1. INTRODUCTION TO INCOME TAX

1. The income of X comprises of only property income up till March 10, 2018. On March 10, 2018, he starts a new business of computer hardware. From the data given below, find out the taxable income of X for the assessment years 2017-18 to 2019-20:

   Property income: Rs. 42,000 every year.

   Business income: Rs. 69,000 from March 10, 2018 to March 31, 2019 (out of which Rs.10,000 is for the period ending March 31, 2018).

   Answer:

Assessment Year	Property Income		Business Income		Total (Rs.)
	Previous year	Income (Rs.)	Previous year	Income (Rs.)	
2017-18	2016-17	42,000			42,000
2018-19	2017-18	42,000	March 10, 2018 to March 31, 2018	10,000	52,000
2019-20	2018-19	42,000	2018-19	59,000	1,01,000

Note: For the assessment year 2018-19, the assessee has income from house property which can be said to be his existing source of income during the previous year. His new source of income comes into existence in the form of business income from March 10, 2018. Therefore, the assessee has two previous years for assessment year 2018-19. For the property income which is his existing source, the previous year is 2017-18. For the business income, which is his new source of income, the previous year is the period commencing from March 10, 2018 to March 31, 2018.

For computing taxable income for the assessment year 2018-19 (and subsequent years), the income from both the previous years will be aggregated.

2. Determine the status of the following

   a) Delhi University.

   b) DCM Ltd.

   c) Delhi Municipal Corporation.

   d) Taxmann Publications (P.) Ltd.

   e) Laxmi commercial Bank Ltd.

   f) ABC Group Housing Co-operative Society.

   g) XY & Co., firm of X and Y

   h) A joint family of X, Mrs. X and their sons A and B.

   i) X and Y who are legal heirs of Z (Z died in 1996 and X and Y carry on his business without entering into partnership).

   Solution:

   a) artificial juridical person;

   b) a company

   c) a local authority

   d) a company

   e) a company

   f) Co-operative Societies (an association of persons)

   g) a Partnership firm;

   h) a Hindu undivided family;

   i) Body of Individuals

2. RESIDENTIAL STATUS - I & II

1. Mr. Federer, a Non-Resident residing in Sweden, has received rent from Mr. Nadal, also a Non-Resident residing in France in respect of a property taken on lease at Mumbai. "Since this Income is received outside India from a Non-Resident, Federer claims that his income is not chargeable to tax in India." Comment.

Solution:

Principle	As per Sec. 9(1)(i), if the Source of Income, directly or indirectly, through or from a Property, Asset in India, it shall be deemed to accrue or arise in India.
Conclusion	Hence, the Rent is taxable in India, in this case.

2. A Korean Company Damjung Ltd., entered into the following transactions during the financial year 2018-2019. Explain briefly, whether, the receipts are chargeable to Tax in India.

Particulars	Answer / Reason
Received Rs. 20 Lakhs from a Non-Resident for use of Patent for a business in India.	**Taxable.** Payer, being a Non-Resident, Income received for Patent used for business in India, is **deemed to accrue or arise** in India.
Received Rs. 15 Lakhs from a Non-Resident Indian for use of Know-How for a business in Sri Lanka and this amount was received in Japan. [Assume that the above amount is converted / stated in Indian Rupees].	**Not Taxable.** Payer, being a Non-Resident, Income Received for use of Know-How for a Business **outside** India, **is not deemed to accrue or arise** in India.
Received Rs. 7 Lakhs from RR Co. Ltd, an Indian Company, for providing Technical Know-How in India.	**Taxable**. Payer is an Indian Company, i.e. Resident in India, and also Technical Know-How is used for business in India. Hence, **deemed to accrue or arise** in India.
Received Rs. 5 Lakhs from R & Co. Mumbai for conducting the Feasibility Study for a new project in Nepal and the payment was made in Nepal.	**Not Taxable**. Payer is assumed as a Resident in India. Fees for Feasibility Study conducted for business **outside India**, is **not deemed to accrue or arise** in India.

3. Ram has the following incomes during the financial year 2018-19:

	Particulars	Amount (Rs.)
a)	Royalty earned in India, received on 03.05.2018 in Nepal	46,000
b)	Dividend from a foreign company received in Nepal on 16.07.2018	56,000
c)	Share of profit of a business situated in Nepal, received in Burma on 14.06.2018 but controlled from India	42,000
d)	Rent of 2018-19 of a land situated in Nepal. and received there on 31.12.2018	1,65,000
e)	Speculation profit earned and received outside India on 15.04.2019	60,000
f)	Profit on sale of machinery at Delhi received on 30.03.2019 (one-half is received in London)	50,000

From the above particulars ascertain the Gross Total income of R for the assessment year 2019-20 if he is (a) a resident and ordinarily resident (b) a not ordinarily resident (c) a non-resident.

Solution:

Gross Total Income of Ram

	Particulars	R&OR	NOR	NR
a)	Royalty earned in India, received on 03.05.2018 in Nepal	46,000	46,000	46,000
b)	Dividend from a foreign company received in Nepal on 16.07.2018	56,000	-	-
c)	Share of profit of a business situated in Nepal, received in Burma on 14.06.2018 but controlled from India	42,000	42,000	-
d)	Rent of 2018-19 of a land situated in Nepal. and received there on 31.12.2018	1,65,000	-	-

e)	Speculation profit earned and received outside India on 15.04.2019	-	-	-
f)	i) Profit on sale of machinery at Delhi received on 30.03.2019 (one-half is received in London)	25,000	25,000	25,000
	ii) Profit on sale of machinery at Delhi received on 30.03.2019 (Second-half is received in India)	25,000	25,000	25,000

4. Following are the Particulars of taxable income of R for the previous year ended 31.03.2019:

i) Royalty received from Government of India Rs.24,000.

ii) Income from business earned in Afganistan Rs.25,000 of which Rs.15,000 were received in India.

iii) Interest received from G a non-resident against a loan provided to him to run a business in India Rs. 5,000.

iv) Royalty received in India from S a resident for technical services provided to run a business outside India 20,000.

v) Income from business in Jaipur Rs.40,000. This business is controlled from France, Rs.20,000 were remitted to France.

Find out Gross Total Income of R for assessment year 2019-20, if he is

a) resident and ordinarily resident of India

b) not ordinarily resident of India and

c) non-resident of India in previous year.

