note: Since the value of the block as on 31.3.2018 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs.30,000, being 7½% of Rs. 4,00,000.

b) Computation of capital gain for the A.Y. 2018 - 19

| Particulars | Rs. |
|--------------------------------|-----------------|
| Sale proceeds | 14,00,000 |
| Less: opening WDV + additions | 13,00,000 |
| Short term capital gain | 1,00,000 |

Note: There is no depreciable value if the capital asset is sold for Rs.14,00,000. Then sec.50 is applicable.

PROBLEM NO.10

- a) Assessing officer is not correct. Since the value determined by the valuation officer is more than the Stamp Duty Value (SDV), then the SDV is treated as the full value of consideration under Sec.50C.
- b) **Computation of capital gain of Mr.X for the A.Y. 2018-19.**

| Particulars | Rs. |
|--|------------------|
| Full value of consideration (Sec.50C) | |
| Sale proceeds or stamp duty value whichever is higher | 12,50,000 |
| less: Expenses in connection with transfer | Nil |
| Net consideration | 12,50,000 |
| Less: Indexed cost of acquisition (2,25,000 x 272/137) | (4,46,715) |
| Long term capital gain | 8,03,285 |

PROBLEM NO.11**Computation of capital gains of M/s. Bala kumari for the A.Y. 2018-19**

| Particulars | Rs. |
|---|-----------------|
| Deemed sale consideration as per section 50C | 13,00,000 |
| Less: Indexed cost of acquisition (Rs 1,50,000 x 272/117) | 3,48,718 |
| Taxable long term capital gain | 9,51,282 |

Note: According to section 50C(1), where the consideration received or accruing as a result of the transfer of land or building or both is less than the value adopted or assessed or assessable by the State Stamp Valuation Authority for the purpose of payment of stamp duty in respect of such transfer, then the value so adopted or assessed or assessable by the State Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of the transfer unless assessee contended that FMV is less than SDV.

In this case, since the consideration of Rs.7,00,000 received on transfer of land is less than the value of Rs 13,00,000 fixed by the State Stamp Valuation Authority, the value adopted by the State Stamp Valuation Authority is deemed to be the full value of consideration and capital gains is calculated accordingly.

PROBLEM NO.12**Computation of Capital gains in the hands of Mr. X for the A.Y. 2018-19**

| Particulars | Rs. |
|--|------------------|
| Sale proceeds | 52,00,000 |
| Less: Indexed cost of acquisition [Note 1] | 31,28,000 |
| Indexed cost of improvement [Note 2] | - |
| Long term capital gain | 20,72,000 |

Note 1: Computation of indexed cost of acquisition

| | |
|---|------------------|
| Cost of acquisition | 11,90,000 |
| (As per Sec.55, Higher of fair market value as on April 1, 2001 and the actual C.O.A) | |
| Less: Advance taken and forfeited before 01.04.2012 (Sec.51) | <u>40,000</u> |
| Cost for the purposes of indexation | <u>11,50,000</u> |
| Indexed cost of acquisition (Rs.11,50,000 x 272/100) | 31,28,000 |

Note 2: Any improvement cost incurred prior to 1.4.2001 is to be ignored when fair market value as on 1.4.2001 is taken into consideration.**PROBLEM NO.13****Computation of net taxable capital gains of Smt. Megha for the A.Y. 2018-19**

| Particulars | Rs. |
|--|------------------------|
| Sale consideration | 16,00,000 |
| Less: Indexed cost of acquisition (See Working note below) | <u>8,01,240</u> |
| Long term capital gain | 7,98,760 |
| Less: Exemption under section 54 (See Note 1 below) | <u>3,00,000</u> |
| Taxable long term capital gain | <u>4,98,760</u> |

WORKING NOTE:

| Indexed cost of acquisition | Rs. |
|--|-----------------|
| Purchase price | 4,50,000 |
| Less: Amount forfeited (See Note 2 below) | <u>70,000</u> |
| Cost of acquisition | <u>3,80,000</u> |
| Indexed cost of acquisition Rs. 3,80,000 X 272/129 | 8,01,240 |

Notes:

- Exemption under section 54 is available if one new residential house is purchased within two years from the date of transfer of existing residential house, which is a long-term capital asset. Since the cost of new residential house is less than the long-term capital gains, capital gains to the extent of cost of new house, i.e., Rs. 3 lakh, is exempt under section 54.
- As per section 51, any advance received and retained by the assessee on or before 01.04.2014, as a result of earlier negotiations for sale of the asset, shall be deducted from the purchase price for computing the cost of acquisition of the asset.

PROBLEM NO.14

The house is sold before 24 months from the date of purchase. Hence, the house is a short term capital asset and no benefit of indexation would be available.

| Particulars | Rs |
|--------------------|-----------|
| Sale consideration | 20,00,000 |

| | |
|--------------------------------|-----------------|
| Less: Cost of acquisition | 10,00,000 |
| Cost of improvement | 2,00,000 |
| Short term capital gain | 8,00,000 |

Note:

1. The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs 8,00,000.
2. Students are advised to rectify the dates mentioned in the question, i.e. July 20, 2013 and August 2013 as July 20, 2015 and August 2015.

PROBLEM NO.15**Computation of total income of Mr. Sagar for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Capital Gains | | |
| Sale consideration | | 15,00,000 |
| Less: Indexed cost of land (Rs. 75,000 X 272/148) | 1,37,838 | |
| Indexed cost of building (Rs 1,25,000 X 272/184) | 1,84,783 | 3,22,621 |
| | | 11,77,379 |
| Less: Exemption under section 54 (See Note 2 below) | | 8,00,000 |
| Long-term capital gain | | 3,77,379 |
| Profit and gains from business or profession / Income from other sources | | |
| Insurance agency commission earned (Gross) (Rs 45,000 + Rs 5,000) | | 50,000 |
| Gross Total Income | | 4,22,379 |
| Less: Deduction under Chapter VI-A | | |
| Section 80C – Investment in NSC VIII | | 20,000 |
| Total Income | | 4,02,379 |

Notes:

1. Since the building and the land are held for more than 24 months, the same are long-term capital assets and the capital gain arising on sale of such assets is a long-term capital gain.
2. As per the provisions of section 54, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of a residential house property one year before or two years after the date of transfer of original asset or constructed a residential house property within three years after such date. Since Mr. Parri has purchased another residential house in June, 2016 for Rs.8,00,000, the capital gain arising on transfer of residential house property in May, 2016 is exempt under section 54 to that extent.

Note: Students are advised to rectify the answer in the main material according to this solution.

PROBLEM NO.16**Computation of Long term Capital Gain for A.Y. 2018-19.**

| Particulars | Rs. | Rs. |
|---|-----------|------------------|
| Sale consideration as per section 50C (Note-1) | | 47,25,000 |
| Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs.37.50 lacs | | 37,500 |
| | | 46,87,500 |
| Less: Indexed cost of acquisition (Note-2) (Rs. 2,70,000 X 272/109) | 6,73,761 | |
| Indexed cost of improvement (Rs.7,00,000 X 272/117) | 16,27,350 | 23,01,111 |
| Long term capital gain | | 23,86,389 |

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration Rs.37,50,000

Valuation made by registration authority for stamp duty Rs.47,25,000

Valuation made by the valuation officer on a reference Rs.47,50,000

Applying the provisions of section 50C to the present case, Rs.47,25,000,

Applying the provisions of section 50C to the present case, Rs.47,25,000, being the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

2. The house was inherited by Mr. Thomas under the will of his father and therefore, the cost incurred by the previous owner shall be taken as the cost. Fair market value as on 01.04.2001, accordingly, shall be adopted as the cost of acquisition of the house property. However, indexation benefit will be given from the year in which Mr. Thomas first held the asset i.e. P.Y.2003-04.

PROBLEM NO.17**Computation of capital gains in the hands of PQR Ltd. for the A.Y.2018-19**

| Particulars | Rs. |
|--|--------------|
| Sale proceeds (Compensation received) (Sec.45(5)) | 12,00,000 |
| Less: Indexed cost of acquisition [Rs. 4,00,000 × 272/100] | 9,98,165 |
| | 2,01,835 |
| Less: Exemption under section 54D (Cost of acquisition of new undertaking) | 2,00,000 |
| Taxable long term capital gain | 1,835 |

PROBLEM NO.18**Computation of Capital Gains of Ms. Anshu for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|----------|------------------|
| Full value of consideration [See Notes (i) & (ii) below] | | 25,00,000 |
| Less: Indexed Cost of acquisition [See Note (iii) below] | | |
| Indexed Cost of land (Rs 1,10,000 x 272/100) | 2,99,200 | |
| Indexed Cost of building (Rs 3,20,000 x 272/105) | 8,28,952 | 11,28,152 |
| Long-term capital gain | | 13,71,848 |
| Less: Brought forward short-term capital loss set off [See Note (iv) below] | | 1,50,000 |
| Taxable capital gains (Amount to be invested in NHAI bonds to get full exemption for tax on capital gains) [See Note (v) below] | | 12,21,848 |

Notes:

- i) As per section 50C(1), where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration would be Rs 25 lacs in this case.

- ii) As per section 50C(3), where the valuation is referred by the Assessing Officer to Valuation Officer and the value ascertained by such Valuation Officer exceeds the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, the value adopted by the Stamp Valuation Authority shall be taken as the full value of the consideration received or accruing as a result of the transfer. Since the value ascertained by the Valuation Officer (i.e. Rs 27 lakhs), is higher than the value adopted by the Stamp Valuation Authority (i.e. Rs. 25 lakhs), the full value of consideration in this case would be Rs. 25 lakhs.
- iii) Since the cost of land acquired by Anshu on 1.4.2001 is not given in the question, the fair market value as on 1.4.2001 is taken as the cost of acquisition. Indexation benefit is available since land and building are both long-term capital assets, as they are held by Anshu for more than 24 months.
- iv) As per section 74, brought forward unabsorbed short term capital loss can be set off against any capital gains, short term or long term, for 8 assessment years immediately succeeding the assessment year for which the loss was first computed. Therefore, short term capital loss on sale of shares during the F.Y.2011-12 can be set-off against the current year long-term capital gains on sale of land and building.
- v) As per section 54EC, an assessee can avail exemption in respect of long-term capital gains, if such capital gains are invested in the bonds issued by the NHAI redeemable after 3 years. Such investment is required to be made within a period of 6 months from the date of transfer of the asset. The exemption shall be the amount of capital gains or the amount of such investment made, whichever is less. Therefore, in this case, if Anshu invests the entire capital gains in bonds of NHAI, she can get full exemption from tax on capital gains.

PROBLEM NO.19

a) Computation of Capital Gains Chargeable to tax for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-----------|------------------|
| Sale consideration (i.e. Stamp Duty Value) (Note 1) | | 80,00,000 |
| Less: Indexed Cost of Acquisition | | |
| Rs. 10,00,000 X 272/100 | 27,20,000 | |
| Indexed Cost of Improvement | | |
| Rs.2,00,000 X 272/113 | 4,81,416 | 32,01,416 |
| | | 47,98,584 |
| Less: Exemption under section 54 (Note 2) | | 25,00,000 |
| Taxable Capital Gains | | 22,98,584 |

Notes:

- As per the provisions of section 50C, in case the stamp duty value adopted by the stamp valuation authority is higher than the actual sale consideration, the stamp duty value shall be deemed as the full value of consideration.
- Exemption under section 54 is available if a new residential house is purchased within one year before or two years after the date of transfer. Since the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt under section 54.
- Exemption under section 54EC is available in respect of investment in bonds of National Highways Authority of India only if the investment is made within a period of six months after the date of such transfer. In this case, since the investment is made after six months, exemption under section 54EC would not be available.
 - If the new asset purchased by the assessee on the basis of which exemption under section 54 is claimed, is transferred within 3 years from the date of its acquisition, then for computing the taxable short-term capital gain on such transfer, the cost of acquisition of such asset shall be taken as Nil.

b) Computation of capital gains Chargeable to tax for A.Y. 2019-20

| Particulars (A.Y.2019-20) | Rs. |
|---------------------------|------------------|
| Sale consideration | 40,00,000 |
| Less: Cost of acquisition | Nil |
| Short-term capital gains | <u>40,00,000</u> |

Note: students are advised to add the hint answer (given in this solution) in the main material for part (b).

PROBLEM NO.20

Computation of taxable capital gain of Ms. Vimla for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|---------------|------------------------|
| Sale price of residential building | 15,00,000 | |
| Less: Brokerage @ 2% | <u>30,000</u> | |
| Net consideration | | 14,70,000 |
| Less: Indexed cost of acquisition Rs.1,50,000 X 272/129 | | <u>3,16,279</u> |
| | | <u>11,53,721</u> |
| Less: Deduction under section 54 for purchase of new residential house in December, 2015 | | <u>7,00,000</u> |
| Taxable long term capital gain | | <u>4,53,721</u> |

Note: One of the conditions for claiming exemption under section 54EC for the investment in RECL/NHAI Capital Gains bonds is that the deposit should be made within 6 months from the date of transfer. In this case, the transfer took place on 1.7.2017 and the 6 months period within which the deposit should be made for the purpose of section 54EC would expire by 31.12.2017. The investment in REC/NHAI Capital Gains bonds was made only in March 2018. Therefore, the assessee is not eligible for exemption under section 54EC.

PROBLEM NO.21

Computation of total income of Mr. Kumar for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|----------------------------|-------------------------|
| Capital Gains: | | |
| Sale price of the residential house | 24,00,000 | |
| Valuation as per Stamp Valuation authority (Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C) | 43,00,000 | |
| Therefore, Consideration for the purpose of Capital Gains | 43,00,000 | |
| Less: Indexed Cost of Acquisition Rs.5,00,000 X 272/109 | <u>12,47,706</u> | |
| | 30,52,294 | |
| Less: Exemption under section 54 | Rs. 10,00,000 | |
| Exemption under section 54EC | Rs. <u>5,00,000</u> | <u>15,00,000</u> |
| Long-term capital gains | | 15,52,294 |
| Income from other sources: | | |
| Interest on bank deposits | | <u>32,000</u> |
| Gross Total Income | | <u>15,84,294</u> |
| Less: Deduction under Chapter VI-A Section 80C – Deposit in PPF (restricted to Rs. 32,000 because it cannot be adjusted against capital gains income) | | <u>32,000</u> |
| Total Income | | <u>15,52,294</u> |

Computation of Tax liability of Mr. Kumar for A.Y. 2018-19

| | |
|---|-----------------|
| Tax on Rs 13,02,294 @ 20% [i.e. long term capital gain less basic exemption limit (Rs.15,52,294- Rs 2,50,000)] | 2,60,459 |
| Add: Education Cess @ 2% & SHEC @ 1% | <u>7,814</u> |

| | |
|---------------------------|-----------------|
| Tax Payable | 2,68,273 |
| Tax Payable (Rounded off) | 2,68,270 |

Notes:

1. Since the other income will become zero after adjusting Sec.80C deduction, The complete basic exemption limit of Rs. 2,50,000 can be adjusted against long term capital gains.
2. Deduction under section 80C should be restricted to gross total income excluding long term capital gain.

Note: Students are advised to rectify the final answer of tax liability in the material as Rs.2,68,270.

PROBLEM NO.22**Computation of capital gains and business income of Ms. Gunjan for A.Y. 2018-19**

| Particulars | Amount(Rs.) |
|---|--------------------|
| Capital Gains | |
| Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2) | 3,20,00,000 |
| Less: Indexed cost of acquisition [Rs. 50,00,000 × 200/100] | 1,00,00,000 |
| | 2,20,00,000 |
| Proportionate capital gains arising during the A.Y. 2018-19 (2,20,00,000 × 5/8) | 1,37,50,000 |
| Less: Exemption under section 54EC (restricted to Rs. 50 lakh) | 50,00,000 |
| Capital gains chargeable to tax for A.Y. 2018-19 | 87,50,000 |
| Business Income | |
| Sale price of flats [5 × Rs. 90 lakh] | 4,50,00,000 |
| Less: Cost of flats | |
| Fair market value of land on the date of conversion (3,20,00,000 × 5/8) | 2,00,00,000 |
| Cost of construction of flats [5 × Rs. 36 lakh] | 1,80,00,000 |
| | 70,00,000 |

Notes:

1. The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
2. However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
3. The indexation benefit for computing indexed cost of acquisition would be available only up to the year of conversion of capital asset to stock-in-trade and not up to the year of sale of stock-in-trade.
4. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 5/8th of stock-in trade (5 flats out of 8 flats) is sold in the P.Y. 2017-18 only proportionate capital gains (i.e. 5/8th) would be chargeable to tax in the A.Y. 2018-19.
5. On sale of such stock-in-trade (i.e., flats, in this case), business income would arise. The business income chargeable to tax would be the price at which the flats are sold as reduced by the fair market value on the date of conversion of the capital asset (i.e., land) into stock-in-trade and the cost of construction of flats.
6. In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months, for the purpose of exemption under section 54EC, is to be reckoned from the date of sale of stock-in-trade [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC, subject to a maximum of Rs. 50 lakh.

PROBLEM NO.23

- a) **False:** The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL, redeemable after 3 years) to Rs. 50 lakh during any financial year.

Therefore, in this case, the exemption under section 54EC can be availed only to the extent of Rs. 50 lakh, provided the investment is made within six months from the date of transfer.

- b) **True:** As per section 47(xa), any transfer by way of conversion of bonds referred to in section 115AC into shares and debentures of any company is not regarded as transfer. Therefore, there will be no capital gains on conversion of foreign currency exchangeable bonds into shares or debentures.
- c) The definition of capital asset under section 2(14) includes jewellery. Therefore, capital gains are attracted on sale of jewellery, since jewellery is excluded from personal effects. The cost to the previous owner or the fair market value as on 1.4.2001, whichever is more beneficial to the assessee, would be treated as the cost of acquisition. Accordingly, in this case, long term capital gain @ 20% will be attracted in the year in which the gold and jewellery is sold by Mrs. X.

PROBLEM NO.24**Computation of taxable capital gains for A.Y. 2018-19**

| Particulars | Rs. |
|--|-----------------|
| Gross Consideration | 11,50,000 |
| Less: Expenses on transfer | 7,000 |
| Net consideration | 11,43,000 |
| Less: Indexed cost of acquisition (Rs.1,82,000 x 272/113) | 4,38,088 |
| | 7,04,912 |
| Less: Exemption under section 54F (Rs.7,04,912 x Rs.5,00,000/ Rs. 11,43,000) | 3,08,360 |
| Taxable capital gains | 3,96,552 |

PROBLEM NO.25**Computation of taxable capital gain of Mr. Amit for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Sale consideration received on sale of 9,500 shares @ Rs. 300 each | | 28,50,000 |
| Less: Indexed cost of acquisition | | |
| (a) 7,000 shares (including bonus shares of 3500) received as gift from father on 27.9.2000 Indexed cost - Rs. 7000 x 40 x 272/100 | 7,61,600 | |
| (b) 2500 shares purchased on 2.2.2004 @ Rs. 100 per share. The indexed cost is 2500 x 100 x 272/109 | 6,23,853 | 13,85,453 |
| Long term capital gain | | 14,64,547 |
| Less: Exemption under section 54F (See Note below) Rs. 14,64,547 x Rs. 20,00,000 / Rs. 28,50,000 | | 10,27,752 |
| Taxable long term capital gain | | 4,36,795 |

Note:

- For Bonus shares acquired before 01.04.2001, the COA will be the FMV as on 01.04.2001. For gifted shares acquired before 01.04.2001, the COA will be the higher of COA to the previous owner/ FMV as on 01.04.2001.
- Exemption under section 54F can be availed by the assessee subject to fulfillment of both the following conditions:
 - The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;

- b) The assessee should purchase a residential house within a period of 1 year before or 2 years after the date of transfer or construct a residential house within a period of 3 years from the date of transfer of the long-term capital asset.

In this case, Mr. Amit has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO.26

- i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- iii) **False:** In view of the provisions of section 56(2)(i), dividend income is taxable under the head "Income from other sources" in the case of all assessees.
- iv) **False:** As per section 10(37), where an individual owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer, and the same is compulsorily acquired under any law and the compensation is determined or approved by the Central Government or the Reserve Bank of India, resultant capital gain will be exempt.
- In this case, the compensation has been fixed by the State Government and hence the exemption will not be available.
- v) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.
- vi) **False:** Only 60% of the income derived from the sale of tea grown and manufactured by the seller in India is treated as agricultural income and the balance 40% of the income shall be non-agricultural income chargeable to tax [Rule 8 of Income-tax Rules, 1962].

PROBLEM NO.27

| Particulars | Rs. | Rs. |
|---|--------------------------------|-------------------------------------|
| Long-term capital gain | | |
| Full value of consideration [As per section 50C, in case the actual sale consideration (i.e., Rs.70 lakhs, in this case) is less than the stamp duty value (i.e., Rs.80 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration] | 80,00,000 | |
| Less: Expenses in connection with transfer (brokerage paid for sale of property) | <u>(1,00,000)</u> 79,00,000 | |
| Less: Indexed cost of acquisition [20,00,000 x 272 / 117] | <u>46,49,573</u> | 32,50,427 |
| Less: Exemption under section 54: | | |
| - Purchase of new residential house property within two years from the date of sale of residential house | 15,00,000 | |
| - Deposit in Capital Gains Accounts Scheme on or before the due date of filing of return of income u/s 139(1) for construction of additional floor on such house property. | <u>10,00,000</u> | |
| | 25,00,000 | |
| Exemption under section 54EC: | | |
| - Investment in capital gains bond of NHAI within 6 months from the date of transfer (i.e., before 8.12.2016) | <u>5,00,000</u> | |
| Taxable Capital Gains / Total Income | | <u>30,00,000</u> 2,50,427 |
| Total Income (rounded off) | | 2,50,430 |

Computation of tax liability of Mr. Martin for A.Y. 2018-19

| Particulars | Rs. |
|--|-----|
| Tax on Rs. 430 @ 20% [i.e., long term capital gain less basic exemption limit (2,50,430–2,50,000)] | 86 |
| Less: Rebate under section 87A limited to tax payable | 86 |
| Tax Payable (rounded off) | Nil |

Notes:

- 1) Since Mr. Martin is a resident individual, the basic exemption limit of Rs. 2,50,000 has been adjusted against long term capital gains and the balance long-term capital gains is chargeable to tax @ 20% under section 112. Further, since his total income is less than Rs.3.5 lakh, he is eligible for rebate under section 87A.
- 2) Exemption under section 54 is available in respect of reinvestment of capital gains on sale of residential house in one residential house in India. In this case, exemption would be available for amount invested in purchase of new residential house and amount deposited for construction of additional floor in the same house, since they together constitute one residential house.

PROBLEM NO.28

Computation of long term capital gain of Mr. Dinesh for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-------------|------------------|
| Full value of consideration (Note 1) | | 65,00,000 |
| Less: Indexed cost of acquisition-land (Rs.3,00,000 × 272/105) (Note 2 & 3) | (7,77,143) | |
| Indexed Cost of acquisition-building (Rs.15,00,000 × 272/ 113) (Note 3) | (36,10,619) | |
| Indexed Cost of improvement-building (Rs.5,00,000 × 272/129) | (10,54,264) | (54,42,023) |
| LTCG | | 10,57,977 |

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration will be Rs. 65 lakhs in this case.
2. Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., Rs. 3,00,000, in this case.
3. Indexation benefit is available since both land and building are long-term capital assets. However, as per the definition of indexed cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit for land will be available only from the previous year in which Mr. Dinesh first held the land i.e., P.Y. 2002-03.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High court held that indexation cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

PROBLEM NO.29

- i) Section 72A(6A), provides that where a private company is succeeded by a LLP fulfilling the conditions laid down in the proviso to section 47(xiiib), then, notwithstanding anything contained in any other provision of the Income-tax Act, 1961, the accumulated loss and unabsorbed depreciation of the predecessor company shall be deemed to be the loss or allowance for depreciation of the successor LLP for the purpose of the previous year in which the business re-organisation was effected and other provisions of the Act relating to set-off and carry forward of losses and depreciation allowance shall apply accordingly. Therefore, All Trade LLP can carry forward and set-off the business loss of Rs. 6 lakh of erstwhile X Co (P) Ltd. against its business income for the F.Y.2017-18. The unabsorbed business loss of Rs. 1 lakh, relating to A.Y. 2017-18, will be carried forward to the next year.

- ii) Section 47(xiiib) requires that the shareholders of the company become partners of the LLP in the same proportion as their shareholding in the company. Further, the aggregate of the profit sharing ratio of the shareholders of the company in the LLP should be not less than 50% at any time during the period of 5 years from the date of conversion. If the entity fails to fulfill this condition, the benefit of set-off of business loss availed by the LLP would be deemed to be the profits and gains of the LLP chargeable to tax in the previous year in which the LLP fails to fulfill the condition.

PROBLEM NO.30

Section 56(2)(x) would get attracted in case of transfer of immovable property for inadequate consideration, since the difference between the stamp duty value and sale consideration is more than Rs. 50,000 and therefore Rs. 1,75,000 (i.e. Rs. 6,00,000 - Rs. 4,25,000) will be taxed under the head "Income from other sources" in the hands of transferee, i.e., Ms. Dayama. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

| Particulars | Chhaya (Transferor) Rs. | Dayama (Transferor) Rs. |
|---|-------------------------------|-------------------------------|
| Capital gains | | |
| Deemed sale consideration under section 50C | 6,00,000 | |
| Less: Indexed cost of acquisition | (4,00,000) | |
| | 2,00,000 | |
| Income from other sources | | |
| Difference between stamp duty value and sale consideration of immovable property will be treated as gift in the hands of recipient and taxable under section 56(2)(x) | - | 1,75,000 |
| Other income (computed) | 50,000 | 2,05,000 |
| Total Income | 2,50,000 | 3,80,000 |

PROBLEM NO.31

Computation of Gross Total Income of Mr. Jaiprakash for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|-------------|------------------|
| Sale consideration as per section 50C (Note 1) | | 95,25,000 |
| Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs.85,50,000 | | (85,500) |
| | | 94,39,500 |
| Less: Indexed cost of acquisition (Note 2) (Rs. 1,80,000 × 272/117) | (4,18,461) | |
| Indexed cost of improvement (Rs. 10,50,000 × 272/129) | (22,13,953) | (26,32,414) |
| | | 68,07,086 |
| Less: Deduction under section 54EC (Note 3) | | (50,00,000) |
| LTCG | | 18,07,086 |
| Income from Other Sources | | |
| - Advance received and forfeited on or after 01.04.2014 (Note 4) | | 7,00,000 |
| Gross Total Income | | 25,07,086 |

Notes:

- As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the Valuation Officer, and the value ascertained by the Valuation Officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

| | |
|---|---------------|
| Sale consideration | Rs. 85,50,000 |
| Valuation made by registration authority for stamp duty | Rs. 95,25,000 |
| Valuation made by the Valuation Officer on a reference | Rs. 98,00,000 |

Applying the provisions of section 50C in the present case, Rs. 95,25,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the full value of consideration for the purpose of computing capital gains.

2. Since the house was inherited by Mr. Jai prakash under the will of his father and his father, the previous owner, had purchased the house before 01.04.2001, Mr. Jai prakash has the option to adopt cost incurred by the previous owner or fair market value as on 01.04.2001 as cost of acquisition as per section 55(2)(b)(ii). In this case, it is more beneficial to him to adopt the FMV on 01.04.2001 as the cost of acquisition of the house property. However, indexation benefit will be given effect from the year in which Mr. Jai prakash first held the asset i.e., P.Y.2005-06. As per section 51, the advance money forfeited and retained before 01.04.2014, as a result of failure of the negotiations, would be reduced from the cost of acquisition for determining the indexed cost of acquisition for the purpose of computing capital gains.

Computation of indexed cost of acquisition

| Particulars | Rs. |
|--|-----------------|
| Cost of acquisition | 8,30,000 |
| Less: Advance taken in the previous year 2011-12 and forfeited | (6,50,000) |
| Cost for the purpose on indexation | 1,80,000 |

3. Exemption under section 54EC is available if the capital gains arising from transfer of long-term capital assets are invested in long-term specified assets, namely, bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. within 6 months from the date of transfer. As per second proviso to section 54EC(1), out of capital gains arising from transfer of one or more capital assets in a financial year, the investment eligible for exemption cannot exceed Rs. 50 lakhs, whether such investment is made in the same financial year or in the subsequent financial year or in both the years in this case, Mr. Jai prakash has invested Rs. 30 lakhs in RECL bonds and Rs. 35 lakhs in NHAI bonds in the F.Y. 2018-19, both within six months from the date of transfer. However, he would be eligible for exemption of only Rs. 50 lakhs under section 54EC for investment in such bonds.
4. Advance of Rs. 7,00,000 taken by Mr. Jai prakash in June, 2017, which was forfeited due to the transaction not materializing, is taxable under section 56(2)(ix). Hence, such amount would not be reduced to compute the indexed cost of acquisition while computing capital gains on sale of the property in November, 2017.

THE END

7. INCOME FROM OTHER SOURCES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Solution: Case 1: Tax implications if Mr. Hari is a property dealer

| In the hands of Mr. Hari | In the hands of Mr. Rajesh |
|---|---|
| In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of agreement. Therefore, Rs.65 lakh , being the difference between the stamp duty value on the date of agreement (i.e., Rs.140 lakh) and the purchase price (i.e., Rs.75 lakh), would be chargeable as business income in the hands of Mr. Hari. | Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration. Therefore, Rs.60 lakh , being the difference between the stamp duty value of the property as on the date of the registration (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh . |

Case 2: Tax implications if Mr. Hari is a stock broker

| In the hands of Mr. Hari | In the hands of Mr. Rajesh |
|--|--|
| In case Mr. Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari and Rs.75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs.150 lakh) and the purchase price (i.e., Rs.75 lakh) would be chargeable as short term capital gains. It may be noted that under section 50C, there is option to adopt the stamp duty value on the date of agreement if the date of agreement is different from the date of registration and part of the consideration has been received on or before the date of agreement by way of an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari and Rs.65 lakh, being the difference between the stamp duty value on the date of agreement (i.e., Rs.140 lakh) and the purchase price (i.e., Rs.75 lakh) would be chargeable as short term capital gains. | There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration. Therefore, Rs.60 lakh , being the difference between the stamp duty value of the property (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh. |

PROBLEM NO. 2

Computation of "Income from other sources" of Mr. A for the A.Y.2018-19

| | Particulars | Rs. |
|----|---|-----------------|
| 1. | Cash gift is taxable under section 56(2)(x), since it exceeds Rs. 50,000 | 75,000 |
| 2. | Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000 | 60,000 |
| 3. | Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x) | 5,00,000 |
| 4. | Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A. | - |
| 5. | Difference between the stamp duty value of Rs. 23 lakh on the date of booking and the actual consideration of Rs. 20 lakh paid is taxable under section 56(2)(x). | 3,00,000 |
| | Income from Other Sources | 9,35,000 |

Computation of "Capital Gains" of Mr. A for the A.Y.2018-19

| Particulars | Rs. |
|---|-----------------|
| Sale Consideration | 7,00,000 |
| Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)] | 5,00,000 |
| Short-term capital gains | 2,00,000 |

Note: The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

PROBLEM NO. 3

| | Taxable/ Nontaxable | Amount liable to tax (Rs.) | Reason |
|-------|------------------------|-------------------------------|---|
| (i) | Taxable | 75,000 | Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF. |
| (ii) | Non-taxable | Nil | Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2). |
| (iii) | Taxable | 55,000 | As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs. 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs. 10,000) and jewellery (Rs. 45,000) exceeds Rs. 50,000. Hence, the entire amount of Rs. 55,000 shall be taxable. |
| (iv) | Non-taxable | Nil | Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable. |

PROBLEM NO. 4

Computation of taxable income of Mrs. Rashmi from gifts for A.Y. 2017-18

| S.No. | Particulars | Taxable amount | Reason for taxability or otherwise of each gift |
|-------|--|-------------------|---|
| 1. | Relatives and friends | Nil | Gifts received on the occasion of marriage are not taxable |
| 2. | Cousin of Mrs. Rashmi's mother | 18,000 | Cousin of Mrs. Rashmi's mother is not a relative. Hence, the cash gift is taxable |
| 3. | Friend | Nil | Cell phone is not included in the definition of property. Hence, it is not taxable |
| 4. | Elder brother of husband's grandfather | 25,000 | Brother of husband's grandfather is not a relative. Hence, the cash gift is Taxable |
| 5. | Friend | 12,000 | Cash gift from friend is taxable. |
| | Aggregate value of gifts | 55,000 | |

Since the sum of money received by Mrs. Rashmi without consideration during the previous year 2017-18 exceeds Rs.50,000, the whole of the amount is chargeable to tax under section 56(2)(x) of the Income-tax Act, 1961.

PROBLEM NO. 5

Section 56(2)(x) would get attracted in case of transfer of immovable property for inadequate consideration, since the difference between the stamp duty value and sale consideration is more than Rs. 50,000 and therefore Rs. 1,75,000 (i.e. Rs. 6,00,000 - Rs. 4,25,000) will be taxed under the head "income from other sources" in the hands of transferee, i.e., Ms. Dayama. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

| Particulars | Chaya (Transferor) | Dayama (Transferee) |
|--|-----------------------|------------------------|
| Capital gains | | |
| Deemed sale consideration under section 50C | 6,00,000 | |
| Less: Indexed cost of acquisition | <u>4,00,000</u> | |
| | 2,00,000 | |
| Income from other sources | | |
| Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(x) | | 1,75,000 |
| Other income (computed) | <u>50,000</u> | <u>2,05,000</u> |
| Total income | <u>2,50,000</u> | <u>3,80,000</u> |

PROBLEM NO. 6

Interest on enhanced compensation: Section 145A provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates. Sec. 56(2)(viii) states that such income shall be taxable as 'Income from other sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such income. Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

**Computation of interest on enhanced compensation taxable as
"Income from other sources for the A.Y 2017 - 18:**

| Particulars | Rs. |
|---|-----------------|
| Interest on enhanced compensation taxable under section 56(2)(viii) | 5,00,000 |
| Less: Deduction under section 57(iv) (50% x 5,00,000) | <u>2,50,000</u> |
| Taxable interest on enhanced compensation | <u>2,50,000</u> |

PROBLEM NO. 7

| S.No. | Taxable / Not Taxable | Reason |
|-------|-----------------------|---|
| i) | Taxable | Since ABC Private Limited, a closely held company, issued 10,000 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, Rs. 1,00,000 [10,000 x Rs. 10 (Rs. 130 – Rs. 120)] shall be taxable as income in the hands of ABC 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 Rs. 50,000 received as advance would be chargeable to tax in the hands of Mr. A 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 nonpayment of installment in time. |
| iii) | Not Taxable | As per section 56(2)(x), immovable property received without consideration by a HUF from its relative is not taxable. In the present case, since Mr. N is a member of his father's HUF, he is a relative of the HUF. Hence, Rs.10 lakhs, being the stamp duty value of house property received by HUF, without consideration, would not be chargeable to tax in the hands of the HUF. Note: However, income from such asset would be included in the hands of Mr. N under section 64(2). |
| iv) | Not Taxable | Car 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 Sunil from his mother's brother, who falls within the definition of "relative". Hence, Rs.5,00,000, being the fair market value of car received without consideration from a relative is not taxable in the hands of Sunil, even though its value exceeds Rs.50,000. |

PROBLEM NO. 8

- i) **False:** As per section 56(2)(x), where any sum of money is received without consideration by an individual or a Hindu undivided family from any person or persons and the aggregate value of all such sums received during the previous year exceeds Rs. 50,000, the whole of the aggregate value of such sum shall be included in the total income of such individual or Hindu Undivided Family under the head "Income from other sources".

However, in order to avoid hardship in genuine cases, certain sums of money received have been exempted, which includes, inter-alia, any sum received on the occasion of the marriage of the individual and any sum received from any relative. As such, Rs. 2 lakh received from friends on the occasion of marriage is exempt.

However, brother of father-in-law is not included in the definition of relative. Hence, Rs. 1 lakh is taxable under the head "Income from other sources".

The statement that Rs. 3 lakh is includible in A's income is, therefore, false.

- ii) **True:** By virtue of section 56(2)(i), dividend received [other than dividend in respect of which dividend distribution tax is paid by the company and hence, is exempt in the hands of recipients u/s 10(34)] is always taxable under the head "Income from other sources". Even if such dividend is received by a dealer in shares or one engaged in buying/selling of shares, the same would be taxable under the head "Income from other sources".

Note: In this content, it may be noted that section 115BBA brings to tax any income by way of aggregate dividend in excess of Rs. 10 lakhs in the hands of an individual, HUF or a firm, resident in India @ 10%.