Solution:

Gross Total Income of R

	Particulars	R & OR (Rs.)	NOR (Rs.)	NR (Rs.)
i)	Royalty received from Government of India	24,000	24,000	24,000
ii)	Income from business earned in Afganistan, partly received in India	25,000	15,000	15,000
iii)	Interest received from G	5,000	5,000	5,000
iv)	Royalty received in India from S	20,000	20,000	20,000
v)	Income from business in Jaipur	40,000	40,000	40,000
		1,14,000	1,04,000	1,04,000

5. Compute taxable income of G a non-resident for the previous year 2018-19:

	Particulars	Amount (Rs.)
i)	Income from operations confined to the purchase of goods in India for the purpose of export.	40,000
ii)	Income from operations confined to shooting of a cinematography film in India. G is an Indian citizen.	1,00,000
iii)	Income from salary received in India for services rendered outside India.	60,000

Solution:

Computation of taxable income of G (For the assessment year 2019-20)

	Particulars	Amount (Rs.)
i)	Income from purchase of goods in India [not taxable under section 9(1)(i)(a)]	-
ii)	Income from shooting of a cinematograph film in India (taxable as G is an Indian Citizen)	1,00,000
iii)	Salary Income	60,000
		1,60,000

6. X earns the following income during the financial year 2018-19:

	Particulars	Amount (Rs.)
a)	Income from business connection in India, received in London	10,000
b)	Pension from former employer in India received in UK.	14,000

c)	Profits earned from a business in Paris which is controlled in India, half of the profits being received in India.	1,20,000
d)	Income from agriculture in Bhutan and remitted to India.	15,000
e)	Income from agriculture in India	4,000
f)	Past foreign untaxed income brought to India.	10,000

Compute his income for the assessment year 2019-20 if he is:

i) Resident and ordinarily resident in India.

ii) "Not ordinarily resident in India",

iii) Non-resident in India.

Solution:

	Particulars	Resident and Ordinarily Resident	Not Ordinarily Resident	Non-Resident
1.	**Income deemed to accrue/arise in India:**			
	Income from business connection in India	10,000	10,000	10,000
	Pension from employer in India (See Note)	-	-	-
2.	**Income received in India:**			
	50% of profits of business in Paris	60,000	60,000	60,000
3.	**Income earned and received outside India, from a business controlled from India:**			
	50% of profits of business in Paris	60,000	60,000	-
4.	**Income earned and received outside India other than (3):**			
	Income from Agriculture in Bhutan	15,000	-	-
		1,45 ,000	1,30,000	70,000

Past foreign untaxed income has not been included because it is not the income of the previous year 2018-19. Agricultural Income is exempt under section 10(1).

Note: Pension is taxable in the head of salary, Standard deduction of Rs. 40,000 is been deducted.

7. A firm of solicitors in Calcutta engaged a barrister of London for arguing a case before the Supreme Court of India. A payment of 10,000 Pounds was made to the barrister in London as per the terms of the professional engagement. It is claimed that since the payment is made outside India, no tax is payable on the fee paid. Is the claim correct?

Solution: The problem is based on a case decided by the Supreme Court in ITO v Barendra Prasad Ray & Others (1981) 129 ITR 295 in which the court held that business connection includes professional connections also. In view of the aforesaid case, the fee paid to the barrister shall be deemed to accrue or arise in India if the barrister firm has any business connection in India.

8. X (HUF) whose karta is X since 1970, owns the following three businesses:

Name of business	From where business is controlled	Income earned and received in India (Rs.)	Income earned and received outside India (Rs.)	Income earned in India but received outside India (Rs.)	Income earned outside India but received in India (Rs.)	Total income of the assessment year 2019-20 (Rs.)
A	India	10,000	7,000	20,000	9,000	46,000
B	Nepal	20,000	80,000	6,000	10,000	1,16,000
C	Partly from India & Partly from Hongkong	5,000	8,000	12,000	13,000	38,000
	Total	35,000	95,000	38,000	32,000	2,00,000

X comes to India only for 60 days each year. No other income is derived by X (HUF). Personal income of X which is chargeable to tax in India for the assessment year 2019-20 is Rs. 70,000. Find out the income of X (HUF) for the assessment year 2019-20.

Solution:

Control and management of business A is situated in India. X (HUF) is, therefore, resident in India for all sources of income for the assessment year 2019-20**. The karta of HUF is non-resident in India in 10 years immediately prior to the previous year 2018-19. X (HUF) is, therefore, resident but not ordinarily resident in India for the assessment year 2019-20. Income of X (HUF) will be computed as follows:

Particulars	Amount (Rs.)
Income of business A	46,000
Income of' business B (Rs. 80,000, being earned and received outside India from a business which is controlled from outside India is not chargeable to tax in the case of resident but not ordinarily resident taxpayer)	36,000
Income of business C	38,000
Net income	1,20,000

3. INCOME FROM HOUSE PROPERTY

1. M is a member of the Co-operative Housing Society in Mumbai which has allotted a flat to him. According to the rules of the society a member has to pay a fixed charge known as Royalty if he lets out the flat. Besides, the society recovers service charges for watch-keeping and maintenance of lifts from the members. Is it possible for M to claim deduction of service charges and Royalty from rental income?

Solution: As per section 24, only two deductions are allowable from the net annual value, statutory deduction of 30% and deduction for interest on borrowed capital. Besides these two no other deductions are permissible.

2. R owns a house, the construction of which was completed in May, 1996. 50% of the floor area is let out for residential purposes on a monthly rent of Rs.6,400. However this portion remained vacant for one month during 2018-19. 25% of the floor area is used by the owner for the purpose of his Profession, while remaining 25% of the floor area is utilized for the purpose of his residence. Other particulars of the house area as follows:

S.No.	Particulars	Amount (Rs.)
i)	Municipal value	1,20,000
ii)	Standard rent	1,80,000
iii)	Municipal tax paid	24,000
iv)	Repairs	6,000
v)	Interest on capital borrowed for repairs	56,000
vi)	Ground rent	8,000
vii)	Annual charge	12,000
viii)	Insurance premium	24,000

Compute the taxable income from house property of R for the assessment year 2019-20.

Solution:

Let out unit (50% of floor area)	Rs.	Rs.
Gross annual value municipal value or actual rent received or receivable exclusive of vacancy (Rs.6,400 x 11)	70,400	
Less: Municipal taxes	12,000	
Net annual value		58,400
Less: Deduction u/s 24		
(i) Standard deduction @ 30%	17,520	
(ii) Interest on loan (50%)	28,000	45,520
		12,880
Self-occupied portion (25%)		
Annual value	Nil	
Less: Deduction u/s 24		
Interest on loan (25%)	14,000	(14,000)
Income from House Property		(1,120)

3. R Ltd. was registered in 1972 under the Companies Act, 1956 and started business of letting properties on rent for commercial use and residential purpose. It acquired some old properties in late 1972. while it constructed 4 properties till March 31, 2006 details of which are given as under:

	Date of completion of construction	Number of flats	
		Residential	Commercial
Property A	March 13,1998	14	6
Property B	March 31,1995	10	3
Property C	March 31,1995	15	10
Property, D	March 10,1995	7	8

During the previous year 2018-19 the company received Rs.6,40,000 as Rent. The company paid One-third of the municipal taxes imposed by the local authority while the balance two-third is paid by tenants (total municipal tax imposed @ 13% by the local authority for the previous year amounts to Rs.70,720). For the previous year the company gives the following information.

S.No.	Particulars	Expenses incurred by R Limited (Rs.)	Amount charged annually from the tenants & which is included in the rent of Rs.6,40,000
i)	Maintenance of lift (including depreciation)	6,000	9,000
ii)	Water supply	8,000	12,000
iii)	Maintenance of swimming pool	10,000	5,000
iv)	Lighting of stairs	12,000	5,000
v)	Extension of water connection (incl. depreciation.)	25,000	40,000
vi)	interest on capital borrowed for the purpose of construction of house properties	48,000	
vii)	Ground rent (unpaid)	22,000	
viii)	Land revenue (unpaid)	17,000	-
ix)	Fire insurance premium for the houses owned by the company	18,400	2,000
x)	Depreciation @ 10% on W.D.V of Rs.60,10,500	6,01,050	-
xi)	Salary of managing director and staff (including salary of Rs.4,000 paid to a clerk for collecting rent)	21,000	
xii)	Collection charges (including bank commission. Legal expenses & expenditure on stamp and stationery)	37,820	-
xiii)	3 flats of rental value of Rs.3,000 and 6 flats of rental value (inclusive of amenities) of Rs.1,800 remained vacant for 6 months and 7 months respectively during the previous year 2018-19.		
xiv)	Alt the properties are outside the jurisdiction of the Rent Control Acts		

Determine the income of the company for the assessment year 2019-20

Solution:

Computation of income of R Ltd. for the assessment year 2019-20

Income from house Property:	Amount (Rs.)	Amount (Rs.)
Gross annual value (see note 1) (Actual rent received or receivable is less owning to vacancy)	4,38,400	
Less: Municipal taxes (borne by the company)	23,573	
Net annual value		4,14,827
Less: Deduction under section 24		
Standard deduction @ 30%	1,24,448	
Interest on capital	48,000	1,72,448
Income from house property		2,42,379
Income from other sources:		
Amount collected from the tenants for providing Different amenities (i.e. Rs.9,000 + Rs.12,000 + Rs.6.000 + Rs.5,000 + Rs.40,000)	72,000	

Less: Expenses incurred (i.e. Rs.6,000 + Rs.8,000 + Rs.10,000 + Rs.12,000 + Rs.25,000)	61,000	11,000
Gross total income		2,53,379
Less: Deduction under Chapter VIA		Nil
Net income (rounded off)		2,53,380

Note 1		**Rs.**	**Rs.**	**Rs.**
Computation of de facto rent				
Rent received 6,40,000 - 1,29,600 (See note 2)			5,10,400	
Less: Amount charged from tenants for Providing different amenities				
Maintenance of lift		9,000		
Water supply		12,000		
Maintenance of swimming pool		6,000		
Lighting		5,000		
Extension of water connection				
De facto rent		40,000	72,000	4,38,400
Municipal valuation (i.e.Rs.70,720 x 100/13)				5,44,000
Gross annual value (being greater of rent or Municipal valuation)				5,44,000
Note 2:				
Rent not received owing to vacancy				
Actual Rent of flats which were vacant				
3 Flats	3,000 x 3 x 6	=	54,000	
6 Flats	1,800 x 6 x 7	=	75,600	
			1,29,600	

Note: As per section 23(1)(c) where the property is let and remained vacant for the whole or any part of the previous year and owing to such vacancy the actual rent is less than the expected rent then the expected rent will not be taken into account for determining the annual value.

4. R, uses his own house property for the purpose of his residence. Municipal valuation of the house is Rs.2,10,000, whereas a similar house in the same locality fetches annual rent of Rs.2,40,000 and standard rent of the property under the Rent Control Act is Rs.2,16,000. Local taxes are levied at the rate of 15%. Apart from, the payment of municipal taxes, R incurs the following expenditure: repairs: Rs.30,000, insurance premium: Rs.4,000, ground rent: Rs.20,000, land revenue: Rs.1,800. R borrowed Rs.3,00,000 @ 15% p.a. on 30.09.2006 (date of repayment of loan: 31.01.2018, date of completion of construction: 16.02.2012) for the purpose of construction of the property. Besides, on 10.04.2016, R borrows Rs.2,40,000 @ 15% p.a. for repairing the house property. He pays Rs.5,000 p.a. to his mother (as per will of his father, he got the land of the above property 15 years ago subject to this charge). For the previous year 2018-19, he income from other sources is as follows:

Particulars	**Amount (Rs.)**
Income from business X	4,50,000
Loss from business Y	1,20,000
Interest on debentures	65,000

Determine the taxable income and tax liability of R for the assessment year 2019-20 on the assumption that he contributes Rs.24,000 for PPF.

Solution:

Particulars	**Amount (Rs.)**	**Amount (Rs.)**
Annual value		Nil
Less: Deductions u/s 24		
Statutory deduction	Nil	
Interest on Rs.3,00,000		
for 2018-19	Nil	
For pre-construction period (i.e. 30.09.2006 to 11.03.2011) deductible in 5 years. (i.e., 2011-12 to 2015-16)	Nil	
Interest on Rs.2,40,000 (15% of Rs.2,40,000; subject to maximum of Rs.30,000)	30,000	30,000

Income from House Property		(30,000)
Business Income:		
Business A	4,50,000	
Business B	(1,20,000)	3,30,000
Income from other sources		65,000
Gross total income		3,65,000
Less: Deduction u/s 80C (contribution to ULIP)		24,000
Net income		3,41,000
Tax on Rs.3,41,000		4,550
Less: Rebate u/s 87A		**2,500**
		2,050
Add: Health and education cess @ 4%		82
Tax payable (rounded off)		2,130

5. X owns a property at Delhi (municipal value: Rs. 1,64,000, fair rent: Rs. 2,16,000, standard rent: Rs.1,80,000). The house is let out up to January 31, 2019(monthly rent being Rs.74,000). From February 1, 2019, the property is self-occupied for own residential purposes. Expenses incurred by X are: municipal tax; Rs. 6,000 (actually paid), repairs: Rs.2,100, insurance: Rs.1,100, interest on capital borrowed (date of borrowing being June 10, 1991) for-acquiring the property Rs.7,23,000. Assuming that the income of X from other sources is Rs.1,86,000. find out the net income of X for the assessment year 2019-20. Does it make any difference if property is let out up to January 31, 2019 @ Rs.19,000 per month ? There is no unrealised rent.