PROBLEM NO. 9

Computation of Net total income of Mr. M for the AY 2018-19:

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Director's fees | | 2,000 |
| Income from agricultural land in Pakistan | | 5,000 |
| Ground rent from land in guntur | | 10,000 |
| Interest on deposits with Industrial Finance Corporation of India | | 500 |
| Dividend from a foreign company | | 700 |
| Rent from sub-letting a house | 26,250 | |
| Less: Rent Payable | (12,000) | |
| Other Expenses | (1,000) | |
| Realisation expenses | (600) | 12,650 |
| Winnings from horse-races (Gross) | | 12,300 |
| Interest on Securities | | 4,000 |
| Family pension received | 24,600 | |
| Less: Deduction U/S.57 (1/3 rd of Rs.24,600 or Rs.15,000 which ever is lower) | (8,200) | 16,400 |
| Royalty from coal mine | | 20,000 |
| Daily allowance as M.P. (Exempt U/S.10(17)) | | - |
| Salary as M.P. | | 36,000 |
| Dividend from A Ltd. Declared (Exempt U/S.10(34)) | | - |
| Lottery prize received after T.D.S. (Rs.8,000 / 70%) | | 11,428 |
| Interest from bank on F.D.R. | | 10,776 |
| Interest on post office saving account (Exempt U/S.10(15) up to Rs.3,500) | | - |
| Interest on Govt. securities | | 1,200 |
| Interest on Public Provident Fund a/c (Exempt U/S.10(11)) | | - |
| Interest on National Savings Certificate VIII issue | | 3,000 |
| Income from other Sources | | 1,45,954 |
| Less: Deductions under Chapter VI A | | |
| Re-investment of interest on NSC Bonds (Sec.80C) | | (3,000) |
| Total Income | | 1,42,954 |

PROBLEM NO. 10

Computation of Net total income of Dr.Kallam for the AY 2018-19:

| Particulars | Rs. | Rs. |
|---|--------|-----------------|
| Income from salary | | 1,30,000 |
| Income from other sources: | | |
| Gross royalty | | 15,000 |
| Add: Income from nagarjuna university | 1,500 | |
| Gross receipts from coaching Institutes | 20,000 | |
| Examiner fees | 2,500 | |
| Income from Articles | 3,000 | |
| Income from sub-letting [(Rs.500 p.m. x 12 months) – {(Rs.900 p.m.x12 Months + Rs.600 + Rs.900)/3}] | | |
| (Since 1/3 rd portion has been let out)] | 1,900 | |
| Winnings from card games | 6,500 | |
| Winning from chess | 1,000 | |
| Lottery | 6,500 | |
| Interest from Govt. of England bonds | 500 | 43,400 |
| Less: Salary to clerk | 2,400 | |
| Purchase Book | 400 | |
| Telephone Expenses | 800 | |
| Running Expenses | 8,000 | (11,600) |
| Total Income | | 1,76,800 |

PROBLEM NO. 11

Computation of net income of Mr.X for the AY 2018-19:

| Particulars | Rs. |
|---|-----------------|
| UP Government loan (Rs.10,00,000 x 5/100) | 50,000 |
| Debentures of ABC Ltd. (40,000 x 6/100) | 2,400 |
| Debentures of PQR Ltd. [interest accrued on June 15, 2016 (Rs.25,000 x 8/100 x 6/12)] | 1,000 |
| Post office savings bank interest (up to Rs.3,500 is exempt and balance is chargeable to tax) (4,300 – 3,500) | 800 |
| SBI savings account interest | 9,500 |
| Gift | 1,00,000 |
| Amount taxable under the head “Income from other sources” | 1,63,700 |
| Business income | 5,64,000 |
| Gross total income | 7,27,700 |
| Less: Deduction under section 80TTA (i.e., savings account interest : Post office : Rs.800 + SBI : Rs.9,500, subject to a maximum of Rs.10,000) | 10,000 |
| Net income | 7,17,700 |

SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO.1**

- a) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.
The gift of Rs.51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali.
- b) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.
- c) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs.50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (i) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (ii) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources":

1. **If the first view is taken**, the total amount chargeable to tax as "Income from other sources" would be Rs.51,000, being cash gift received from a friend on her Shasti Poorthi.
2. **As per the second view**, the provisions of section 56(2)(x) would be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs.1,02,000 (Rs.51,000 + Rs.51,000).

PROBLEM NO.2

Computation of total income of Mr.Y for A.Y. 2018-19

| Particulars | Rs. | Rs. | Rs. |
|---|-----------------|-----------------|------------------------|
| Capital Gains | | | |
| Short term capital gains (on sale of flat) | | | |
| i) Sale consideration | 3,60,000 | | |
| ii) Stamp duty valuation | <u>3,70,000</u> | | |
| Consideration for the purpose of capital gains as per section 50C (stamp duty value, since it is higher than sale consideration) | | 3,70,000 | |
| Less: Cost of acquisition [As per section 49(4) cost to be taken into consideration for 56(2)(x) will be the cost of acquisition] | | <u>3,40,000</u> | 30,000 |
| Long term capital loss on sale of equity shares of X Pvt. Ltd | | | |
| Sale consideration | | 2,80,000 | |
| Less: Indexed cost of acquisition (Rs.3,50,000 X 272/122) | | <u>7,80,328</u> | |
| Long term capital loss to be carried forward (See Note 1 below) | | 5,00,328 | |
| Income from other sources: | | | |
| Gift from friends by way of immovable property on 30.11.2017 [See Note 3 below]. | | | 3,40,000 |
| Gift received from a close friend (unrelated person) [See Note 2 below] | | | <u>75,000</u> |
| Total Income | | | <u>4,45,000</u> |

Notes:

1. In the given problem, unlisted shares of X Pvt. Ltd. have been held for more than 24 months and hence, constitute a long term capital asset. The loss arising from sale of such shares is, therefore, a long-term capital loss. As per section 70(3), long term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss cannot be set-off against short-term capital gains. However, such long-term capital loss can be carried forward to the next year for set-off against long-term capital gains arising in that year.
2. Any sum received from an unrelated person will be deemed as income and taxed as income from other sources if the aggregate sum received exceeds Rs. 50,000 in a year [Section 56(2)(x)].
3. Receipt of immovable property without consideration would attract the provisions of section 56(2)(x).

PROBLEM NO.3

**Computation of income chargeable to tax under the heads "Income from Other Sources"
in hands of Smt. Lakshmi for A.Y. 2018-19**

| No. | Particulars | Rs. |
|-----|---|-----------------|
| a) | Cash gifts of Rs.1,20,000 received on the occasion of her marriage is not taxable since gifts received by an individual on the occasion of marriage is excluded under section 56(2)(x), even if the same are from non-relatives. | Nil |
| b) | Even though mother's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of Rs.40,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Smt. Lakshmi without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2017-18 does not exceed Rs.50,000. | Nil |
| c) | Purchase of land for inadequate consideration on 01.12.2017 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 Rs.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 Rs.75,000 is taxable in the hands of Smt. Lakshmi. | 75,000 |
| d) | Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is Rs.55,000 (Rs.1,15,000 - 60,000) i.e. it exceeds Rs.50,000, the difference would be taxable under section 56(2)(x). | 55,000 |
| | Amount chargeable to tax | 1,30,000 |

PROBLEM NO.4**Tax implications under section 56(2)**

- a) Since paintings are included in the definition of "property", therefore, when paintings are received without consideration, the same is taxable under section 56(2)(x), as the aggregate fair market value of paintings exceed Rs.50,000.

Therefore, Rs.2,00,000, being the value of painting gifted by his nephew, would be taxable under section 56(2)(x) in the hands of Mr. Tejpal, since "nephew" is not included in the definition of "relative" there under.

- b) Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(x).

Since Verma's son is a member of Verma HUF, he is a "relative" of the HUF. Therefore, if Verma HUF receives any property (shares, in this case) from its member, i.e., Verma's son, without consideration, then, the fair market value of such shares will not be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(x).

- c) The difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(viiia), if the difference exceeds Rs. 50,000.

Accordingly, in this case, the difference of Rs.1,80,500 [i.e., (Rs.105 – Rs.86) × 9,500] is taxable under section 56(2)(viiia) in the hands of Sunshine (P) Ltd.

- d) The provisions of section 56(2)(viib) are attracted in this case since the shares of a closely held company are issued at a premium (i.e., the issue price of Rs. 18 per share exceeds the face value of Rs.10 per share) and the issue price exceeds the fair market value of such shares.

The consideration received by the company in excess of the fair market value of the shares would be taxable under section 56(2)(viib).

Therefore, Rs. 84,000 {i.e., (Rs.18 – Rs. 15) × 28,000 shares} shall be the income chargeable under section 56(2)(viib) in the hands of Bijali (P) Ltd.

- e) As per section 145A(b), interest received on enhanced compensation shall be deemed to be the income of the previous year in which it is received, irrespective of the method of accounting followed by the assessee. Therefore, in this case, interest on enhanced compensation received by Mr. Sharan in January, 2018 shall be deemed to be the income of P.Y.2017-18, i.e., the year of receipt, irrespective of the method of accounting followed by him. Such interest is taxable under section 56(2)(viii).

| | |
|---|---------------------|
| Interest Income (Rs. 1,20,000 + Rs. 1,60,000 + Rs. 2,00,000 + Rs. 60,000) | Rs. 5,40,000 |
| Less: Deduction under section 57(iv) @ 50% of Rs. 5,40,000 | <u>Rs. 2,70,000</u> |
| | <u>Rs. 2,70,000</u> |

PROBLEM NO.5**1. Tax implications on sale of a building representing a capital asset in the hands of Mr. Suraj, a salaried employee****a) Tax implications in the hands of Mr. Suraj for A.Y.2018-19**

The building represents a capital asset in the hands of Mr. Suraj, a salaried employee. On sale of the building, the provisions of section 50C are attracted and Rs. 89 lakh, being the difference between the stamp duty value on the date of agreement (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 61 lakh) would be chargeable as short-term capital gains in the hands of Mr. Suraj.

It may be noted that under section 50C, there is option to adopt the stamp duty value on the date of agreement, if the date of agreement is different from the date of registration and part of the consideration has been received on or before the date of agreement **by way of an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.**

b) Tax implications in the hands of Mr. Rohan for A.Y.2018-19

The building purchased would be a capital asset in the hands of Mr. Rohan, who is engaged in the business of artificial jewellery. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rohan who has received immovable property, being a capital asset, for inadequate consideration. For the purpose of section 56(2)(x), Mr. Rohan can take the stamp duty value on the date of agreement instead of the date of registration since he has paid part of the consideration by a mode other than cash on the date of agreement.

Therefore, Rs.70 lakh, being the difference between the stamp duty value of the property on the date of agreement (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.80 lakh) would be taxable as per section 56(2)(x) under the head "Income from other sources" in the hands of Mr. Rohan.

2. Tax implications if Mr. Suraj is a property dealer**a) Tax implications in the hands of Mr. Suraj for A.Y.2018-19**

If Mr. Suraj is a property dealer who has sold the building in the course of his business, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value. For the purpose of section 43CA, Mr. Suraj can take the stamp duty value on the date of agreement instead of the date of registration since he has received part of the consideration by a mode other than cash on the date of agreement.

Therefore, Rs.89 lakh, being the difference between the stamp duty value on the date of agreement (i.e., Rs. 150 lakh) and the purchase price (i.e., Rs. 61 lakh), would be chargeable as business income in the hands of Mr. Suraj.

b) Tax implications in the hands of Mr. Rohan for A.Y.2018-19

There would be no difference in the taxability in the hands of Mr. Rohan, whether Mr. Suraj is a property dealer or a salaried employee. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rohan who has received immovable property, being a capital asset, for inadequate consideration. Consequently, Rs. 70 lakh, being the difference between the stamp duty value of the property on the date of agreement (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 80 lakh) would be taxable as per section 56(2)(x) under the head "Income from other sources" in the hands of Mr. Rohan.

PROBLEM NO.6**Tax implications on sale of house property and rural agricultural land at a price lower than the stamp duty value:****1. Tax implications in the hands of Mr. Sunil**

As per section 50C, the stamp duty value of house property (i.e. Rs.78 lakh) would be deemed to be the full value of consideration arising on transfer of property. Therefore, Rs. 33 lakh (i.e. Rs. 78 lakh – Rs.45 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2018-19.

Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. Sunil.

2. Tax implications in the hands of Mr. Ravi

In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds Rs. 50,000.

Therefore, in this case Rs. 8 lakh (Rs. 78 lakh – Rs. 70 lakh) would be taxable in the hands of Mr. Ravi under section 56(2)(x).

Since rural agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of rural agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only the capital assets specified there under.

3. TDS implications in the hands of Mr. Ravi

Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Ravi is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs. 70,000, being 1% of Rs.70 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

PROBLEM NO.7

Taxability of certain transactions under section 56(2)(x)

| | Taxable/ Non-taxable | Amount liable to tax (Rs.) | Reason |
|----|-------------------------|-------------------------------|--|
| a) | Non-taxable | Nil | "Car" is not included in the definition of property for the purpose of section 56(2)(x). Therefore, the same shall not be taxable. |
| b) | Taxable | 65,000 | As per the provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs.50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs.30,000) and jewellery (Rs.35,000) exceeds Rs.50,000. Niece is not covered within the definition of relative, hence, the entire amount of Rs.65,000 shall be taxable. |
| c) | Taxable | 55,000 | Sum of money exceeding Rs. 50,000 received without consideration from a non relative is taxable under section 56(2)(x). Son of Mr. Manish's sister is not a relative of Manish HUF, since he is not a member of Manish HUF. |
| d) | Non-taxable | Nil | Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Shivang is a member of the HUF, he is a relative of the HUF. |

PROBLEM NO.8

| S.No. | Taxable / Not Taxable | Amount liable to tax (Rs.) | Reason |
|-------|--------------------------|-------------------------------|--|
| a) | Taxable | 1,20,000 | The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x). |
| b) | Taxable | 25,000 | As per section 56(2)(viii), interest on enhanced compensation is taxable in the year in which it is received. Deduction of 50% in respect of the said income is allowed under section 57(iv). Therefore, Rs. 25,000 (i.e., Rs. 50,000 – Rs. 25,000) is taxable in the hands of Mr. Yogesh in the F.Y.2017-18. |

| | | | |
|----|---------|--------|--|
| c) | Taxable | 48,000 | As per section 145A, interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs.96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2017-18 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, 48,000 is chargeable to tax under the head "Income from other sources". |
|----|---------|--------|--|

PROBLEM NO.9

Computation of income of Pankaj chargeable under the head "Income from other sources" for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|--------|-----------------|
| 1. Directors' fees | | 10,000 |
| 2. Interest on bank deposit | | 3,000 |
| 3. Income from undisclosed source (taxable @ 60% plus surcharge of 25% u/s 115BBE) | | 12,000 |
| 4. Royalty on books written (See Note below) | 9,000 | |
| Less: expenses | 1,000 | 8,000 |
| 5. Lectures in seminars | | 5,000 |
| 6. Interest on loan given to a relative | | 7,000 |
| 7. Interest on listed debentures | | |
| Net Received | 3,600 | |
| Add: T.D.S. @ 10% | | |
| $\frac{3600 \times 10}{100 - 10}$ | 400 | 4,000 |
| 8. Interest on Post Office Savings Bank [exempt under section 10(15)] | | - |
| 9. Interest on Government securities 2,200 | | 2,200 |
| 10. Interest on Post Office Monthly Income Scheme 33,000 | | 33,000 |
| 11. Winnings from lotteries (taxable @ 30% u/s 115BB) | | |
| Net | 35,000 | |
| Add: T.D.S. @ 30% $\left(\frac{35,000 \times 30}{100 - 30} \right)$ | 15,000 | 50,000 |
| Income from Other Sources | | 1,34,200 |

Note: Royalty income has been offered to income under other sources head as it was assumed that the same has not chargeable to tax under PGBP head.

PROBLEM NO.10

Computation of amount chargeable to tax under the head "Income from other sources" in the hands of Mrs. Rupali for A.Y. 2018-19

| | Particulars | Amount |
|------|--|----------|
| (i) | Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares exceeds Rs.50,000 i.e., Rs.75,000 (Rs.1,55,000 – Rs.80,000), the difference would be chargeable to tax under section 56(2)(x) | 75,000 |
| (ii) | Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received on the occasion of wedding anniversary. The gift of Rs.1,01,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Rupali. | 1,01,000 |

| | | |
|-------|--|-----------------|
| (iii) | The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of platinum ring received from her brother is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property". | NIL |
| (iv) | To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs.50,000 in a year. Since, the aggregate value of cash gifts received by Mrs. Rupali exceeds Rs. 50,000 during the previous year 2017-18, the cash gifts aggregating Rs. 25,000 received from her four friends would be chargeable to tax in her hands. | 25,000 |
| (v) | The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Since maternal uncle is a relative, the amount of Rs. 49,000 received by way of cheque from him would not be chargeable to tax in her hands. | NIL |
| | Amount chargeable to tax under the head "Income from other Sources" | 2,01,000 |

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8. CLUBBING PROVISIONS

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Computation of Mr. S Income

| | | |
|--|--------|-----------------|
| Income from business | | 90,000 |
| Salary of Mrs. S (Note 1) | - | |
| Interest on deposits-Deepu | 12,000 | |
| (-) Exemption U/s 10 (32) (Note.2) | 1,500 | 10,500 |
| Receipts from painting to deepali (Note.3) | - | |
| Lottery Income to Chandu | 6,000 | |
| (-) Exemption U/s 10(32) | 1,500 | 4,500 |
| Gross total Income | | 1,05,000 |

Note:

1. Since Mr. S is not having any substantial interest in the educational Institution Sec.64 1(ii) is not applicable
2. Since Mr. S is having higher income compared to Mrs. S so the income of minor child will be taxable in the hands of Mr. S.
3. Since income derived by Deepali is by application of skill & talent not subject to clubbing.

PROBLEM NO. 2

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2018-19

| Particulars | Mr. A (Rs.) | | Mrs. A (Rs.) | Minor Son (Rs.) |
|---|-------------|-----------------|-----------------|-----------------|
| Salary income (of Mrs. A) | | - | 2,40,000 | - |
| Pension income (of Mr. A) (Rs. 10,000×12) | | 1,20,000 | | |
| Income from House Property [See Note (3) below] | | 52,000 | - | - |
| Income from other sources | | | | |
| Interest on Mr. A's fixed deposit with Bank of India (Rs. 5,00,000×9%) [See Note (1) below] | 45,000 | | | |
| Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below] | 25,000 | 70,000 | - | - |
| Income before including income of minor son under section 64(1A) | | 2,42,000 | 2,40,000 | - |
| Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below] | | 18,500 | - | - |
| Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below] | | - | - | 20,000 |
| Total Income | | 2,60,500 | 2,40,000 | 20,000 |

Notes:

1. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs. 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
2. As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of Rs. 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.

3. According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

4. As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.

Therefore, the income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs. 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs. 2,40,000. Therefore, Rs. 18,500 (i.e., Rs. 20,000 – Rs. 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note – The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative i.e., his father.

5. In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs. 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

PROBLEM NO.3

Computation of Total Income of Mr. Dhaval and Mrs. Hetal for the A.Y. 2018-19

| Particulars | | Mr. Dhaval (Rs.) | Mrs. Hetal (Rs.) |
|---|--------------|------------------|------------------|
| Salaries | | | 4,60,000 |
| Profits and gains of business or profession | | 7,50,000 | |
| Income from other sources: | | | |
| Income by way of interest from company deposit earned by minor daughter A [See Note(d)] | 30,000 | | |
| Less : Exemption under section 10(32) | 1,500 | 28,500 | |
| Total Income | | 7,78,500 | 4,60,000 |

Notes:

- The income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parents. Hence, Rs. 1,08,000, being the income of minor son 'B' who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.
- The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialised knowledge or experience will not be included in the income of his parent. Hence, in the given case, Rs. 86,000 being the income of the minor daughter 'C' shall not be clubbed in the hands of the parents.
- Under section 56(2)(x), cash gifts received from any person/persons exceeding Rs. 50,000 during the year in aggregate is taxable. Since the cash gift in this case does not exceed Rs. 50,000, the same is not taxable.
- The clubbing provisions are attracted even in respect of income of minor married daughter. The income of the minor will be included in the income of that parent whose total income is greater. Hence, income of minor married daughter 'A' from company deposit shall be clubbed in the hands of the Mr. Dhaval and exemption under section 10(32) of Rs. 1,500 per child shall be allowed in respect of such income.

PROBLEM NO. 4

WN- 1: Share of profits earned by the minor child will not be subject to clubbing as the same was exempted

WN- 2: Income from House Property: In the absence of information actual rent is taken as G.A.V. Mr. Ram

| | |
|---------------------------------------|--------|
| G.A.V (Gross Annual Value) (4,000X 8) | 32,000 |
| (-) Municipal Taxes paid | Nil |
| Net Annual value | 32,000 |
| (-) Deductions U/s 24 | 9,600 |
| Repairs & Maintenance (30% X 32,000) | 22,400 |
| Taxable Income | |

Mrs. Ram

| | |
|--------------------------------|--------|
| Gross Annual Value (4,000 X 4) | 16,000 |
| (-) Municipal Taxes paid | Nil |
| Net Annual Value | 16,000 |
| (-) Deductions U/s 24 | 4,800 |
| Repairs 30% x 16,000 | 11,200 |
| Taxable Income | |

Computation of Income of Mr. Ram

| Particulars | Amount |
|--|----------|
| Share of Profits [Sec.10 (2A)] | Exempted |
| Share of Profits earned by minor (W.N.1) | Exempted |
| Income from house property (W.N.2) | 22,400 |
| Interest on debentures (acquired out of own money) (1,00,000 X 14%) | 14,000 |
| Loan given by Mrs. Ram to Sumitra (Sec.64(1)(IV)]-(60K X 10%) | 6,000 |
| Income derived by trust [As per Sec.64 (1)(VIII) (Note.3)] | 6,000 |
| Income from shares (Dividends) (Note.4) | Nil |
| Income from sale of original shares U/s 64 (1)(IV) | 50,000 |
| Gross Total Income | 98,400 |

Computation of Income of Mrs. Ram

| Particulars | Amount |
|---|----------|
| Share of Profits [Sec.10 (2A)] | Exempted |
| Share of Profits earned by minor (W.N -1) | Exempted |
| Income from house property (W.N.2) | 11,200 |
| Interest on debentures: | |
| Acquired out of own money | 14,000 |
| Gifted to Mr. Ram (Sec. 64(1)(IV)-1,00,000x 14%) | 14,000 |
| Loan given to Sumitra (15,000x 10%) (Note.7) | 1,500 |
| Income from sale of bonus shares U/s 64 (1)(IV) (Note.5) | 90,000 |
| Interest earned by the minor child from a partnership firm Sec.64 (1A) - (Note.6) (24000-1500) Exempt U/s 10(32) | 22,500 |
| Gross Total Income | 1,53,200 |

Working Note:

1. Income derived by the son's minor child will not be subject to clubbing in the absence of specific provision.
2. Dividend income earned by Mrs. Ram on the shares transferred by Mr. Ram will not be subjected to clubbing as it's an exempted income.
3. Income arising out of additions made to assets given will not be subject to clubbing.
4. Income of the minor child will be added to either of parents whose income is higher.
5. Income on income not subject to clubbing.

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PROBLEM NO. 5

1. Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.
2. Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.
3. Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.
4. Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

Income/loss to be clubbed in the hands of Mr. Janak**Long-term capital gains/loss**

| S.No. | Particulars | Rs. |
|-------|--|----------------------------------|
| 1. | 100 shares sold on 21.5.2017 in a recognized stock exchange, STT paid. Long-term capital gains on sale of such shares is exempt under section 10(38) | Nil |
| 2. | Shares sold to a friend on 28.2.2018 Sale consideration Less: Indexed cost of acquisition of 100 shares (Rs. 2,000 x 100 x 272/264) Long term capital loss to be included in the hands of Mr. Janak | 1,70,000 2,06,061 (36,061) |

Income taxable in the hands of Mrs. Thilagam**Short-term capital gains (on sale of 100 bonus shares)**

| Particulars | Rs. |
|--|-----------------|
| Sale consideration | 1,25,000 |
| Less: Cost of acquisition of bonus shares | Nil |
| Short-term capital gains | 1,25,000 |

Taxability in the hands of Mrs. Hema under the head "Income from other sources": Mrs. Hema has received shares from her friend, Mrs. Thilagam, for inadequate consideration. Even though shares fall within the definition of "property" under section 56(2)(x), the provisions of section 56(2)(x) would not be attracted in the hands of Mrs. Hema, since the difference between the fair market value of shares and actual sale consideration does not exceed Rs. 50,000.

PROBLEM NO. 6

Section 64(1) of the Income-tax Act, 1961 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. In this case Smt. Rani received a gift of Rs.2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2018-19 is computed as under:M

| Particulars | Smt.Rani's Capital Contribution (Rs.) | Capital Contribution Out of gift from husband (Rs.) | Total (Rs.) |
|---|---------------------------------------|---|-----------------|
| Capital as at 1.4.2016 | 3,00,000 | - | 3,00,000 |
| Investment on 10.04.2016 out of gift received from her husband | - | 2,00,000 | 2,00,000 |
| | 3,00,000 | 2,00,000 | 5,00,000 |
| Profit for F.Y. 2016-17 to be apportioned on the basis of capital employed on the first day of the previous year i.e. on 1.4.2016 | 1,50,000 | | 1,50,000 |
| Capital employed as at 1.4.2017 | 4,50,000 | 2,00,000 | 6,50,000 |

| | | | |
|---|----------|----------|----------|
| Profit for F.Y.2017-18 to be apportioned on the basis of capital employed as at 1.4.2017 (i.e. 45 : 20) | 2,70,000 | 1,20,000 | 3,90,000 |
|---|----------|----------|----------|

Therefore, the income to be clubbed in the hands of Smt.Rani's husband for A.Y.2018-19 is Rs.1,20,000.

PROBLEM NO. 7

In the given case, Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16.4.2017 and simultaneously, his brother gifted debentures worth Rs. 6 lacs to Mr. Ramesh's wife on 18.4.2017. Mr. Ramesh's brother's minor son invested the gifted amount of Rs. 5 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includible in the hands of the parent whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Ramesh's brother's son from fixed deposits would be included in the total income of Mr. Ramesh's brother, assuming that Mr. Ramesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of Rs. 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh as per section 64(1)(iv).

This is because both Mr. Ramesh and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Ramesh, interest received by his spouse on debentures of Rs. 5 lacs alone would be included and not the entire interest income on the debentures of Rs. 6 lacs, since the cross transfer is only to the extent of Rs. 5 lacs.

Hence, only proportional interest (i.e., 5/6th of interest on debentures received) Rs. 37,500 would be includible in the hands of Mr. Ramesh.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

Computation of Gross Total Income of Mr. A

| Particulars | Rs. | Rs. |
|--|--------|--------|
| Own Income: | | |
| Business Income | | 50,000 |
| Interest on fixed deposit out of Gifts (Bank Interest) | | 7,000 |
| Income from Salary | | 48,000 |
| Interest on salary saved & Invested | | 8,000 |
| 2nd Child Income: | | |
| Interest on fixed deposit | 15,000 | |
| Bank Interest | 8,000 | |
| Salary (Note.2) | - | |
| Interest on Salary Income | 2,000 | |
| (-) Exemption U/s 10(32) | 1,500 | 23,500 |
| 3rd Child Income: | | |

| | | |
|---------------------------|-------|-----------------|
| Bank Interest | 1,000 | |
| (-) Exemption U/s 10 (32) | 1,000 | 0 |
| Gross Total Income | | 1,36,500 |

Note:

1. The 1st child being a major his income is not subject to clubbing.
2. The salary income derived by the 2nd child will not be subject to clubbing it is one of the exception given in section 64 (1A).

PROBLEM NO.2**Computation of income earned by minor children to be clubbed with the income of Mr. Mittal**

| | Particulars | Rs |
|-------|--|---------------|
| (i) | Income of first daughter [See Notes 1 & 2] | 5,000 |
| | Less: Income exempt under section 10(32) [See Note 4] | 1,500 |
| | Income to be clubbed | 3,500 |
| (ii) | Income of second daughter [See Note 1] | 8,500 |
| | Less: Income exempt under section 10(32) [See Note 4] | 1,500 |
| | Income to be clubbed | 7,000 |
| (iii) | Income of son [See Note 5] | 40,000 |
| | Less: Income exempt under section 10(32) [See Note 4] | 1,500 |
| | Income to be clubbed | 38,500 |
| | Total Income to be clubbed as per section 64(1A) [(i)+(ii)+(iii)] | 49,000 |

Notes:

1. As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to his minor child shall be included.
2. The income accruing or arising to a minor child on account of activity involving application of their skill, talent or specialized knowledge and experience is not includible in the total income of the parent. Therefore scholarship received by the first daughter is not includible in the hands of Mr. Mittal, assuming that the same is received on account of skill, talent or specialized knowledge of the minor daughter. The balance income of Rs. 5,000 (Rs. 10,000 – Rs. 5,000) is includible in the hands of Mr. Mittal after providing deduction of Rs. 1,500 under section 10(32).
3. Further, as per the provisions of section 64(1A), income of a minor child suffering from any disability of the nature specified in section 80U would not be included in the total income of the parent. Therefore, in this case, the income of third daughter suffering from disability specified under section 80U is not includible in the total income of Mr. Mittal.
4. Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or Rs.1,500, whichever is lower.
5. The specific provision under Explanation 3 to section 64 for inclusion of income from business where the assets transferred directly or indirectly by an individual are invested by the transferee in business are applicable in cases of transfer to spouse or son's wife only. In case of minor, all income accruing or arising to him or her is, in any case, includible in the hands of the parent.

PROBLEM NO.3

Computation of total income of Mr. Sangram, Mrs. Sangeeta and their minor son
for the A.Y. 2018-19

| Particulars | Mr. Sangram (Rs.) | Mrs. Sangeeta (Rs.) | Master Avi (Rs.) |
|---|-------------------|---------------------|------------------|
| Salary income (of Mrs. Sangeeta) | - | 1,44,000 | - |
| Pension income (of Mr. Sangram) (Rs. 50,000×12) | 6,00,000 | | |

| | | | | |
|--|---------------|------------------|-----------------|---------------|
| Income from House Property [See Note(3) below] | | 5,12,000 | - | - |
| Income from other sources | | | | |
| Interest on Mr. Sangram's fixed deposit with Canara Bank (Rs. 2,00,000×9%) [See Note (1) below] | 18,000 | | - | - |
| Remuneration received by Mrs. Sangeeta from a partnership firm, in which Mr. Sangram has substantial interest [See Note (2) below] | <u>32,500</u> | 50,500 | - | - |
| Income before including income of minor son under section 64(1A) | | 11,62,500 | 1,44,000 | - |
| Income of the Master Aayu from the investment made in the business out of the amount gifted by Mr. Sangram [See Note (4) below] | | 49,500 | - | - |
| Income of the Master Avi through an activity involving application of his skill and talent [See Note (5) below] | | - | - | 35,000 |
| Total Income | | 12,12,000 | 1,44,000 | 35,000 |

Notes:

1. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs. 18,000 transferred by Mr. Sangram to Mr. Babloo shall be included in the total income of Mr. Sangram.

2. As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the remuneration of Rs. 32,500 received by Mrs. Sangeeta from the partnership firm has to be included in the total income of Mr. Sangram, as his wife does not possess any technical or professional qualification for earning such remuneration and Mr. Sangram has substantial interest in the partnership firm as he holds 75% share in the firm.

3. According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Sangram shall be deemed to be the owner of the flat gifted to Mrs. Sangeeta and hence, the income arising from the same shall be computed in the hands of Mr. Sangram.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. Sangeeta, since she has received immovable property without consideration from a relative i.e., her husband.

4. As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.

Therefore, the income of Rs. 51,000 received by Master Aayu from the investment made out of the sum gifted by Mr. Sangram shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. Sangram, since Mr. Sangram's income of Rs.11,62,500 (before including the income of the minor child) is greater than Mrs. Sangeeta's income of Rs. 1,44,000. Therefore, Rs.49,500 (i.e., Rs. 51,000 – Rs.1,500) shall be included in Mr. Sangram's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of the Master Aayu, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative i.e., his father.

5. In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs. 35,000 derived by Master Avi through an activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

PROBLEM NO.4

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is Rs. 3,90,000 and income of Mrs. A is Rs. 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is Rs. 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of gross total income of Mr. A for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|--------------|-----------------|
| Income from profession | | 3,90,000 |
| Income of minor son B from company deposit | 15,000 | |
| Less: Exemption under section 10(32) | 1,500 | 13,500 |
| Income of minor daughter C | | |
| From special talent – not to be clubbed | - | |
| Interest from bank | 3,000 | |
| Gift of Rs. 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of Rs. 50,000 | Nil | |
| | 3,000 | |
| Less: Exemption under section 10(32) | 1,500 | 1,500 |
| Gross Total Income | | 4,05,000 |

PROBLEM NO.5

Computation of Gross Total Income of Mr. Dhaval

| Particulars | Rs. | Rs. |
|---|-------|-----------------|
| Income from Salary | | 3,50,000 |
| Income from other sources: | | |
| Minor Daughter's income | | |
| Income from T.V. show (See Note below) | | Nil |
| Interest income from FD with a Bank | 5,000 | |
| Less: Exempt under section 10(32) | 1,500 | 3,500 |
| Minor son's income | | |
| Income from sale of self-made painting (See Note below) | | Nil |
| Interest income from FD with a Bank | 1,000 | |
| Less: Exempt under section 10(32) | 1,000 | Nil |
| Gross Total Income | | 3,53,500 |

Note: The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialised knowledge or experience will not be included in the income of his parent. Hence, in the given case Rs. 50,000 being the income of the minor daughter from TV show and Rs. 10,000 being the income of minor son from sale of own painting, shall not be clubbed in the hands of Mr. Dhaval.

PROBLEM NO.6

Clubbing of income and other tax implications: As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications:

- i) Income of Rs.45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- ii) Salary of Rs.76,000 received by Mrs. B as a fashion designer shall be taxable as "Salaries" in the hands of Mrs. B.
- iii) Income from fixed deposit of Rs.10,000 arising to the minor son D, shall be clubbed in the hands of the mother, Mrs. B as "Income from other sources", since her income is greater than income of Mr. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs.1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

- iv) Income of Rs.95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- v) Income of Rs.1,95,000 arising to minor son D from lottery shall be included in the hands of Mrs. B as "Income from other sources", since her income is greater than the income of Mr. B before including the income of minor child.

Note: Mrs. B can reduce the tax deducted at source from such lottery income while computing her net tax liability.

PROBLEM NO.7**Computation of total income of Mr.A and Mrs. A for the A.Y 2018-19**

| Particulars | Mr. A | Mrs. A |
|--|-----------------|-----------------|
| Income from salaries | | |
| Salary income of Mr.S (Rs.25,000 x 12) | 3,00,000 | |
| Salary income of Mrs. A (Rs.10,000 x 12) (see working note 1) | 1,20,000 | - |
| Income from house property | | |
| Rent received (Rs.12,000 x 12) | 1,44,000 | |
| Less: Deduction under section 24 @ 30% | <u>43,200</u> | 1,00,800 |
| Income from other sources | | |
| Income from securities | <u>30,000</u> | |
| Income before including income of minor children under section 64(1A) (see working note 2) | <u>4,50,000</u> | 1,00,800 |
| | | |
| Income of twin daughters (Rs.2,000 per child x 2) | 4,000 | |
| Less: Exempt u/s 10 (32) (Rs.1,500 x 2) | <u>3,000</u> | 1,000 |
| | | |
| Income of the minor son | 1,200 | |
| Less: Exempt u/s 10 (32) | <u>1,200</u> | - |
| Total income | 4,51,000 | 1,00,800 |

Working Notes:

1. According to section 64(1), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest, then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In the following case, the salary of Rs.10,000 p.m. received by Mrs. A from the company has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such income and Mr.A has substantial interest in the company.

2. According to section 64(1A), the income of a minor child is to be included in the total income of the partner whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs.1,500 per child.

Hence, the income of minor children shall be included in the income of Mr. A, since Mr. A's income of Rs.4,50,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs.1,00,800

Note: The above solution has been worked out on the basis of the following assumptions:

- i. It has been assumed that the income earned by the minor children is not on account of any activity involving application of any skill or talent
- ii. Rent received has been assumed as gross annual value in the absence of standard rent, municipal value and fair market value
- iii. Income of each twin daughter has been taken as Rs.2,000 p.a.

Alternatively, the question can also be interpreted to mean that the cumulative income of the twin daughters is Rs.2,000 p.a. in which case the income to be clubbed under section 10(32). Consequently, the total income of Mr.A in such a case would be Rs.4,50,000.

PROBLEM NO.8

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, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child will be includible in the hands of the parent under section 64(1A), would be exempt to the extent of the actual income or Rs. 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr.Sharma

| | Particulars | Rs. |
|------|---|---------------|
| (i) | Income of one daughter | 9,000 |
| | Less: Income exempt under section 10(32) | 1,500 |
| | Total (A) | 7,500 |
| (ii) | Income of two sons (Rs. 6,200 + Rs. 4,300) | 10,500 |
| | Less: Income exempt under section 10(32) | |
| | (Rs. 1,500 + Rs. 1,500) | 3,000 |
| | Total (B) | 7,500 |
| | Total Income to be clubbed as per section 64(1A) (A+B) | 15,000 |

Note: It has been assumed that:

1. All the four children are minor children;

2. The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
3. The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
4. This is the first year in which clubbing provisions are attracted.

PROBLEM NO.9

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) 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, Mr. Vaibhav received a gift of Rs. 5,00,000 on 1.4.2017 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2018-19 is computed as under:

| Particulars | Mr. Vaibhav's capital contribution (Rs.) | Capital contribution out of gift from Mrs. Vaishaly (Rs.) | Total (Rs.) |
|---|---|---|-------------|
| Capital as on 1.4.2017 | 3,00,000 (5,00,000 – 2,00,000) | 5,00,000 | 8,00,000 |
| Profit for P.Y.2017-18 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2017 (3:5) | 1,50,000 $(4,00,000 \times \frac{3}{8})$ | 2,50,000 $(4,00,000 \times \frac{5}{8})$ | 4,00,000 |

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2018-19 is Rs. 2,50,000.

In case Mrs. Vaishaly gave the said amount of Rs. 5,00,000 as a *bona fide* loan, then, clubbing provisions would not be attracted.

PROBLEM NO.10

The clubbing provisions under section 64(1)(vi) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual. Therefore, income of Rs.36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case. The contention of Mrs. Kasturi is, hence, not valid in law.