Solution:

	If rent is Rs.14,000 per month (Rs.)	If Rent is Rs.19,000 per month (Rs.)
Municipal valuation (MV)	1,64,000	1,64,000
Fair rent (FR)	2,16,000	2,16,000
Standard rent (SR)	1,80,000	1,80,000
Annual rent	1,40,000	1,90,000
Gross annual value		
Step I: Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	1,80,000	1,80,000
Step II: Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	1,40,000	1,90,000
Step III: Amount computed in Step I or Step II, whichever is higher	1,80,000	1,90,000
Step IV: Loss due to vacancy	Nil	Nil
Step V: Gross annual value is Step III minus Step IV	1,80,000	1,90,000
Less: Municipal tax	6,000	6,000
Net annual value	1,74,000	1,84,000
Less: Deduction under section 24		
Standard deduction (30% of Rs. 1,74,000 or Rs. 1,84,000)	(52,200)	(55,200)
Interest on borrowed capital	(1,23,000)	(1,23,000)
Income from property	(1,200)	5,800
Other income	1,86,000	1,86,000
Net income	1,84,800	1,91,800

4. CAPITAL GAINS

1. R is a resident of India. He furnishes the following information about his incomes during previous year 2018-19.

a) Capital gain Rs.10,500 from a house which he occupied for 1 year before the date of sale 31.07.2018.

b) On 31.12.2018, he sold equity- shares of Thapar Ltd., for Rs.90,000 through the recognised stock exchange, which were purchased by him on 01.04.2002 for Rs. 66,000. Securities transaction tax paid Rs.75. FMV of the shares on 31.01.2018 was Rs.95,000.

c) He sold an agricultural land for Rs.5,25,500 on 05.04.2018. The land was owned by him since 04.07.2001 and was purchased for Rs.6,000. The land is situated in a village with population of 8,000.

d) On 01.03.2019, he sold a flat for Rs.11,82,500 which was purchased by him on 01.01.1977 for Rs.60,000. The fair market value of this flat was Rs.3,80,000 on 1.4.2001.

Compute his taxable income from capital gain for assessment year 2019-20.

Solution:

Income from capital gain of R

a)	Capital gain on sale of house		
	Short term capital gain		10,500
b)	capital gain from sale of equity shares of Thapar ltd. Exempt u/s 112A (as LTCG is less than Rs.1,00,000)		Exempt
c)	Refer Note		
d)	Capital gain on sale of flat:		
	Sale consideration	11,82,500	
	Less: Indexed cost of acquisition (Rs 3,80,000 x 280/100)	10,64,000	
	Long-term capital gain		1,18,500
	Taxable Income from capital gain		1,28,500

Note: Rural agricultural land is not a capital asset land there will be no capital gain on transfer of such rural agricultural land.

2. X purchases gold on April 15, 2010 for Rs.1,00,000. He transfers this gold by gift to his friend Y on January 20, 2016 (market value of gold: Rs. 1,40,000). Y transfers gold for Rs. 4,90,000 on May 16, 2018. Find out capital gain chargeable to tax in the hands of X and Y.

Solution:

Capital gain in the hands of X: X has transferred gold on January 20, 2016 by gift. Transfer by gift is not treated as "transfer" for the purpose of calculating capital gain. Consequently, in the hands of X nothing is chargeable to tax.

Capital gain in the hands of Y: Since the asset was acquired by Y by gift, which is covered by section 49(1), cost the previous owner will be taken as cost of acquisition and period of holding by the previous owner will be considered to find out whether the capital asset is short-term and long-term. Period of holding is more than 36 months (i.e., difference between April 15, 2010 and May 16, 2018).In the hands of Y, the asset is long-term capital asset. Moreover, indexation benefit will be available from April 15, 2010* (i.e., previous year 2010-11 when the asset was first held by X). Capital gain in the hands of Y will be calculated as follows

Sale consideration	4,90,000
Less: Indexed cost of acquisition (Rs. 1,00,000 x 280 / 167)	1,67,665
Long-term capital gain	3,22,335

3. Illustration:

Case 1: Y (61 years) is a resident individual. For the assessment year 2019-20, he has following income: **Amount (Rs.)**

Long term capital gain on transfer of equity shares 1,80,000

(Four conditions given above are satisfied) (capital gain is computed within the parameters given under sec. 112A)

Other income 2,75,000

Net income (or taxable income or total income) 4,55,000

In this case, net income (as reduced by long-term capital gain) is Rs. 2,75,000. Exemption limit is Rs. 3,00,000. Y is unable to fully utilise his exemption limit. Unutilized exemption limit is Rs. 25,000 which will be deducted from capital gain of Rs.1,80,000. In other words, out of long-term capital gain of Rs. 1,80,000, amount chargeable to tax under section 112A, is Rs. 1,55,000. Tax will be calculated as follows:

Tax on long-term capital gain under section 112A:

[10% of (Long-term capital gain exceeding Rs. 1,00,000)] 5,500

Add: Health and Education cess @ 4% 220

Tax liability 5,720

Case 2: Z (50 years) is a resident individual. For the assessment year 2019-20, he has following income: **Amount (Rs.)**

Long-term capital gain on transfer of equity shares 1,25,00,000

(four conditions given above are satisfied) (capital gain is computed within the parameters given under section 112A)

Other income 60,000

Net income (or taxable income or total income) 1,25,60,000

In this case, net income (as reduced by long-term capital gain) is Rs. 60,000. Exemption limit is Rs. 2,50,000. Z is unable to fully utilise his exemption limit. Unutilised exemption limit is Rs. 1,90,000 which will be deducted from capital gain of Rs. 1,25,00,000.In other words, out of long-term capital gain of Rs. 1,25,00,000, amount chargeable to tax under section 112A is Rs. 1,23,10,000. Tax will be calculated as follows: **Amount (Rs.)**

Tax on long-term capital gain under section 112A:

[10% of (long-term capital gain exceeding Rs. 1,00,000] 12,21,000

Tax on other income Nil

Tax **12,21,000**

Add: Surcharge @ 15% 1,83,150

Tax and surcharge 14,04,150

Add: Health and education cess @ 4% 56,166

Tax liability (rounded off) 14,60,320

4. X gets 1,000 partly convertible debentures (face value of Rs 100) of A Ltd. (cost being Rs.200 per debenture) at the time of original allotment to him on May 16, 2004. As per terms of allotment, A Ltd. converts 60 per cent portion of each debenture into 2 equity shares of face value of Rs. 10 on. July 1, 2012. Immediately after conversion, X holds 1,000 debentures (i.e., 40 Percent investment) and 2,000 equity shares. After conversion, cost of each debenture will be Rs. 80 (i.e., 40 per cent of Rs. 200) and cost of each equity share will be Rs. 60 (i.e. 60 per cent of Rs. 200 x ½). If X transfers shares and /or debentures, the period of holding will be determined from May 16, 2004. Suppose, on September 10, 2018, X transfers 2,000 equity shares in A Ltd. @ Rs. 900 per share and 1,000 (non-convertible portion) debentures @ Rs. 310 per debenture, capital gain will be determined as follows (on the assumption that shares are transferred outside stock exchange)

Solution:

Particulars	Shares (Rs.)	Debentures (Rs.)
Sale consideration	18,00,000	3,10,000
Less: Indexed cost of acquisition (Rs. 60 x 2,000 shares x 280 / 113)	2,97,345	-
Less: Cost of acquisition of debentures (Rs. 80 x 1,000, indexation benefit is not available in the case of debentures)	-	80,000
Long-term capital gains	15,02,655	2,30,000

5. X transfers a house property on February 15, 2019 (sale consideration given below in different: situations).indexed cost of acquisition is Rs. 8,00,000 (in all situations). Find out long-term capital gain chargeable to tax for the assessment year 2019-20 in Situations 1, 2 and 3.