Note: In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. If it is presumed that the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

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THE END

9. SET OFF AND CARRY FORWARD OF LOSSES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Computation of total income of Mr. Krishna for the A.Y 2018-19

| Particulars | Rs. | Rs. |
|---|---------------|-----------------|
| Income from house property | | |
| Gross Annual Value | 4,32,000 | |
| Less: Municipal taxes paid | <u>32,000</u> | |
| Net Annual Value (NAV) | 4,00,000 | |
| Less: Deductions under section 24 | | |
| (a) 30% of NAV | 1,20,000 | |
| (b) Interest on housing loan | <u>97,000</u> | 1,83,000 |
| Income from business | | |
| Income from business | 1,75,000 | |
| Less : Current year depreciation under section 32(1) | <u>40,000</u> | |
| | 1,35,000 | |
| Less: Set-off of brought forward business loss of A.Y.2015- 16 under section 72 | <u>70,000</u> | |
| | 65,000 | |
| Less: Unabsorbed depreciation set-off [See Note 3] | <u>65,000</u> | Nil |
| Capital gains | | |
| Long term capital gain on sale of debentures | 60,000 | |
| Less: Unabsorbed depreciation set-off [See Note 3] | <u>60,000</u> | Nil |
| Short term capital gain on sale of land [See Note 2] | 2,30,000 | |
| Less: Unabsorbed depreciation set-off [See Note 3] | <u>30,000</u> | 2,00,000 |
| Income from other sources | | |
| Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) – exempt under section 10(34) | - | Nil |
| Gross total income | | 3,83,000 |
| Less : Chapter VI-A deduction Section 80C [Principal repayment of housing loan] | | 70,000 |
| Total income | | 3,13,000 |

Notes:

- Loss from an exempt source cannot be set-off against gains from a taxable source. Since long-term capital gains on sale of listed equity shares through a recognized stock exchange is eligible for exemption under section 10(38), consequently, long-term capital loss on sale of listed equity shares, being loss from an exempt source, cannot be set-off against long-term capital gains on sale of debentures.
- Since land is held for a period of less than 24 months, the gain of Rs.2,30,000 arising from sale of such land is a short-term capital gain.
- Brought forward unabsorbed depreciation can be adjusted against any head of income. However, it is most beneficial to set-off unabsorbed depreciation first against long-term capital gains, since it is taxable at a higher rate of 20% (the other income of the assessee falling in the 10% slab rate). Therefore, unabsorbed depreciation is first set-off against long-term capital gains to the extent of Rs. 60,000. The remaining unabsorbed depreciation is adjusted against business income to the extent of Rs. 65,000 and the balance of Rs. 30,000 is adjusted against short-term capital gains.

In the alternative, the balance of Rs. 30,000 may also be set-off against income from house property, in which case, the net income from house property would be Rs. 1,53,000 and short-term capital gains would be Rs. 2,30,000. The gross total income and total income would, however, remain unchanged.

PROBLEM NO. 2

Computation of total income of Mr. Rajat for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-------------------|----------------------|
| 1. Income from house property | | |
| House No.1 | 72,000 | |
| House No.2 | (-) <u>30,000</u> | 42,000 |
| 2. Profits and gains of business or profession | | |
| Profit from leather business | 1,00,000 | |
| Less: Current year loss of textile business | (-) <u>40,000</u> | |
| | 60,000 | |
| Bad debts recovered taxable under section 41(4) | <u>35,000</u> | |
| | 95,000 | |
| Less: Brought forward business loss of textile business for A.Y.2014-15 set off against the business income of current year | <u>95,000</u> | Nil |
| 3. Capital Gains | | |
| Short-term capital gain | | <u>60,000</u> |
| Gross Total Income | | 1,02,000 |
| Less: Deduction under Chapter VI-A | | |
| Under section 80C – LIC premium paid | | <u>10,000</u> |
| Total Income | | <u>92,000</u> |

Statement of losses to be carried forward to A.Y. 2019-20

| Particulars | Rs. |
|---|--------|
| Business loss of A.Y. 2016-17 to be carried forward under section 72 | 50,000 |
| Long term capital loss of A.Y. 2018-19 to be carried forward under section 74 | 35,000 |

Notes:

- Share of profit from firm of Rs. 16,550 is exempt under section 10(2A).
- Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

PROBLEM NO. 3

According to section 78(1), where there is a change in the constitution of the firm, the loss relatable to outgoing partner (whether by way of retirement or death) has to be excluded for the purposes of carry forward. However, this provision does not apply in the case of unabsorbed depreciation.

Accordingly, M/s. Vivitha & Co. is entitled to carry forward the losses to the extent detailed here below:

| Item | Loss (Rs.) | Relatable to C | Balance eligible for carry forward (Rs.) |
|---------------------------------------|------------|----------------|---|
| Business loss of A.Y.2016-17 | 1,20,000 | 30,000 | 90,000 |
| Business loss of A.Y.2017-18 | 1,90,000 | 47,500 | 1,42,500 |
| Long term capital loss of A.Y.2017-18 | 3,00,000 | 75,000 | 2,25,000 |

Set off of items in the hands of M/s. Vivitha & Co. for the A.Y. 2018-19

| | Particulars | Rs. | Rs. |
|-----------|--|-----------------|-----|
| 1. | Income from house property | | |
| | Current year income | 70,000 | |
| | Less: Brought forward unabsorbed depreciation (See Note 1) | <u>70,000</u> | Nil |
| 2. | Profits and gains of business or profession | 2,20,000 | |
| | Current year speculative business profits | <u>50,000</u> | |
| | Less: Current year Non-speculation loss set off (See Note 2) | 1,70,000 | |
| | Less: Brought forward business losses of earlier year (2015-16 Rs.90,000 and 2016 -17 Rs. 80,000) (See Note 3) | <u>1,70,000</u> | Nil |

| | | |
|---|-----------------|----------------------|
| 3. Capital gain | | |
| Short term (from sale of shares) | | 40,000 |
| Long-term (from sale of building) | 2,10,000 | |
| Less: Brought forward long term capital loss of A.Y.2017-18 (See Note 4) | <u>2,10,000</u> | Nil |
| 4. Income from other sources | | |
| Current year income (before set off) | 60,000 | |
| Less: Brought forward depreciation (See Note 1) | <u>50,000</u> | <u>10,000</u> |
| Total Income | | <u>50,000</u> |
| Losses to be carried forward to A.Y. 2019-20 | | |
| Business loss (Rs. 1,42,500 - Rs. 80,000) | | 62,500 |
| Long term capital loss (Rs. 2,25,000 – Rs. 2,10,000) | | 15,000 |
| Both these losses relate to A.Y. 2017-18 | | |

Notes:

- Unabsorbed depreciation can be set off against income from any head. Hence, it will be advantageous to set off unabsorbed depreciation against income from house property and income from other sources.
- In the current year, non-speculation business loss can be set off against speculation business income.
- Brought forward non-speculation business loss can also be set off against speculation business income of current year.
- According to section 74, brought forward long-term capital losses shall be set off only against long-term capital gains of current year.
- The set-off and carry forward of losses should be most beneficial to the assessee. If the students set off brought forward depreciation against current year's business income first, then the quantum of brought forward business loss which can set off against current year's business income will be lower. This will not be beneficial to the assessee.

PROBLEM NO. 4**COMPUTATION OF GROSS TOTAL INCOME OF MR. P FOR THE A.Y. 2018 - 19**

| Particulars | Rs. | Rs. |
|--|---------------|------------------------|
| i) Income from salary | | 18,000 |
| ii) Income from House Property | | |
| Net annual value | 70,000 | |
| Less: Deduction under section 24 (30% of Rs.70,000) | <u>21,000</u> | 49,000 |
| iii) Income from business and profession | | |
| a) Income from business | 80,000 | |
| Less: Current year depreciation | <u>8,000</u> | |
| | 72,000 | |
| Less: Unabsorbed depreciation | <u>9,000</u> | 63,000 |
| b) Income from speculative business | 12,000 | |
| Less: Brought forward loss from speculative business (Balance loss of Rs.4,000 (i.e. Rs.16,000 – Rs.12,000) can be carried forward to the next year) | <u>12,000</u> | Nil |
| iv) Income from capital gain | | |
| Long term capital gain on sale of land | 15,800 | |
| Less: Brought forward short term capital loss | <u>7,800</u> | <u>8,000</u> |
| Gross total income | | <u>1,38,000</u> |

Amount of loss to be carried forward to the next year

| Particulars | Rs. |
|---|-------|
| Loss from speculative business (to be carried forward as per section 73) | 4,000 |
| Loss on maintenance of race horses (to be carried forward as per section 74A) | 9,000 |

Notes:

- Loss on gambling can neither be set-off nor be carried forward.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.

- iii) Speculative business loss can set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2019-20. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

PROBLEM NO. 5**Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2018 - 19**

| Particulars | Rs. |
|---|-----------------|
| Profits and gains of business and profession | |
| Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession" | 7,50,000 |
| Less: brought forward business loss of Assessment Year 2017-18 to be set-off against business income | <u>7,50,000</u> |
| | Nil |
| Capital Gains | |
| Long term capital gain on sale of land (See Note 2) | 5,00,000 |
| Income from other sources | |
| Cash gift received from friends - since the value of cash gift exceeds Rs.50,000, the entire sum is taxable | 51,000 |
| Dividend received from a domestic company is exempt under section 10(34) | <u>Nil</u> |
| Gross Total Income | 5,51,000 |

Notes:

- Balance brought forward business loss of assessment year 2017-18 of Rs.5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares cannot be set off against long-term capital gain on sale of land since loss from an exempt source cannot be set-off against profit from a taxable source. Since long-term capital gain on sale of listed shares on which STT is paid is exempt under section 10(38), loss on sale of listed shares is a loss from an exempt source. So it cannot be set-off against long-term capital gain on sale of land, which is a profit from a taxable source.

PROBLEM NO. 6**Computation of total income and tax liability of Mr. A for the A.Y. 2018 - 19**

| Particulars | Rs. |
|---|-----------------|
| Income from retail trade – as per books (See Note 1 below) | 1,50,000 |
| Income from plying of vehicles – as per books (See Note 2 below) | <u>3,20,000</u> |
| | 4,70,000 |
| Less : Set off of brought forward depreciation relating to A.Y. 2017-18 | <u>1,00,000</u> |
| Gross total income | 3,70,000 |
| Less: Deduction under section 80C – Contribution to PPF and bank FD | <u>1,00,000</u> |
| Taxable income | 2,70,000 |
| Tax liability | 1,000 |
| Less: Rebate under section 87A | <u>1,000</u> |
| Tax Payable/Refundable | Nil |

Note:

- Income from retail trade: Presumptive business income under section 44AD is Rs. 1,73,600 i.e., 8% of turnover of Rs. 21,70,000. However, the income computed as per books is Rs. 1,50,000 which is to be further reduced by the amount of unabsorbed depreciation of Rs. 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.
However, for claiming lower profits, he has to maintain the books of accounts under section 44AA and get them audited and furnishes an audit report under section 44AB.
- Income from plying of vehicles: Income calculated under section 44AE(1) would be Rs. 7,500 x 12 x 5 which is equal to Rs. 4,50,000. However, the income from plying of vehicles as per books is Rs. 3,20,000, which is lower than the presumptive income of Rs. 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. Rs. 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

| Particulars | Rs. |
|---|-----------------|
| Income from retail trade under section 44AD [Rs. 21,70,000 @ 8%] | 1,73,600 |
| Income from plying of vehicles under section 44AE [Rs. 7,500 x 12 x 5] | 4,50,000 |
| | 6,23,600 |
| Less : Set off of brought forward depreciation – not possible and it is deemed that it has been allowed and set off | Nil |
| Gross total income | 6,23,600 |
| Less: Deduction under section 80C – Contribution to PPF and bank FD | 1,00,000 |
| Taxable income | 5,23,600 |
| Tax thereon | 17,220 |
| Add : Education cess @ 2% and Secondary and higher education cess @ 1% | 517 |
| Total tax liability | 17,737 |
| Total tax liability (rounded off) | 17,740 |

PROBLEM NO. 7

Computation of total income of Mr. Aditya for the A.Y.2018 - 19

| Particulars | Amount | Amount |
|--|------------|-----------------|
| Salaries | | |
| Income from Salary | 2,50,000 | |
| Less: Loss from house property set-off against salary income as per section 71(1) | (1,50,000) | 1,00,000 |
| Profits and gains of business or profession | | |
| Income from trading business | 45,000 | |
| Less: Brought forward loss from trading business of A.Y. 2014-15 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. | (5,000) | 40,000 |
| Income from speculative business B | 5,000 | |
| Less: Loss from speculative business A set-off as per section 73(1) | (25,000) | |
| Loss from speculative business A to be carried forward to A.Y.2019 -20 as per section 73(2) | (20,000) | |
| Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A. | 20,000 | |
| Capital Gains | | |
| Long term capital gain on sale of urban land. | 2,00,000 | |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)] | (75,000) | 1,25,000 |
| (Long-term capital loss of Rs. 82,000 on sale of listed shares on which STT is paid cannot be set-off against long-term capital gain on sale of urban land since loss from an exempt source cannot be set-off against profit from a taxable source.) | | |
| Total Income | | 2,65,000 |

Loss to be carry forward to AY 2019 – 20

- Loss from speculative business A 20,000
- Income from specified business u/sec.35AD 20,000
- Losses from owning and maintaining of race horses 2,000

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SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO.1**

Computation of total income of Sanjay for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|------------|-----------------|
| Profit from wholesale trade in furniture items (as per section 44AD) | 4,00,000 | |
| Less: Set-off of current year loss from automobile business | (1,10,000) | |
| | 2,90,000 | |
| Less: Set-off of brought forward loss relating to discontinued textile business | (2,00,000) | 90,000 |
| | | |
| Profit from speculation business related to oil seeds | 1,10,000 | |
| Less: Set-off of loss from speculation business brought forward from A.Y.2017-18 under section 73 | 50,000 | 60,000 |
| Less: Set-off of brought forward unabsorbed depreciation relating to A.Y. 2017-18 | | Nil |
| Total Income | | 1,50,000 |

PROBLEM NO.2

Computation of total income of Mr. Sitarman for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|------------|-----------------|
| Salaries | | |
| Income from salaries | 3,22,000 | |
| Less: Loss from house property | (1,65,000) | 1,57,000 |
| Profits and gains of business or profession | | |
| Income from speculation business | 26,000 | |
| Less: Loss from retail business set off | (26,000) | Nil |
| Capital gains | | |
| Long-term capital gains from sale of residential house | 3,60,000 | |
| Less: Loss from retail business set off | (1,99,000) | 1,61,000 |
| Income from other sources | | |
| Income from betting | | 51,000 |
| Gross total income | | 3,69,000 |
| Less: Deduction under section 80C for life insurance premium paid (restricted to 10% of Rs. 9 Lakh, being actual capital sum assured) | | 90,000 |
| Total income | | 2,79,000 |

Losses to be carried forward:

| Particulars | Rs. |
|--|--------|
| Loss from retail business (Rs. 2,25,000 - Rs. 26,000 - Rs. 1,99,000) | Nil |
| Loss from specified business covered by section 35AD | 31,000 |

Notes:

- Long term capital gains from sale of listed shares in a recognized stock exchange are exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares cannot be set-off against long-term capital gains from sale of residential house.
- 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 indefinitely for set-off against profits and gains of any specified business.

- iii) Business loss cannot be set off against salary income. However, the balance business loss of Rs.1,99,000 (Rs.2,25,000 – Rs.26,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs.3,60,000 from sale of residential house. Consequently, the taxable long-term capital gains would be Rs.1,61,000.
- iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- v) Income from betting is chargeable 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.

PROBLEM NO.3**Computation of taxable income of Mr. A for the A.Y. 2018-19**

| Particulars | Amount (Rs.) | Amount (Rs.) |
|--|-----------------|-----------------|
| Income from salary | 4,00,000 | |
| Income from house property [Rs.2,20,000 (70000+150000) to be restricted to Rs.2 lakhs by virtue of section 71(3A)] | (2,00,000) | 2,00,000 |
| Business income | (1,00,000) | |
| Income from other sources (interest on fixed deposit with bank) | 80,000 | |
| Business loss to be carried forward | (20,000) | - |
| Gross total income [See Note below] | | 2,00,000 |
| Less: Deduction under Chapter VIA | | Nil |
| Taxable income | | 2,00,000 |

Note: Gross Total Income includes salary income of Rs. 2,00,000 after adjusting house property loss. The balance loss of Rs.20,000 will be carried forwarded to next year. Business loss of Rs. 1,00,000 is set off against bank interest of Rs. 80,000 and remaining business loss of Rs. 20,000 will be carried forward as it cannot be set off against salary income.

PROBLEM NO.4

The capital gains taxable are as under:

| Particulars | Rs. | Rs. |
|--|----------|-----------------|
| Short term capital gains on sale of shares | 1,50,000 | |
| Less: Brought forward short term capital loss of the A.Y.2017-18 | (37,000) | 1,13,000 |
| Long term capital gain | 75,000 | |
| Less: Brought forward long term capital loss of A.Y.2016-17 [See Note below] | (75,000) | Nil |
| Taxable short-term capital gains | | 1,13,000 |

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long term capital loss of A.Y.2016-17 of Rs. 21,000 (i.e. Rs. 96,000 – Rs. 75,000) has to be carried forward to the next year to be set-off against long-term capital gains of that year.

PROBLEM NO.5**Computation of taxable income of Mr.D for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|-----------------|---------------|
| Income from the activity of owning and maintaining race horses | 75,000 | |
| Less: Brought forward loss from the activity of owning and maintaining race horses | <u>96,000</u> | |
| Loss from the activity of owning and maintaining race horses to be c/f to AY 2019-20 | (21,000) | |
| Income from textile business | 85,000 | |
| Less: Brought forward business loss from textile business. | 50,000 | 35,000 |
| Taxable business income | | 35,000 |

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

PROBLEM NO.6**Computation of Gross Total Income of Mr. Alok for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|-----------------|-----------------|
| Salaries | 1,38,000 | |
| Less: Current year loss from house property | <u>(66,000)</u> | 72,000 |
| Profit and gains of business or profession | | |
| Income from textile business | 73,000 | |
| Less: Loss from textile business brought forward from A.Y. 2010-11 | <u>82,000</u> | |
| Balance business loss of A.Y. 2010-11 (See Note 1) | (9,000) | NIL |
| Income from the activity of owning and maintaining race Horses | 21,000 | |
| Less: Loss from activity of owning and maintaining race horses brought forward from A.Y. 2015-16 | <u>37,000</u> | |
| Loss to be carried forward to A.Y. 2019-20 (See Note 2) | <u>(16,000)</u> | NIL |
| Capital Gain | | |
| Short term capital gain | | 1,65,000 |
| Long term capital gain on sale of land | 27,000 | |
| Less: Long term capital loss on sale of shares | <u>1,06,000</u> | |
| Loss to be carried forward to A.Y. 2019-20 (See Note 3) | <u>(79,000)</u> | NIL |
| Gross Total Income | | 2,37,000 |

Losses to be carried forward to A.Y. 2019-20

| Particulars | Rs. |
|---|--------|
| Current year loss from speculative business (See Note 4) | 58,000 |
| Current year long term capital loss on sale of shares (See Note 3) | 79,000 |
| Loss from activity of owning and maintaining of race horse pertaining to A.Y.2015-16 (See Note 2) | 16,000 |

Notes:

- As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2010-11 expired with the A.Y. 2018-19, the balance unabsorbed business loss of Rs. 9,000 cannot be carried forward to A.Y. 2019-20.
- As per section 74A(3), the loss incurred from the activity of owning and maintaining of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years. Therefore, the unabsorbed loss of Rs. 16,000 from the activity of owning and maintaining race horses pertaining to A.Y. 2015-16 can be carried forward upto A.Y. 2019-20.
- Long term capital gains on sale of shares on which securities transaction tax is not paid is not exempt under section 10(38). Therefore, long-term capital loss on sale of such shares can be set-off against long-term capital gain on sale of land. The balance loss of Rs. 79,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

PROBLEM NO.7**Computation of gross total income of Mr. Soohan for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|---|---------------|-----------------|
| Salaries | | |
| Income from salary | 3,00,00 | |
| Less: Loss from house property set-off against salary income as per section 71 | 40,000 | 2,60,000 |
| Profits and gains of business or profession | | |
| Income from sugar business | 50,000 | |
| Less: Brought forward loss from iron-ore business set-off as per section 72(1) | 50,000 | Nil |
| Balance business loss of Rs.70,000 of P.Y.2012-13 carried forward to A.Y.2019-20 | - | |
| Capital gains | | |
| Long term capital gain | 40,000 | |
| Less: Short term capital loss set-off | 40,000 | Nil |
| Balance short-term capital loss of Rs. 20,000 to be carried forward | | |
| Short-term capital loss of Rs. 10,000 under section 111A also to be carried forward | | |
| Income from other sources | | |
| Winnings from lottery | 50,000 | |
| Winnings from card games | 6,000 | |
| Bank interest | 5,000 | 61,000 |
| Gross Total Income | | 3,21,000 |
| Losses to be carried forward to A.Y.2019-20 | | |
| Loss of iron-ore business | 70,000 | |
| Short term capital loss (Rs. 20,000 + Rs. 10,000) | 30,000 | |

Notes:

- The following income are exempt under section 10
 - Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
 - Agricultural income [Exempt under section 10(1)].
 - Long-term capital gains on which STCG is paid [Exempt under section 10(38)].
- It is presumed that loss from iron-ore business relates to P.Y.2012-13, the year in which the business was discontinued.

PROBLEM NO.8**Computation of total income of Simran for the A.Y. 2018-19**

| Particulars | Amount | Amount |
|--|---------------|----------------------|
| Profit of business of consumer and house-hold products | 50,000 | |
| Less: Loss of business of readymade garments for the year adjusted under section 70(1) | 10,000 | |
| Less: Brought forward loss of catering business closed in A.Y. 2016-17 set off against business income for the current year as per section 72(1) | <u>15,000</u> | 25,000 |
| Profit of speculative transaction | | <u>12,500</u> |
| Total Income | | <u>37,500</u> |

Notes:

- Loss of speculative transaction of A.Y. 2013-14 is not allowed to be set off against the profit of speculative transaction of the A.Y.2018-19, since, as per the provisions of section 73(4), such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y.2017-18.
- Short term capital loss of Rs.15,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2018-19. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years.
- Students are advised to change the AY 2017-18 in point (c) as AY 2016-17.

PROBLEM NO.9

Computation of taxable income of Mr. E for the A.Y. 2018-19

| Particulars | Amount (Rs.) | Amount (Rs.) |
|---|--------------|-----------------|
| Income from salary | | 1,50,000 |
| Income from speculation business | 60,000 | |
| Less : Loss from non-speculation business | (40,000) | 20,000 |
| Short-term capital gain | | 80,000 |
| Winnings from lotteries | | 20,000 |
| Taxable income | | 2,70,000 |

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of Rs. 30,000 has to be carried forward to the next assessment year.

PROBLEM NO.10

Computation of taxable income of Mr. B for the A.Y. 2018-19

| Particulars | Amount (Rs.) | Amount (Rs.) |
|--|--------------|---------------|
| Income from salary | 45,000 | |
| Income from house property | (24,000) | 21,000 |
| | | |
| Profits and gains of business and profession | | |
| Business loss to be carried forward [Note 1] | (22,000) | |
| Speculative loss to be carried forward [Note 2] | (4,000) | |
| | | |
| Capital gains | | |
| Long term capital gain | 19,000 | |
| Short term capital loss | (25,000) | |
| Short term capital loss to be carried forward [Note 3] | (6,000) | |
| Taxable income | | 21,000 |

Notes:

1. Business loss cannot be set-off against salary income. Therefore, loss of Rs. 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
2. Loss of Rs. 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
3. Short term capital loss can be set off against both short term capital gain and long term capital gain. Therefore, short term capital loss of Rs. 25,000 can be set off against long-term capital gains to the extent of Rs. 19,000. The balance short term capital loss of Rs. 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

THE END

10. DEDUCTIONS

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO.1

Computation of total taxable income of Mr. A for A.Y.2018-19

| Particulars | Rs. | Rs. |
|--|---------------|-----------------|
| Income from other sources | | |
| Interest on fixed deposit | | 30,000 |
| lottery income | | 1,20,000 |
| Gross Total Income | | 1,50,000 |
| Less: Deductions under Chapter VIA [See Note below] | | |
| Under section 80C - Deposit in Public Provident Fund | 10,000 | |
| Investment in National Saving Certificate | 24,000 | |
| | <u>34,000</u> | |
| Restricted to | | 30,000 |
| Total Income | | 1,20,000 |

Note: Though the value of eligible investments is Rs.34,000, however, deductions under chapter VIA cannot exceed the gross total income exclusive of long term capital gains, short term capital gains covered under section 111A, winnings of lotteries etc of the assessee.

Therefore, the maximum permissible deduction u/s 80C = Rs.1,50,000 - Rs.1,20,000 = Rs.30,000.

PROBLEM NO. 2

Computation of deduction under section 80C for A.Y.2018-19

| Particulars | Rs. |
|--|----------|
| Deposit in public provident fund | 1,20,000 |
| Investment in units of mutual funds | 40,000 |
| Insurance premium paid on the life of the spouse | |
| (Maximum 20% of the assured value Rs.1,00,000, as the policy is taken before 1.4.2012) | 20,000 |
| Total | 1,80,000 |
| However, the maximum permissible deduction is restricted to | 1,50,000 |

Note: As per section 80CCE, total deduction under section 80C, 80CCC and 80CCD(1) cannot exceed Rs.1,50,000

PROBLEM NO. 3

Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD:

- Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, Rs.1,80,000, being 15% of basic salary of Rs.12,00,000, will be included in Mr. A's salary.
- Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, salary for the purpose of deduction under section 80CCD, in this case, would be

| Particulars | Rs. |
|---|------------------|
| Basic salary = Rs.1,00,000 × 12 = | 12,00,000 |
| Dearness allowance = 40% of Rs.12,00,000 = Rs.4,80,000 | |
| 50% of DA forms part of pay = 50% of Rs.4,80,000 | <u>2,40,000</u> |
| Salary for the purpose of deduction under section 80CCD | <u>14,40,000</u> |
| Deduction under section 80CCD(1) = 10% of Rs.14,40,000 (as against actual contribution of Rs.1,80,000, being 15% of basic salary of Rs.12,00,000) | 1,44,000 |
| As per section 80CCD(1B), a further deduction of up to Rs. 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is Rs. 36,000 (Rs. 1,80,000 - Rs. 1,44,000). | <u>36,000</u> |

Rs.1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of Rs. 1,50,000 under section 80CCE. Rs. 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of Rs. 1,50,000 under section 80CCE.

In the alternative, Rs. 50,000 can be claimed as deduction under section 80CCD(1B). The balance Rs. 1,30,000 (Rs. 1,80,000 - Rs. 50,000) can be claimed as deduction under section 80CCD(1).

- c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to Rs. 1,44,000, even though the entire employer's contribution of Rs. 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of Rs. 1,44,000 to pension scheme would be outside the overall limit of Rs. 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of Rs. 1,50,000.

PROBLEM NO. 4

1. Deduction available to Mr. A under Chapter VI-A for A.Y.2018-19

| Section | Particulars | Rs. | Rs. |
|-------------------------------------|---|-----------------|-----------------|
| 80C | Deposit in public provident fund | 1,20,000 | |
| | Life insurance premium paid Rs. 15,000 (deduction restricted to Rs. 12,000, being 10% of Rs. 1,20,000, being sum assured, since the policy was taken after 31.3.2012) | 12,000 | |
| | Five year term deposit with bank | 30,000 | |
| | Total | 1,62,000 | |
| | Restricted to | | 1,50,000 |
| 80CCD(1) | Contribution to NPS of the Central Government, Rs.1,30,000 [Rs.1,80,000 – Rs.50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [Rs.1,80,000 x 10/15] [See Note (i)] | | 1,20,000 |
| | Total | | 2,70,000 |
| 80CCE | Aggregate deduction under section 80C and 80CCD(1), Rs.2,70,000, but restricted to | | 1,50,000 |
| 80CCD(1B) | Rs.50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government | | 50,000 |
| 80CCD(2) | Employer contribution to NPS, restricted to 10% of salary [See Note (ii)] | | 1,20,000 |
| Deduction under Chapter VI-A | | | 3,20,000 |

Notes:

- The deduction under section 80CCD(1B) would not be subject to overall limit of Rs.1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. A to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs.1,30,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary.
- The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary.

If the contribution towards NPS is Rs.1,20,000, here again, it is beneficial for Mr. A to first claim deduction of Rs.50,000 under section 80CCD(1B) and the balance of Rs.70,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs.1,50,000 under section 80CCE. In any case, the aggregate deduction of Rs.2,20,000 [i.e., Rs.1,50,000 under section 80C and Rs.70,000 under section 80CCD(1)] cannot exceed the overall limit of Rs.1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs.3,20,000.

PROBLEM NO.5

| S.No. | Date of issue of policy | Person insured | Actual capital Sum assured | Insurance premium paid during 2017-18 | Deduction u/s 80C for A.Y.2018-19 | Remark (restricted to % of sum assured) |
|-------|-------------------------|--|----------------------------|---------------------------------------|-----------------------------------|---|
| i) | 01.04.2011 | Self | 3,00,000 | 80,000 | 60,000 | 20% |
| ii) | 01.05.2014 | Spouse | 1,50,000 | 20,000 | 15,000 | 10% |
| iii) | 01.06.2015 | Handicapped Son (Section 80U disability) | 4,00,000 | 80,000 | 60,000 | 15% |
| | | | | Total | 1,35,000 | |

PROBLEM NO.6**Computation of deduction under section 80D for the A.Y. 2018-19**

| No. | Particulars | Amount (Rs.) |
|-----|--|---------------|
| 1. | i) In respect of premium paid for insuring the health of - ➤ Self 10,000 ➤ Spouse 8,000 ➤ Dependant son 4,000 Total 22,000 ii) In respect of expenditure on preventive health check up of - ➤ Self 2,000 ➤ Spouse 1,500 Total 3,500 Restricted to [Rs.25,000 – Rs.22,000, since maximum deduction is Rs.25,000] Aggregate of deduction (I+II) under (1) restricted to 25,000 | |
| 2. | i) In respect of payment towards health insurance premium for his mother 18,000 ii) In respect of preventive health check up of his mother [Rs. 4,000, restricted to Rs. 2,000, (Rs. 5,000 – Rs. 3,000), since maximum deduction for preventive health check up under section 80D is Rs. 5,000] 2,000 iii) Medical expenditure for father would only be eligible for deduction [See Note below] 15,000 35,000 Amount of deduction under (2) restricted to Total 30,000 | |
| | Total deduction under section 80D [(1) + (2)] | 55,000 |

Note: Irrespective of the fact that the mother of Arjun is a very senior citizen the deduction under section 80D would not be available to him in respect of the medical expenditure incurred for his mother, since Mr. Arjun has taken a health insurance policy for his mother.

PROBLEM NO. 7**Deduction allowable under section 80D for the A.Y.2018-19**

| | Particulars | Rs. | Rs. |
|----|---|-----------------------|------------------------------------|
| | | Actual Payment | Maximum deduction allowable |
| A. | Premium paid and medical expenditure incurred for self and spouse | | |
| | i) Medical insurance premium paid for self and spouse | 20,000 | 20,000 |
| | ii) Contribution to CGHS | 3,600 | 3,600 |
| | iii) Exp. on preventive health check-up of self & spouse | 3,000 | 1,400 |
| | | 26,600 | 25,000 |
| B. | Premium paid and medical expenditure incurred for father, who is a senior citizen | | |

| | | |
|--|---------------|----------------------|
| i) Mediciam premium paid for father, who is over 60 years of age | 27,000 | 27,000 |
| ii) Expenditure on preventive health check-up of father | 4,000 | 3,000 |
| | <u>31,000</u> | <u>30,000</u> |
| Total deduction under section 80D (25,000 + 30,000) | | <u>55,000</u> |

Notes:

1. The total deduction under A. (i), (ii) and (iii) above should not exceed Rs.25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs.1,400, being (Rs.25,000 - Rs.20,000 - Rs.3,600).
2. The total deduction under B. (i) and (ii) above should not exceed Rs.30,000. Therefore, the expenditure on preventive health check-up for father would be restricted to Rs.3,000, being (Rs.30,000 - Rs.27,000).
3. In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is Rs.4,400 (i.e., Rs.1,400 + Rs.3,000), which is less than the maximum permissible limit of Rs.5,000.

PROBLEM NO. 8**Deduction allowable under section 80D for the A.Y.2018-19**

| | Particulars | Rs. |
|------|--|---------------|
| i) | Medical insurance premium paid for self, spouse and dependent children | 22,000 |
| ii) | Contribution to CGHS | 2,400 |
| iii) | Mediciam premium paid for father, who is over 60 years of age (Rs.33,000 but restricted to Rs.30,000, being the maximum allowable) | <u>30,000</u> |
| | | 54,400 |

Note: The total deduction under (i) and (ii) above should not exceed Rs.25,000. In this case, since the total of (i) and (ii) (i.e., Rs.24,400) does not exceed Rs.25,000, the same is fully allowable under section 80D.

However, had the medical insurance premium paid for self, spouse and children been Rs.24,000 instead of Rs.22,000, then, the total of Rs.26,400 (i.e., Rs.24,000 + Rs.2,400) under (i) and (ii) above would be restricted to Rs.25,000. In such a case, the total deduction allowable under section 80D would be Rs.55,000 [i.e., Rs.25,000 [(i) & (ii)] + Rs.30,000 (iii)].

PROBLEM NO. 9**Computation of eligible deduction under Chapter - VI A of Mr. Nepal for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|--|-----------------|-----------------|
| Deduction under Section 80C | | |
| LIC premium paid Rs. 25,000 [Limited to 20% of policy value, since policy has been taken before 1.04.2012 (20% x Rs. 1,00,000)] | 20,000 | |
| Contribution to P.P.F. | 70,000 | |
| Repayment of housing loan to Indian Bank | 50,000 | |
| | 1,40,000 | |
| Deduction under Section 80CCC | | |
| Payment to LIC Pension Fund | 20,000 | |
| | 1,60,000 | |
| Deduction limited to Rs. 1,50,000 as per section 80CCE | | 1,50,000 |
| Deduction under Section 80D | | |
| Payment of medical insurance premium Rs. 28,000 for self, wife and dependent children. Deduction limited to Rs. 25,000. | 25,000 | |
| Medical insurance premium paid for parents Rs. 32,000 (limited to Rs. 30,000, being the limit applicable for senior citizens) | 30,000 | 55,000 |
| Eligible deduction under Chapter VI A | | 2,05,000 |

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PROBLEM NO. 10

- i) Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.
- ii) Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of Rs. 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be Rs. 1,25,000.

PROBLEM NO. 11

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction. Deduction under section 80E = Rs.20,000 + Rs.10,000 + Rs.18,000 = **Rs.48,000**

PROBLEM NO. 12**Computation of eligible deduction under Sec.80EE for the A.Y. 2018-19**

| Particulars | | amount |
|------------------------------------|--|----------|
| Interest deduction for A.Y.2018-19 | | |
| (i) | Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) 3,20,833 [35,00,000 × 11% × 10/12] | 2,00,000 |
| (ii) | Restricted to Deduction under Chapter VIA from Gross Total Income Deduction under section 80EE 1,20,833 (3,20,833 – 2,00,000) Restricted to | 50,000 |

PROBLEM NO. 13**Computation of Taxable Income of Mr.A for the A.Y.2018-19**

| | |
|---|-----------------|
| Income from Salaries | 1,76,000 |
| Income from PGBP | 40,000 |
| Income from Capital Gains | 50,000 |
| Income from Other Sources | 22,000 |
| Total | 2,88,000 |
| (-) Set off of loss from House Property (Sec. 71) | 10,000 |
| Gross Total Income | 2,78,000 |
| (-) Chapter IV A deductions: | |
| 1. 80 D (Mediclaime) | 6000 |
| 2. 80 DD (Medical Treatment) | 75,000 |
| 3. 80E (Education Loan) | 25,000 |
| 4. <u>80 G:</u> | |
| Prime ministries drought relief fund (50%) | 500 |
| National Fund for communal Harmony (100%) | 2,000 |
| Jawaharlal Nehru memorial fund (50%) | 1,000 |
| Prime Minister National Relief Fund (100%) | 1,200 |
| * Govt. for family planning (14700 X 100%) | 11,200 |
| *Approved Charitable Institutions | ----- |
| 5. 80 C (PPF) | 20,000 |
| Taxable Income | 1,36,100 |

***Adjusted Total Income**

| | |
|---|-----------------|
| Gross Total Income | 2,78,000 |
| Less: LTCG (112) | 30,000 |
| Winning from lotteries | 10,000 |
| All deductions except 80G (6K+75K+25K+20K) | 1,26,000 |
| Adjusted total Income | 1,12,000 |

Deduction is to be calculated for the above two donations in the following manner:

The aggregate amount of 20K (17K+3K) shouldn't exceed 10% of the adjusted total income 1,12,000 i.e. 11,200.

∴ As an assessee I would like to make use this limit to a donation which qualifies for a higher percentage i.e., 100%

| Taxable Income (1,36,100) | | | |
|---------------------------|------------------------------|----------------------|-----------------|
| Lottery Income (115BB) | LTCG (112A) | Other Income | 96,100 |
| 10,000 | 30,000 | (-) Basic Exemptions | 2,50,000 |
| 10,000 X 30% = 3000 | (30,000-30,000*) × 20% = Nil | | 1,53,900 |

(*) Here, there is unexhausted basic exemption limit is Rs.1,53,900 (2,50,000-96,100). It can be set off from long term capital gain.

Computation of tax liability

| | |
|-------------------------|--------------|
| Tax on Total Income | 3,000 |
| (+) Surcharge | Nil |
| (+) Education Cess @ 3% | 90 |
| Total | 3,090 |

PROBLEM NO. 14

The deduction under section 80GG will be computed as follows:

- Actual rent paid less 10% of total income
1,44,000 - (4,60,000 X 10%) = 98,000
 - 25% of total incomes = 4,60,000 X 25% = 1,15,000
 - Amount calculated at Rs. 5,000 p.m. = 12 X 5,000 = 60,000
- Deduction allowable (least of i, ii and iii) = 60,000

PROBLEM NO. 15

- An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.
- Therefore, **ABC Ltd. is eligible for a deduction of Rs.2,25,000** under section 80GGB in respect of sum of Rs.2 lakh contributed to an electoral trust and Rs.25,000 incurred by it on advertisement in a brochure of a political party.
- It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of Rs.25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

PROBLEM NO. 16

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2018-19, as his total turnover from business exceeds Rs. 1 Crore and he has employed "additional employees" during the P.Y.2017-18.

Additional employee cost = $24,000 \times 12 \times 75$ [See Working Note below] = 2,16,00,000

Deduction under section 80JJAA = 30% of 2,16,00,000 = Rs.64,80,000.

Working Note:

Number of additional employees

| Particulars | No. of workmen | |
|---|----------------|------------|
| Total number of employees employed during the year | | 350 |
| Less: Casual employees employed on 1.8.2017 who do not participate in recognized provident fund | 50 | |
| Regular employees employed on 1.5.2017, since their total monthly emoluments exceed 25,000 | 125 | |
| Regular employees employed on 1.9.2017 since they have been employed for less than 240 days in the P.Y.2017-18. | <u>100</u> | <u>275</u> |
| Number of "additional employees" | | 75 |

Note - Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2017 also do not qualify as additional employees since their monthly emoluments exceed Rs.25,000. Also, 100 regular employees employed on 1.9.2017 do not qualify as additional employees for the P.Y.2017-18, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2017 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2017-18 is deemed to be the additional employee cost. From A.Y.2018-19, it is not necessary that the employee should qualify as a "workman" under the Industrial Disputes Act, 1947 for the employer to avail benefit under section 80JJAA.

PROBLEM NO. 17

Computation of Taxable Income of Mr. X for the A.Y.2018-19

| | |
|--|----------|
| Income from Salaries (3000×12) | 36,000 |
| Income from Capital Gains | 1,45,000 |
| Income from other sources | |
| Govt. Securities | 2,000 |
| Bank Deposits | 34,000 |
| Gross Total Income | 2,17,000 |
| (-) Chapter VI A Deductions | |
| Public Provident fund U/s 80C | 10,000 |
| Deduction U/s 80U | 1,25,000 |
| (Restricted to 72,000) (36,000 + 2,000 + 34,000) | 72,000 |
| Taxable Income | 1,45,000 |

Note:

1. Deductions under chapter VI A are not available for LTCG.
2. As the taxable income is less than the basic exemption. Therefore no tax liability will arise

PROBLEM NO. 18

Computation of total income and tax payable by Mr. Chaturvedi for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Gross total income including long term capital gain | | 8,18,240 |
| Less : Long term capital gain | | 2,45,000 |
| | | 5,73,240 |
| Less : Deductions under Chapter VI-A: | | |
| Under section 80C in respect of PPF deposit | 1,40,000 | |
| Under section 80D (it is assumed that premium of Rs. 31,000 is paid by otherwise than by cash. The deduction would be restricted to Rs. 30,000, since Mr. Chaturvedi is a senior citizen) | 30,000 | |
| Under section 80G (See Notes 1 & 2 below) | 19,662 | |

| | | |
|---|--------|-----------------|
| Under section 80TTA (See Note 3 below) | 10,000 | 1,99,662 |
| Total income (excluding long term capital gains) | | 3,73,578 |
| Total income (including long term capital gains) | | 6,18,578 |
| Total income (rounded off) | | 6,18,580 |
| Tax on total income (including long-term capital gains of Rs. 2,45,000) | | |
| LTCG Rs. 2,45,000 x 20% | | 49,000 |
| Balance total income Rs. 3,73,580 | | 3,679 |
| | | 52,679 |
| Add: Education cess @2% and Secondary and higher education cess @1% | | 1,580 |
| Total tax liability | | 54,259 |
| Total tax liability (rounded off) | | 54,260 |

Notes:**1. Computation of deduction under section 80G:**

| Particulars | Rs. |
|---|-----------------|
| Gross total income (excluding long term capital gains) | 5,73,240 |
| Less : Deduction under section 80C, 80D & 80TTA | 1,80,000 |
| | 3,93,240 |
| 10% of the above | 39,324 |
| Contribution made | 50,000 |
| Lower of the two eligible for deduction under section 80G | 39,324 |
| Deduction under section 80G – 50% of Rs. 39,324 | 19,662 |

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding Rs. 2,000. Therefore the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.

Deduction of up to Rs.10,000 under section 80TTA is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.

PROBLEM NO. 19**Computation of total income of Mr. Gurnam for the Assessment Year 2018-19**

| Particulars | Rs. | Rs. | Rs. |
|--|---------------|--------|-----------------|
| Professional Income (computed) | | | 5,50,000 |
| Interest on saving bank deposit | | | <u>14,500</u> |
| Gross Total Income | | | 5,64,500 |
| Less: Deduction under Chapter VIA | | | |
| Under section 80C (See Note 1) | | | |
| Life insurance premium paid for life insurance of: | | | |
| - major son | 25,000 | | |
| - self Rs. 22,500 restricted to 10% of Rs. 2,00,000 | <u>20,000</u> | 45,000 | |
| Under section 80D (See Note 3) | | | |
| Premium paid for health insurance of self and wife by Cheque | 22,000 | | |
| Payment made for health check-up: | | | |
| - Self Rs.1,500 | | | |
| - His Parents Rs. <u>4,500</u> | | | |
| Rs.6,000 restricted to | 5,000 | 27,000 | |
| Under section 80E | | | |
| For payment of interest on loan taken from bank for MBA course of his daughter | | 6,500 | |
| Under section 80TTA (See Note 5) | | | |
| Interest on savings bank account Rs. 14,500 restricted to | | 10,000 | <u>88,500</u> |
| Total Income | | | 4,76,000 |

Notes:

1. As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of Rs. 25,000 is allowable in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of Rs. 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

2. As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of Rs. 22,000 is allowed in respect of premium paid for health insurance of self and wife. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is Rs. 23,500 (Rs. 22,000 + Rs. 1,500), which is less than Rs. 25,000. Further, deduction up to a maximum of Rs. 5,000 is allowable in respect of health check-up of self and his parents. This implies that Rs. 3,500 is allowable for health check-up of parents which falls within the additional limit of Rs. 30,000 for mediclaim premium and expenditure on preventive health check-up of parents who are senior citizens.

3. No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding Rs. 2,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein.

4. As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, a deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is Rs. 14,500.

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

**Computation of eligible deduction under section 80C for A.Y. 2018-19
(In respect of life insurance premium paid by Mr. Himesh)**

| S. No. | Date of issue of policy | Person insured | Actual capital sum assured | Insurance premium paid during 2017-18 | Restricted to % of sum assured) | Deduction u/s 80C for A.Y.2018-19 |
|--------------|-------------------------|----------------------|----------------------------|---------------------------------------|---------------------------------|-----------------------------------|
| i) | 1/3/2012 | Mr. Himesh | 3,00,000 | 75,000 | 20% | 60,000 |
| ii) | 1/5/2014 | Mrs. Himani | 1,00,000 | 25,000 | 10% | 10,000 |
| iii) | 1/7/2015 | Handicapped Daughter | 2,00,000 | 60,000 | 15% | 30,000 |
| iv) | 1/7/2015 | Son | 1,00,000 | 25,000 | 10% | 10,000 |
| Total | | | | | | 1,10,000 |

PROBLEM NO.2

Deduction under section 80CCG is available to:

- A new retail investor who complies with the conditions of the Rajiv Gandhi Equity Savings Scheme; and
- Whose gross total income for the financial year in which investment is made under the scheme is less than or equal to Rs. 12 lakh.

No deduction under this section shall be allowed from A.Y. 2018-19. However, an assessee who has claimed deduction under this section for A.Y. 2017-18 or earlier assessment year, shall be allowed deduction till A.Y. 2019-20, if he is otherwise eligible to claim the deduction as per the provisions of this section.

The question specifies that Ms. Ria, Ms. Roma & Mr. Raj are new retail investors. Hence no deduction under Sec.80CCG was available from A.Y. 2018-19 to all the investors as they are new retail investors.

Note: students are advised to rectify the hint given in our main material according to this solution.

PROBLEM NO.3

Computation of total income of Mr. Chaturvedi for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|--------|-----------------|
| Gross total income | | 6,35,000 |
| Less: Deductions under Chapter VI-A | | |
| i) Deposit of Rs. 50,000 in tax saver deposit in the name of major son in a nationalized bank – Fixed deposit in the name of son does not qualify for deduction under section 80C | - | |
| ii) Premium on life insurance policy of his married daughter – Full amount is eligible for deduction under section 80C (since premium paid does not exceed 10% of sum assured) | 25,000 | |
| iii) Contribution of Rs. 10,000 to PM's National Relief Fund, eligible for 100% deduction under section 80G (See note) | 10,000 | |
| iv) Payment of Rs. 20,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GG since the payment is made by way of cheque | 20,000 | 55,000 |
| Total Income | | 5,80,000 |

Note: It was assumed that the entire contribution of Rs.10000 to PM's National Relief Fund was paid by cheque.

PROBLEM NO.4

- i) **True:** The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, *inter alia*, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- ii) **True:** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- iii) **False:** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- iv) **False:** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to Rs. 14,000.
- v) **False:** A proviso has been inserted in section 80CCD(3) to provide that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence the amount received by Mrs. Sheela would not be deemed to be her income for the AY 2018-19.

PROBLEM NO.5

- i. The deduction of Rs. 75,000 under section 80DD is allowed in full, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is Rs. 1,25,000.

- ii. The assessee has deposited Rs. 25,000 for maintenance of handicapped dependent. The assessee is, however, eligible to claim Rs. 75,000 since the deduction of Rs. 75,000 is allowed in full, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is Rs. 1,25,000.
- iii. Section 80DD allows a deduction of Rs. 75,000 irrespective of the actual amount spent on maintenance of handicapped dependent and/or actual amount deposited with LIC. Therefore, the deduction will be Rs. 75,000 even though the total amount incurred/deposited is Rs. 45,000. If the dependant is a person with severe disability the quantum of deduction is Rs. 1,25,000.
- iv. Amount paid by an Indian Company to an electoral trust is eligible for deduction under section 80GGB from gross total income, since such payment is made otherwise than by way of cash.

PROBLEM NO.6**Computation of total income of Mr. Raj mohan for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|---|--------|-----------------|
| Gross Total Income | | 6,40,000 |
| Less: Deductions under Chapter VI-A | | |
| Under section 80C | | |
| Stamp duty paid on acquisition of residential house | 50,000 | |
| Five year time deposit with Post Office | 20,000 | |
| | 70,000 | |
| Under section 80E | | |
| Interest on loan taken for higher education of spouse, being a relative. | 10,000 | |
| Under section 80G (See Note below) | | |
| Donation to recognized charitable trust (50% of Rs. 25,000) (assumed that the amount was not paid in cash) | 12,500 | 92,500 |
| Total income | | 5,47,500 |

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, Rs. 5,60,000 (i.e. 6,40,000 – Rs.80,000), 10% of which is Rs. 56,000, which is higher than the actual donation of Rs. 25,000. Therefore, the deduction under section 80G would be Rs. 12,500, being 50% of the actual donation of Rs. 25,000.

PROBLEM NO.7

- a. **False:** Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, *inter alia*, under section 80-IB.
- b. **True:** As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, *inter alia*, section 80-IE.

Note: students are advised to strike off Sec.80ID in the question contained in point (b).

PROBLEM NO.8**i. Deduction available to Mr. Hariharan under Chapter VI-A for A.Y.2018-19**

| Section | Particulars | Rs. | Rs. |
|---------|---|----------|----------|
| 80C | Deposit in public provident fund Rs.1,60,000 (deduction restricted to Rs. 1,50,000) | 1,50,000 | |
| | Life insurance premium paid Rs.25,000 (deduction restricted to Rs.20,000, being 20% of Rs.1,00,000, which is the sum assured, since the policy was taken before 01.04.2012) | 20,000 | |
| | Five year term deposit with bank | 50,000 | 2,20,000 |
| | | | 1,50,000 |

| | | | |
|-------------------------------------|---|--------------|------------------------------------|
| 80CCD(1) | Restricted to Contribution to NPS of the Central Government, Rs.1,60,000 [Rs. 2,10,000 – Rs. 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [Rs. 2,10,000 x 10/15] [See Note 1] | | <u>1,40,000</u> <u>2,90,000</u> |
| 80CCE | Aggregate deduction under section 80C and 80CCD(1), Rs. 2,90,000, but restricted to | | 1,50,000 |
| 80CCD(1B) | Rs. 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government | | 50,000 |
| 80CCD(2) | Employer contribution to NPS, restricted to 10% of salary [See Note 2] | | 1,40,000 |
| 80D | (i) (a) Medical insurance premium for self | 22,000 | |
| | (b) Preventive health checkup Rs.5,000 for wife restricted to Rs.3,000 (Rs.25,000 - Rs.22,000, since maximum allowable deduction is Rs.25,000) | <u>3,000</u> | 25,000 |
| | (ii) (a) Health Insurance premium for his father | 26,000 | |
| | (b) Preventive health check up Rs. 5,000 restricted to Rs.2,000 (Rs.5,000 - Rs.3,000), since maximum allowable deduction in respect of preventive health check up under section 80D is Rs.5,000 [See Note 3] Whole of the amount of Rs.28,000 allowed as deduction, since maximum allowable deduction is Rs.30,000, where the parent is a senior citizen. | <u>2,000</u> | 28,000 |
| 80DD | Deduction of Rs. 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs. 50,000 | | 1,25,000 |
| Deduction under Chapter VI-A | | | 5,18,000 |

Notes:

- The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Hariharan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. Rs. 1,40,000.
 - The entire employer's contribution to notified pension scheme has to be first included under the head - Salaries while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of Rs. 1,50,000 under section 80CCE
 - In the alternative, preventive health check-up of Rs. 4,000 of his father can be claimed, in which case, expenses on preventive health check-up of wife can be claimed only to the extent of Rs. 1,000. In such case also, the total deduction under section 80D would be Rs. 53,000 (Rs. 23,000 + Rs. 30,000)
- ii. If the contribution towards NPS is Rs. 1,40,000, here again, it is beneficial for Mr. Hariharan to first claim deduction of Rs. 50,000 under section 80CCD(1B) and the balance of Rs. 90,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs. 1,50,000 under section 80CCE. In any case, the aggregate deduction of Rs. 2,40,000 [i.e., Rs. 1,50,000 under section 80C and Rs. 90,000 under section 80CCD(1)] cannot exceed the overall limit of Rs. 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs. 5,18,000.

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PROBLEM NO.9

Computation of total income of Mr. Chankaya for the A.Y.2018-19

| Particulars | Rs. |
|--|------------------------|
| Gross total income | 8,40,000 |
| Less: Deductions under Chapter VI-A (See Working Note below) | <u>4,09,000</u> |
| Total Income | <u>4,31,000</u> |

Working Note:**Computation of Deductions under Chapter VI - A**

| Particulars | Rs. | Rs. |
|--|--|----------|
| (i) Deduction under section 80C - Deposit in public provident fund - Deposit of Rs. 80,000 in tax saver deposit in the name of major son in a nationalized bank – Fixed deposit in the name of son does not qualify for deduction under section 80C Premium on life insurance policy of his married daughter – Full amount is eligible for deduction under section 80C (since premium paid does not exceed 10% of sum assured) Sub total | 1,00,000 - 45,000 <u>1,45,000</u> | |
| (ii) Deduction under section 80CCD(1) Contribution to NPS of the Central Government, Rs.1,00,000 [Rs.1,50,000 – Rs.50,000, being deduction under section 80CCD(1B)], restricted to Rs.84,000 being 10% of Gross total Income i.e., Rs.8,40,000. The total deduction to be worked out to Rs.2,29,000 (1,00,000 + 45,000 + 84,000). However, as per section 80CCE, aggregate deduction under section 80C and 80CCD(1) cannot exceed Rs.1,50,000 | 84,000 | 1,50,000 |
| (iii) Deduction under section 80CCD(1B) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Chankaya to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs.1,00,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of Gross Total Income i.e. Rs. 84,000. | | 50,000 |
| (iv) Deduction under section 80D (i) (a) Medical insurance premium for self (b) Preventive health checkup Rs.5,000 for wife restricted to Rs.4,000 (Rs.25,000 - Rs.21,000, since maximum allowable deduction is Rs. 25,000) (ii) (a) Health Insurance premium for his father (b) Preventive health checkup Rs.5,000 restricted to Rs.1,000 (Rs.5,000 - Rs.4,000), since maximum allowable deduction in respect of preventive health check up under section 80D is Rs. 5,000*. Whole of the amount of Rs. 25,000 allowed as deduction, since maximum allowable deduction is Rs. 30,000, where the parent is a senior citizen. | 21,000 4,000 <u>25,000</u> 24,000 1,000 <u>25,000</u> | |
| Total of (i) and (ii) | | 50,000 |
| (v) Deduction under section 80DD Deduction of Rs. 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs. 80,000 | | 1,25,000 |
| (vi) Deduction under section 80G Contribution of Rs. 12,000 to PM's National Relief Fund, eligible for 100% deduction (assuming that the contribution was made other than by way of cash) | | 12,000 |
| (vii) Deduction under section 80GGA | | |

| | | |
|--|--|------------------------|
| Payment of Rs. 22,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GGA since the payment is made by way of cheque | | <u>22,000</u> |
| Total Deductions under Chapter VI-A | | <u>4,09,000</u> |

*In the alternative, preventive health check-up of Rs. 5,000 of his father can be claimed, in which case, no deduction would be allowed in respect of the expenses on preventive health check-up of wife, since the aggregate deduction for preventive health check-up cannot exceed Rs.5,000. In such case also, the total deduction under section 80D would be Rs. 50,000

PROBLEM NO.10**Computation of deduction under Chapter VI-A for the A.Y.2018-19**

| Particulars | Rs. |
|--|------------------------|
| Deduction under section 80C | |
| Contribution to PPF – fully allowed, since it is within the limit of Rs. 1,50,000 | 1,10,000 |
| Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI | 45,000 |
| Repayment of housing loan | <u>25,000</u> |
| Total | <u>1,80,000</u> |
| Restricted to Rs. 1,50,000, being the maximum permissible deduction u/s 80C | 1,50,000 |
| Deduction under section 80CCC | |
| Contribution to approved pension fund of LIC Rs. 1,05,000 | 1,05,000 |
| | <u>2,55,000</u> |
| As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to Rs. 1,50,000 | <u>1,50,000</u> |

PROBLEM NO.11**Computation of Total Income of Mr. Shiva for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|---------------|------------------------|
| Gross Total Income | | 7,75,000 |
| Less: Deduction under section 80C | | |
| Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value Rs. 1,80,000, as the policy is taken after 31.3.2012) | 18,000 | |
| Deduction under section 80CCC in respect of LIC pension fund | <u>60,000</u> | 78,000 |
| Deduction under section 80D | | |
| Medical Insurance premium in respect of self and spouse | | 26,000 |
| Deduction under section 80G (See Note 1) | | 91,050 |
| Total income | | <u>5,79,950</u> |

Notes:**1. Computation of deduction under section 80G:**

| Particulars of donation | Amount donated | % of deduction | Deduction u/s 80G (Rs.) |
|---|----------------|--|-------------------------|
| National Children's Fund | 25,000 | 100 | 25,000 |
| Jawaharlal Nehru Memorial Fund | 25,000 | 50 | 12,500 |
| Approved institution for promotion of family planning | 40,000 | 100%, subject to qualifying limit | 40,000 |
| Public Charitable Trust | 1,50,000 | 50% subject to qualifying limit (See Note 2) | 13,550 |
| Total | | | <u>91,050</u> |

2. Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., Rs. 6,71,000, in this case.

Rs. 67,100, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of Rs. 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of Rs. 1,50,000 to public charitable trust is restricted to Rs. 27,100 (being, Rs. 67,100 - Rs. 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be Rs. 13,550, which is 50% of Rs. 27,100.

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11. TOTAL INCOME PROBLEMS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

Computation of total income of Ms.Vaishali for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|--|--------|-----------------|
| Income from salary (computed) | | 3,45,000 |
| Income from other sources | | |
| Bank Interest (Fixed Deposit) | | 15,000 |
| Gross Total Income | | 3,60,000 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C | | |
| Contribution to recognized provident fund | 60,000 | |
| Section 80D | | |
| Medical insurance premium (Note -2) | 7,000 | |
| Section 80DD | | |
| Medical expenditure for dependent sister with disability (flat deduction irrespective of expenditure incurred) | 75,000 | 1,42,000 |
| Total income | | 2,18,000 |

Note:

1. Tax on non-monetary perquisite paid by employer is exempted in the hands of employee under section 10(10CC).
2. Medical insurance premium paid by cheque for self is allowed as deduction under section 80D.

PROBLEM NO.2

Computation of total income of Balamurugan for the year ended 31.03.2018

| Particulars | Rs. | Rs. |
|--|------------|-----------------|
| Salaries | 60,000 | |
| Less: Loss from house property | (15,000) | |
| Net Salary (after set off of loss from house property) | | 45,000 |
| Profits and gains of business or profession | | |
| Speculation business income | 1,00,000 | |
| Less: Business loss set-off | (1,35,000) | |
| Net business loss to be set-off against long-term capital gain | (35,000) | |
| Capital Gains | | |
| Long term capital gain | 70,000 | |
| Less: Business loss set-off | (35,000) | |
| Long term capital gain after set off of business loss | | 35,000 |
| Income from other sources | | |
| Lottery winnings (Gross) | | 5,00,000 |
| Total Income | | 5,80,000 |

Computation of tax liability

| Particulars | Rs. |
|---|-----------------|
| On total income of Rs. 80,000 (excluding lottery winning) | Nil |
| On lottery winnings of Rs. 5,00,000 @ 30% | 1,50,000 |
| Add: Education Cess @ 2% and Secondary and higher education cess@1% | 4,500 |
| Total tax liability | 1,54,500 |

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of Rs. 4,500 (Rs. 1,54,500 – Rs. 1,50,000) is less than Rs. 10,000, advance tax liability is not attracted.

Notes:

1. The basic exemption limit of Rs. 2,50,000 has to be first exhausted against salary income of Rs. 45,000. The unexhausted basic exemption limit of Rs. 2,05,000 can be adjusted against long-term capital gains of Rs. 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
2. The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining installments of advance tax which are due. Where no such installment is due, the entire tax should be paid by 31st March, 2017. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

PROBLEM NO.3**Computation of total income and tax liability of Shri Madan for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|---|-----|-----------------|
| Income from house property (Refer Note 1) | | 80,500 |
| Business Income | | 1,00,000 |
| Long-term Capital Gains | | 50,000 |
| Income from Other Sources | | 1,00,000 |
| Total Income | | 3,30,500 |
| Computation of tax liability | | |
| Long-term Capital Gain of Rs. 50,000 @ 20% | | 10,000 |
| Other income of Rs. 2,80,500 (Refer Note 2) | | Nil |
| | | 10,000 |
| Less: Rebate under section 87A | | 2,500 |
| | | 7,500 |
| Add: Education Cess @ 2% | 150 | |
| Secondary and Higher Education Cess @ 1% | 75 | 225 |
| Tax liability | | 7,725 |
| Tax liability (Rounded Off) | | 7,730 |

Computation of total income and tax liability of Smt. Hema for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|--|----------|-----------------|
| Short-term Capital Gains | 2,00,000 | |
| Less: Business loss | 75,000 | 1,25,000 |
| Income from Other Sources | | 50,000 |
| Total Income | | 1,75,000 |
| Tax liability (Since total income is less than basic exemption limit of Rs. 2,50,000) | | Nil |

Notes:

1. As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual.

Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01.10.2017 is includible in the hands of Shri Madan.

Computation of Income from House Property

| Particulars | Madan (Rs.) | Hema (Rs.) |
|--|---|---|
| | Period (01.04.2017 - 30.09.2017) | Period (01.10.2017 - 31.03.2018) |
| Gross Annual Value (Rs. 10,000 × 6 months) | 60,000 | 60,000 |

| | | |
|--|---------------|--------|
| (Rental income taken as GAV in the absence of information relating to Municipal Value, fair value and standard rent) | | |
| Less: Municipal taxes paid (paid in June for first half year only) | 5,000 | Nil |
| Net Annual Value (NAV) | 55,000 | 60,000 |
| Less: Deduction under section 24(a), 30% of NAV | 16,500 | 18,000 |
| Income from House Property | 38,500 | 42,000 |
| Income from House Property of Hema to be clubbed in the hands of Madan as per section 64(1)(vi) | 42,000 | |
| Income from house property | 80,500 | |

2. Since the threshold limit for an individual whose is having age of 60 years is Rs.3,00,000, no tax shall be payable on a lower amount.

PROBLEM NO.4

Computation of taxable income of Mrs. Deepali for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|--|----------|------------------|
| Income from Salaries | | |
| Basic salary (Rs. 60,000 x 12) | | 7,20,000 |
| Dearness Allowance (40% of basic salary) | | 2,88,000 |
| Perquisite value of Concessional Accommodation taken on hire. Lower of: | 1,08,000 | |
| (i) actual rent (Rs. 15,000 x 12) Rs.1,80,000 | | |
| (ii) 15% of salary (15% of Rs. 7,20,000) Rs.1,08,000 (assuming that dearness allowance does not form part of pay for retirement benefits) | | |
| Less: Rent recovered (Rs. 2,000x12) | 24,000 | 84,000 |
| Perquisite value of concessional loan [Rule 3(7)(i)] [Rs. 20,000 (10% of Rs. 2,00,000) – Rs. 10,000] | | 10,000 |
| Gross Salary | | 11,02,000 |
| Less: Deduction under section 16(iii) - Professional tax paid | | 6,000 |
| Net Salary | | 10,96,000 |
| Income from house property | | |
| Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information) | 1,80,000 | |
| Less: Deduction under section 24 | | |
| (a) 30% of Rs. 1,80,000 Rs. 54,000 | | |
| (b) Interest on loan Rs. 1,75,000 | 2,29,000 | (49,000) |
| Gross Total Income | | 10,47,000 |
| Less: Deductions under Chapter – VIA 80C – Repayment of housing loan | | 1,00,000 |
| Total Income | | 9,47,000 |

Computation of tax liability for A.Y. 2018-19

| | |
|--|-----------------|
| Tax on Rs. 9,47,000 | Rs. |
| Upto Rs. 2,50,000 | Nil |
| 250,001 -5,00,000 - 5% | 12,500 |
| 5,00,001 – 9,47,000 - 20% | 89,400 |
| | 1,01,900 |
| Add: Education cess @ 2% | 2,038 |
| Secondary and higher education cess @ 1% | 1,019 |
| Total Tax Liability | 1,04,957 |
| Total Tax Liability (Rounded off) | 1,04,960 |

Note: Mrs. Deepali cannot claim benefit of self-occupation (i.e., taking the annual value as nil and claiming a higher loss of Rs. 2,00,000) in respect of the house property owned and occupied by her, since the same has been given on rent to her employer, who has allotted the same as residence for Mrs. Deepali.

PROBLEM NO.5**Computation of total income of Ms. Rachna for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|--|-----------|------------------|
| Business Income (Refer Note -1) | | 17,15,500 |
| Capital Gain on Sale of land Sale consideration (Refer Note- 2) | 90,00,000 | |
| Less: Indexed Cost of Acquisition (Rs. 6,00,000 × 272/100) (Refer Note – 3) | 16,32,000 | 73,68,000 |
| Gross Total Income | | 90,83,500 |
| Less: Deduction under Chapter VI-A | | |
| Section 80CCC Contribution to approved pension fund | 20,000 | |
| Section 80D Medical insurance premium paid for self and spouse Rs. 35,000, deduction limited to Rs. 25,000 | 25,000 | |
| Section 80E Interest paid on education loan for studies of son | 20,000 | 65,000 |
| Total Income | | 90,18,500 |

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

| Particulars | Rs. | Rs. |
|---|------------------------------|------------------|
| Agricultural income (Profit from nursery business) | 4,00,000 | |
| Non-agricultural income | 90,18,500 | |
| | 94,18,500 | |
| Step 1 Tax on Rs.94,18,500 (aggregate of agricultural and non agricultural income) Long-term capital gain (Rs. 73,68,000 × 20%) Tax on balance income of Rs. 20,50,500 | 14,73,600 <u>4,27,650</u> | 19,01,250 |
| Step 2 Tax on Rs. 6,50,000 (aggregate of agricultural income and basic exemption limit of Rs. 2,50,000) | | 42,500 |
| Step 3 Tax on non-agricultural income (Difference of step 1 & Step 2) | | 18,58,750 |
| Add: Education Cess @ 2% | | 37,175 |
| Add: Secondary and Higher Education Cess @1% | | 18,588 |
| Total Tax Liability | | 19,14,513 |
| Total tax liability (rounded off) | | 19,14,510 |

Notes:

1. Computation of Business Income**Trading Account for the year ended 31.03.2018**

| Particulars | Rs. | Particulars | Rs. |
|--|--------------------|--|--------------------|
| To Purchases (Rs. 80 lacs - Rs. 30 lacs + Rs. 70 lacs) | 1,20,00,000 | By Sales | 1,00,00,000 |
| To Gross Profit | 20,00,000 | By Closing Stock (Assuming Market value is less than cost of shares) | 40,00,000 |
| | 1,40,00,000 | | 1,40,00,000 |
| Particulars | Rs. | Rs. | |
| Gross Profit as per Trading Account | | 20,00,000 | |
| Less: Expenses on net connectivity | 20,000 | | |
| Salary | 2,00,000 | | |
| Rent (Rs. 2,500 × 6) | 15,000 | | |

| | | |
|--|--------|------------------|
| Depreciation on Computers (Rs. 60,000 × 40% × 50%) (Assuming used for less than 180 days in the year) | 12,000 | 2,47,000 |
| | | 17,53,000 |
| Less: Contribution to Scientific Research Institution under section 35(1) (Rs. 25,000 × 150%) | | 37,500 |
| Business Income | | 17,15,500 |

2. Computation of consideration on sale of land

| Particulars | Rs. |
|---------------------------------|------------------|
| Value of cash received | 20,00,000 |
| Market value of shares received | 70,00,000 |
| Total Sale consideration | 90,00,000 |

- Since the property was acquired by Ms. Rachna by way of gift, the cost of acquisition will be cost to the previous owner.
As per the definition of indexation cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit will be available only from the previous year in which Rachna first held the asset i.e. P.Y. 2001-02.
- Deduction under section 80C is not provided in respect of Rs. 5 lacs subscription to equity shares forming part of eligible issue of capital by a public company, assuming it has been sold in the current year.
- Repayment of principal portion of education loan does not qualify for deduction under Section 80E.
- Income from seedlings grown in nursery is exempt under section 10(1) as it is agricultural income. However, the same would be aggregated for rate purposes.

PROBLEM NO.6

Computation of total income of Dr. Shruha for the A.Y.2018-19

| Particulars | Rs. | Rs. | Rs. | Rs. |
|---|----------|----------|----------|-----|
| Income from house property: | | | | |
| Annual value of self-occupied house | | Nil | | |
| Less: Interest on loan [Rs. 45,000, being 3/4th of Rs. 60,000] (Restricted to Rs. 30,000) | | (30,000) | (30,000) | |
| Income from profession: | | | | |
| Sale of medicine | 2,50,000 | | | |
| Consultation fees | 50,000 | | | |
| Visiting fee | 2,00,000 | | | |
| Total income | | 5,00,000 | | |
| Less: Expenses | | | | |
| Medicine purchases | 47,000 | | | |
| Medical journal | 5,000 | | | |
| Vehicle expenses (3/4th) | 37,500 | | | |
| Interest on loan (3/4th) | 16,750 | | | |
| Interest on housing loan (1/4th) | 15,000 | | | |
| Depreciation | | | | |
| Surgical instrument (15% of Rs. 50,000) | 7,500 | | | |
| Vehicle (3/4th of 15% of Rs. 4,00,000) | 45,000 | | | |
| Total expenses | | 1,73,750 | | |
| | | | 3,26,250 | |
| Income from other sources | | | | |
| Family Pension | 2,80,000 | | | |
| Less: Deduction under section 57(iia) [33½% or Rs. 15,000, whichever is lower] | 15,000 | 2,65,000 | | |
| Lecture fees | | 5,000 | | |

| | | | | |
|--|-----------------|--------|----------|-----------------|
| Savings bank interest | | 1,000 | | |
| Interest on bank FD in the name of minor daughter [Rs. 1,50,000 × 9% × 9/12] Less : Exempt under section 10(32) | 10,125 1,500 | | 8,625 | |
| Winnings from lottery | | 50,000 | | |
| | | | 3,29,625 | |
| Gross Total Income | | | | 6,25,875 |
| Less: Deductions under Chapter VI-A | | | | |
| Under section 80C Repayment of housing loan (Rs. 48,000 × ¾) | | | 36,000 | |
| Under section 80D Medical Insurance Premium Own (Senior Citizen, hence fully allowed) | | 16,000 | | |
| Mother (Senior Citizen, hence fully allowed since premium is less than Rs. 20,000) | | 16,000 | | |
| Under section 80TTA Interest on deposit in a saving account of bank | | 1,000 | 33,000 | |
| Total deduction | | | | 69,000 |
| Total income | | | | 5,56,875 |

Notes:

1. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to Rs. 30,000.
2. Since ¼th portion of house is used for business purposes, therefore, ¼th share of interest paid is deductible while computing business income.
3. Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
4. Term deposit of Rs. 1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (¾th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be Rs. 36,000 (i.e. ¾th of Rs. 48,000).
5. Depreciation on the portion of the house used for business purposes has not been provided since the written down value is not given in the question.

PROBLEM NO.7**Computation of total income of Mr. Mahesh for the A.Y.2018-19**

| Particulars | Rs. |
|--|-----------------|
| Income from salary (as per note 3) | 4,10,053 |
| Business Income (assuming that his wife carries on the business of hiring of cars) [Income of wife from hiring of car clubbed under section 64(1)(iv)] | 30,000 |
| Gross Total Income | 4,40,053 |
| Less: Deduction under section 80C (as per note 5) | 1,10,000 |
| Total income | 3,30,053 |
| Total income (rounded off) | 3,30,050 |

Computation of tax liability of Mr. Mahesh for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|-------|-----|
| Step 1 Add: Agricultural income and Non-agricultural income (Rs. 45,000 + Rs. 3,30,050) Tax on Rs. 3,75,050 | 6,252 | |

| | | |
|---|-------|--------------|
| Step 2 Add: Basic exemption limit to agricultural income (Rs. 2,50,000 + Rs. 45,000) Tax on Rs. 2,95,000 | 2,250 | |
| Step 3 Tax on non-agricultural income (Tax under step 1 – Tax Under step 2) (Rs. 6,252 – Rs. 2,250) | | 4,002 |
| Less: Rebate under section 87A | | 2,500 |
| | | 1,502 |
| Add: Education cess @2% and Secondary and higher education cess @ 1% | | 45 |
| Total tax liability | | 1,547 |
| Rounded off | | 1,550 |

Notes:**1. Valuation of rent free house**

| Particulars | Rs. |
|---|-----------------|
| Basic salary | 1,75,000 |
| D.A. (not to be considered as it is not forming part of salary) | Nil |
| Commission on extra production | 12,000 |
| Bonus | 8,000 |
| Special allowance | 18,000 |
| Education allowance (See Note 4) | 6,400 |
| Medical allowance | 5,000 |
| Salary for the purpose of valuation of rent-free house | 2,24,400 |
| Value of rent-free house = 15% of Rs. 2,24,400 | 33,660 |

2. Valuation of perquisite of CD Player given for use by the employee

Taxable value of this perquisite is 10% p.a. of cost of the CD player w.e.f. 1.1.2018 (i.e. for 90 days)

10% of Rs. 20,000 = $2,000 \times 90/365$ = Rs. 493

Provision of laptop by the employer is a tax-free perquisite.

3. Income from salary

| Particulars | Rs. | Rs. |
|--|--------|-----------------|
| Basic pay | | 1,75,000 |
| Dearness allowance | | 1,40,000 |
| Bonus | | 8,000 |
| Commission | | 12,000 |
| Special Allowance | | 18,000 |
| Taxable education allowance (See Note-4 below) | | 6,400 |
| Medical Allowance | | 5,000 |
| Total | | 3,64,400 |
| Add : Taxable perquisites : | | |
| 1. Rent free accommodation (Note 1) | 33,660 | |
| 2. Electricity Bill paid by employer | 11,500 | |
| 3. CD Player given by employer (Note 2) | 493 | 45,653 |
| Taxable salary | | 4,10,053 |

4. Education allowance exempt under section 10(14)

Education allowance of Rs. 100 per month per child for a maximum of 2 children plus hostel allowance of Rs. 300 per month per child for a maximum of 2 children is exempt. i.e. (Rs. 100×2×12) + (Rs. 300×2×12) = Rs. 2,400 + Rs. 7,200 = Rs. 9,600

Therefore, taxable education allowance would be Rs. 16,000 – Rs. 9,600 = Rs. 6,400.

5. Investments/payments deductible under section 80C

| Particulars | Rs. |
|------------------------------------|--------|
| Investment in notified mutual fund | 25,000 |
| Investment in PPF | 15,000 |

| | |
|--|-----------------|
| Investment in 5 year Time Deposit in Post Office | 10,000 |
| Tuition fees of children (assumed to be paid to an eligible educational institution – hence qualifies for deduction under section 80C) | 60,000 |
| | 1,10,000 |

The total deduction under section 80C cannot exceed Rs. 1,50,000. This restriction is contained in section 80CCE.

Therefore, the permissible deduction under section 80C would be Rs. 1,10,000

6. Taxability of gift received from grandfather

Gift from a relative is not taxable under section 56(2)(x). Grandfather is a relative as per the definition of "relative" given in the Explanation to section 56(2)(x) and hence Rs. 25,000, being gift received from grandfather, is not taxable.