Different situations	Stamp duty value at the time of transfer (Rs.)	Sale consideration as per agreement. Rs
Situation-1	65,00,000	60,00,000
Situation-2	63,00,000	60,00,000
Situation-3	61,00,000	60,00,000
Situation-4	83,50,000	80,00,000
Situation-5	83,90,000	80,00,000
Situation-6	84,00,100	80,00,000

Solution:

Different situations	Sale consideration (Rs.)	105% of sale consideration (Rs.)	Stamp duty value (Rs.)	Full value of consideration [see Note] (Rs.)	Indexed cost of acquisition (Rs.)	Long-term capital gain [Column 5- Column 6] (Rs.)
Situation 1	60,00,000	63,00,000	65,00,000	65,00,000	8,00,000	57,00,000
Situation 2	60,00,000	63,00,000	63,00,000	60,00,000	8,00,000	52,00,000
Situation 3	60,00,000	63,00,000	61,00,000	60,00,000	8,00,000	52,00,000

Note: Stamp duty value at the time of transfer is taken as full value of consideration, if it exceeds "105% of actual sale consideration". In other words, if Column 4 is more than Column 3, Column 4 value will be taken, otherwise section 50C is not applicable and value of Column 2 will be taken.

6.

a) R acquired a plot of land on 30.06.2001 for Rs. 1,40,000. The funds invested were borrowed at the rate of 9% per annum (the amount was repaid by R on 31.03.2005). R sells the plot of land on 30.06.2018 for Rs.17,00,000. What will be the amount of Capital gains for the assessment year 2019-20? Can R claim deduction of ground rent paid by him? CII for financial years 2001-02, 2002-03, 2003-04, 2004-05 and 2018-19 is100,105, 109, 112 and 280 respectively.

b) R & Co., a partnership firm owns a house property which is utilised by partners for their residence. On 30.6.2018 the firm sells the property and earns long-term capital gains of Rs 1,20,000. Can the firm or partners claim exemption under section 54?

Solution:

a) This problem is based on a case decided by the Delhi High Court in CIT vs. Mithilesh Kumari (1973) 92 ITR 9 in which the court held that:

"Interest paid by the assessee on money borrowed for the purchase of an open plot of land constituted part of actual cost of the assessee for the purpose of- determining the capital gain derived from the sale of the land. Further, ground rent paid by the assessee was incurred not for the purpose of the acquisition of the capital asset but was incurred for keeping the capital in the assessee's possession and was in the nature of any other expenditure the assessee might have incurred to maintain the capital asset. Such, an item of expenditure did not constitute part of the actual cost to the assessee and could not be deducted in computing the capital gain arising from the sale of the capital asset". In view, of the above said case, the long-term capital gain would be calculated as follows:

Particulars	Workings	Amount (Rs.)	Amount (Rs.)
Full Value of consideration			17,00,000
Less: Indexed cost of acquisition			
Purchase price (4,40,000 x 280/100)		12,32,000	
Interest @ 9%:			
For 2001-02	29,700 x 280/100	83,160	
2002-03	39,600 x 280/105	1,05,600	
2003-04	39,600 x 280/109	1,01,725	
2004-05	39,600 x 280/112	97,000	16,21,485
Long-term capital gain			78,515

b) Exemption under section 54 can be availed only when the house property is owned by an individual or Hindu Undivided Family. In view of this, the firm cannot claim deduction under section 54. Further, the partners of the firm also cannot claim tire exemption under section 54 as the asset has been transferred by the firms and not by the partners.

7. A with his friend B started a partnership firm to run the business of dealing in shares w.e.f. 1.5.2018. A contributed Rs 10,00,000 in cash as his capital contribution while B has contributed some listed shares in companies which were held by him as investments. The cost of these shares to B in 2001-02 was 4,25,000 while their market value on 1.5.2018 was Rs.14,00,000. It was agreed to credit B's capital a/c for these shares with Rs.13,00,000. In the course of the business during the year 2018-19, 50% of these shares were sold for Rs.7,00,000 and the securities transaction tax of 650 was paid by the firm.

You are required to compute capital gains/profits or gains from Business and Profession, if any, arising out of these transactions in the hands of partners and the firm for the assessment year 2019-20. Compute the tax payable on capital gain on shares.

Solution:

Capital gain to B

Particulars	Amount (Rs.)	Amount (Rs.)
Sale consideration (Amount recorded in books)		13,00,000
Less: Indexed cost of acquisition (4,25,000 x 280/100)		(11,90,000)
Long-term capital gain		1,10,000
Tax @ 20%		22,000
L.T.C.G. without indexation		
Sale consideration		13,00,000
Less: Cost		4,25,000
Long term capital gain		8,75,000
Tax @10%		87,500
Tax payable minimum of above two		22,000
Add: Health and education cess @ 4%		880
Total tax (rounded off)		22,880
Business income of the firm		
Sale price		7,00,000
Less: Cost of share - 50% of recorded price	6,50,000	
Securities Transaction Tax	650	6,50,650
Business income		49,350

8. X sells agricultural land situated in an urban area for Rs. 10,31,000 (brokerage paid @ 2 per cent) on March 31, 2019 (cost of acquisition: Rs.3,88,728 on March 1, 2008; it was used for agricultural purposes since 2009), On March 31, 2019, he owns one residential house property . On April 6, 2019, he purchases the following assets:

a) agricultural land: Rs. 1,70,000; and

b) a residential house property: Rs. 5,00,000.

Find out the capital gains chargeable to tax for the assessment year 2019-20"

Solution:

	Amount (Rs.)
Sale consideration	10,31,000
Brokerage (2% of Rs. 10,31,000)	20,620
Less: Indexed cost of acquisition (i.e., Rs. 3,88,728 x 280/1.29)	8,43,750
Long-term capital gain	1,66,630
Less: Exemptions Under section 54B	1,10,000
Under section 54F [i.e., Rs. 1,65,630 x Rs.5,00,000/(Rs. 10,31,000 - Rs.20,620)]	82,459
Long-term capital gains	NIL

9. R enters into a partnership with G on 04.07.2018 to start an export business. The following assets have been introduced by R as his capital contribution which he was using in his business earlier:

(A) Land; (B) Plant and Machinery

The particulars of the above assets are given below.

Particulars	Land	Plant and Machinery
Date of Acquisition	05.10.1979	12.01.1992
	Rs	Rs
Fair Market Value as on 04.07.2018	17,20,000	8,60,000
Amount recorded in the books of accounts	18,00,000	12,04,000
Cost of acquisition	45,000	-
WDV of Plant and Machinery as on 01.04.2018	-	5,16,000
Fair market Value as on 01.04.2001	3,60,000	-

On 18.06.2018, he purchased a residential house property for Rs.9,00,000. The above property was sold on 29.08.2019 for Rs.9,80,000. Compute the capital gain for various assessment years.

Solution:

Assessment year 2019-20

Particulars	Land	Plant and machinery
Full Value of consideration (Amount recorded in books of accounts)	18,00,000	12,04,000
Less: Indexed cost of acquisition (Rs.3,60,000 x 280/100)	10,08,000	-
Cost of acquisition WDV as on 01.04.2016	-	5,16,000
Long-term capital gain	7,92,000	-
Short-term capital gain	-	6,88,000
Less: Capital gain exempt		
u/s 54F (Rs.7,92,000 x 9,00,000/18,00,000)	3,96,000	-
Long-term capital gain	3,96,000	
Short-term capital gain		6,88,000

Assessment year 2020-21

Particulars	Amount (Rs.)
Sale price of residential house property	9,80,000
Less: Cost of acquisition	9,00,000
Short-term capital gain	80,000

In addition, Rs.3,96,000 exempt u/s 54F earlier will be taxable as long-term capital gain in the assessment year 2020-21.

5. PROFITS OR GAINS OF BUSINESS OR PROFESSION

1. RG a sole proprietor, commenced production on 01.12.2018. he has made the following expenditure on scientific research up to the year ending on 31.03.2019:

   a) On 13.12.2018, the firm paid Rs. 90.000 to the Indian agricultural research institute, new Delhi, an approved and notified scientific research institution under section 35(1)(ii), for the purpose of carrying out scientific research in natural science

   b) On 21.12.2018, the firm paid Rs.60,000 to the Indian institute of management" Ahmedabad, an approved and notified institute under section 35 (1)(iii), for the purpose of carrying out research in social or statistical science.

   c) On 10.01.2019, the firm paid Rs.40,000 to an approved national Laboratory for carrying out programmes on scientific research.

   d) On 23.12.2018, the firm purchased a plot of land for Rs. 2,00,000. Later on, a building (laboratory) was constructed (cost of construction: Rs.1,70,000; date of completion of construction 1.3.2019) to start the in-house research.

   e) Before the commencement of the production, the firm had made the following revenue expenditure for its research laboratory:

      i) Expenditure on salary and perquisite to research personnel and research material during the 12 months ending on 30.11.2015: Rs.20,000.

      ii) Expenditure on salary of research personnel from 01.12.2015 to 30.11.2018: Rs.61,000 (out of which the amount certified by the prescribed authority is Rs.42,000).

      iii) Expenditure on providing rent free flats and club facility to research personnel from 01.12.2015 to 30.11.2018: Rs.8.000.

      iv) Expenditure on research material from 01.12.2015 to 30.11.2018: Rs. 46,800 (out of which the amount certified by the prescribed authority is Rs.34,800).

      v) Capital expenditure on scientific research (not certified by the prescribed authority)-

	Expenditure incurred Up to 30.11.2015 (Rs.)	Expenditure incurred between 01.12.2015 and 30.11.2018 (Rs.)
Purchase of land for growing herbals for research	50,000	50,000
Purchase of equipments for research	30,000	40,000
Expenditure of capital nature for cultivation of herbals	2,000	4,600

Determine the amount of deduction available to the firm under section 35(1) for the assessment year 2019-20, if the scientific research is (a) related to or (b) unrelated to the business of the firm.

Solution:

Deduction under section 35 for the assessment year 2019-20 will be calculated as follows:

	Particulars	When the scientific research is	
		Related to the Business (Rs.)	Unrelated to the Business (Rs.)
a)	150% of Rs.90,000 paid to an approved scientific research institution for carrying on research in natural science is deductible under section 35(1)(ii) even if it is not related to the business of the Assessee.	1,35,000	1,35,000
b)	100% of Rs.60,000 paid to an approved Institution for carrying on scientific research in social science /statistical research is deductible under section 35(1)(iii), even if the scientific research is not related to the business of the assessee.	60,000	60,000
c)	Payment of Rs.40.000 to an approved National Laboratory is qualified for weighted deduction of 150% under section 35(2AA) even if scientific research is not related to the business of the assessee.	60,000	60,000
d)	Cost of construction of laboratory building is deductible only if such expenditure is related to the business of the assessee (cost of land is not deductible).	1,70,000	-
e)	i) Expenditure on salary and perquisites upto 30.11.2015 is not deductible as it is not incurred within 3 years before commencement of business.	Nill	Nill
	ii) Expenditure on salary to research personnel as certified by the prescribed authority within 3 years before commencement of business is deductible only when the research is related to the business of the assessee.	42,000	Nill
	iii) Expenditure on providing perquisites to research personnel before commencement is not deductible even if research is related to the business of the assessee.	Nill	Nill
	iv) Expenditure as certified by the prescribed authority on purchasing research material within 3 years before commencement of business is deductible when the research is related to the assessee's business	34,800	Nill
	v) Capital expenditure incurred within 3 years before commencement of business is deductible as follows:		
	Particulars	**When the scientific research is**	
		Related to the Business (Rs.)	**Unrelated to the Business (Rs.)**
	Cost of land purchased for growing herbals (not deductible)	-	-
	Rs. 40,000 (being the cost of equipment) is deductible if research is related to the business	40,000	-
	Rs. 4,600 being the cost of growing herbals is deductible if research is related to the business	4,600	-
	Total deduction	5,46,400	2,55,000

2. On April 1, 2018, X Ltd. commences the operation of a warehousing facility in Andhra Pradesh for storage of agricultural produce. The following information is available from the records of company -

Expenses incurred prior to April 1, 2018

Particulars	Amount (Rs.)
Purchase of land for warehouse	50,00,000
Construction cost of warehouse	8,00,000
Purchase of knowhow for warehouse	10,00,000
Salary to staff	78,000
These expenses are capitalised on March 31, 2018.	
Expenses incurred during 2018-19:	
Construction cost of warehouse	60,00,000
Purchase of old plant and Machinery(From domestic market)	2,00,000
Purchase of old plant and Machinery(From Germany)	4,00,000
Purchase of New plant and Machinery	9,00,000
Purchase of Goodwill	3,50,000

Profit and Loss account for the year 2018-19

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Depreciation of building (@ 5%)	3,40,000	Amount collected from persons using warehouse	78,00,000
Depreciation of machinery (@ 23.333%)	3,50,000		
Cost of know how (amount written off)	10,00,000		
Other operating expenses	7,51,000		
Donation to a political party	10,000		
Net profit	53,19,000		
	78,00,000		**78,00,000**

Out of the other operating expenses, a payment of Rs. 40,000 is made in cash. Other operating expenses are deductible under section 37. Find out the taxable income of X Ltd. for the assessment year 2019-20 on the assumption that X ltd. has the following income from other sources- income from the business of commission agency: Rs. 20,15,000 (Compute under the provisions of the Income Tax Act) and dividend from a Foreign Company: Rs. 50,000