PROBLEM NO.8

Computation of total income of Kamal for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-------------------|----------|
| Salaries | | |
| Salary including dearness allowance | | 5,00,000 |
| Bonus | | 15,000 |
| Perquisites: | | |
| i) Salary of servant provided by employer [As per Rule 3(3), the actual cost to employer is the value of perquisite] | 12,000 | |
| ii) Free gas, electricity and water [As per Rule 3(4), the amount paid by employer on this account is the value of perquisite] | 14,500 | |
| iii) Facility of Laptop provided by employer is an exempt perquisite, whether the same is used for personal or official purpose or both [Rule 3(7)(vii)]. | Nil | 26,500 |
| | | 5,41,500 |
| Income from house property | | |
| Gross Annual Value (GAV) (Lease rent is taken as GAV, in the absence of other information) (Rs. 5,500 × 12) | 66,000 | |
| Less: Municipal taxes paid | 4,500 | |
| Net Annual Value (NAV) | 61,500 | |
| Less: Deductions under section 24 | | |
| i) 30% of NAV | Rs. 18,450 | |
| ii) Interest on loan from State Bank of India @15% of Rs. 1,60,000 | <u>Rs. 24,000</u> | |
| | 42,450 | 19,050 |
| Profits and gains of business or profession | | |
| Income from share speculation business | 15,000 | |
| Less: Loss from cotton speculation business | 20,200 | |
| Net loss from speculation business to be carried forward [As per section 73, any loss from speculation business can be setoff only against income from another speculation business. Hence, the net loss from speculation business in the current year has to be carried forward to the next year for set-off against speculative business income for that year. Such loss can be carried forward for a maximum of four succeeding assessment years] | (5,200) | |
| Income from Other Sources | | |
| i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal, since as per section 64(1A) all income of a minor child is includible in the hands of the parent (Rs. 30,000 × 15%) [During the P.Y.2014-15, Kamal's son is still a minor] | 4,500 | |
| Less: Exempt under section 10(32) | <u>1,500</u> | |
| | 3,000 | |

| | | |
|---|----------|-----------------|
| ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of Mr. Kamal as per section 64(1) [Rs. 50,000 x 15%] | 7,500 | |
| iii) Gift of Rs. 25,000 each received from four friends on the occasion of his birthday [taxable under section 56(2)(x), since the aggregate amount received during the year exceeds Rs. 50,000] | 1,00,000 | 1,10,500 |
| Gross Total Income | | 6,71,050 |
| Less: Deduction under section 80C | | |
| a) Contribution to Public Provident Fund | 10,500 | |
| b) Unit Linked Insurance Plan | 6,000 | |
| c) Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction under section 80C. The deposit has to be in Mr. Kamal's own name. | Nil | |
| d) Life Insurance Premium [paid to insure life of married daughter is allowable] [In respect of policies taken on or after 1.4.2013, the deduction is restricted to 10% of minimum capital sum assured. Hence, in this case, deduction is restricted to 10% of Rs. 2,00,000] | 20,000 | 36,500 |
| Total Income | | 6,34,550 |

Notes:

1. No separate deduction is available for insurance of Rs. 1,275, while computing income under the head "Income from house property".
2. It is assumed that Rs. 1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction under section 80C. Interest under section 24 has, accordingly, been calculated at the rate 15% of Rs. 1,60,000.
3. It is assumed that Mr. Kamal's total income, before including minor's income, is higher than that of his spouse.

PROBLEM NO.9**Computation of total income of Mr. Pankaj for the A.Y. 2018-19**

| Particulars | Rs. |
|--|-----------------|
| Income from salaries (See Working Note 1) | 41,000 |
| Capital gains (See Working Note 2) | 5,59,200 |
| Income from other sources (See Working Note 3) | 82,500 |
| Gross Total Income | 6,82,700 |
| Less: Deductions under Chapter VI-A (See Working Note 4) | 1,23,500 |
| Total Income | 5,59,200 |

Working Notes:**1. Income from salaries**

| Particulars | Rs. |
|---|---------------|
| Salary for 3 months received from Government of India (Rs. 6000 x 3) | 18,000 |
| Pension for 5 months from July 2017 to Nov 2017 @ Rs. 3000 p.m. (Rs. 3000 x 5) | 15,000 |
| Pension for 4 months from Dec 2017 to March 2017 @ Rs. 2,000 p.m. (Rs. 2,000x4) | 8,000 |
| | 41,000 |

Note: Commuted value of pension of Rs. 1,20,000 received from the Central Government is fully exempt under section 10(10A).

2. Capital gains

| Particulars | Rs. |
|---|----------|
| Long term capital gains on sale of house plot at Ernakulam on 01.02.2017 | |
| Sale consideration received is Rs. 5,00,000. However, since the value assessed by the stamp valuation authority (i.e. Rs. 6,00,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C | 6,00,000 |
| Less: Indexed cost of acquisition | 40,800 |

| | |
|----------------------|-----------------|
| Rs. 15,000 x 272/100 | |
| | 5,59,200 |

3. Income from other sources

| Particulars | Rs. | Rs. |
|--|--------|---------------|
| Interest on bank FDRs | | 72,500 |
| Dividend of Rs. 15,000 on units of Mutual Fund [exempt under section 10(35)] | | - |
| Interest on maturity of NSC | 50,000 | |
| Less: Interest already shown on accrual basis in the past returns | 40,000 | 10,000 |
| | | 82,500 |

4. Deductions under Chapter VI-A

| Particulars | Rs. | Rs. |
|---|--------|-----------------|
| Under section 80C | | |
| Purchase of NSC | 30,000 | |
| Tax Magnum units of Mutual Fund of SBI | 80,000 | 1,10,000 |
| Under section 80D | | |
| Medical insurance premium paid Rs. 22,500 (assumed to have been paid by cheque) | | 22,500 |
| | | 1,32,500 |
| Restricted to Gross total income (excluding Long Term Capital Gains) | | 1,23,500 |

Investment in approved modes**Section 54F (by constructing a new house)**

In order to avail exemption under section 54F by constructing a new residential house, the assessee should construct a residential house within three years from the date of transfer of house plot. To avail the maximum exemption, the entire net consideration received from sale of house plot should be invested. If only part of the net consideration is invested, then proportionate exemption of long term capital gains would be available i.e.

$$\text{Long term capital gain} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

Section 54EC: In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. Rs. 5,59,200, within six months from the date of sale of house plot, in bonds of National Highways Authority of India (NHAI) or Rural Electrification Corporation Ltd. (RECL). If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

PROBLEM NO.10**Computation of Taxable Income of Mr. X for the A.Y: 2018-19**

| Particulars | Amount | Amount |
|---------------------------------------|--------|-----------------|
| Income from salaries (W.N – 1) | | 3,56,750 |
| Gross Total Income | | 3,56,750 |
| (-) Chapter VIA deductions: | | |
| PPF - Sec.80C | 62,500 | |
| NSC – Sec.80C | 37,500 | 1,00,000 |
| Taxable Income | | 2,56,750 |
| Tax on total income (6,750x5%) | | 338 |
| less: rebate u/s 87A | | 338 |
| tax payable | | Nil |

W.N – 1: Income from salaries

| Particulars | Amount |
|---------------------------|-----------------|
| Basic (25,000X9) | 2,25,000 |
| H.R.A (Note 1) | 18,000 |
| Gratuity (Note 2) | 43,750 |
| Leave encashment (Note 3) | 70,000 |
| Total | 3,56,750 |

Note 1 - Taxable H.R.A:

| Particulars | Amount | Amount |
|--|--------|---------------|
| 1. H.R.A received (6000X9M) | | 54,000 |
| 2. H.R.A. exempted | | |
| a. Rent paid (6500 X 9) | 58500 | |
| (-) 10% of salary (2,25,000X10%) | 22,500 | 36,000 |
| b. b) Actually received | | 54,000 |
| c. 50% of salary | | 1,12,500 |
| The least of the above three is exempted | | 36,000 |
| 3. Taxable H.R.A (1-2) | | 18,000 |

Note 2 - Taxable Gratuity:

| Particulars | Amount | Amount |
|--|-----------|-----------------|
| 1. Gratuity Received | | 3,50,000 |
| 2. Gratuity exempted | | |
| a. Statutory limit | 10,00,000 | |
| b. Actually received | 3,50,000 | |
| c. $\frac{1}{2} \times 25 \times 24,500$ | 3,06,250 | |
| The least of the above three is exempted | | 3,06,250 |
| 3. Taxable Gratuity (1-2) | | 43,750 |

Note 3 - Taxable Leave Encashment:

| Particulars | Amount | Amount |
|---|----------|-----------------|
| 1. Leave encashment received | | 3,15,000 |
| 2. Exempted | | |
| a. Statutory limit | 3,00,000 | |
| b. Actually received | 3,15,000 | |
| c. 10 months salary (10x24500) | 2,45,000 | |
| d. Surplus above (25Y X 24,500x15/30) | 3,06,250 | |
| The least of the above four is exempted | | 2,45,000 |
| Taxable Leave Encashment (1-2) | | 70,000 |

Note 4 - According to Sec. 71, loss computed under the head "Profits & Gains of Business or Profession" cannot be set off against salary income. Therefore, the Loss of Rs.80,000 shall be carried forward to A.Y. 2018-19 for set off against income computed under the head "Profits & Gains of Business or Profession"

PROBLEM NO.11

Computation of total income of Dr. Gurumoorthy for the A.Y.2018-19

| | Particulars | Rs. | Rs. | Rs. |
|-----|--|-----|---------------|--------|
| I. | Income from house property | | | |
| | Gross Annual Value | | 54,000 | |
| | Less: Municipal taxes paid | | 9,000 | |
| | Net Annual Value | | 45,000 | |
| | Less: Deduction under section 24 @30% | | 13,500 | 31,500 |
| II. | Income from profession | | | |
| | Net profit as per Income and Expenditure account | | 2,92,500 | |

| | | | | |
|-------------|--|--------|----------|-----------------|
| | Less: Items of income to be treated separately | | | |
| | (i) Income tax refund (including interest) | 16,500 | | |
| | (ii) Dividend from Indian companies | 27,000 | | |
| | (iii) Winning from lottery (net of TDS) | 35,000 | | |
| | (iv) Rent received | 54,000 | 1,32,500 | |
| | | | 1,60,000 | |
| | Add: Expenditure debited but not allowable | | | |
| | (i) Rent for his residence | 36,000 | | |
| | Municipal tax paid relating to residential house at Madurai included in administrative expenses | 9,000 | 45,000 | 2,05,000 |
| | Less: Expenditure allowable but not debited | | | |
| | Depreciation on Clinic equipments u/s 32 | | | |
| | - on Rs. 4,50,000 @ 15% | 67,500 | | |
| | - on Rs. 1,00,000 @ 7.5% (i.e. 50% of 15%) | 7,500 | | |
| | | 75,000 | | |
| | Additional deduction of 100% in respect of amount paid to IIT [since weighted deduction of 150% is available in respect of such payment under section 35(2AA)] | 50,000 | 1,25,000 | 80,000 |
| III. | Income from other sources | | | |
| | Interest on Income-tax refund | | 1,500 | |
| | Dividend from Indian companies | 27,000 | | |
| | Less: Exempt under section 10(34) | 27,000 | Nil | |
| | Winnings from lottery (See Note 1) | | 50,000 | 51,500 |
| | Gross Total Income | | | 1,63,000 |
| | Less: Deductions under Chapter VI A: | | | |
| | - Under section 80C | | | |
| | Tuition fee paid to university for full time education of his son | | 60,000 | |
| | - Under section 80E | | | |
| | Interest on loan taken for higher education of daughter | | 65,000 | |
| | | | 1,25,000 | |
| | but restricted to (See Note 2) | | | 1,13,000 |
| | Total income | | | 50,000 |

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be Rs. $35,000/70\% = \text{Rs. } 50,000$
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore, the maximum deduction allowable would be Rs. 1,13,000.

Rs.

| | |
|--------------------------------------|----------|
| Gross Total Income | 1,63,000 |
| Less: Winnings from lottery | 50,000 |
| Maximum deduction under Chapter VI-A | 1,13,000 |

The total income of Rs. 50,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. Dr. Gurumoorthy is staying in a rented premises in Madurai itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Madurai which he has let out.

PROBLEM NO.12**Computation of Total Income and tax liability of CA. Suraj Chawla for Assessment Year 2018- 19**

| Particulars | Working Note Nos. | Rs. |
|--|-------------------|----------|
| Income from House Property | 1 | 71,540 |
| Profit and gains of Business or Profession | 2 | 9,36,750 |

| | | |
|---|---|------------------|
| Short-term capital gains | 3 | 25,200 |
| Income from other sources | 4 | 26,300 |
| Gross Total Income | | 10,59,790 |
| Less: Deduction under Chapter VI-A | 5 | 45,000 |
| Total Income | | 10,14,790 |
| Tax on total income | | |
| Total Income | | 10,14,790 |
| Less: Short-term capital gains (See Note 9 below) | | 25,200 |
| Normal Income | | 9,89,590 |
| Tax on normal income | | 1,10,418 |
| Tax on short-term capital gains @15% | | 3,780 |
| | | 1,14,198 |
| Add: Education cess @ 2% and SHEC @ 1% | | 3,423 |
| Total tax liability | | 1,17,621 |
| Total tax liability (rounded off) | | 1,17,630 |

Notes:

| 1. | Income from House Property | Rs. | Rs. |
|----|--|----------|-----------|
| | Gross Annual Value | 1,04,000 | |
| | Less: Municipal taxes paid by owner | 1,800 | |
| | Net Annual Value (NAV) | 1,02,200 | |
| | Less: Deduction under section 24 @ 30% of NAV | 30,660 | 71,540 |
| | Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent. | | |
| 2. | Income under the head "Profits & Gains of Business or Profession" | | |
| | Net profit as per Profit & Loss Account | | 10,78,055 |
| | Add: Expenses debited to the Profit & Loss Account but not allowable | | |
| | (i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000 | 33,000 | |
| | (ii) Municipal Taxes paid in respect of residential flat let out | 1,800 | 34,800 |
| | | | 11,12,855 |
| | Less: Expenses allowable but not debited to profit and loss account | | |
| | Interest paid on loan taken from LIC used for repair of computer | | 2,050 |
| | | | 11,10,805 |
| | Less: Income credited to Profit & Loss Account but not taxable under this head: | | |
| | (i) Dividend on shares of Indian companies | 10,155 | |
| | (ii) Income from UTI | 8,400 | |
| | (iii) Profit on sale of shares | 25,200 | |
| | (iv) Honorarium for valuation of answer papers | 26,300 | |
| | (v) Rent received from letting out of residential flat | 1,04,000 | 1,74,055 |
| | | | 9,36,750 |
| 3. | Capital gains: | | |
| | Short term capital gain on sale of shares | | 25,200 |
| 4. | Income from other sources: | | |
| | Dividend on shares of Indian companies | 10,155 | |
| | Less: Exempt under section 10(34) | 10,155 | Nil |
| | Income from UTI | 8,400 | |
| | Less: Exempt under section 10(35) | 8,400 | Nil |
| | Honorarium for valuation of answer papers | 26,300 | 26,300 |

| | | | | |
|-----------|---|--------------------------------|--|---------------|
| 5. | Deductions under Chapter VI-A : | | | |
| | Deduction under section 80D (Medical Insurance Premium) | | | |
| | Policy holder | Amount of Premium (Rs.) | Amount eligible for deduction (Rs.) | |
| | Self | 15,000 | 15,000 | |
| | Wife (See note below) | 11,000 | Nil | |
| | Married daughter (See note below) | 12,000 | Nil | |
| | Dependent brother (See note below) | 8,000 | Nil | |
| | | | 15,000 | 15,000 |
| | Deduction under section 80D (Medical Expenditure) | | | |
| | Medical expenditure incurred on the health of Father is allowed as deduction to the maximum of Rs. 30,000, since he is a very senior citizen. | | | 30,000 |
| | It is assumed that father is resident in India and no payment has been made to keep in force an insurance on his health. | | | |
| | Total deduction under Chapter VI-A | | | 45,000 |
| | Note – Premium paid to insure the health of brother is not eligible for deduction under section 80D, since brother is not included in the definition of family. Premium paid to insure the health of wife is not eligible for deduction since payment is made in cash. Premium paid to insure the health of married daughter is not eligible for deduction as she is not dependent on Mr. Suraj. | | | |

6. Rs. 25,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment, since the same has already been debited to Income & Expenditure A/c.
7. Incentive to articled assistants passing IPCC examination in their first attempt is deductible under section 37(1).
8. Repairs and maintenance paid in advance for the period 1.4.2018 to 30.9.2018 i.e. for 6 months amounting to Rs. 950 will be allowed since Mr. Suraj is following the cash system of accounting.
9. Since securities transaction tax has been paid on the shares and the period of holding of these shares is less than 12 months, the profit arising there from is a short-term capital gain chargeable to tax at 15% under section 111A.
10. Since depreciation debited to income and expenditure account is as per the Income-tax Rules, 1962, no adjustment for the same has been made.

PROBLEM NO.13

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

| Particulars | Rs. |
|--|------------------|
| Profits and gains of business or profession (See Working Note 1 below) | 10,71,500 |
| Income from other sources (See Working Note 2 below) | 32,500 |
| Gross Total Income | 11,04,000 |
| Less: Deduction under section 80C (Investment in NSC) | 15,000 |
| Total Income | 10,89,000 |

Working Notes:

1. Computation of profits and gains of business or profession

| Particulars | Rs. | Rs. |
|--|------------|------------|
| Net profit as per profit and loss account | | 11,20,000 |
| Add : Expenses debited to profit and loss account but not allowable as deduction | | |
| Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)] | 2,500 | |
| Motor car expenses attributable to personal use not allowable (Rs. 78,000 × ¼) | 19,500 | |

| | | |
|---|--------|------------------|
| Depreciation debited in the books of account | 55,000 | |
| Drawings (not allowable since it is personal in nature) [See Note (iii)] | 10,000 | |
| Investment in NSC [See Note (iii)] | 15,000 | 1,02,000 |
| | | 12,22,000 |
| Add : Under statement of closing stock | | 12,000 |
| | | 12,34,000 |
| Less: Under statement of opening stock | | 8,000 |
| | | 12,26,000 |
| Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction@150%. Since only the actual contribution (100%) has been debited to profit and loss account, the additional 50% has to be deducted. | | 50,000 |
| | | 11,76,000 |
| Less : Incomes credited to profit and loss account but not taxable as business income | | |
| Income from UTI [Exempt under section 10(35)] | 22,000 | |
| Interest on debentures (taxable under the head "Income from other sources") | 17,500 | |
| Winnings from races (taxable under the head "Income from other sources") | 15,000 | 54,500 |
| | | 11,21,500 |
| Less : Depreciation allowable under the Income-tax Rules, 1962 | | 50,000 |
| | | 10,71,500 |

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment of Rs. 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of Rs. 35,000 is applicable (i.e. payment of upto Rs. 35,000 can be made in cash without attracting disallowance under section 40A(3))
- Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

2. Computation of "Income from other sources"

| Particulars | Rs. |
|------------------------|---------------|
| Interest on debentures | 17,500 |
| Winnings from races | 15,000 |
| | 32,500 |

Note:

The following assumptions have been made in the above solution:

- The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is Rs. 50,000. It has been assumed that, in the said figure of Rs. 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

PROBLEM NO.14**Computation of total income of Mr. Chandran for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|--|-----|-----------------|
| Income from business of plying goods vehicle (Refer Note 1) | | 6,75,000 |
| Less: Brought forward business loss of financial year 2015-16 (Refer Note 2 & 3) | | 1,00,000 |
| Gross Total Income | | 5,75,000 |

| | | |
|---|--------|-----------------|
| Less: Deduction under Chapter VI-A | | |
| Section 80C:- Life insurance premium paid for insurance of married daughter (Refer Note 5) | 20,000 | |
| Section 80D:- Medical insurance premium paid for insurance of parents (Refer Note 6) | 30,000 | |
| Section 80E:- Interest paid towards education loan taken for studies of his daughter (Refer Note 7) | 15,000 | 65,000 |
| Total Income | | 5,10,000 |

Working Notes:**1. Computation of income from business of plying goods vehicles under section 44AE**

| Particulars | Rs. |
|---|-----------------|
| 6 heavy goods vehicle held throughout the year (Rs. 7,500×6×12) | 5,40,000 |
| 2 heavy goods vehicle – held for 9 months (Rs. 7,500×2×9) | 1,35,000 |
| Income under section 44AE | 6,75,000 |

- As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. Therefore, the unabsorbed depreciation of Rs. 70,000 shall not be allowed as a deduction since it is covered by section 32.
- Brought forward business loss of Rs. 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2017-18 was filed before the due date specified under section 139(1).
- Fixed deposit in the name of married son does not qualify for deduction under section 80C.
- Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. In respect of policies issued on or after 1.04.2013, only premium paid to the extent of 10% of "minimum capital sum assured" qualifies for deduction under section 80C. Therefore, out of the life insurance premium of Rs. 25,000 paid for insurance policy of married daughter, only Rs. 20,000 (being 10% of Rs. 2,00,000) is allowed as deduction under section 80C.
- Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of Rs. 30,000. Hence, deduction of Rs. 30,000 is provided to Mr. Chandran, as his parents are senior citizens.
- It is only the payment of interest on education loan which qualifies for deduction under section 80E. Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction under section 80E.

PROBLEM NO.15**Computation of total income of Mr. Janak for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|--|-----------------|-----|
| Basic salary (Rs. 30,000 x 7) | 2,10,000 | |
| Dearness Allowance (Rs. 20,000 x 7) | 1,40,000 | |
| Ex-gratia | 15,000 | |
| Employers' contribution to Central Government Pension Scheme (Rs. 7,000 x 7) | 49,000 | |
| Professional tax paid by employer | 3,000 | |
| Concessional accommodation (See Notes 1 & 2) | 150 | |
| Value of furniture (See Note 3) | 2,333 | |
| Value of concessional educational facility (Rs. 1,800 x 7) (See Note 4) | 12,600 | |
| Gross salary | 4,32,083 | |
| Less : Deduction under section 16(iii) Professional tax | 3,000 | |

| | | |
|---|---------------|-----------------|
| Net salary | | 4,29,083 |
| Income from other sources | | |
| Winnings from TV Game Show (Rs. 2,10,000 + Rs. 90,000) | | 3,00,000 |
| Gross Total Income | | 7,29,083 |
| Less : Deductions under Chapter VI-A | | |
| 80C Life insurance premium (Rs. 30,000 + Rs. 20,000) | 50,000 | |
| 80CCD(1) (See Notes 5) Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of Rs. 2,66,000 (Rs. 30,000 + Rs. 8,000) x 7] | 26,600 | |
| Total deduction under section 80C & 80CCD(1) | 76,600 | |
| 80CCD(1B) additional employee's contribution to pension scheme (49000 - 26,600) | 22,400 | |
| Employer's Contribution to pension scheme(to be restricted to 10% of salary) [Section 80CCD(2)] [See Note 5] | 26,600 | |
| 80D (Rs. 22,000 + Rs. 26,000) (See Note 6) | 48,000 | 1,73,600 |
| Total Income (see Note 8) | | 5,55,483 |
| Total income (rounded off) | | 5,55,480 |

Computation of tax liability of Mr. Janak for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-------|--------------|
| Tax @ 30% on winnings of Rs. 3,00,000 from game show | | 90,000 |
| Tax on balance income of Rs. 2,55,480 (The basic exemption limit of Rs. 3,00,000 is applicable since Mr. Janak is of the age of 60 years during the P.Y. 2017-18) | | Nil |
| | | 90,000 |
| Add : Education cess @ 2% | 1,800 | |
| Secondary and higher education cess @ 1% | 900 | 2,700 |
| Total Tax Liability | | 92,700 |
| Less : TDS | | 90,000 |
| Net Tax Payable | | 2,700 |

Notes:

- For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. Rs. 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be Rs. 2,81,000 [i.e., (Rs. 30,000 + Rs. 8,000) x 7 + 15,000].
- In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. Rs. 63,000, being 9,000 x 7] and 15% of salary [i.e., Rs. 42,150, being 15% of Rs. 2,81,000]. This value (i.e. Rs. 42,150) would be reduced by the rent paid by the employee (i.e., Rs. 42,000, being 6,000 x 7).

The value of concessional accommodation is Rs. 150 [i.e. Rs. 42,150 – Rs. 42,000].

- The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to Rs. 2,333 [i.e. 10% of 40,000 x 7/12].

Therefore, the value of furnished accommodation will be Rs. 2,483 (Rs. 150 + Rs. 2,333) provided to the employee.

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.

- In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds Rs. 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs. 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be Rs. 12,600 (i.e. Rs. 1,800 x 7).

Note – An alternate view possible is that only the sum in excess of Rs. 1,000 per month is taxable. In such a case, the value of perquisite would be Rs. 5,600. The gross salary in that case shall be Rs. 4,25,083 and net salary would be Rs. 4,22,083. The total income and tax liability shall accordingly vary.

5. The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of Rs. 1.5 lakh stipulated under section 80CCE. Also, the deduction U/S 80CCD(1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. the balance Rs. 22,400 (49000- 26,600) can be claimed as deduction u/s 80CCD(1B)
6. The deduction for medical insurance premium of Rs. 26,000 paid for father is allowable in full under section 80D, as the maximum limit is Rs. 30,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be Rs. 22,000 (for self) + Rs. 26,000 (for father) = Rs. 48,000.
7. Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB.

No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.

8. As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head

"Salaries", the assessee shall not be entitled to have such loss set-off against such income.

From a plain reading of the provisions of section 71(2A), it is possible to take a view that even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.

9. Deduction under section 80GG has not been provided in respect of rent paid by Mr. Janak to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

PROBLEM NO.16

Computation of total income of Mr. Dinesh Karthik for the A.Y. 2018-19

| Particulars | | Rs. | Rs. |
|--|--------|---------------|-----------------|
| Income from house property | | | |
| Arrears of rent received in respect of the Chennai house taxable under section 25A | Note 2 | 75,000 | |
| Less: Deduction @ 30% | | <u>22,500</u> | 52,500 |
| Profits and gains of business or profession | | | |
| (a) Own business | Note 3 | | 5,33,250 |
| (b) Income from partnership firm (See Note 1) | | | |
| Interest on capital [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%] | | 2,40,000 | |
| Salary of working partner | | 90,000 | 3,30,000 |
| Income from other sources | | | |
| (a) LIC Jeevan Dhara pension | | 24,000 | |
| (b) Interest from bank FD (gross) | | 50,000 | 74,000 |
| Gross Total Income | | | 9,89,750 |
| 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 Rs. 2,00,000. | 20,000 | | |
| Contribution to pension fund of National Housing Bank | 70,000 | | |
| | | 90,000 | |

| | | | |
|---|--------|--------|-----------------|
| Section 80D Mediclaime premium for father, a senior citizen (qualifies for deduction, even though the father is not dependent on the assessee) Maximum amount allowable | 32,000 | | |
| | | 30,000 | 1,20,000 |
| Total income | | | 8,69,750 |

Notes:

- The income by way of interest on capital and salary of Mr. Dinesh Karthik from the firm, Badrinath & Co., in which he is a 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, Rs. 3,30,000 [i.e., Rs. 90,000 (salary) + Rs. 2,40,000 (interest@12%)] should be included in his business income.
- 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 remains the owner of the house property.
- Computation of income from own business**

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Net profit as per profit and loss account | | 4,32,000 |
| Less: Items credited to profit and loss account not treated as business income | | |
| Interest on bank FD (net of TDS Rs. 5,000) | 45,000 | |
| Agricultural income | 60,000 | |
| Pension from LIC Jeevan Dhara | 24,000 | 1,29,000 |
| | | 3,03,000 |
| Add: Items debited to profit and loss account to be disallowed/considered separately | | |
| Advance tax | 70,000 | |
| Depreciation: | | |
| Car | 3,00,000 | |
| Machinery | 1,25,000 | |
| Car expenses disallowed | 10,000 | 5,05,000 |
| | | 8,08,000 |
| Less: Depreciation (See Working Note below) | | 2,74,750 |
| Income from own business | | 5,33,250 |

Working Note:**Computation of depreciation allowable under the Income-tax Act, 1961**

| Particulars | Rs. | Rs. |
|--|----------|-----------------|
| On Car: | | |
| 15% on 3,00,000 | 45,000 | |
| Less: 1/5th for personal use | 9,000 | 36,000 |
| On Machinery: | | |
| Opening WDV | 6,50,000 | |
| Additions during the year (Used for more than 180 days) | 3,25,000 | |
| Depreciation at 15% on | 9,75,000 | 1,46,250 |
| Additions during the year (used for less than 180 days) | | |
| Hence, depreciation at 7.5% on | 3,00,000 | 22,500 |
| Total normal depreciation (A) | | 2,04,750 |
| 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 | | |
| New machinery | | |
| Used for more than 180 days at 20% Rs. 2,00,000 | 40,000 | |
| Used for less than 180 days at 10% Rs. 3,00,000 | 30,000 | |
| Total additional depreciation (B) | | 70,000 |
| Total permissible depreciation (A) + (B) | | 2,74,750 |

PROBLEM NO.17**Computation of total income of Mr. Aditya for the A.Y.2017-18**

| Particulars | Rs. |
|---|-----------------|
| Income from house property (Working Note – 1) | 1,90,000 |
| Income from business (Working Note – 2) | 1,44,250 |
| Income from other sources (Working Note – 3) | 11,500 |
| Gross Total Income | 3,45,750 |
| Less: Deduction under Chapter VI-A (Working Note – 4) | 1,35,000 |
| Total Income | 2,10,750 |

Working Notes:**1. Computation of income under the head “Income from house property”**

| Particulars | Rs. | Rs. |
|--|----------|-----------------|
| Gross Annual Value (Higher of Actual Rent and Expected Rent) | | |
| Actual Rent (Rs. 25,000 × 12) | 3,00,000 | |
| Expected Rent | 2,50,000 | 3,00,000 |
| Less: Municipal taxes paid by Mr. Aditya | | Nil |
| Net Annual Value (NAV) | | 3,00,000 |
| Less: Deductions under section 24 | | |
| a) 30% of NAV | 90,000 | |
| b) Interest on loan | 20,000 | 1,10,000 |
| Income from house property | | 1,90,000 |

2. Computation of income under the head “Profits and gains of business or profession”

| Particulars | Rs. | Rs. |
|--|--------|-----------------|
| Net Profit as per profit and loss account | | 1,40,000 |
| Add: Expenses disallowed: | | |
| Advance income-tax | 1,500 | |
| Depreciation on car (not allowable, since the asset does not exist at the end of the year) | 3,000 | |
| Medical expenses of wife (personal expenses, disallowed) | 4,500 | |
| Driver's salary (¼th being for personal use, disallowed) | 4,500 | |
| Repair of car (¼th being for personal use, disallowed) | 750 | |
| Rent paid [Rs. 35,000 paid in cash – disallowed u/s 40A(3)] | 35,000 | 49,250 |
| | | 1,89,250 |
| Less: Income not taxable/exempt under the Income-tax Act, 1961/Income not taxable under this head | | |
| Cash gift from friend (not taxable under this head) | 25,000 | |
| Sale of car | 17,000 | |
| Interest on income-tax refund (taxable under the head “Income from other sources”) | 3,000 | 45,000 |
| Income under the head “Profits and gains of business or profession” | | 1,44,250 |

3. Computation of income under the head “Income from other sources”

| Particulars | Rs. | Rs. |
|--|--------|---------------|
| Cash gift from friend received on 15.9.2017 (not taxable under section 56(2)(x), since the aggregate value of gifts is less than Rs. 50,000) | | - |
| Interest on income-tax refund | | 3,000 |
| Interest on company deposits accruing to Mr. Aditya's minor daughter [See Note below] | 10,000 | |
| Less: Exempt under section 10(32) | 1,500 | 8,500 |
| Income from other sources | | 11,500 |

Note: Income received by Aditya's minor daughter from stage acting is not includible in the income of Mr. Aditya, since the income has been earned by her on account of her special talent. However, interest on company deposits is includible in Mr. Aditya's income as per section 64(1A), even though the deposit was made out of income derived from special talent.

4. Computation of deduction under Chapter VI-A

| Section | Particulars | Rs. |
|---|---|-----------------|
| 80DD | Medical treatment of dependent disabled [flat deduction of Rs. 1,00,000 in case of severe disability (80% or more) irrespective of the amount incurred] | 1,25,000 |
| 80E | Interest on loan for higher education of son, being a relative | 10,000 |
| Total deduction under Chapter VI-A | | 1,35,000 |

PROBLEM NO.18

Computation of Taxable Income of Mr. Rajesh for the A.Y. 2018-19

| Particulars | Amount | Amount |
|---|--------|------------------|
| Income from salaries (W.N -1) | | 9,86,800 |
| Income from H.P (W.N – 2) | | 1,00,000 |
| Income from C.G (W.N – 3) | | 2,115 |
| Income from other sources (W.N – 4) | | 750 |
| Gross Total Income | | 10,89,665 |
| (-) Chapter VI A Deduction | | |
| Sec.80C - Housing Loan Repayment (Principal only) | | 65,000 |
| Taxable Income | | 10,24,665 |
| Taxable Income (rounded off u/s 288A) | | 10,24,670 |

W.N - 1: Income from Salaries

| Particulars | Amount | Amount |
|--------------------------------------|--------|-----------------|
| Basic | | 5,40,000 |
| H.R.A | | 1,80,000 |
| Transport Allowance | 22,000 | |
| (-) Exemption U/S 10(14) (1600 X 12) | 19,200 | 2,800 |
| Value of laptop – Transfer (Note 1) | | 40,000 |
| Value of car – Transfer (Note 2) | | 2,24,000 |
| | | 9,86,800 |

Note 1 – Value of Laptop - Transfer

| Particulars | Amount |
|--|---------------|
| 1. cost (sept 2015) | 1,20,000 |
| (-) Dep. For first completed year of usage @ 50% | 60,000 |
| WDV (sept 2016) | 60,000 |
| less: amount paid to the employer | 20,000 |
| 3. Value of perquisite (1-2) | 40,000 |

Note 2 – Value of Car - Transfer

| Particulars | Amount |
|--|-----------------|
| 1. Value of Asset Sold | |
| Cost of the Asset (April 2014) | 8,50,000 |
| (-) Dep. For first completed year of usage @ 20% (April 2014-March 2015) | 1,70,000 |
| WDV(April 2015) | 6,80,000 |
| (-) Dep. for 2 nd completed year of usage @ 20% (April 2015-March 2016) | 1,36,000 |
| WDV(April 2016) | 5,44,000 |
| 2. Asset sold for | 3,20,000 |
| 3. Value of perquisite (1-2) | 2,24,000 |

W.N. - 2: Income from house property:

Status: Part of the year let out and part of the year S.O.P

Treatment: Treat it as if the property was let out for full year

Step 1: Fair rent = 2,00,000 (1,50,000 is for 9 months. Therefore, Fair Rent = $(\frac{1,50,000}{9} \times 12)$)

Step 2: Answer in Step. 1 Rs.(2,00,000) or Actual Rent 1,35,000 (15,000X9) Whichever is higher

Step 3:

| Particulars | Amount |
|-----------------------------------|-----------------|
| GAV | 2,00,000 |
| (-) Municipal Taxes | Nil |
| NAV | 2,00,000 |
| (-) Deductions u/s 24 | |
| Repairs 30% NAV | 60,000 |
| Interest | 40,000 |
| Income from House Property | 1,00,000 |

W.N. - 3 Computation of Short Term Capital Gains

Sale of shares of A Ltd is exempted u/s.10(38)

Sale of shares of B Ltd. Sec.111A

| Particulars | Amount |
|------------------------------------|--------------|
| Consideration (82 X 125) | 10,250 |
| (-) Brokerage (0.1%) | 10 |
| Net Consideration | 10,240 |
| (-) Cost of acquisition (65 X 125) | 8,125 |
| Taxable Capital Gain | 2,115 |

Income from Other Sources: As income Tax paid will not be allowed as deduction Income Tax refundable will not be Taxable. Interest on Income Tax refundable is taxable i.e. Rs.750

Note: Assumed that the housing loan was taken either from specified employer or from notified financial Institution.

PROBLEM NO.19

Computation of Total Income of Dr. Sparsh Kumar for the A.Y.2018-19

| Particulars | Amount |
|---|-----------------|
| Income from salary (W.N.1) | 72,000 |
| Income from P.G.B.P (W.N.2) | 2,65,550 |
| Income from Long term C.G (W.N.3) | 1,76,000 |
| Income from other sources (W.N.4) | 54,000 |
| Gross total income | 5,67,550 |
| (-) Deductions under chapter VIA: | |
| L.I.C premium - Sec. 80C (10% of sum assured) | 50,000 |
| PPF | 1,00,000 |
| P.M relief fund - Sec. 80G | 15,000 |
| Net Total Income | 4,02,550 |

Computation of tax liability:

| Particulars | Rs. |
|--|--------|
| Tax on total income (Working Note - 5) | 44,028 |
| Add: Education cess @ 2% and SHEC @1% | 1,321 |

| | |
|------------------------------------|---------------|
| Total tax liability | 45,349 |
| Less: Tax deducted at source (TDS) | 12,000 |
| Tax payable | 33,349 |
| Rounded off | 33,350 |

W.N.1: Income from salaries:

| Particulars | Amount |
|--------------------------------|---------------|
| Gross Salary (6,000 X 12M) | 72,000 |
| Less: Deductions U/S 16 | Nil |
| Salary Income | 72,000 |

W.N.2: Income from P.G.B.P:

| Particulars | Amount |
|---------------------------------------|-----------------|
| Surplus as per Income & Exp. a/c | 2,47,800 |
| Add: Depreciation as per books | 91,000 |
| Medicines consumed | 16,000 |
| Donation to P.M. relief fund | 15,000 |
| Less: Depreciation allowable | 50,000 |
| Winnings from lotteries | 28,000 |
| Income tax refund | 2,750 |
| Dividend from Indian co. | 9,500 |
| Honorarium for valuing answer books | 14,000 |
| Taxable Income from P.G.B.P | 2,65,550 |

W.N.3: Income from Capital Gains – Sec.50 C

| Particulars | Amount |
|--|-----------------|
| Consideration 10L or 14 L whichever is higher | 14,00,000 |
| Less: Indexed cost of acquisition (Rs.4,50,000x272/100) | 12,24,000 |
| Taxable Income from Long term capital gains | 1,76,000 |

W.N.4: Income from Other Sources

| | |
|--|---------------|
| Dividend from Indian Co's [Sec.10(34)] | Exempted |
| Winning from lotteries (Net) 28,000 | |
| Add: TDS 12,000 | 40,000 |
| Honorarium for valuing answer books | 14,000 |
| Income from Other Sources | 54,000 |

Note: As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

W.N.5: Computation of tax on total income

| Particulars | Rs. |
|--|---------------|
| Tax on agricultural income plus non-agricultural income i.e. tax on Rs. 4,92,550 (being Rs. 90,000 + Rs. 4,02,550) [See Note below] | 48,528 |
| Less: Tax on agricultural income plus basic exemption limit i.e. tax on Rs. 3,40,000 (being Rs. 90,000 + Rs. 2,50,000) | 4,500 |
| Tax on total income | 44,028 |

Note: Tax on Rs. 4,02,550 plus agricultural income of Rs. 90,000 is computed here under :

| Particulars | Rs. |
|--|--------|
| Tax on long term capital gain Rs. 1,76,000 @ 20% | 35,200 |
| Tax on winnings from lotteries Rs. 40,000 @ 30% | 12,000 |
| Tax on balance income of Rs. 2,76,550 (Rs. 4,92,550 – Rs. 1,76,000 - Rs. 40,000) | 1,328 |
| | 48,528 |

Note: Agricultural income is exempt from tax. It is considered for rate purpose only.