Solution:

Amount deductible under section 35AD: Expenditure incurred prior to the commencement of operation (to the extent these are capitalized)

Particulars	Amount (Rs.)
Purchase of land (not qualified for deduction)	Nil
Construction cost of warehouse	8,00,000
Purchase of know-how	10,00,000
Salary to staff	78,000
Expenditure incurred during the previous year	
Construction cost of warehouse	60,00,000
Purchase of machinery (Rs. 2,00,000 + Rs. 4,00,000 + Rs. 9,00,000)	15,00,000
Total	93,78,000
Amount deductible under section 35AD (deduction @100% of Rs. 93,78,000)	93,78,000
Computation of Income from warehouse:	
Net profit as per profit and loss account	53,49,000
Depreciation of building (not deductible as cost of building is eligible for deduction under section 35AD)	3,40,000
Add: Depreciation of machinery (not deductible as cost of machinery is qualified for deduction under section 35AD)	3,50,000
Add: Cost of know-how (not deductible as deduction is available under section 35AD)	10,00,000
Add: Amount paid in cash (operating expenses)	40,000
Add: Donation to political party	10,000
Less: Deduction under section 35AD	(93,78,000)
Loss from warehouse	(22,89,000)

Computation of income:

Particulars	Amount (Rs.)	Amount (Rs.)
Commission agency business	20,15,000	
Warehouse	22,89,000	
Business income (from operating warehouse, being a specified business under section 35AD cannot be set off against and other income except income from a specified business)		20,15,000
Income from other sources (dividend from foreign company)		50,000
Gross total income		20,65,000
Less: Deduction under section 80GGB (donation to a political party)		10,000
Net Income		20,55,000

Notes:

a) Second hand imported machinery is taken as new machinery. The business of operating warehouse is formed by using new machinery of Rs. 13,00,000 and old machinery of Rs. 2,00,000. Value of old plant and machinery does not exceed 20 percent of the total value of plant and machinery. Other conditions of section 35AD are satisfied. X Ltd. is, therefore, eligible for deduction under section 35AD.

b) Loss from operating warehouse (by virtue of section 73A) can be set off only against profit and gains, if any, of any other business specified under section 35AD. In this case, X Ltd. does not have any other specified business. Loss will be carried forward (without any time-limit) for being set off against income from operating warehouse or any other specified business under section 35AD.

3. From the information given below, find out how much amount will be allowed. These expenses relate to previous year 2018-19. The due date of furnishing the return of income is 30.09.2019.

S.No.	Expenses	Amount & Date of actual payment
a)	Interest on term loan from bank	Rs. 3,00,000 on 04.06.2019
		Rs. 2,00,000 on 31.12.2019
b)	Employer's contribution to Provident Fund	Rs.45,000 on 22.4.2019 (due date 15.4.19)
c)	Advance Income tax	Rs. 37,000 on 15.09.2019
d)	GST	Rs. 3,50,000 paid on 05.11.2019
e)	Sum payable to Railways for use of railway assets	Rs. 1,50,000 paid on 06.12.2019

Solution:

Amount allowed as deduction while computing business income (For the A.Y. 2019-20)

a) Interest paid to financial corporation on 04.06.2019 i.e. Rs.3,00,000 will be allowed as deduction on due basis but interest of Rs 2,00,000 will be allowed as deduction in the previous year 2019- 20 as deposited after due date of return.

b) Employer's contribution if due on 31st March shall be allowed as a deduction on due basis if the payment of the same is made on or before the due date of furnishing the return of income. Hence, Rs 45,000 shall be allowed as deduction on due basis.

c) Advance income tax is not an allowable deduction.

d) GST paid on 5.11.2019 cannot be allowed as deduction in the previous year 2018-19 as it was paid after the due date of filing of return i.e. 30.09.2019. The deduction of this amount shall be allowed in the previous year 2019-20.

e) Rs.1,50,000 paid to railway cannot be allowed as deduction in the previous year 2018-19 as the same has been paid after the due date of filing return i.e. 30.09.2019. The deduction of this amount shall be allowed in the previous year 2019-20.

4. Ashwani Kumar has prepared the following Profit and Loss Account for the year ended 31 3.2019. You are required to ascertain his gross total income for the year ended on that date:

	Amount (Rs.)		Amount (Rs.)
Salaries	60,000	Gross profit	1,50,000
Rent	26,400	Rent from house property	36,000

Loss by theft	20,000		
Discount	10,000		
Charity	500		
GST paid	6,000		
Reserve for bad debts	10,000		
Gift and presents	500		
Life Insurance premium	1,000		
Interest on loan	12,000		
Interest on capital	3,000		
Repairs to house	500		
Income-tax	2,000		
Net profit	34,100		
	1,86,000		**1,86,000**

Solution:

Income from House Property	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Rent received		36,000	
Less: Standard deduction @ 30%		10,800	25,200
Profit as per Profit and Loss A/c		34,100	
Add: Inadmissible Expenses			
i) Charity	500		
ii) Reserve for Bad Debts	10,000		
iii) Gifts	500		
iv) L.I.P.	1,000		
v) interest on capital	3,000		
vi) Repairs to house	500		
vii) Income-tax	2,000	17,500	
		51,600	
Less: Rent from House Property, taxable under Income from House Property		36,000	
Net income from Business			15,600
Gross Total Income			40,800

Charity, gift and presents shall not allowed as deduction.

5. The following is the Receipts and Payments account of Mr. Lalit Kohli, a practicing chartered accountant, for the year ended 31.03.2019:

Receipts	**Amount (Rs.)**
Audit fees	56,80,000
Consultation	40,000
Appellate Tribunal appearance	25,000
Miscellaneous receipts	20,000
Interest on Government securities (Gross)	8,000
Rent received for house No. 1	24,000
Presents from clients	10,000
Payments	
Stipend to article clerks	5,12,000
Office expenses	2,24,000
Office rent	3,18,000
Salaries and wages	20,20,500
Printing and stationery	4,000
Subscription to C.A. institute	1,500
Purchase of books for professional purposes	15,000
Travelling expenses	5,000
Interest on bank loan	12,000
Donation to National Defence Fund	5,000

Loan from bank was taken for the construction of the second house in which he lives. Municipal value of this house is Rs. 18,000 and the local taxes Rs. 1,800 p.a. 1/4th of travelling expenses are not allowable.

Compute professional income and income from house property for the assessment year 2019-20 assuming 50% of the books which were annual publication were purchased in August 2018 and balance 50% in February 2019.