PROBLEM NO.20**Computation of Total Income & Taxable Income of Mr. RAM. For the A.Y.2018-19**

| Particulars | Amount |
|--|-----------------|
| Income from salaries (W.N.1) | 2,79,600 |
| Income from P.G.B.P (W.N.2) | 75,000 |
| Income from other sources (W.N.3) | 15,500 |
| Gross total income | 3,70,100 |
| (-) Deductions under chapter VIA (W.N.4) | 1,13,000 |
| Net total Income | 2,57,100 |

W.N.1: Income from salaries

| Particulars | Amount |
|---|-----------------|
| Basic (20,000 X 12M) | 2,40,000 |
| C.C.A (1,000 X 12M) | 12,000 |
| H.R.A (5,000 X 12) | 60,000 |
| (-) Exempted [Sec.10 (13A)]* | 48,000 |
| Employer's contribution to staff ins. (Sec. 17(2) (V)) | Exempted |
| Education allowance (500 X 12 X 3) | 18,000 |
| (-) Exempted U/S 10(14) (100 X 12 X 2) | 2,400 |
| Taxable Income from salaries | 2,79,600 |

(*) HRA Exempted

| Particulars | Amount |
|--|----------|
| (i) Excess of Rent paid over 10% of salary (72,000-10% of salary) (72,000-24,000) | 48,000 |
| (ii) H.R.A Received | 60,000 |
| (iii) 50% of salary | 1,20,000 |
| Least above three is exempted | 48,000 |

W.N.2: Income from P.G.B.P:

In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each vehicle, whether heavy goods vehicle or not, will be deemed to be Rs. 7,500/- for every month or part of the month during which the heavy vehicle is owned by the assessee during the previous year [Section 44AE].

Presumptive income = Rs. 7,500 × 10 = 75,000

If, however, the assessee declares a higher amount, such amount will be considered as income. In the instant case, since the assessee declares a lower amount, it cannot be considered, since no books of account are maintained. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed.

W.N.3:- Income from Other Sources

| | |
|--|----------------|
| Interest on company deposits | 15,000 |
| Int. on bank deposits | 5,000 |
| Less: Deductions U/s. 57(3) $\left(1,00,000 \times 9\% \times \frac{6}{12}\right)$ | (4,500) |
| Taxable Income from other sources | 15,500 |

W.N.4: Deduction under Chapter VIA

| Particulars | Rs. |
|---|--------|
| i. U/s. 80C | |
| a. Investment in ELSS of UTI | 12,000 |
| b. LIC Premia (Restricted to Rs.4,000 being 10% of Sum assured) | 4,000 |

| | |
|--|-----------------|
| c. Tuition Fees (Restricted to two children (Rs.15,000 + Rs.10,000)) | 25,000 |
| d. Investment in PPF | 52,000 |
| ii. U/s. 80CCC – Pension Fund | 15,000 |
| iii. U/s. 80TTA – Interest on deposit in savings account | 5,000 |
| Total Chapter VI A Deductions | 1,13,000 |

Note: Total deduction under sections 80C, 80CC and 80CCD is limited to Rs. 1,50,000 as per section 80CCE. Deduction under section 80TTA is allowed in respect of interest from Saving Bank Account upto a maximum of Rs. 10,000. Therefore, interest from Saving Bank Account of Rs. 5,000 is allowed as deduction.

Tax payable / Tax liability

| Particulars | Amount |
|-----------------------------------|------------|
| Gross Tax liability | 355 |
| Rebate u/s87A | 355 |
| Tax payable before Education cess | Nil |
| (+) Education cess @ 3% | Nil |
| Net tax liability | Nil |

PROBLEM NO.21

Computation of Taxable income of Mr. Rinku for the A.Y. 2018-19

| Particulars | Amount | Amount |
|---|--------|-----------------|
| Income from PGBP | | 2,20,000 |
| Income from capital gains (2,00,000+30,000) | | 2,30,000 |
| Income from other sources (T.V. Show) | | 20,000 |
| Grass Total Income | | 4,70,000 |
| (-) Chapter VI A deductions | | |
| Life insurance premium of self | 40,000 | |
| Life insurance premium of husband | 20,000 | 60,000 |
| Taxable Income | | 4,10,000 |

Computation of tax liability:

| Particulars | Amount | Amount |
|---|--------|---------------|
| Step 1: Non – agricultural income and Agricultural income (4,10,000+ 40,000) | | 4,50,000 |
| Step 2: Tax on above income | | |
| Tax on prize winning from TV show U/S. 115BB (Rs.20,000 X 30%) | 6,000 | |
| Tax on long term capital gains U/S. 112 (1,30,000 X 20%) (Note 1) | 26,000 | |
| Tax on balance income .2,30,000 | Nil | 32,000 |
| Step 3: Agricultural income + Basic exemption (Rs.40,000+Rs.3,00,000) | | 3,40,000 |
| Step 4: Tax on Step 3 | | 2,000 |
| Step 5: Tax payable (Step 2 – Step 4) | | 30,000 |
| Add: Education cess @ 3% (Including 1% Secondary and higher education cess) | | 900 |
| Total Tax Payable (Rounded off U/s 288 B) | | 30,900 |

Notes:

1. Repayment of house loan was not taken for deduction under chapter VI-A as the loan was taken in the name of assessee's dependant son.
2. Since the basic exemption limit of (Rs.3,00,000 – 2,30,000) is not yet exhausted, the unutilized part of **Rs.70,000** is reduced from long-term capital gains.
3. As the assessee has attained 61 years of age during the previous year, basic exemption limit of Rs.3,00,000 was claimed.

PROBLEM NO.22**Computation of total income of Mr. Raghu for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|---------------|-------------------------|
| Basic salary | | 12,00,000 |
| Dearness allowance | | 6,00,000 |
| Bonus | | 2,00,000 |
| Employer contribution to recognized provident fund in excess of 12% is taxable (3% of 18,00,000) | | 54,000 |
| Rent free accommodation @ 15% of Rs.20 lakh (basic salary + dearness allowance + bonus) | | <u>3,00,000</u> |
| | | 23,54,000 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C | | |
| Contribution to recognized provident fund Rs.1,50,000 | 1,50,000 | |
| Section 80D – Health insurance premium | | |
| Wife Rs.30,000 restricted to | 25,000 | |
| Parents (Senior Citizens) Rs.33,000 restricted to | <u>30,000</u> | |
| | 55,000 | |
| Section 80DD | | |
| Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred) | 1,25,000 | |
| Section 80E – Interest on loan taken for full-time education of | | |
| - his son studying B.Com. | 24,000 | |
| - a student studying B.Sc. for whom he is the legal Guardian | <u>20,000</u> | |
| | 44,000 | <u>3,74,000</u> |
| Total income | | <u>19,80,000</u> |

PROBLEM NO.23**Computation of Total Income of Mr. Rajat for Assessment Year 2018-19**

| Particulars | Working Note Nos. | Rs. |
|---|-------------------|------------------------|
| Income from House Property | 1 | 58,100 |
| Profit and gains of Business or Profession | 2 | 7,73,300 |
| Short-term capital gains | 3 | 15,620 |
| Income from other sources | 4 | <u>16,350</u> |
| Gross Total Income | | 8,63,370 |
| Less: Deduction under Chapter VI-A | 5 | <u>15,500</u> |
| Total Income | | <u>8,47,870</u> |
| Tax on total income | | |
| Total Income | | 8,47,870 |
| Less: Short-term capital gains (See Note 9 below) | | <u>15,620</u> |
| Normal Income | | <u>8,32,250</u> |
| Tax on normal income | | 78,950 |
| Tax on short-term capital gains @15% | | <u>2,343</u> |
| | | 81,293 |
| Add: Education cess @ 2% and SHEC @ 1% | | <u>2,439</u> |
| Total tax liability | | <u>83,732</u> |
| Total tax liability (rounded off) | | 83,740 |

Notes:

| | | |
|--|---------------|--------|
| 1. Income from House Property | | |
| Gross annual value | 84,000 | |
| Less: Municipal taxes paid by owner | <u>1,000</u> | |
| Net Annual Value (NAV) | 83,000 | |
| Less: Deduction under section 24 @ 30% of NAV | <u>24,900</u> | |
| Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent. | | 58,100 |

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PROBLEM NO.24**Computation of taxable income of Mr. X for the A.Y. 2018-19**

| | Particulars | Rs. | Rs. | Rs. |
|------|--|--------------|-----------------|-----------------|
| 1. | Income from House Property (Note 1) | | | 26,250 |
| 2. | Profits and gain of business or profession (Note 2) | | | 2,78,450 |
| 3. | Capital gains (Note 3) | | | 33,200 |
| 4. | Income from other sources (Note 4) | | | <u>26,470</u> |
| | Gross Total income | | | 3,64,370 |
| | Less: Deductions under Chapter VIA | | | |
| i. | Deduction under section 80C (Note 5) | | | |
| ii. | Deduction under section 80DDB in respect of expenditure on medical treatment incurred on treatment of his father | 40,000 | 35,000 | |
| | Less: Expenditure reimbursed by insurance Company | | | |
| iii. | Deduction under section 80GGC in respect of contribution to the Political Party (Note 11) | <u>7,500</u> | 32,500 | |
| | Total income | | | <u>68,500</u> |
| | Components of total income | | | <u>2,95,870</u> |
| | Special Income | | <u>1,000</u> | |
| | Short-term capital gains from sale of shares (chargeable at a special rate of 15% u/s 111A) | | 4,200 | |
| | Normal income | | <u>2,91,670</u> | |
| | | | <u>2,95,870</u> | |

Computation of tax payable by Mr. X for the A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|--------------|---------------|
| Tax on short-term capital gains from sale of shares @ 15% of Rs.4,200 | | 630 |
| Tax on agricultural income plus non-agricultural income aggregating to Rs.3,36,670 (2,91,670 +45,000) | | |
| First Rs.2,50,000 | Nil | |
| Next <u>Rs. 86,670 @ 5%</u> | <u>4,336</u> | |
| <u>Rs.3,36,670</u> | 4,336 | <u>4,336</u> |
| | | 4,966 |
| Less: Tax on agricultural income plus basic exemption limit aggregating to Rs.2,95,000 | | |
| First Rs.2,50,000 | NIL | |
| Next <u>Rs.45,000 @ 5%</u> | <u>2,250</u> | |
| <u>Rs.2,95,000</u> | 2,250 | <u>2,250</u> |
| Income tax payable | | 2,716 |
| Less: Rebate u/s87A 100% of tax | | |
| or which ever is | | |
| 2,500 lower | | <u>2,500</u> |
| Add: | | 216 |
| Education cess @ 2% | | <u>43</u> |
| Secondary and higher education cess @ 1% | | <u>21</u> |
| Total tax | | <u>280</u> |
| Less: Tax deducted at source | | 2500 |
| Less: Advance tax paid | | <u>17,000</u> |
| Tax refundable | | <u>19220</u> |

Notes:

1. Computation of Income from House Property

| Particulars | Rs. |
|---|---------------|
| Gross Annual Value (GAV) | 37,500 |
| Rent received is taken as the GAV in the absence of other information | |
| Less: Municipal taxes paid | Nil |
| Net Annual Value (NAV) | 37,500 |
| Less: Deduction under section 24 @ 30% of NAV | 11,250 |
| | 26,250 |

2. Computation of Profits and gains of business or profession

| Particulars | Rs. | Rs. |
|---|---------------|-----------------|
| Net profit as per Profit & Loss account | | 3,47,294 |
| Add: Inadmissible expenses | | |
| Depreciation charges | 1,25,656 | |
| Advance tax (Note 9) | 17,000 | |
| Donation to political party | <u>1,000</u> | |
| | | 1,43,656 |
| Add: Recovery of bad debt (Note 8) | | <u>15,000</u> |
| | | 5,05,950 |
| Less: Income chargeable under any other head/exempt income | | |
| Rent received | 37,500 | |
| Interest on debentures (gross) | 25,000 | |
| Agricultural income (Note 10) | 45,000 | |
| Short term capital gain on sale of investment | 29,000 | |
| Dividend from Indian Company (Note 10) | <u>16,000</u> | |
| | | <u>1,52,500</u> |
| | | 3,53,450 |
| Less: Depreciation as per Income-tax Rules, 1962 | | <u>75,000</u> |
| | | 2,78,450 |

3. Computation of Capital Gains

| Particulars | Rs. | Rs. |
|--|------------------|---------------|
| Short term capital gains on sale of investment | | 29,000 |
| Short term capital gains on sale of shares | | |
| Shares of AB Co. Ltd. | | |
| Sale consideration 150 shares @ Rs.98 each | Rs.14,700 | |
| Less: Cost of 150 shares @ Rs.60 each | <u>Rs.9,000</u> | |
| | 5,700 | |
| Shares of PQ Co. Ltd. | | |
| Sale consideration 150 shares @ Rs.102 each | Rs.15,300 | |
| Less: Cost of 150 shares @ Rs.112 each | <u>Rs.16,800</u> | |
| | (1,500) | |
| | | <u>4,200</u> |
| | | 33,200 |
| Long term capital gains on sale of shares | | |
| Since the holding period of 200 shares of AB Co. Ltd. is more than 12 months, the capital gain on sale of such shares is a long term capital gain and hence, exempt from income-tax under section 10 (38). | | |
| Capital Gains | | <u>Nil</u> |
| | | 33,200 |

4. Computation of Income from other sources

| Particulars | Rs. |
|---|---------------|
| Interest on debentures | 25,000 |
| Interest on refund from IT authority (Note 7) | 1,470 |
| Income from other sources | 26,470 |

- Five year time deposit in an account under Post Office Time Deposit Rules, 1981, is eligible for deduction under section 80C.
- The maturity proceeds of the life insurance policy are exempt under section 10(10D) assuming that the policy does not fall under the exceptions stated under that section.
- Refund of income tax is not taxable. However, interest on such refund is chargeable to tax under the head "Income from other sources".

8. Recovery of bad debts, assumed to be allowed in full in an earlier year, is taxable under section 41(4), whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time when it is recovered.
9. Advance tax is not allowable as deduction.
10. Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).
11. Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80GGC

PROBLEM NO.25**Computation of total income of Mr. Ashok for the A.Y.2018-19**

| Particulars | Rs. | Rs. | Rs. |
|--|---------------|-----------------|-----------------|
| Income from house property [See Note 1] | | | |
| House block 1 used for business, hence GAV | | Nil | |
| House block 2 let out (higher of fair rent and rent receivable) | | 1,80,000 | |
| Less: Municipal tax paid | | | |
| Net annual value (NAV) | | <u>12,000</u> | |
| Less: Deductions under section 24 | | 1,68,000 | |
| a. 30% of NAV | 50,400 | | |
| b. Interest on bank loan @ 10% on Rs.5,00,000 | <u>50,000</u> | <u>1,00,400</u> | 67,600 |
| Profits and gains of business or profession [See Note 2] | | | |
| Income prior to adjustment for depreciation | | 2,20,000 | |
| Less: Depreciation on equipments used for Business | 30,000 | | |
| Depreciation on building Rs.5,00,000 @ 10% | <u>50,000</u> | <u>80,000</u> | |
| | | 1,40,000 | |
| Less: Set off of brought forward business loss relating to discontinued business [See Note 3] | | <u>80,000</u> | 60,000 |
| Capital Gains [See Note 4] | | | |
| Short term capital gains from sale of listed shares | | | |
| Full value of consideration | | 2,30,000 | |
| Less: Cost of acquisition | | <u>1,80,000</u> | <u>50,000</u> |
| Gross Total Income | | | 1,77,600 |
| Less: Deduction under section 80C in respect of LIP Rs.32,000 and housing loan repayment in respect of II block Rs.23,000 | | | |
| Deduction under section 80D (for self) | 55,000 | | |
| Total income | <u>6,000</u> | | <u>61,000</u> |
| Tax on total income | | | 1,16,600 |
| | | | Nil |

Notes:**1. On computation of Income from house property:**

- i. The annual value of the house property which is used for business would not fall under the head "Income from house property". Therefore, the annual value of the first block is not chargeable to tax under the head "Income from house property". However, depreciation there on at 10% has been claimed while computing the income from business.
- ii. As regards the second block, the sum for which the property may be reasonably expected to be let is Rs.15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., Rs.15,000 p.m.) or the actual rent received (Rs.10,000 p.m.) Hence, the GAV of the second block is Rs.1,80,000 (i.e. Rs.15,000 p.m.)
- iii. Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the second block is Rs.50,000 (i.e. 10% of Rs.5 lakhs), which is allowable as deduction under section 24(b).

2. On computation of Profits and gains of business or profession: Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is Rs.50,000 (being 10% of Rs.5,00,000) and depreciation on equipments used for business is Rs.30,000. Hence the depreciation allowable during the year is Rs.80,000.

3. On set off of business loss: As per section 72, business loss relating to discontinued business is eligible for set off.

4. **On treatment of short-term capital gains (STCG):** The listed shares have been sold and securities transaction tax is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.
5. **On computation of deductions under sections 80C and 80D:** Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed Block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.

However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of Rs.6,000 is eligible for deduction.

PROBLEM NO.26

Computation of total income of Mr. Vidyasagar for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|--------|----------|
| Profits and gains of business or profession | | |
| Income from wholesale business | | |
| Net profit as per books | | 5,60,000 |
| Add: Depreciation as per books | 34,000 | |
| Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (Rs. 7,000/2) | 3,500 | |
| Disallowance under section 40A (3) in respect of salary paid in cash since the same exceeds Rs. 20,000 | 21,000 | |
| 20% of car expenses for personal use | 8,000 | 66,500 |
| | | 6,26,500 |
| Less: Depreciation allowable (Note 1) | | 86,400 |
| | | 5,40,100 |
| Income from firm | | |
| Interest on capital from partnership firm (Note 2) | | 1,20,000 |
| | | 6,60,100 |
| Income from other sources | | |
| Interest on bank fixed deposit (Gross) | 15,000 | |
| Interest on income-tax refund | 2,300 | 17,300 |
| Gross total income | | 6,77,400 |
| Less: Deduction under Chapter VIA (Note 3) | | 1,30,000 |
| Total Income | | 5,47,400 |

Notes:

1. Depreciation allowable under the Income-tax Rules, 1962

| | Opening WDV | Rate | Depreciation | Closing WDV |
|---|--------------------|------|--------------|-------------|
| Block 1 | Computers 1,20,000 | 40% | 48,000 | 72,000 |
| Block 2 | Motor Car 3,20,000 | 15% | 48,000 | |
| Less: 20% disallowance for personal use | | | 9,600 | 2,81,600 |
| | | | 86,400 | |

2. Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. It is assumed that the partnership deed provides for the same and hence is allowable to this extent in the hands of the firm. Therefore, interest @12% p.a. amounting to Rs. 1,20,000 would be treated as the business income of Mr. Vidyasagar.
3. Deduction under Chapter VI - A

| Particulars | Rs. | Rs. |
|---|----------|----------|
| Under section 80C | | |
| LIP for major son | 60,000 | |
| PPF paid in wife's name | 70,000 | |
| | 1,30,000 | |
| Since the maximum deduction under section 80C and 80CCE is Rs. 1,50,000, the entire sum of Rs. 1,30,000 would be allowed as deduction | | 1,30,000 |
| Total deduction | | 1,30,000 |

PROBLEM NO.27

Computation of total income of Mr. Rajiv for the assessment year 2018-19

| Particulars | Rs. | Rs. | Rs. |
|---|-----------|-----------|-----------|
| Income from house property | | | |
| Self-occupied | | | |
| Annual value | Nil | | |
| Less: Deduction under section 24(b) | | | |
| Interest on housing loan | | | |
| 50% of Rs. 88,000 = 44,000 but limited to | 30,000 | | |
| Loss from self occupied property | | (30,000) | |
| Let out property | 60,000 | | |
| Annual value (Rent receivable has been taken as the annual value in the absence of other information) | | | |
| Less: Deductions under section 24 | | | |
| a) 30% of Net Annual Value 18,000 | | | |
| b) Interest on housing loan (50% of Rs. 88,000) 44,000 | 62,000 | (2,000) | |
| Loss from house property | | | (32,000) |
| Profits and gains of business or profession | | | |
| Fees from professional services | | 59,38,000 | |
| Less: Expenses allowable as deduction | | | |
| Staff salary, bonus and stipend | 21,50,000 | | |
| Other administrative expenses | 11,48,000 | | |
| Office rent | 30,000 | | |
| Motor car maintenance (10,000 x 4/5) | 8,000 | | |
| Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting) | Nil | | |
| | | 33,36,000 | |
| | | 26,02,000 | |
| Less: Depreciation | | | |
| Motor car Rs. 4,25,000 x 7.5% x 4/5 | 25,500 | | |
| Books being annual publications @ 40% | 8,000 | | |
| Furniture and fittings @ 10% of Rs. 60,000 | 6,000 | | |
| Plant and machinery @ 15% of Rs. 80,000 | 12,000 | | |
| Computer @ 40% of Rs. 50,000 | 20,000 | | |
| Computer (New) Rs. 30,000 @ 40% x ½ thereon | 6,000 | 77,500 | 25,24,500 |
| Gross Total income | | | 24,92,500 |
| Less: Deduction under Chapter VI-A | | | |
| Deduction under section 80C | | | |
| Housing loan principal repayment | 1,00,000 | | |
| PPF subscription | 20,000 | | |
| Life insurance premium | 24,000 | | |
| Total amount of Rs. 1,44,000 is allowed as deduction since it is within the limit of Rs. 1,50,000 | | 1,44,000 | |
| Deduction under section 80D | | | |
| Medical insurance premium paid Rs. 18,000 | | 18,000 | 1,62,000 |
| Total income | | | 23,30,500 |

PROBLEM NO.28

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

| Particulars | w. note no's | Amount |
|--|--------------|-----------------|
| Income from house property | 1 | 1,02,900 |
| Profit and gains of business or profession | 2 | 62,600 |
| Long term capital gains | 3 | 2,20,000 |
| Income from other sources | 4 | 1,81,000 |
| Gross Total Income | | 5,66,500 |
| Less: Deduction under Chapter VI-A | 5 | 45,000 |
| Total Income | | 5,21,500 |
| Tax on total income | | |

| | | |
|--|--------------|---------------|
| Tax on Long term capital gain @20% (Rs. 2,20,000 x 20%) | 44,000 | |
| Tax on balance total income of Rs. 3,01,500 | <u>2,575</u> | 46,575 |
| Add: Education cess @ 2% and SHEC @ 1% | | <u>1,397</u> |
| Total tax liability | | 47,972 |
| Less: Tax deducted at source on interest on debentures [5,400 × 10/90] | | <u>600</u> |
| Net Tax liability (Rounded off) | | <u>47,380</u> |

Working Notes:

| | Particulars | Amount | Amount |
|--|---------------|--------|-----------------|
| 1. Income from House Property | | | |
| (i) Self-occupied portion (25%) As per section 23(2), income from self-occupied portion is Nil. | | | Nil |
| (ii) Let-out portion – 50% | | | |
| Gross Annual Value | | | 1,65,000 |
| (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent) | | | |
| Less: Municipal taxes paid in respect of let out portion (50% of Rs.36,000) | | | <u>18,000</u> |
| Net Annual Value (NAV) | | | 1,47,000 |
| Less: Deduction under section 24@30% of NAV | | | <u>44,100</u> |
| | | | 1,02,900 |
| 2 Profits & Gains of Business or Profession | | | |
| Net profit as per profit and loss account | | | 1,34,000 |
| Add: Expenses debited to profit and loss account but not allowable | | | |
| (i) Fire Insurance [relating to let-out and self-occupied house property] (75% of Rs.10,000) | 7,500 | | |
| (ii) Income-tax [disallowed as per section 40(a)(ii)/(iia)] | 27,000 | | |
| (iii) Household expenses (Under section 37, personal expenses are disallowed) | 42,500 | | |
| (iv) Contribution to university approved under section 35(1)(ii), considered separately | 1,00,000 | | |
| (v) Municipal Taxes paid in respect of let-out and self-occupied portions [75% of Rs.36,000] | <u>27,000</u> | | <u>2,04,000</u> |
| | | | 3,38,000 |
| Less: Weighted deduction@175% for contribution to university approved and notified under section 35(1)(ii) [1,00,000 × 150%] | | | <u>1,50,000</u> |
| | | | 1,88,000 |
| Less: Income credited to Profit & Loss Account but not taxable under this head: | | | |
| (i) Cash gift | 1,20,000 | | |
| (ii) Interest on debentures | <u>5,400</u> | | <u>1,25,400</u> |
| | | | 62,600 |
| 3. Capital gains | | | |
| Sale consideration of bonus shares | | | 2,20,000 |
| Less: Cost of acquisition [Nil, for bonus shares] | | | Nil |
| Long term capital gain [Since unlisted shares are held by Mr. Devansh for more than 24 months] | | | 2,20,000 |
| 4. Income from Other Sources | | | |
| Cash gift on the occasion of marriage is exempt, even if the same is received from a non-relative | | | Nil |
| In case of vacant site received for inadequate consideration, difference between stamp duty value (Rs.2,80,000) and actual consideration (Rs.1,05,000) is taxable under section 56(2)(vii), since such difference exceeds Rs.50,000. | | | 1,75,000 |
| Interest of Rs.500 on post-office savings bank account [In case of individual account, a sum upto Rs.3,500 is exempt under section 10(15)] | | | Nil |
| Interest on debentures (gross) [Rs. 5,400 × 100/90] (The rate of TDS under section 194A is 10%) | | | <u>6,000</u> |

| | | | |
|-----------|---|--|-----------------|
| | Income chargeable under this head | | 1,81,000 |
| 5. | Deduction under Chapter VI-A : | | |
| | Deduction under section 80C | | |
| | LIC Premium paid Rs.60,000 [Since the policy was taken after 31.3.2013 to insure the life of disabled son, the premium is restricted to 15% of sum assured] [15% of Rs. 3,00,000] | | 45,000 |

PROBLEM NO.29

Computation of total income of Mr. Vinod Kumar for the Assessment Year 2018-19

| Particulars | Amount | Amount | Amount |
|--|-----------------|---------------|------------------|
| Income from Salary | | | |
| Pension received (net of TDS) | | 6,27,000 | |
| Add: Tax deducted at source | | <u>25,000</u> | 6,52,000 |
| Profits and gains from business or profession | | | |
| Gross Receipts | | 51,60,000 | |
| Less: Expenses | | | |
| Rent for premises allowable under section 30(a) | 5,44,000 | | |
| Salaries | 11,20,000 | | |
| Miscellaneous expenditure | 3,91,000 | | |
| Conveyance for official use [3/4th of 3,00,000] | 2,25,000 | 22,80,000 | 28,80,000 |
| Capital Gains | | | |
| Long-term capital gains on sale of listed shares – exempt under section 10(38), since securities transaction tax would have been paid as the same have been sold in a recognized stock exchange | | - | |
| Short-term capital gains on sale of listed shares – taxable @15% under section 111A, since securities transaction tax would have been paid as the same have been sold in a recognized stock exchange | | <u>65,000</u> | 65,000 |
| Income from Other Sources | | | |
| Interest on fixed deposit from bank | | 1,60,000 | |
| Interest on Post Office Savings Account | 18,000 | | |
| Less: Exempt under section 10(15) | <u>3,500</u> | <u>14,500</u> | <u>1,74,500</u> |
| Gross Total Income | | | 37,71,500 |
| Less: Deductions under Chapter VI-A | | | |
| Under section 80C | | | |
| Contribution to PPF | 1,10,000 | | |
| Life insurance premium paid 60,000 (restricted to 10% of sum assured, since the policy was taken after 31.3.2012) | <u>50,000</u> | | |
| | <u>1,60,000</u> | | |
| Restricted to | | 1,50,000 | |
| Under section 80D | | | |
| Medical insurance premium (paid otherwise than by cash) | 27,000 | | |
| Preventive health check-up (allowed even if paid by cash), 6,000, restricted to | <u>5,000</u> | | |
| Restricted to 30,000, since Mr. Vinod Kumar is a resident individual of the age of 62 years (i.e., 60 years or more at any time during the previous year) | 32,000 | 30,000 | |
| Under section 80G | | | |
| As per section 80G(5D), cash donation to charitable trust of an amount exceeding 2,000 is not allowable as deduction | | - | |
| Under section 80TTA | | | |
| Interest from post office savings account, Rs.14,500, restricted to | | 10,000 | <u>1,90,000</u> |
| Total Income | | | 35,81,500 |

Mr. Vinod Kumar is engaged in Technical Consultancy services which is specified under section 44AA.

Since Mr. Vinod Kumar's Gross Receipts exceeds 50 lakhs, he cannot opt for presumptive taxation u/s 44ADA. He has to get then audited u/s 44AB.

PROBLEM NO.30

Computation of total income of Mrs. Ann for the Assessment Year 2018-19

| | | |
|---|-----------------|-----------------|
| Income from Salary | | |
| Basic Salary (60,000 × 12) | | 7,20,000 |
| HRA (15,000 × 12) | 1,80,000 | |
| Less: Exempt under section 10(13A) [See Note 1 below] | <u>1,44,000</u> | 36,000 |
| Education Allowance (1,500×12) | 18,000 | |
| Less: Exempt under section 10(14)@100 per month per child and maximum for 2 child (100 × 12 × 2) | <u>2,400</u> | 15,600 |
| | | 7,71,600 |
| Profits and gains from business or profession | | |
| Income from the business of letting on hire a truck under section 44AE [See Note 2 below] | | 88,000 |
| Income from Other Sources | | |
| Interest on Post Office Savings Bank Account | 8,500 | |
| Less: Exempt under section 10(15) | <u>3,500</u> | 5,000 |
| Interest from company deposits | 25,000 | |
| Less: Deduction u/s 57 in respect of interest on loan paid for investing in company deposits | <u>5,000</u> | 20,000 |
| Interest on National Savings Scheme, 1992 | <u>35,000</u> | 60,000 |
| Gross Total Income | | 9,19,600 |
| Less: Deductions under Chapter VI-A | | |
| Under section 80C [Tuition fees paid for two children – most favorable to Mrs. Ann being 50,000 + 30,000] | 80,000 | |
| Deposit in 5 year Post Office Recurring Deposit Scheme does not qualify for deduction under section 80C. | NIL | |
| Under section 80D [Medical Insurance Premium paid by cheque for insurance of self and spouse together would qualify for deduction upto a maximum of 25,000] | 25,000 | |
| Under section 80TTA [Interest from Post Office Saving Bank Account – See Note 3 below] | <u>5,000</u> | 1,10,000 |
| Total Income | | 8,09,600 |

Computation of tax payable for the A.Y.2018-19

| Particulars | Amount |
|---|---------------|
| Tax on 8,09,600 [61,920 (20% of 3,09,600) + Rs.12,500] 74,420 | 74,420 |
| Add: Education cess @ 2% and SHEC @ 1% | 2,233 |
| Tax Payable (Rounded off) | 76,660 |

Notes:

- HRA is exempt to the extent of the least of the following under section 10(13A) –
 - 50% of salary i.e., 50% of Rs.7,20,000 = 3,60,000 (in case Mrs. Ann resides in Delhi, Mumbai, Calcutta or Chennai) (or) 40% of salary i.e., 40% of 7,20,000 = 2,88,000 (in case Mrs. Ann resides in any other place)
 - Excess of rent paid over 10% of salary = (Rs.18,000 – Rs. 6,000) × 12 = Rs.1,44,000
 - Actual HRA received = Rs.15,000 × 12 = 1,80,000 Least of the above i.e., 1,44,000 is exempt under section 10(13A)
- In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each vehicle will be deemed to be Rs.7,500 for every month or part of the month during which such vehicle is owned by the assessee in the previous year or an amount claimed to have been actually earned from such vehicle, whichever is higher [Section 44AE]. In this case, since the assessee declares a higher amount of Rs.11,000 per month as the net income actually earned by her from letting on hire truck, such amount will be considered as income under section 44AE. Interest paid @ 1,000 p.m. is not deductible, since under section 44AE, all deductions as per sections 30 to 38 are deemed to have been allowed. Truck was plied for the period 01.08.2017 to 31.03.2018 for 8 months.

Therefore, in this case, income under section 44AE is $11,000 \times 8 = \text{Rs. } 88,000$

3. Interest up to Rs.3,500 on post office savings bank account is exempt under section 10(15). The balance interest of Rs.5,000 would be included under the head "Income from other sources" and form part of gross total income. However, the same would qualify for deduction under section 80TTA, since interest up to Rs.10,000 from, *inter alia*, post office savings bank account qualifies for deduction there under.

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

Computation of income-tax liability for the A.Y.2018-19

| Particulars | Mr. A (age 45) | Mrs. B (age 62) | Mr. C (age 81) | Mr. D (age 82) |
|--|--|--------------------------------------|--|-------------------|
| Residential Status | Resident | Nonresident | Resident | Nonresident |
| Applicable basic exemption limit | Rs.2,50,000 | Rs.2,50,000 | Rs.5,00,000 | Rs.2,50,000 |
| Asset sold | Vacant site | Listed shares (STT paid) | Rural agricultural land | - |
| Long-term capital gain (on sale of above asset) | Rs. 15,000 [Taxable@20% u/s 112] | Rs. 10,000 [exempt u/s 10(38)] | Rs. 60,000 (Exempt – not a capital asset) | - |
| Other income | Rs.2,40,000 | Rs.2,80,000 | Rs.5,90,000 | Rs.4,80,000 |
| Tax liability | | | | |
| On LTCG (after adjusting Basic Exemption limit) | Rs.1,000 | - | - | - |
| On Other income | Rs.18,000 | Rs.1,500 | Rs.18,000 | Rs.11,500 |
| Less: Rebate u/s 87A | Rs.2,500 | Rs.1,500 | Rs.18,000 | Rs.11,500 |
| | Nil | - | - | - |
| Add: Education cess @2% & SHEC @1% | - | Rs.1,500 | Rs.18,000 | Rs.11,500 |
| | - | 45 | 540 | 345 |
| Total tax liability (Rs.) | Nil | 1,545 | 18,540 | 11,845 |

Notes:

- Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of Rs. 3,00,000 and Rs. 5,00,000 for persons over the age of 60 years and 80 years, respectively.
- Since Mr. A is a resident whose total income does not exceed Rs. 3.5 lakhs, he is eligible for rebate of Rs. 2,500 or the actual tax payable, whichever is lower, under section 87A

PROBLEM NO.2

| S. No. | Particulars | Heads of income |
|--------|--|---|
| i) | Rental income in case of dealer in property | Income from house property |
| ii) | Dividend on shares in case of a dealer in shares | Income from other sources |
| iii) | Salary by a partner from his partnership firm | Profit and gains of business or profession |
| iv) | Rental income of machinery (see note below) | Income from other sources / Profit and gains of business or profession |
| v) | Winnings from lotteries by a person having the same as business activity | Income from other sources |
| vi) | Salaries payable to a Member of Parliament | Income from other sources |
| vii) | Receipts without consideration | Income from other sources |

| | | |
|-------|---|---------------------------|
| viii) | In case of retirement, interest on employee's contribution if provident fund is unrecognized. | Income from other sources |
|-------|---|---------------------------|

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

PROBLEM NO.3

Computation of total income of Mr. Chand for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|---|-----------------|-----------------|
| Profits and gains of business or profession | | |
| Current year business income | 1,10,000 | |
| Less: Brought forward business loss of discontinued business Rs. 1,50,000 set-off to the extent of current year business income as per section 72 | <u>1,10,000</u> | Nil |
| Income from other sources | | |
| Interest on enhanced compensation taxable on receipt basis under section 56(2)(viii) | 4,00,000 | |
| Less: Deduction under section 57(iv) @ 50% | <u>2,00,000</u> | 2,00,000 |
| Total income | | 2,00,000 |

The unabsorbed business loss of Rs. 40,000 (Rs. 1,50,000 – Rs. 1,10,000) of A.Y.2010-11 relating to discontinued business will be carried forward for set-off against income from any business in the next year i.e. A.Y.2018-19.

PROBLEM NO.4

Computation of total income and tax liability of Siddhant for the A.Y.2018-19

| Particulars | Rs. | Rs. |
|--|-------------------|-----------------|
| Salary Income | | |
| Salary including dearness allowance | | 3,35,000 |
| Bonus | | 11,000 |
| Value of perquisites: | | |
| (i) Salary of servant | 12,000 | |
| (ii) Free gas, electricity and water | 11,000 | 23,000 |
| | | 3,69,000 |
| Income from house property | | |
| Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (Rs. 3,500 × 12) | 42,000 | |
| Less: Municipal taxes paid | 4,300 | |
| Net Annual Value (NAV) | 37,700 | |
| Less: Deductions under section 24 | | |
| 30% of NAV | Rs. 11,310 | |
| Interest on loan from LIC @15% of Rs. 1,60,000 [See Note 2] | <u>Rs. 24,000</u> | |
| | 35,310 | 2,390 |
| Income from speculative business | | |
| Income from share speculation business | 2,700 | |
| Less: Loss from cotton speculation business | 4,200 | |
| Net loss from speculative business (to be carried forward as it cannot be set off against any other head of income) | 1,500 | |
| Income from Other Sources | | |
| (i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) | 3,800 | |
| Less: Exempt under section 10(32) | <u>1,500</u> | |
| | 2,300 | |

| | | |
|--|----------|-----------------|
| (ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1) | 5,700 | |
| (iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds Rs. 50,000) | 1,00,000 | 1,08,000 |
| Gross Total Income | | 4,79,390 |
| Less: Deduction under section 80C Contribution to Public Provident Fund | | 50,000 |
| Total Income | | 4,29,390 |

| Particulars | Rs. |
|---|--------------|
| Tax on total income | 8,970 |
| Add: Education cess@2% | 179 |
| Add: Secondary and higher education cess@1% | 90 |
| | 9,239 |
| Tax liability (rounded off) | 9,240 |

Notes:

1. It is assumed that the entire loan of Rs. 1,60,000 is outstanding as on 31.3.2018;
2. Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

PROBLEM NO.5**Computation of taxable income of Dr. Krishna for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|---|-----------------|-----------------|
| Income from Salaries | | |
| Salary received @ Rs. 5,000 per month | | 60,000 |
| Income from house property | | |
| Gross Annual Value | 27,000 | |
| Less: Municipal tax | 2,000 | |
| Net Annual Value | 25,000 | |
| Less: Deduction under section 24 @ 30% | 7,500 | 17,500 |
| Income from business or profession | | |
| Net income as per income & expenditure account | 2,46,000 | |
| Add: Rent paid to residence | 30,000 | |
| Medicines consumed – personal use | 10,000 | |
| Municipal tax relating to let out property included in administrative expenses – disallowed | 2,000 | |
| | 2,88,000 | |
| Less: Depreciation (See working note 2) | 90,000 | |
| Rent credited to income & expenditure account | 27,000 | |
| Dividend from Indian companies [Exempt u/s 10(34)] | 9,000 | 1,62,000 |
| Capital Gains (Long term capital gains) | | |
| Sale consideration | 6,00,000 | |
| Less: Indexed cost acquisition (Rs. 1,50,000 x 272/100) (See Note 3) | 4,08,000 | 1,92,000 |
| Gross Total income | | 4,31,500 |
| Less: Deduction under Chapter VIA | | |
| Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following | | |
| i) 25% of total income = 25% of Rs. 2,39,500 (See Note 1) | 59,875 | |

| | | |
|---|------------------------|-----------------|
| ii) Excess of rent paid over 10% of total income (Rs. 30,000 - Rs. 23,950) | 6,050 | |
| iii) Rs. 5,000 per month Least of the above | 60,000 6,050 | 6,050 |
| Total Income | | 4,25,450 |

Note:

1. Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI-A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = Rs. 4,31,500 – Rs.1,92,000 = Rs. 2,39,500.

2. Depreciation on plant & machinery

| Particulars | Rs. |
|--|---------------|
| On opening WDV of Rs. 5,00,000 @ 15% | 75,000 |
| On equipment acquired Rs. 2,00,000 @ 7.5% (50% thereon, since acquired in December) | 15,000 |
| | 90,000 |

3. Since the property was acquired by Dr. Krishna through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the base year (FY 2001-02) as the assessee (i.e., Dr. Krishna in this case) first held the asset i.e. F.Y. 1997-98.

PROBLEM NO.6**Computation of tax liability of Mrs. Priti for A.Y. 2018-19**

| Particulars | Rs. |
|---|------------------|
| Total income other than business of dealing in shares (Rs. 21,05,000 – Rs.2,20,000) (before deduction under section 80C) | 18,85,000 |
| Income from business of dealing in shares [See Note below] | 2,05,000 |
| Gross Total Income | 20,90,000 |
| Less : Deduction under section 80C in respect of PPF deposit | 1,50,000 |
| Total income | 19,40,000 |
| Tax on total income | 3,94,500 |
| Add: Education cess @ 2% | 7,890 |
| Add: Secondary and Higher Education cess @1% | 3,945 |
| Tax Liability (Rounded off) | 4,06,340 |

Note: Rs. 2,20,000 less amount of Rs. 15,000 paid towards securities transaction tax eligible for deduction under section 36(1)(xv).

Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO.7**Computation of total income of Mr. Balaji for the A.Y. 2018-19**

| Particulars | Rs. | Rs. | Rs. |
|---|-----|----------|----------|
| Income from salaries | | | |
| Pension from Central Government (See Note 1) | | | 2,47,000 |
| Income from house property | | | |
| Gross Annual Value (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent) | | 2,40,000 | |

| | | | |
|--|----------|-----------------|-----------------|
| Less: Municipal Taxes paid | | NIL | |
| Net Annual Value (NAV) | | 2,40,000 | |
| Less: Deduction under section 24 | | | |
| (a) Standard deduction @ 30% of NAV | 72,000 | | |
| (b) Interest on borrowed capital (Rs. 1,60,000+ Rs. 12,000) (See Note 2) | 1,72,000 | 2,44,000 | (4,000) |
| Income from business or profession | | | |
| Income from business of trading in grains and pulses | | 4,10,000 | |
| Rent of factory building with machinery (Rs. 20,000 x12) (See Note 3) | | 2,40,000 | |
| Less: Depreciation | | | |
| - Factory building (8,10,000 x 10%) | 81,000 | | |
| - Machinery (4,91,300 x 15%) | 73,695 | 1,54,695 | 4,95,305 |
| | | | 7,38,305 |
| Less: Brought forward depreciation relating to A.Y. 2014-15 from discontinued textile business (See Note 4) | | | 2,00,000 |
| Total Income | | | 5,38,305 |

Notes:

- Uncommuted pension is fully taxable in the hands of both government and nongovernment employees.
- Interest accrued is allowable as deduction under section 24(b). Therefore, interest of Rs. 12,000 accrued but not paid during the year can also be claimed as deduction.
- Composite rent from letting out of building along with machinery is not taxable under the head "Income from house property", if the two lettings are not separable. It would be taxable either as business income or income from other sources.

It has been assumed that the composite rent received by Mr. Balaji from letting out of factory building and machinery is not separable and letting out of factory building by Mr. Balaji is incidental to his main business of trading in grains and pulses and therefore, such income would be taxable under the head "Profit and gains from business or profession".
- Unabsorbed depreciation under section 32 can be carried forward indefinitely and set-off against income under any head, even if it relates to a discontinued business.
- As per section 73, loss from a speculation business can be set off only against profit of another speculation business. Therefore, loss from speculation in jewellery of Rs. 80,000 cannot be set off in the current year since there is no profit from any other speculation business. The loss of Rs. 80,000 from speculation business has to be carried forward for set off against profit and gains of any speculation business in the succeeding 4 years.

PROBLEM NO.8**Computation of total income and tax liability of Ms. Purvi for the A.Y.2018-19**

| Particulars | Rs. | Rs. |
|---|--------|-----------------|
| Income from house property (See Working Note 1) | | 57,820 |
| Profit and gains of business or profession (See Working Note 2) | | 9,20,200 |
| Income from other sources (See Working Note 3) | | 15,800 |
| Gross Total Income | | 9,93,820 |
| Less: Deductions under Chapter VI-A (See Working Note 4) | | 10,000 |
| Total Income | | 9,83,820 |
| Tax on total income | | |
| Upto Rs. 2,50,000 | Nil | |
| Rs. 2,50,001 – Rs. 5,00,000 @ 5% | 12,500 | |
| Rs. 5,00,001 - Rs. 9,83,820 @20% | 96,764 | 1,09,264 |

| | | |
|--|--|-----------------|
| Add: Education cess @ 2% | | 2,185 |
| Secondary and higher education cess @ 1% | | 1,093 |
| Total tax liability | | 1,12,542 |
| Tax payable (rounded off) | | 1,12,540 |

Working Notes:**1. Income from House Property**

| Particulars | Rs. | Rs. |
|---|---------------|---------------|
| Gross Annual Value under section 23(1) | 85,600 | |
| Less: Municipal taxes paid | <u>3,000</u> | |
| Net Annual Value (NAV) | 82,600 | |
| Less: Deduction under section 24 @ 30% of NAV | <u>24,780</u> | 57,820 |

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

2. Income under the head "Profits & Gains of Business or Profession"

| Particulars | Rs. | Rs. |
|---|--------|-----------------|
| Net profit as per Income and Expenditure account | | 9,28,224 |
| Add: Expenses debited but not allowable | | |
| i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000 | 30,000 | |
| ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure | 80,000 | |
| iii) Municipal Taxes paid in respect of residential flat let out | 3,000 | <u>1,13,000</u> |
| | | 10,41,224 |
| Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)] | | <u>10,500</u> |
| | | 10,51,724 |
| Less: Income credited but not taxable under this head: | | |
| i) Dividend on shares of Indian companies | 10,524 | |
| ii) Income from UTI | 7,600 | |
| iii) Honorarium for valuation of answer papers | 15,800 | |
| iv) Rent received from letting out of residential flat | 85,600 | 1,19,524 |
| | | 9,32,200 |
| Less: Depreciation on motor car @15% (See Note (i) below) | | <u>12,000</u> |
| | | 9,20,200 |

Notes:

- i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- iii) Repairs and maintenance paid in advance for the period 1.4.2018 to 30.9.2018 i.e. for 6 months amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- iv) Rs. 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

3. Income from other sources

| Particulars | Rs. | Rs. |
|---|---------------|---------------|
| Dividend on shares of Indian companies | 10,524 | |
| Less: Exempt under section 10(34) | <u>10,524</u> | Nil |
| Income from UTI | 7,600 | |
| Less: Exempt under section 10(35) | <u>7,600</u> | Nil |
| Honorarium for valuation of answer papers | | <u>15,800</u> |
| | | 15,800 |

4. Deduction under Chapter VI-A :

| Particulars | Rs. |
|--|---------------|
| Deduction under section 80C (Investment in NSC) | 10,000 |
| Deduction under section 80D (See Notes (i) & (ii) below) | Nil |
| Total deduction under Chapter VI-A | 10,000 |

Notes:

- Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

PROBLEM NO.9**Computation of Total income of Dr. Shashank for the Assessment Year 2018-19**

| Particulars | Rs. |
|--|-----------------|
| Profits and gains of business or profession (Working Note 1) | 6,33,700 |
| Income from other sources (Working Note 2) | 74,000 |
| Gross Total Income | 7,07,700 |
| Less: Deduction under Chapter VI-A (Working Note 3) | 2,52,635 |
| Total Income | 4,55,065 |
| Total Income (rounded off) | 4,55,070 |

Computation of tax liability of Dr. Shashank for the Assessment Year 2018-19

| Particulars | Rs. |
|--|---------------|
| Tax on winnings from TV game show [Rs. 50,000 @ 30%] | 15,000 |
| Tax on balance income of Rs. 4,05,070 (Rs. 4,55,070 – Rs. 50,000) | |
| 5% of Rs. 1,55,070 [i.e., Rs. 4,05,070 – Rs. 2,50,000 (basic exemption limit)] | <u>7,754</u> |
| | 22,754 |
| Add: Education cess@2% and secondary and higher education cess@1% | 683 |
| Total tax liability | 23,437 |
| Less: Tax deducted at source | <u>15,000</u> |
| Net tax liability | 8,437 |
| Net tax liability (rounded off) | 8,440 |

WORKING NOTES:**1. Computation of income under the head "Profits and gains of business or profession"**

| Particulars | Rs. | Rs. |
|---|--------|----------|
| Surplus as per Income and Expenditure Account | | 6,58,700 |
| Add: Expenses disallowed | | |
| Depreciation (Rs. 1,25,000 – Rs. 75,000) | 50,000 | |
| Medicine consumed for self and family (disallowed under section 37, being expenditure of personal nature) | 18,000 | |
| Medicine consumed for treating poor patients from whom fees was not charged is an allowable expense, since the same is incurred in the course of carrying on medical profession | - | |

| | | |
|---|----------|-----------------|
| Cash payment of salary disallowed under section 40A(3), since the same is in excess of Rs. 10,000 | 30,000 | |
| Donation to National Children's Fund (not allowable as deduction while computing income from profession) | 51,000 | 1,49,000 |
| | | 8,07,700 |
| Less: Income credited to Income and Expenditure Account but not chargeable to income-tax or not chargeable under this head | | |
| Maturity proceeds of LIC policy [Exempt under section 10(10D)] [See Note 2] | 1,15,000 | |
| Winning from TV game show (taxable under the head "Income from other sources") | 35,000 | |
| Honorarium for giving lectures at seminars (taxable under the head "Income from other sources") | 24,000 | 1,74,000 |
| Chargeable income from profession | | 6,33,700 |

2. Computation of Income under the head income from other sources

| Particulars | Rs. | Rs. |
|--|-----|---------------|
| Honorarium for giving lectures at seminars | | 24,000 |
| Winning from TV Game Show (Gross) | | 50,000 |
| Income from other sources | | 74,000 |

3. Computation of deduction under Chapter VI-A

| Section | Particulars | Rs. | Rs. |
|---------|--|-------------------|-----------------|
| 80C | Life Insurance Premium [Rs. 25,000 restricted to 10% of Rs. 2,00,000 (i.e. sum assured) since the policy is issued on or after 1.4.2012] | | 20,000 |
| | Contribution to Public Provident Fund | | 1,20,000 |
| | | | 1,40,000 |
| 80CCG | Listed equity shares | Rs. 30,000 | |
| | Units of equity oriented fund | Rs. 40,000 | |
| | Total investment under Rajiv Gandhi Equity Savings Scheme [See Note 3] | Rs. 70,000 | |
| | Maximum deduction – 50% of Rs. 70,000 or Rs. 25,000, whichever is lower | | 25,000 |
| 80E | Interest on loan taken for higher education of daughter | | 10,000 |
| 80G | Donation to National Children's Fund [100% deduction allowable, since it is made by a mode other than cash] | 51,000 | |
| | Donation to a registered charitable trust [50% of actual contribution of Rs. 1,00,000 or 10% of adjusted total income, whichever is lower] [See Working Note 4 below] | 26,635 | 77,635 |
| | Total deduction under Chapter VI-A | | 2,52,635 |

4. Deduction under section 80G in respect of donation to charitable trust

| Particulars | Rs. | Rs. |
|--|----------|---------------|
| Adjusted Total Income | | |
| Gross Total income | 7,07,700 | |
| Less: Deductions under Chapter VI-A except under section 80G | 1,75,000 | |
| | 5,32,700 | |
| 10% of Adjusted Total Income (A) | | 53,270 |
| Actual contribution to charitable trust (B) | | 1,00,000 |
| Lower of A & B | | 53,270 |
| Deduction under section 80G in respect of donation to registered charitable trust [See Note 1] | | |
| 50% of Rs. 53,270 | | 26,635 |

Notes:

1. It is assumed that the donation of Rs. 100,000 to the charitable trust is made by any mode other than cash.
2. The maturity proceeds received under a life insurance policy are wholly exempt from tax under section 10(10D), assuming that the conditions given thereunder are satisfied (i.e., the annual premium does not exceed the specified percentage of actual capital sum assured)
3. Dr. Sashank is eligible for deduction under section 80CCG since his gross total income does not exceed Rs. 12 lakh. It is assumed that he is not a new retail investor and has not claimed the deduction under this section in the assessment year prior to AY 2018-19.

PROBLEM NO.10**Computation of total Income and tax payable by Dr. Parekh for the A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|-----------------|-------------------|
| Income from House Property (Note 1) | | 11,900 |
| Profits and gains of business or profession (Note 2) | | 8,71,000 |
| Income from other sources (Note 3) | | 2,60,400 |
| Gross Total income | | 11,43,300 |
| Less: Deductions under Chapter VIA | | |
| (i) Deduction under section 80C | | |
| Investment in PPF | 1,20,000 | |
| Life insurance premium paid | 80,000 | |
| | 2,00,000 | |
| Deduction restricted to | 1,50,000 | |
| (ii) Deduction under section 80D | | |
| Mediclaim premium of Rs. 32,500 paid by cheque for himself. However, deduction restricted to Rs.25,000 | 25,000 | 1,75,000 |
| Total income | | 9,68,300 |
| Components of Total Income | | |
| Winning from lotteries (chargeable at special rate @ 30% under section 115BB) | | 10,000 |
| Normal income (Rs.9,68,300 - Rs.10,000) | | 9,58,300 |
| | | 9,68,300 |
| Computation of Tax | | |
| Tax on winnings from lotteries @ 30% | | 3,000 |
| Tax on normal income (Rs. 9,58,300) | | |
| First Rs. 2,50,000 Nil | NIL | |
| Next Rs. 2,50,000 5% | 12,500 | |
| Balance Rs. 4,58,300 20% | 91,660 | 1,04,160 |
| Income tax payable | | 1,07,160 |
| Add: Education cess @2% | | 2,144 |
| Secondary and higher education cess @1% | | 1,072 |
| Total Tax Payable | | 1,10,376 |
| Less: Tax deducted at source | | |
| From Interest | 3,000 | |
| From lottery income | 3,000 | 6,000 |
| | | 1,04,376 |
| Less : Advance tax paid | | 1,40,000 |
| Refund | | (-) 35,624 |

Notes:**1. Computation of Income from House Property**

| Particulars | Rs. |
|---|---------------|
| Gross Annual Value – Rent received (treated as fair rent) | 20,000 |
| Less : Municipal taxes paid | 3,000 |
| Net Annual Value (NAV) | 17,000 |

| | |
|--|---------------|
| Less : Statutory deduction under section 24 @ 30% of NAV | 5,100 |
| Income from House Property | 11,900 |

2. Computation of Profits and gains of business or profession

| Particulars | Rs. | Rs. |
|---|----------|-----------------|
| Net Profit as per Income & Expenditure Account | | 6,70,900 |
| Add : Depreciation charged | 42,500 | |
| Municipal Taxes paid | 3,000 | |
| Advance Tax (See Note-4) | 1,40,000 | 1,85,500 |
| | | 8,56,400 |
| Less: Rent received | 20,000 | |
| Interest on Post Office MIS | 86,400 | |
| Interest on Term Deposit with bank (Net of TDS) | 27,000 | |
| Winning from lotteries (Net of TDS) | 7,000 | |
| Depreciation as per Income-tax Act, 1961 | 45,000 | 1,85,400 |
| | | 6,71,000 |
| Salary from Nursing Home as partner | 1,50,000 | |
| Commission from Nursing home as partner | 50,000 | 2,00,000 |
| Income from business | | 8,71,000 |

3. Computation of Income from Other Sources

| Particulars | Rs. |
|--|-----------------|
| Interest Post Office MIS | 86,400 |
| Interest on Term Deposit with Bank (Gross) | 30,000 |
| Winning from lotteries (Gross) | 10,000 |
| Fees from University of Trinidad | 50,000 |
| Pension from LIC Jeevan Suraksha | 84,000 |
| Income from Other Sources | 2,60,400 |

4. Advance Tax is not allowable as deduction.

5. Depreciation of Apparatus :

Rs.

| | |
|---------------------|----------|
| WDV as on 1.4.2017 | 3,00,000 |
| Depreciation @15% | 45,000 |
| WDV as on 31.3.2018 | 2,55,000 |

6. Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.

7. As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being Rs. 350, cannot be allowed as deduction from income from winnings of lotteries.

8. Pension from LIC Jeevan Suraksha is taxable as Income from other sources.

Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO.11

Computation of taxable income and tax liability of Smt. Savita Rani for A.Y. 2018-19

| Particulars | Rs. | Rs. |
|---|-----|----------|
| Income from salary | | |
| Basic salary (Rs. 45,000 x 12) | | 5,40,000 |
| Dearness Allowance (Rs. 12000 x 12) | | 1,44,000 |
| House Rent allowance (fully taxable) | | 72,000 |
| Employer's contribution to recognized provident fund in excess of 12% is taxable as salary income: | | |
| 12% of salary is Rs. 73,440. Employer's contribution is 15% of salary, which is Rs. 91,800 | | |
| Excess contribution is (Rs. 91,800 – Rs. 73,440) | | 18,360 |

| | | |
|--|----------|-----------------|
| Perquisite in respect of interest free loan (Rs. 1,50,000 x 8% x ½) | | 6,000 |
| Net Salary | | 7,80,360 |
| Income from house property (See Note below) | | 30,000 |
| Long term Capital Gain: | | |
| Sale consideration of GOI capital indexed bonds | 1,50,000 | |
| Less: Indexed cost of acquisition (Rs. 80,000 x 272/100) | 2,17,600 | |
| Long-term capital loss (to be carried forward) | 67,600 | |
| Gross Total Income | | 8,10,360 |
| Deduction under section 80C – in respect of recognized provident fund contribution | 91,800 | |
| Deduction under section 80D – Mediclaim | 15,000 | 1,06,800 |
| Total Income | | 7,03,560 |
| Tax Payable on Rs. 7,03,560 | | 50,712 |
| Add: Education cess and Secondary and higher education cess @ 3% | | 1,521 |
| Total tax payable | | 52,233 |
| Total tax payable (rounded off) | | 52,230 |

Note: As per section 27, any property transferred to the minor child without adequate consideration would be deemed to be the property of the assessee. Therefore, the income from house property of Rs. 30,000 (computed) is to be assessed in the hands of Smt. Savita Rani.

Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO.12

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2018-19

| S. No. | Particulars | Mrs. Rosy (Non-Resident) Rs. | Mrs. Mary Rs. |
|--------|--|---------------------------------|------------------|
| (I) | Salaries | | |
| | Pension received from State Government | - | 10,000 |
| | Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India | | |
| | | - | 10,000 |
| (II) | Income from house property | | |
| | Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) | 60,000 | 30,000 |
| | Less: Deduction under section 24(a) @ 30% | 18,000 | 9,000 |
| | | 42,000 | 21,000 |
| (III) | (III) Capital gains | | |
| | Long-term capital gain on sale of land at Mumbai | 1,00,000 | 50,000 |
| | Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid | 20,000 | 2,50,000 |
| | | 1,20,000 | 3,00,000 |
| (A) | Gross Total Income [(I)+(II)+(III)] | 1,62,000 | 3,31,000 |
| | Less: Deductions under Chapter VIA | | |
| 1. | Deduction under section 80C | | |
| | 1. LIC Premium paid | - | 10,000 |
| | 2. Premium paid to Canadian Life Insurance Corporation | 40,000 | |
| | 3. Investment in PPF | - | 20,000 |
| | | 40,000 | 30,000 |
| 2. | Deduction under section 80D – Mediclaim premium paid (assuming that the same is paid by cheque) | | 25,000 |
| | | 40,000 | 55,000 |
| (B) | Total deduction under Chapter VIA is restricted to income other | | |

| | | | |
|-----|---|-----------------|-----------------|
| | than capital gains taxable under sections 111A & 112 | 40,000 | 31,000 |
| (C) | Total income (A-B) | 1,22,000 | 3,00,000 |
| | Tax liability of Mrs. Rosy for A.Y. 2018-19 | | |
| | Tax on long-term capital gains @ 20% | 20,000 | |
| | Tax on short-term capital gains @ 15% | 3,000 | |
| | | 23,000 | |
| | Tax liability of Mrs. Mary for A.Y.2018-19 | | |
| | Tax on short-term capital gains @ 15% of Rs. 50,000 [i.e. Rs. 2,50,000 less Rs. 2,00,000, being the unexhausted basic exemption limit as per proviso to section 111A] | | 7,500 |
| | Less: Rebate under section 87A | | 2,500 |
| | | | 5,000 |
| | Education cess @ 2% & SHEC@ 1% | 690 | 150 |
| | Total tax payable | 23,690 | 5,150 |

Notes :

- Long-term capital gains are chargeable to tax @ 20% as per section 112.
- The short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust there unexhausted basic exemption limit against long-term capital gains and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of Rs. 2,50,000 against long-term capital gains of Rs. 50,000 and the balance limit of Rs. 2,00,000 (i.e., 2,50,000 – 50,000) against short-term capital gains.

PROBLEM NO.13**Computation of Total Income and Tax liability of Mr. A for A.Y. 2018-19**

| Particulars | Rs. | Rs. |
|---|----------|--------------------|
| 1. Income from house property – House I | (70,000) | |
| – House II (See Working Note 1) | (48,000) | (1,18,000) |
| 2. Profits and gains of business | | (2,00,000) |
| 3. Capital gains – long term (See Working Note 2) | | 1,30,00,000 |
| 4. Income from other sources – Bank interest | | 1,00,000 |
| Gross total income | | 1,27,82,000 |
| Less : Deduction under Chapter VI-A | | |
| Deduction under section 80C (PPF) | | 1,00,000 |
| Total income | | 1,26,82,000 |
| Tax liability | | |
| Total income other than long term capital gain is Nil. | | |
| Taxable long term capital gain is Rs. 1,23,82,000 | | |
| [i.e. Rs. 1,30,00,000 – Rs. 3,18,000 – basic exemption limit of Rs. 3,00,000] | | |
| On long term capital gains of Rs. 1,23,82,000 @ 20% | | 24,76,400 |
| Surcharge @ 15% | | 3,71,460 |
| | | 28,47,860 |
| Education cess@2% and Secondary and higher education cess@1% | | 85,436 |
| Total tax payable | | 29,33,296 |

Working notes:**1. Calculation of income from house property**

| | |
|--------------------------------------|-------------------------------|
| House I – Self occupied | Rs. |
| Annual value | Nil |
| Less : Interest as per section 24(b) | 70,000 |
| Loss from house property (House I) | <u>(70,000)</u> |
| House II - Let out | Rs. |
| Gross annual value (Rs. 9,000 x 8) | 72,000 |
| Less :Municipal taxes | <u>12,000</u> |
| Net Annual Value (NAV) | 60,000 |
| Less : Deductions under section 24 | |
| 30% of NAV | 18,000 |
| Interest on borrowed capital | <u>90,000</u> <u>1,08,000</u> |
| Loss from house property (house II) | <u>(48,000)</u> |

Note: Interest on capital borrowed will be allowed in full for let out properties. As per section 23(1)(c), where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the expected rent (in this case, standard rent of Rs. 90,000), then, the actual rent received or receivable would be the Gross Annual Value of the property. In this case, the actual rent received (i.e. Rs. 72,000) is less than the expected rent (i.e. Rs. 90,000) on account of vacancy and therefore, the actual rent received is taken as the Gross Annual Value.

2. Calculation of Capital Gains

| Particulars | Rs. |
|---|--------------------|
| Sale consideration | 2,50,00,000 |
| Less: Indexed cost of acquisition (Rs. 30,00,000 x 272/272) | <u>20,00,000</u> |
| | 2,30,00,000 |
| Less : Exemption under section 54 | <u>1,00,00,000</u> |
| Taxable long term capital gain | 1,30,00,000 |

As per the definition of the indexed cost of acquisition under clause (iii) of Explanation to section 48, indexation benefit will be available only from the previous year in which Mr. A first held the asset i.e. P.Y. 2017-18. Since Mr. A sold the asset in the same year in which it was held by him, cost of acquisition and indexed cost of acquisition would be same.

Note: As per the view expressed by Bombay High Court, in the case of CIT v. Manjula J. Shah 16 Taxmann 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.

3. It has been assumed that the loss from house property and business loss have been set - off fully against long term capital gains. Therefore, Rs. 1 lakh relating to section 80C investments are deducted against "Income from other sources". The taxable income represents long term capital gains only and the tax liability is computed accordingly.

PROBLEM NO.14**Computation of Total Income for the A.Y.2018-19**

| Particulars | Amount | Amount |
|---------------------------------|--------|----------|
| Income from Salaries | | |
| Basic Salary (15,000 x 12) | | 1,80,000 |
| Dearness Allowance (12,000 x12) | | 1,44,000 |

| | | |
|--|---------------|-----------------|
| Commission on Turnover (0.5% of 50 lacs) | | 25,000 |
| Bonus | | 50,000 |
| Gratuity (Note 1) | | 30,000 |
| Employer's contribution to recognized provident fund | | |
| Actual contribution [20% of 1,80,000] | 36,000 | |
| Less: Exempt (Note 2) | <u>33,240</u> | 2,760 |
| Interest credited in recognized provident fund account @15% p.a. | 15,000 | |
| Less: Exempt upto 9.5% p.a. | <u>9,500</u> | 5,500 |
| Gift of gold ring worth Rs. 10,000 on 25th wedding anniversary by employer (See Note 3) | | 10,000 |
| Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs. 85,000 | | <u>8,500</u> |
| | | 4,55,760 |
| Profits and Gains of Business or Profession | | |
| Lease of 2 trucks on contract basis against fixed charges of Rs. 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs. 7,500 p.m. for each of the two trucks (7,500x2x12). He cannot claim lower profits and gains since he has not maintained books of account. | | 1,80,000 |
| Income from Other Sources | | |
| Interest on bank FDRs | 5,860 | |
| Interest from debentures | 7,540 | |
| Dividend on shares [Exempt under section 10(34)] | Nil | <u>13,400</u> |
| Gross total Income | | 6,49,160 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C | | |
| Premium on life insurance policy | 15,370 | |
| Investment in NSC | 30,000 | |
| FDR of SBI for 5 years | 50,000 | |
| Employee's contribution to recognized provident fund | <u>30,000</u> | 1,25,370 |
| Section 80D - Mediclaim Insurance | | 12,500 |
| Section 80G (Note 4) | | <u>10,600</u> |
| Total Income | | 5,00,690 |
| Tax on total income | | |
| Income-tax | | 12,535 |
| Add: Education cess @ 2% | | 251 |
| Add: Secondary and higher education cess @ 1% | | <u>125</u> |
| Total Tax Payable | | <u>12,911</u> |
| Tax Payable (rounded off) | | 12,910 |

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{Rs. } 1,80,000 + (50\% \text{ of Rs. } 1,44,000) + \text{Rs. } 25,000) = 12\% \text{ of } 2,77,000 = \text{Rs. } 33,240$
- An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto Rs. 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 Rs. 5,000. In such a case the Income from Salaries would be Rs. 4,50,760.
- Deduction under section 80G is computed as under:

| Particulars | Amount |
|--|----------------------|
| Donation to PM National Relief Fund (100%) | 5,100 |
| Donation to institution approved under section 80G (50% of Rs. 11,000) (amount contributed Rs. 11,000 or 10% of Adjusted Gross Total Income i.e. Rs. 51,129, whichever is lower) | <u>5,500</u> |
| Total deduction | <u>10,600</u> |

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = Rs. 6,49,160 – Rs. 1,37,870 = Rs. 5,11,290.

Note: Students are advised to rectify the hint answer in the main material according to this solution.

PROBLEM NO.15

Computation of taxable income of Ramesh for the A.Y.2018-19

| Particulars | Amount | Amount |
|--|--------|-----------------|
| Income from salary | | |
| Basic pay : April to June (Rs. 10,000 x 3) | | 30,000 |
| Basic pay : July to November (Rs. 12,000 x 5) | | 60,000 |
| Dearness allowance @ 50% basic pay | | 45,000 |
| Transport allowance (Rs. 2,300 x 8) less exemption @ Rs. 1,600 per month (18,400 – Rs. 12,800) | | 5,600 |
| Gratuity | | |
| (i) Statutory limit Rs. 10,00,000 | | |
| (ii) Half month average salary [Rs. 8,100 x 20 yrs (See Note below)] = 1,62,000 | | |
| (iii) Actual amount received = Rs. 3,00,000 | | |
| Least of the above i.e. Rs. 1,62,000 is exempt. | | |
| Balance is taxable (Rs. 3,00,000 – Rs. 1,62,000) | | 1,38,000 |
| | | 2,78,600 |
| Income from house property: | | |
| Self occupied – ALV | Nil | |
| Less: Interest on monies borrowed under section 24(b) | 24,000 | (24,000) |
| Income from other sources: | | |
| Fixed deposit interest | | 18,000 |
| Total income | | 2,72,600 |

Note:

Average salary of 10 months preceding the month of retirement is to be computed:

| | |
|---|----------|
| | Rs. |
| Basic pay 10,000 x 6 | 60,000 |
| Basic pay 12,000 x 4 | 48,000 |
| Total | 1,08,000 |
| Add: 50% of Dearness Allowance—eligible for retirement benefits | 54,000 |
| | 1,62,000 |
| Average salary : 1,62,000/10 | 16,200 |
| Half month average salary 16,200 / 2 | 8,100 |

Note: students are advised to rectify the question dated 30.11.2018 as 30.11.2017.

PROBLEM NO.16

Computation of Taxable Income of Mr. Venus for the A.Y. 2018-19

| Particulars | Amount | Amount |
|--|----------|----------|
| Salaries | | |
| Income from Salary (50,000 x 12) | 6,00,000 | |
| Less: Loss from house property in respect of which Mr. Venus is the deemed owner to be set off against his salary income as per section 71(1) [See Note 1] | 90,000 | 5,10,000 |

| | | |
|--|---------------|-----------------|
| Capital Gains | | |
| Long term capital gain | 75,000 | |
| Less: Brought forward long term capital loss of A.Y. 2015-16 set off against current year long-term capital gain as per section 74(1) & (2) [See Note 2] | <u>75,000</u> | Nil |
| Balance long-term capital loss of Rs. 21,000 (Rs. 96,000 – Rs. 75,000) of A.Y.2015-16 to be carried forward to A.Y.2018-19 [See Note 2] | | |
| Income from Other Sources | | |
| Interest on fixed deposit with SBI (Rs. 72,000 × 100/90) | 80,000 | |
| Less: Business loss incurred by wife includible in Mr. Venus's hands set off against interest income as per section 71(1) [See Notes 3 & 4] | <u>80,000</u> | Nil |
| Balance business loss of Rs. 1,20,000 (Rs. 2,00,000 – Rs. 80,000) to be carried forward to A.Y. 2019-20 | | |
| Taxable Income | | 5,10,000 |

Notes:

1. As per section 27(i), Mr. Venus is the deemed owner of the house transferred to his minor son without adequate consideration. Hence, the income from house property would be assessable in Mr. Venus's hands. Since there is a loss from house property transferred to minor son without adequate consideration, Mr. Venus can set-off the same against salary income, since he is the deemed owner of such property.
2. As per section 74(1) and 74(2), brought forward long-term capital loss can be set-off only against long-term capital gains. Unabsorbed long-term capital loss can be carried forward for a maximum of eight assessment years (upto A.Y.2023-24, in this case) for set-off against long-term capital gains.
3. As per section 64(1)(iv), income from funds gifted to spouse by an individual and invested in business by the spouse is includible in the hands of the individual. As per *Explanation 2* to section 64, income includes "loss". Hence, in the given case, loss arising out of the business carried on by Mr. Venus's wife is to be included in the income of Mr. Venus, as she has carried on business with the funds gifted to her by Mr. Venus.
4. As per section 71(2A), business loss cannot be set-off against salary income. However, the same can be set-off against income from other sources (consisting of interest on fixed deposit).

THE END

12. RETURN OF INCOME**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

1. As per section 139(4C), a research association referred to in section 10(21) must file its return of income within the due date under section 139(1) if its total income, without giving effect to the provisions of section 10, exceeds the maximum amount which is not chargeable to income-tax.

Since the total income of the research association exceeds the basic exemption limit of Rs. 2,50,000, it has to file its return of income for the A.Y. 2018-19.

2. As per section 139(4C), a registered trade union referred to in section 10(24) must file its return of income if the total income exceeds the basic exemption limit without giving effect to the provisions of section 10.

Since the total income of the trade union is less than the basic exemption limit of Rs. 2,50,000, it need not file its return of income for the A.Y. 2018-19.

3. As per section 139(4A), a charitable trust registered under section 12AA must file its return of income, if its total income computed as per the provisions of the Income-tax Act, 1961, without giving effect to the provisions of sections 11 and 12, exceeds the maximum amount which is not chargeable to income-tax. Since the total income of the charitable trust exceeds Rs. 2,50,000, it has to file its return of income for the A.Y. 2018-19.

4. As per third proviso to section 139(1), every company or firm shall furnish on or before the due date the return in respect of its income or loss in every previous year. Since LLP is included in the definition of "firm" under the Income-tax Act, 1961, it has to file its return mandatorily, even though it has incurred a loss.

PROBLEM NO. 2

1. **True :** Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
2. **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family, such member can be a male or female member.

PROBLEM NO. 3**a) Disagree**

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) Where there is no designated partner.

b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2018, shall be 31st July, 2018.

It is only in case Mr. A does not opt for presumptive taxation provisions under section 44AD and offers income to be lower than 8% of total turnover and his total income exceeds the basic exemption limit, he has to keep books of account as per section 44AA and get his accounts audited under section 44AB, in which case the due date for filing return would be 30th September, 2018.

PROBLEM NO. 4

Since Mr. Vineet has income only under the heads "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y. 2018-19 under section 139(1), in his case, is 31st July, 2018. Since Mr. Vineet had submitted his return only on 12.9.2018, 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 under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4), to claim deduction under section 80TTA, since the time limit of one year from the end of the relevant assessment year has not elapsed.

PROBLEM NO. 5

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A, exceeds the maximum amount not chargeable to tax i.e., Rs.2,50,000 (for A.Y. 2018-19).

Computation of total income of Mr. Paras for A.Y. 2018-19

| Particulars | Rs. |
|---|---------------|
| Income from other sources | |
| Interest earned from Non-resident (External) Account Rs. 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account] | NIL |
| Interest on fixed deposit with SBI | 30,000 |
| Interest on savings bank account | 3,000 |
| Gross Total Income | 33,000 |
| Less: Deduction under section 80TTA (Interest on saving bank account) | 3,000 |
| Total Income | 30,000 |

Since the total income of Mr. Paras for A.Y.2018-19, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit of Rs. 2,50,000, he is not required to file return of income for A.Y.2018-19.

Owning a shop having area of 150 sq.ft in Kerala would not make any difference to the answer.

Note: In the above solution, interest of Rs. 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to the deductions under Chapter VIA, would be Rs. 3,21,000 (Rs. 30,000 + Rs. 2,88,000 + Rs. 3,000), which is higher than the basic exemption limit of Rs. 2,50,000. Consequently, he would be required to file return of income for A.Y.2018-19. Here again, ownership of shop in Kerala is immaterial.

PROBLEM NO. 6

Section 139B provides a scheme for submission of return of income for any assessment year through a tax return preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2018-19 through a tax return preparer.

PROBLEM NO. 7

- a) As per section 139(4C), a university referred to in section 10(23C), should file the return of income if its total income exceeds the basic exemption limit without giving effect to the provisions of section 10.

Since the total income of the university before giving effect to the exemption under section 10, exceeds the basic exemption limit of Rs. 2,50,000, it has to file its return of income for the A.Y. 2017-18.

- b) As per third proviso to section 139(1), every company or firm shall furnish on or before the due date the return in respect of its income or loss in every previous year. Since LLP is included in the definition of "firm" under the Income-tax Act, 1961, it has to file its return mandatorily, even though it has incurred a loss.

PROBLEM NO. 8

The following table enumerates the specific circumstances and the authorized persons empowered to verify the return of income of an individual assessee filed under section 139(1) in each such circumstance:

| | Circumstance | Return of income, to be verified by |
|----|-------------------------------|---|
| i) | Where he is absent from India | <ul style="list-style-type: none"> - the individual himself; or - any person duly authorised by him in this behalf holding a valid power of attorney from the individual. (Such power of attorney should be attached to the return of income) |

| | | |
|------|---|--|
| ii) | Where he is mentally incapacitated from attending to his affairs | - his guardian; or - any other person competent to act on his behalf. |
| iii) | Where, for any other reason, it is not possible for the individual to verify the return | any person duly authorised by him in this behalf holding a valid power of attorney from the individual (Such power of attorney should be attached to the return of income) |
| iv) | In circumstances not covered under (i), (ii) & (iii) above | - the individual himself |

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

The contention of Mrs. Lal is incorrect.

As per section 139(1), every person who is a resident, other than not-ordinarily resident in India, having –

- a) any asset (including financial interest in any entity) located outside India or
- b) signing authority in any account located outside India

is required to file a return of income in the prescribed form compulsorily on or before the due date of filing the return of income.

Hence, the contention of Mrs. Lal is not correct, as she-

- (i) holds financial interest in a company in London and
- (ii) Owns a house property in London.

Therefore, she has to compulsorily file her return of income for A.Y 2018-19 on or before the due date of filing return of income.

PROBLEM NO.2

YES, Mr. Ashok can file a revised return under section 139(5) to claim deduction under section 80D.

A return which has been filed on or before the due date of filing of return under section 139(1) or u/s 139(4) belated return can be revised under section 139(5). If he discovers any omission or any wrong statement in the return filed earlier.

In this case, the original return filed by Mr. Ashok on 16th August, 2018 was a belated return under section 139(4). A belated return filed under section 139(4) can be revised under section 139(5). Therefore, Mr. Ashok can file a revised return under section 139(5) to claim deduction under section 80D. even though the time limit for filing a revised return has not expired, since he had filed the original return for A.Y.2018-19 on 16th August, 2017 which is after 31st July, 2017, being the due date for filing of return under section 139(1) for A.Y.2018-19.

PROBLEM NO.3

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the provisions of chapter VI-A, exceeds the maximum amount not chargeable to tax i.e., Rs.2,50,000 (for A.Y 2018-19). In this case, since Mr.Rajveer's total income of Rs.34,600 before giving effect to deduction under section 80TTA, is less than the basic exemption limit of Rs.2.5 lakh, he is not required to file a return of income.

Computation of total income of Mr.Rajveer for A.Y. 2018-19

| Particulars | Rs. |
|--|---------------|
| Income from other sources | |
| Interest earned from Non-resident (External) account Rs.3,06,000 permitted by RBI to maintain the aforesaid account) | Nil |
| Interest on bank fixed deposit | 25,000 |
| Interest on savings bank account | 9,600 |
| Gross total income | 34,600 |
| Less: Deduction under section 80 TTA – Interest on saving bank account | (9,600) |
| Total income | 25,000 |

A person being a resident other than not ordinarily resident in India within the meaning of section 6(6),

- who is not required to furnish a return under section 139(1) and who at any time during the previous year,-
- a) Holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India ;or
 - b) Is a beneficiary of any asset (including any financial interest in any entity) located outside India, is required to file a return of income in the prescribed form compulsorily on or before the due date of filing the return of income, irrespective of the fact that his total income does not exceed the basic exemption limit

Since Mr.Rajveer owns a house in London, he has to compulsorily file his return of income for A.Y 2018-19 on or before 31st July 2018, irrespective of the fact that his total income is less than the basic exemption limit of Rs.2.5 lakh.

PROBLEM NO.4

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before the expiry of one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- i) A belated return filed under section 139(4) can be revised.
- ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. within one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.
- iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

PROBLEM NO.5

As per section 140, return of income can be verified by an individual even if he is absent from India. Hence, an individual can himself verify the return of income from a place outside India. Alternatively, any person holding a valid power of attorney and duly authorised by the individual can also verify the return of income. However, such power of attorney should be attached along with the return of income.

THE END

13. ADVANCE TAX AND INTEREST

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Interest will be determined as under:

| Period of default (It is (c) – (a) in the case of X, and (d) – (a) in other cases (a part of month is taken as full month) | 7 months Rs. | 1 month Rs. | 4 months Rs. | 2 months Rs. |
|---|-----------------|----------------|-----------------|-----------------|
| Income assessed | 7,49,800 | 11,84,510 | 10,87,000 | 7,65,500 |
| Tax (see note) | 62,460 | 1,65,353 | 3,26,100 | 65,600 |
| Add: Surcharge | Nil | Nil | Nil | Nil |
| Tax and surcharge | 62,460 | 1,65,353 | 3,26,000 | 65,600 |
| Add: Education cess (2% of tax and surcharge) | 1,250 | 3,306 | 6,522 | 1,312 |
| Add: Secondary and higher education cess (1% of tax and surcharge) | 625 | 1,653 | 3,261 | 656 |
| Tax payable on assessed income | 64,335 | 1,70,312 | 3,35,883 | 67,568 |
| Less: Advance tax paid and tax deducted at source | | | | |
| Shortfall | 43,600 | 1,23,300 | 1,66,100 | 57,160 |
| Shortfall (rounded off) (c) | 30,735 | 47,012 | 169,783 | 10,408 |
| Interest on (c) at the rate of 1% per month | 30,740 | 47,020 | 1,69,700 | 10,410 |
| | 2,152 | 470 | 6,788 | 208 |

Note: Calculation of Tax liability

| Mr.X (31 yrs.) 7,49,800 | Mrs.Y (62 yrs.) 11,84,510 | X (P) Ltd. 10,87,000 | X (HUF) 7,65,500 |
|--|---|--|--|
| Upto 2,50,000 – Nil 2,50,000 – 5,00,000 (2,50,000 x 5%) - 12,500 7,49,800 – 5,00,000 (2,49,800 x 20%) – 49,960 Tax <u>62,460</u> | Upto 3,00,000 – Nil 3,00,000 – 5,00,000 (2,00,000 x 5%) - 10,000 5,00,000 - 10,00,000 (5,00,000 x 20%) - 1,00,000 11,84,510 - 10,00,000 (1,84,510 x 30%) - 55,353 Tax <u>1,65,353</u> | 10,87,000 x 30% Tax - 3,26,100 | Upto 2,50,000 - Nil 2,50,000 - 5,00,000 (2,50,000 x 5%) - 12,500 7,65,500 - 5,00,000 (2,65,500 x 20%) - 53,100 Tax <u>65,600</u> |

PROBLEM NO. 2

Interest liability under section 234B:

| Particulars | Rs. |
|--|-----------------|
| Income | 20,02,720 |
| Tax on Rs. 20,02,720 (As per FY 2017-18 slab rates) | 4,13,320 |
| Less: Tax deducted at source | 2,800 |
| Assessed tax | <u>4,10,520</u> |
| 90% of assessed tax | 3,69,468 |
| Advance tax paid during 2017-18 (i.e., Rs.52,000+ Rs.1,02,000+Rs.60,000+ Rs.30,000+Rs. 20,000) | 3,64,000 |
| Shortfall (i.e., Rs. 3,69,468 – Rs. 3,64,000) | 5,468 |
| Shortfall (rounded off) | 5,470 |
| Interest is payable under section 234B on Rs.71,700 from April 1, 2018 to January 10, 2019 @ 1% per month (i.e., Rs.5,470 x 1/100 x 10) = Rs.547 | 547 |

Interest liability under section 234C:

| Particulars | Rs. |
|---------------------------------------|-----------|
| Income as per return of income | 19,90,000 |
| Tax on Rs.19,90,000 (as per rates)(a) | 4,09,500 |

| | |
|--|----------|
| Less: Tax deducted at source (b) | 2,800 |
| Assessed tax (a-b) | 4,06,700 |
| 15% of assessed tax (15% of (a-b)) | 61,005 |
| Tax paid on or before June 15, 2016 (c) | 52,000 |
| 45% of assessed tax [45% of (a-b)] | 1,83,015 |
| Tax paid on or before sept 15, 2016, i.e., Rs.52,000+Rs.1,02,000 (d) | 1,54,000 |
| 75% of assessed tax [75% of (a-b)] | 3,05,025 |
| Tax paid on or before dec 15, 2016 i.e., Rs.52,000+Rs.1,02,000+Rs.1,60,000 (e) | 3,14,000 |
| 100% of assessed tax | 4,06,700 |
| Tax paid on or before Mar 15, 2017 i.e Rs.52,000+Rs.1,02,000+Rs.1,60,000+Rs.30,000 (f) | 3,44,000 |

| Particulars | 1 st installment 15-6-2017 | 2 nd installment 15-9-2017 | 3 rd installment 12-10-2017 | 4 th installment 15-3-2018 | Total |
|-------------------------------------|--|--|--|--|-------|
| Shortfall | | | | | |
| 15% of (a-b)-c | 9,005 (61,005-52,000) | - | - | - | |
| 45% of (a-b)-d | | 29,015 (1,83,015-1,54,000) | - | - | |
| 75% of (a-b)-e | - | - | No interest being the 75% of the assessed tax is less than the tax paid in advance | - | |
| 100% of (a-b)-f | - | - | - | 62,700 (4,06,700 - 3,44,000) | |
| Rounded off amount as per rule 119A | 9010 | 29,020 | | 62,700 | |
| Rate of interest | 1% | 1% | - | 1% | |
| Period of default | 3 months | 3 months | - | 1 month | |
| Amount of interest | (9,010 x 1% x 3months) | (29,020 x 1% x 3months) | - | (62,700 x 1% x 1month) | |
| | 270 | 870 | - | 627 | 1,767 |

Interest payable u/s. 234C = 270 + 870 + 627 = Rs.1,767

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THE END

14. EXEMPTED INCOMES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO.1

| S.No. | Taxable/Not Taxable | Amount liable to tax (Rs.) | Reason |
|-------|---------------------|----------------------------|--|
| (i) | Not Taxable | - | Share received by member out of the income of the HUF is exempt under section 10(2). |
| (ii) | Not Taxable | - | Pension received by Mr. Xavier, who is a 'Param Vir Chakra' awardee, is exempt under section 10(18). |
| (iii) | Not Taxable | - | Any income of a political party registered under section 29A of the Representation of the People Act, 1951 which is chargeable, <i>inter alia</i> , under the head "Income from house property" is exempt under section 13A provided the political party maintains such books of account as would enable the Assessing Officer to properly deduce its income therefrom and the accounts are audited by a chartered accountant. |
| (iv) | Taxable | - | Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income. |
| (v) | Partly Taxable | 36,000 | Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt, provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., Rs. 7,000 per month, being 70% of Rs. 10,000) or Rs. 10,000 per month, whichever is less. Hence, Rs. 84,000 (i.e., Rs. 7,000 × 12) is allowable as deduction under section 10(14). Balance Rs. 36,000 (Rs. 1,20,000 - Rs. 84,000) shall be taxable. |
| (vi) | Not taxable | - | Any amount withdrawn from public provident fund as per relevant rules is not exigible to tax. Such exemption is provided in section 10(11). |
| (vii) | Taxable | 72,000 | Agricultural income is exempt from tax as per section 10(1). Agricultural income means, <i>inter alia</i> , any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present 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, Rs. 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources". |

PROBLEM NO. 2

- (i) Agriculture Income from land situated in India is exempt under section 10(1), both in the case of residents and non-residents. Therefore, agriculture income of Rs. 2,00,000 from land in Kanchipuram, Tamil Nadu would be exempt in the hands of Ms. Dolly, a non-resident.
- (ii) Amount withdrawn from Public Provident Fund is exempt under section 10(11). Therefore, amount of Rs. 5,00,000 withdrawn by Mr. Rajesh from Public Provident Fund in accordance with rules would not be chargeable to tax.
- (iii) Section 10(10D)(d) exempts, any sum received under a life insurance policy, other than any sum received under an insurance policy issued on or after 1.4.2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 10% of the capital sum assured.

Therefore, Rs. 1,30,000 received by Mr. Abhi towards maturity proceeds of the life insurance policy would be chargeable to tax, since Rs. 23,000, being the amount of annual premium exceeds Rs. 12,000, being 10% of capital sum assured i.e., Rs. 1,20,000.

- (iv) Section 10(2A) provides that partner's share in the total income of a firm is exempt in his hands. The term "firm" includes a limited liability partnership and "partner" includes a partner of a limited liability partnership. Therefore, Rs. 5,60,000, being Dinesh's share of profit in the limited liability partnership would not be chargeable to tax in his hands.
- (v) As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax, except to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Thus, Rs. 3,50,000, being the amount of compensation received from Central Government on account of disaster would be exempt under section 10(10BC) in the hands of Mr. Rohan, assuming that the same has not been allowed as deduction under any other provision of the Act.

PROBLEM NO. 3

- i) **False** : Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- ii) **True**: As per section 12AA(4), the Commissioner or the Principal Commissioner has power to cancel the registration of the trust, by passing a written order, where it is noticed that, inter alia, the income of the trust is applied for the benefit of specified persons, including the author of the trust. However, the registration shall not be cancelled if the trust proves that there was reasonable cause for application of income in such manner.
- iii) **False**: The obligation under section 13A to maintain proper details of voluntary contributions in excess of Rs. 20,000 is over and above the obligation to maintain such books of account and other documents as would enable the Assessing Officer to properly deduce its income therefrom.
- iv) **True**: Section 10(18) exempts any income by way of pension received by individual who has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.
- v) **False**: Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, Rs. 10,000 should not be included in Mr. A's chargeable income.
- vi) **False**: As per section 10(10D)(c), any sum received under an insurance policy issued on or after 1.4.2003 but before 31.03.2012, in respect of which the premium payable for any year during the term of the policy exceeds 20% of actual capital sum assured, shall not be exempt from tax. Hence, the contention of Mr. Roy is not correct since the one-time premium of Rs. 10 lakh paid by him is in excess of 20% of the sum assured [i.e. it exceeds Rs. 3 lakh, being 20% of Rs. 15 lakh]. Further, tax is deductible @2% under section 194DA on such sum paid to Roy, since the same is not exempt under section 10(10D).
- vii) **False**: Section 2(24) defining the term 'income' includes voluntary contributions received by any trust, university or educational institution. Hence, the statement is not correct.
- viii) **False** : As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.
- ix) **False**: As per section 10(34), only income by way of dividend referred to in section 115-O shall be exempt in the hands of shareholders. Corporate dividend tax under section 115-O is not leviable on deemed dividend under section 2(22)(e) and hence, such deemed dividend is not exempt under section 10(34).
- x) **False**: Any payment from an approved superannuation fund made by way of transfer to the account of an employee under a notified pension scheme referred to in section 80CCD is exempt under section 10(13). Since Atal Pension Yojana is a notified pension scheme under section 80CCD, the payment of Rs.10 lakhs made by XYZ Ltd. by way of transfer from an approved superannuation fund to Mr. Satish's account under such scheme is exempt under section 10(13).

PROBLEM NO. 4**Computation of business income of Nathan Aviation Ltd.**

| Particulars | Rs. (in lacs) |
|--|---------------|
| Total profit derived from Units S & N (Rs. 13 lacs + Rs. 4 lacs) | 17 |
| Less: Exemption under section 10AA [See Working Note below] | 12 |
| | 5 |
| Less: Brought forward business loss | 2 |
| | 3 |

Working Note:**Computation of exemption under section 10AA in respect of Unit S located in a SEZ**

| Particulars | Rs. (in lacs) |
|---|---------------|
| Domestic turnover of Unit S | 10 |
| Export turnover of Unit S | 120 |
| Total turnover of Unit S | 130 |
| Profit derived from Unit S | 13 |
| Exemption under section 10AA | |
| Profit of Unit S x $\frac{\text{Export turnover of unit S}}{\text{Total turnover of Unit S}} = 13 \times \frac{120}{130} =$ | 12 |

PROBLEM NO. 5**Computation of deduction under section 10AA of the Income-tax Act, 1961**

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006, but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:**(i) If Unit in SEZ was set up and began manufacturing from 22-05-2010:**

Since A.Y. 2018-19 is the 8th assessment year from A.Y. 2011-12, relevant to the previous year 2010-11, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = 22.50 \text{ lakhs}
 \end{aligned}$$

If Unit in SEZ was set up and began manufacturing from 14-05-2014:

Since A.Y. 2018-19 is the 4th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = 45 \text{ lakhs}
 \end{aligned}$$

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The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

| Particulars | Rudra Ltd. (Rs.) | Unit in DTA (Rs.) | Unit in SEZ (Rs.) |
|-------------------------|------------------|-------------------|-------------------|
| Total Sales | 6,00,00,000 | 2,00,00,000 | 4,00,00,000 |
| Export Sales Net Profit | 4,60,00,000 | 1,60,00,000 | 3,00,00,000 |
| | 80,00,000 | 20,00,000 | 60,00,000 |

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y.2017-18 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA:

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export turnover of unit A}}{\text{Total turnover of Unit A}}$$

$$= 30 \text{ lakhs} \times \frac{50 \text{ lakhs}}{100 \text{ lakhs}} = 15 \text{ lakhs}$$

PROBLEM NO.2

As per section 10AA, in computing the total income of MNO Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 1.04.2005 but not later than FY 2019-20, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first five year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of such profits for further five years subject to fulfillment of other conditions specified in section 10AA.

(i) If Unit in SEZ were set up and began manufacturing from 25-07-2009:

Since it is the 9th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 40 \text{ lakhs} \times \frac{150 \text{ lakhs}}{200 \text{ lakhs}} \times 50\% = 15 \text{ lakhs}$$

(ii) If Unit in SEZ were set up and began manufacturing from 10.04.2013:

Since it is 5th year of operation of the eligible unit, it shall be eligible for deduction upto 100% of profit of such unit.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 40 \text{ lakhs} \times \frac{150 \text{ lakhs}}{200 \text{ lakhs}} \times 100\% = 30 \text{ lakhs}$$

PROBLEM NO.3

Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales (–) Market value of 70% of sugarcane produce

(–) Manufacturing expenses

$$= \text{Rs. 25 lacs} - \text{Rs. 22 lacs} - \text{Rs. 1.5 lacs} = \text{Rs. 1.5 lacs.}$$

Agricultural income = Market value of sugarcane produce – Cost of cultivation

$$= [\text{Rs. 10 lacs} + \text{Rs. 22 lacs}] - [\text{Rs. 5 lacs} + \text{Rs. 14 lacs}] = \text{Rs. 32 lacs} - \text{Rs. 19 lacs}$$

$$= \text{Rs. 13 lacs.}$$

THE END

MASTER MINDS

15. TAX DEDUCTED AT SOURCE**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

In this case, the individual contract payments made to Mr. X does not exceed Rs. 30,000. However, since the aggregate amount paid to Mr. X during the P.Y.2017-18 exceeds Rs. 1,00,000 (on account of the last payment of Rs. 30,000, due on 1.3.2018, taking the total from Rs. 73,000 to Rs. 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of 1,03,000 from the last payment of Rs. 30,000 and the balance of Rs. 28,970 (i.e. Rs. 30,000 – Rs. 1,030) has to be paid to Mr. X.

PROBLEM NO. 2

TDS provisions under section 194J would not get attracted, since the limit of Rs. 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2017-18.

PROBLEM NO. 3

Interest under section 201(1A) would be computed as follows:

| Particulars | Rs. |
|--|------------|
| 1% on tax deductible but not deducted i.e., 1% on Rs. 4,000 for 8 months | 320 |
| 1½% on tax deducted but not deposited i.e. 1½% on Rs. 9,000 for 4 months | 540 |
| Interest u/s 201(1A) | 860 |

PROBLEM NO. 4

i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:

- He owns ten or less goods carriages at any time during the previous year.
- He is engaged in the business of plying, hiring or leasing goods carriages;
- He has furnished a declaration to this effect along with his PAN.

ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds Rs. 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e. Rs. 25,000 and royalty Rs. 20,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.

iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2017 to M/s. X Ltd. is less than the threshold limit of Rs. 30,000.

iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.

Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 2,00,000 to Mr. A, since the contract is a contract for 'sale'.

v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed Rs. 2,50,000.

vi) As per section 194H, any person (other than an individual or HUF) who is responsible for paying commission or brokerage to a resident shall deduct tax at source @5%. if the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year exceeds Rs. 15,000.

Since the commission payment made to Mr. Y does not exceeds Rs. 15,000, the provisions of section 194H are not attracted.

PROBLEM NO. 5

- a) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of Rs. 19,000 paid by ABC Ltd. to its director.

- b) Section 194-IA, inserted with effect from 1st June 2013, requires every person, being a transferee, responsible for paying any sum as consideration for transfer of any immovable property (other than agricultural land), to deduct tax@1% of such sum, at the time of credit of such sum to the account of the resident transferor or at the time of payment of such sum to a resident transferor, whichever is earlier.

Such tax is required to be deducted at source where the consideration for transfer of immovable property is Rs. 50 lakhs or more.

In this case, since the consideration for transfer of house exceeds Rs. 50 lakhs, Mr.Y is liable to deduct tax at source@1% under section 194-IA on the consideration of Rs. 60 lakhs payable for transfer of house to Mr. X.

PROBLEM NO. 6

As the turnover of Ashwin for F.Y.2016-17, i.e. Rs. 205 lakh, has exceeded the monetary limit of Rs. 100 lakh prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2017-18, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of Rs. 24,000 to Raj for 2 contracts of Rs. 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted under section 194-I as the rental payment exceeds Rs. 1,80,000.

Commission paid to Balu – No, Tax has to be deducted under section 194-H as the commission does not exceeds Rs. 5,000.

PROBLEM NO. 7

- i) As per Circular No. 4/2008 dated 28th April, 2008 issued by the CBDT, the service tax paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of service tax. Therefore, tax deducted at source under section 194-I would be required to be made on the amount of rent paid or payable excluding the amount of service tax, i.e. tax has to be deducted under section 194-I on Rs. 12 lakh.
- ii) Tax is deductible @ 10% under section 194-I.
- iii) Hence, in the given case, TDS under section 194-I would amount to Rs. 10,000, to be deducted every month.
- iv) Tax deducted should be deposited within prescribed time i.e. on or before seven days from the end of the month in which the deduction is made and upto 30th April for the month of March.

PROBLEM NO. 8

Disallowance under section 40(a)(i)/40(a)(ia) of the income-tax act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

The assessee is a resident individual, who was not subjected to tax audit during the immediately preceding previous year i.e., P.Y.2016-17 (as his turnover is less than 1 crore in that year) and the TDS obligations have to be considered bearing this in mind.

- i) Disallowance under section 40(a)(ia) is not attracted for failure to deduct tax at source under section 192 from salaries

- ii) The obligation to deduct tax source from interest paid to a resident arises under section 194A in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year, i.e., P.Y. 2016-17. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y.2016-17. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- iii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance under section 40(a)(i)
- iv) The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs.10,000 to a resident arises in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y 2016-17. Hence, there is no obligation to deduct tax at source under section 194H during the P.Y. 2016-17. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PROBLEM NO. 9

- a) As per section 194-I, tax is to be deducted at source @ 2% on payment of rent for use of plant and machinery, only if the payment exceeds Rs. 1,80,000 during the financial year.

Since rent of Rs. 1,65,000 paid by a partnership firm does not exceed Rs.1,80,000, **tax is not deductible.**

- b) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper **has to deduct tax at source @ 20%**. Further, since Chris Gayle, a cricket player of West Indies team is a non-resident, education cess @2% and secondary and higher education cess @1% on TDS should also be added.

Therefore, tax to be deducted = **Rs. 59,000 x 20.60% = Rs. 12,154.**

- c) Under section 194BB, tax is to be deducted at source, if the income arising by way of winning a jackpot in horse races exceeds Rs. 10,000. The **rate of deduction of tax at source is 30%**. Since, the winnings are paid to a resident, education cess@2% and secondary and higher education cess@1% has not been added to the tax rate of 30%.

Hence, tax to be deducted = Rs. 1,80,000 x 30% = **Rs. 54,000.**

- d) Advertising is included in the definition of "work" under section 194C. Under section 194C, the provisions for tax deduction at source would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year.

Therefore, provisions for deduction of tax at source under section 194C are not attracted in respect of payment of Rs. 28,000 on 1.6.2017 to X Ltd. However, payment of Rs. 37,000 on 21.9.2017 to X Ltd. would attract TDS @2%, since it exceeds Rs. 30,000.

Hence, tax to be deducted = Rs. 37,000 x 2% = **Rs. 740**

- e) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.

Assuming that sub-contractor to whom payment has been made is an individual and the aggregate amount credited during the year is Rs. 4,20,000, tax is deductible @ 1% on Rs. 4,20,000.

Tax to be deducted = Rs. 4,20,000 x 1% = **Rs. 4,200**

PROBLEM NO. 10

- i) Theta Co-operative Bank has to deduct tax at source@10% on the interest of Rs. 48,000 ($8\% \times \text{Rs. 12 lakh} \times \frac{1}{2}$) under section 194A.
- ii) Since Omega Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered, and if the same exceeds Rs. 10,000, tax is deductible under section 194A. Omega Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs. 16,000, which exceeds the threshold limit of Rs. 10,000.

| Branch | Amount of deposit (Rs.) | Rate of Interest | Period in months | Amount of Interest (Rs.) |
|--------------|-------------------------|------------------|------------------|--------------------------|
| Adyar | 60,000 | 10% | 10 | 5,000 |
| Anna Nagar | 80,000 | 10% | 9 | 6,000 |
| Nungambakkam | 75,000 | 10% | 8 | 5,000 |
| TOTAL | | | | 16,000 |

- iii) Tax has to be deducted @ 10% under section 194A by Gamma Bank on the interest of Rs. 13,000 (See Working Note below) falling due on recurring deposit on 31.3.2018 to Ms. Meena, since – (1) —recurring deposit has been included in the definition of —time deposit; and (2) such interest exceeds the threshold limit of Rs. 10,000.

Working Note:

Computation of Interest

$$= \text{Rs. } 20,000 \times 10\% \times [(12 + 11 + 10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1) / 12]$$

$$= \text{Rs. } 2,000 \times (78/12)$$

$$= \text{Rs. } 13,000$$

PROBLEM NO. 11

As per section 194-IA, any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property (other than rural agricultural land) is required to deduct tax at source @ 1% of such sum, if the consideration for transfer is Rs. 50 lakhs or more. The deduction of tax at source has to be made at the time of credit of such sum to the account of the transferor or at the time of payment of such sum, whichever is earlier.

Accordingly, in this case, since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Raman, the transferee, is required to deduct tax at source at 1% of Rs. 65 lakhs, being the consideration for transfer of house property. The tax to be deducted under section 194-IA would be Rs. 65,000, being 1% of Rs. 65 lakh.

Since TDS provisions under section 194-IA are attracted in respect of transfer of any immovable property, other than rural agricultural land, no tax is required to be deducted by Mr. Raman from the sale consideration payable for transfer of rural agricultural land.

PROBLEM NO. 12

- i) In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of Rs. 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

- ii) The issue of whether fees/charges taken or retained by advertising companies from media companies for canvassing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount' to attract the provisions of tax deduction at source has been clarified by the CBDT vide its *Circular No.5/2016 dated 29.2.2016*. **9.20 Income-tax**

The Circular draws reference to the Allahabad High Court ruling in the case of *Jagran Prakashan Ltd.* and the Delhi High Court ruling in the matter of *Living Media Limited*. In both the cases, the Courts have held that the relationship between the media company and the advertising agency is that of a 'principal-to-principal' and, therefore, not liable for TDS under section 194H. Though these decisions are in respect of print media, the ratio is also applicable to electronic media/television advertising as the broad nature of the activities involved is similar.

In view of the above, the CBDT has clarified that no liability to deduct tax is attracted on payments made by television channels to the advertising agency for booking or procuring of or canvassing for advertisements.

Accordingly, in view of the clarification given by CBDT, no tax is deductible at source on the amount of Rs. 15 lakhs retained by Mudra Adco Ltd., the advertising company, from payment due to Cloud TV, a television channel.

PROBLEM NO. 13

- i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of Rs. 4.50 lakhs are not exempt under section 10(10D) in the hands of Mr.X. Therefore, tax is required to be deducted @ 1% under section 194DA on the maturity proceeds of Rs. 4.50 lakhs payable to Mr.X.

- ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of Rs. 2.20 lakhs due to Mr.Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr.Y.
- iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt under section 10(10D) in the hands of Mr.Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

PROBLEM NO. 14

| (i) | Tax implications in the hands of Mr.X |
|-------|---|
| | As per section 50C, the stamp duty value of house property (i.e. Rs. 85 lakh) would be deemed to be the full value of consideration arising on transfer of property. Therefore, Rs. 45 lakh (i.e., Rs. 85 lakh – Rs. 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2018-19. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X. |
| (ii) | Tax implications in the hands of Mr.Y |
| | In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds Rs. 50,000. Therefore, in this case Rs. 25 lakh (Rs. 85 lakh – Rs. 60 lakh) would be taxable in the hands of Mr.Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder. |
| (iii) | TDS implications in the hands of Mr.Y |
| | Since the sale consideration of house property exceeds Rs. 50 lakh, Mr.Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs. 60,000, being 1% of Rs. 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land. |

SOLUTIONS TO ASSIGNMENT PROBLEMS**PROBLEM NO.1**

- a) Since the rent paid for hire of machinery by B. Ltd. To Mr. Raman exceeds Rs. 1,80,000, the provisions of section 194-I for deduction of tax at source are attracted. The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2% assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source:

$$= \text{Rs. } 2,10,000 \times 2\% = \text{Rs. } 4200.$$

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on Rs. 2,10,000, by virtue of provisions of section 206AA.

- b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Sundar (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Srivatsan is paid for a personal purpose i.e. the surgery of a member of the family.

PROBLEM NO.2

- i) Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. David is required to deduct tax at source under section 194-IA at the time of credit of such sum to the account of Mr. Jack or at the time of payment, whichever is earlier. Tax @ 1% of the sale consideration is required to be deducted by Mr. David under section 194-IA.

Tax deductible under section 194-IA = Rs. 75 lakh \times 1% = Rs. 75,000

- ii) As per section 194LA, tax shall be deducted at source @ 10%, if the compensation / consideration or enhanced compensation/consideration on compulsory acquisition of immovable property (other than agricultural land) during the year exceeds Rs. 2,50,000. Therefore, in this case, since there has been a compulsory acquisition of urban land, tax has to be deducted at source under section 194LA.

Tax deductible under section 194LA = Rs. 3,50,000 \times 10% = Rs. 35,000

- iii) Payments made to a non-resident entertainer, shall be subject to tax deduction @ 20% under the provisions of section 194E plus education cess@2% and secondary and higher education cess@1%.

Tax deductible under section 194E = Rs. 40 lakh \times 20.6% = Rs. 8,24,000

- iv) As per section 194J, a company shall be liable to deduct tax at source @ 10% on any remuneration or fees or commission paid to a director, on which the tax is not deductible under section 192. The limit of Rs. 30,000 under section 194J is not applicable on any remuneration or fees or commission payable to director of a company.

Tax deductible under section 194J = Rs. 25,000 \times 10% = Rs. 2,500

PROBLEM NO.3

a)

- i) Section 194A requiring deduction of tax at source on any income by way of interest, other than interest on securities, credited or paid to a resident, excludes from its scope, income credited or paid by a firm to its resident partner. Therefore, no tax is required to be deducted at source under section 194A on interest on capital of Rs. 25,000 and Rs. 30,000 paid by the firm, M/s Duplicate, to its resident partners Mr. Vikul and Mr. Rahul.

- ii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year. However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Tanuja (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source under section 194J is not attracted in this case since, the fees for professional service paid to Dr. Kunal Garg is for personal purpose i.e. for the purposes of surgery on a member of the family.

- iii) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on 1.4.2012, the maturity proceeds of Rs. 5.50 lakhs are not exempt under section 10(10D) in the hands of Mr. Dheeraj, a resident individual. Therefore, tax is required to be deducted @1% under section 194DA on the maturity proceeds of Rs. 5.50 lakhs payable to Mr. Dheeraj.

b)

- i) **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

PROBLEM NO.4

- i) Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Siddharth is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194IA would be Rs. 80,000, being 1% of Rs. 80 lakh.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

- ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for professional services and royalty, individually, exceeds Rs. 30,000 during the financial year. In the given case, since, the individual payment for fee of Rs. 28,000 for professional services and royalty of Rs. 25,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for professional services and royalty were made during the year to Mr. Varun.

- iii) Section 194-I, which requires the deduction of tax at source on payment of rent exceeding Rs. 1,80,000 per annum is applicable to all persons other than individuals and HUF's, who are not subject to tax audit in the immediately preceding financial year. Therefore, the TDS provisions under section 194-I are applicable in respect of rental payments made by a bank. However, under section 196, payments made to Government are exempt from the application of provisions of tax deduction at source.

Hence, Punjab National Bank is not required to deduct tax at source on payment of Rs. 1,00,000 per month as rent to Central Government.

- iv) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed Rs. 2,50,000.

PROBLEM NO.5

Since the turnover of Mr. Bharghav for F.Y.2016-17, i.e., Rs. 205 lakhs, has exceeded the monetary limit of Rs. 100 lakhs prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2017-18, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

- i) **Interest paid to Indian Bank on term loan**

TDS under section 194A is not attracted in respect of interest paid to a banking company.

- ii) **Advertisement expenses to R (two individual payments of Rs. 24,000 and Rs. 34,000)**

Under section 194C, the provisions for tax deduction at source would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 100,000 in the aggregate during the financial year. Therefore, provisions for deduction of tax at source under section 194C are not attracted in respect of payment of Rs. 24,000 to R.

However, payment of Rs. 34,000 to R would attract TDS@1% under section 194C, since it exceeds Rs. 30,000. The tax to be deducted would be Rs. 340, being 1% of Rs. 34,000.

- iii) **Factory rent of Rs. 1,85,000 paid to C**

Tax has to be deducted under section 194-I as the rental payment exceeds Rs.1,80,000. The tax to be deducted is Rs. 18,500, being 10% of Rs. 1,85,000.

- iv) **Brokerage of Rs. 16,000 paid to B, a sub-broker**

Tax has to be deducted@5% under section 194-H as the brokerage exceeds Rs.15,000 during the F.Y. 2017-18. The tax to be deducted is Rs. 800, being 5% of Rs. 16,000.

Note: students are advised to change the total turnover years for 2015-16, 2015-16 as 2016-17 and 2017-18 respectively.

PROBLEM NO.6

- a) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper, has to deduct tax at source @ 20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, education cess @2% and secondary and higher education cess @1% on TDS should also be added.

Therefore, tax to be deducted = Rs. 27,000 x 20.60% = Rs. 5,562.

- b) As per section 194-I, tax is to be deducted at source @ 2% on payment of rent for use of plant and machinery, only if the payment exceeds Rs. 1,80,000 during the financial year.

Since rent of Rs. 1,70,000 paid by a partnership firm does not exceed Rs.1,80,000, tax is not deductible under Sec.194-I but the same shall be subjected to Sec.194C deduction.

- c) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed 10,000. The rate of deduction of tax at source is 30%. Assuming that winnings are paid to the residents, education cess@2% and secondary and higher education cess@1% has not been added to the tax rate of 30%.

Hence, tax to be deducted = Rs. 1,50,000 x 30% = Rs. 45,000.

- d) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed Rs. 2,50,000.

PROBLEM NO.7

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds Rs. 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic banking system.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment(s) made to a person in a day exceeds Rs. 35,000. Therefore, payment or aggregate of payments up to Rs. 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank or use of electronic banking system, without attracting disallowance under section 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1% in case the payment is made to individual or Hindu Undivided Family or at the rate of 2% in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

PROBLEM NO.8

1. ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of Rs. 45,000 ($9\% \times \text{Rs. } 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs. 4,500.
2. XYZ Bank has to deduct tax at source @ 10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs. 20,250 [$1,00,000 \times 3 \times 9\% \times \frac{9}{12}$], which exceeds the threshold limit of Rs. 10,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs. 20,250 exceeds the threshold limit of Rs. 10,000, tax has to be deducted @ 10% under section 194A.
3. Tax has to be deducted under section 194A by PQR Bank on the interest of Rs. 10,400 falling due on recurring deposit on 31.3.2018 to Mr. Rajesh, since –
 - a) “recurring deposit” is included in the definition of “time deposit”; and
 - b) Such interest exceeds the threshold limit of Rs. 10,000.

THE END