Solution:

Gross receipts:	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Audit fee		56,80,000	
Consultation		40,000	
Appellate Tribunal appearance		25,000	
Miscellaneous receipts		20,000	
Presents from clients		10,000	57,75,000
Payments:			
Stipend		5,12,000	
Office expenses		2,24,000	
Office rent		3,18,000	
Salary and wages		20,20,500	
Printing and stationery		4,000	
Subscription to C.A. Institute		1,500	
Depreciation on books on Rs. 7,500 @ 40%	3,000		
on Rs. 7,500 @ 20%	1,500	4,500	
Travelling expenses		3,750	30,88,250
income from profession			26,86,750
Income from House Property I			
Rent received		24,000	
Less: Standard deduction @ 30%		7,200	16,800
Loss from self-occupied (House II)			(12,000)
Income from House Property			4,800

W.e.f. previous year 2017- 18, the maximum depreciation allowed on plant and machinery is 40%

6. From the following profit and loss account of R for the year ending 31.03.2019, compute his gross total income for the assessment year 2019-20. Assume he has not opted for presumptive income under section 44AD as his income from business is less than 8% of turnover:

Trading and P&L A/c for the year ending 31.3.2019

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Opening stock	4,00,000	sales	80,00,000
Purchases	66,00,000	Closing stock	4,80,000
Salaries	8,00,000	Rent from house property	80,000
Rent rates and taxes	1,20,000	Dividends from an Indian co	9,000
Legal charges	40,000		
Miscellaneous expenses	20,000		
Reserve for bad debts	30,000		
Provision for gratuity	20,000		
Provision for income-tax	40,000		
Salary to Mrs. R	36,000		
depreciation	40,000		
Office expenses	3,000		
Net profits	4,20,000		
	85,69,000		85,69,000

Additional information:

a) Purchases includes Rs 1,00,000 paid in cash to a cultivator for purchase of agricultural produce

b) Purchases also includes Rs 10,000 paid by way of compensation paid to a supplier as the assesse was unable to take the delivery of goods due to lack of-storage space and finances.

c) Opening stock was over-valued by 25% and closing stock was under-valued by 25%.

d) Salary includes Rs 15,000 paid as customary bonus over and above the bonus payable under Bonus Act.

e) Rent rates and taxes include Rs 10,000 on account of disputed VAT demand, Rs 3,000 on account of municipal taxes for property let out. It also includes Rs 5,000 as customs penalty paid during the year.

f) An amount of Rs 20,000 from a customer was written off from the reserve for bad debts

g) An employee retired on 28.3.2019. Gratuity payable to him was Rs 20,000. A provision was created for the same this year and it was paid on 2.4.2019.

h) Mrs. R is a Law graduate and actively working in the assessee's firm.

Solution:

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit as per Profit and Loss Account		4,20,000
Add: Inadmissible expenses		
Disputed VAT Demand	10,000	
Municipal tax	3,000	
Custom penalty	5,000	
Reserve for bad debts	30,000	
Provision for income-tax	40,000	88,000
		5,08,000
Less: Income from house property	80,000	
Dividend received from companies	9,000	89,000
		4,19,000
Add: Under valuation of Closing Stock	1,60,000	
Overvaluation of Opening Stock	80,000	2,40,000
		6,59,000
Less: Bad debts		20,000
		6,39,000
Add: House Property Income		
Actual rent	80,000	
Less: Municipal taxes	3,000	
	77,000	
Less: Standard deduction @30%	23,100	53,900
Add: Income from other sources (dividends)		exempt
Gross total income		6,92,900

Provision for gratuity will be allowed as it is ascertained liability.

7. R, furnishes the following particulars for the assessment year 2019-20.

Profit and Loss Account for the year ending 31.3.2019

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Salary to staff	3,60,000	Gross profit	6,69,000
Interest on loan	40,000	Rent of flats given to officers	24,000
Expenditure for promotion of family planning amongst employees	14,000	Sundry receipts	7,000
GST	24000	Interest on fixed deposits with bank (gross)	15,000
Telephone expenses	15,000		
Gratuity paid	24,000	Capital gains on sale of Long term investment	6,000
Reserve for future losses	20,000		
Reserve for bad debts	12,000		
Reserve for payment of advance income-tax	17,000		

Car expenses	20,000		
Depreciation	30,000		
Office expenses	2,000		
Provident Fund	10,000		
Municipal taxes for flats given to officers	24,000		
Sundry expenses	46,000		
Net profit	63,000		
	7,21,000		7,21,000

Following additional information is also available

i) Expenditure on family planning includes capital expenditure of Rs 10,000

ii) Debts to the tune of Rs 10,000 have actually become bad during the year.

iii) Sundry expenses include Rs 12,000 being printing charges paid to a relative of the proprietor; payment is considered reasonable to the extent of Rs.9,000 only

iv) Rs 12,000 out of sundry expenses relate to cash payment for purchasing miscellaneous items.

v) Written down value of various fixed assets is as under on the opening day:

Machinery	42,000
Motor car	18,750
Furniture	12,000

vi) As per balance sheet following balances appear on the liabilities side

Sales tax payable amount	7,000
Contribution to employees provident fund payable	2,000

vii) It is learnt that letting out of residential flats to employees is subservient and incidental to the main business of the company.

viii) Sundry receipts include an amount of Rs. 4,000 being dividend received from another Indian Company.

Determine the business income of company for the assessment year 2019-20.

Solution:

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Net Profit as per P&L A/c			63,000
Less: Dividend included in sundry receipts		4,000	
Interest on Bank Deposits to be considered separately		15,000	
Capital gain to be considered separately		6,000	25,000
			38,000
Add: Capital expenditure and revenue expenditure on family planning		14,000	
Reserve for future losses. being inadmissible		20,000	
Reserve for bad debts	12,000		
Less: Debts which actually became bad	10,000	2,000	
Reserve for payment of advance income tax. being inadmissible		17,000	
Depreciation to be considered separately		30,000	
Out of sundry expenses the following disallowance are made			
i) Printing charges paid to a relative of the Proprietor disallowed u/s 40A(2) Being excessive and unreasonable (Rs.12.000 - Rs.9,000)		3,000	
ii) 100% of payment Rs. 12,000 for purchasing miscellaneous items is disallowed u/s 40A(3) as the payment has been made otherwise than by an account payee cheque or account payee bank draft		12,000	
The following amounts are added u/s 43B as the payments have not actually been made Sales tax	7,000		
Contribution to employees P.F	2,000	9,000	1,07,000
			1,45,000

Less: Depreciation as worked out below:			
Machinery WDV 42,000 @ 15%		6,300	
Motor car WDV 18,750 @ 15%		2,813	
Furniture WDV 12,000 @10%		1,200	10,313
Business Income			1,34,687

Expenditure in family planning, whether capital or revenue, is allowed to a company assessee

8. R (Pvt.) Ltd. is a trading company dealing in automobile accessories. Compute the business income for the assessment year 2019-20 on the basis of the following information

i) Net profit as per Profit & Loss Account for the previous year ending on 31.03.2019 is Rs.27,68,950 after debiting provision for taxation of Rs.33,75,780 but before depreciation.

ii) The company has credited in the Profit and Loss Account the following items:

a) Refund of Sales Tax penalty of Rs.35,000 deleted in appeal before Deputy Commissioner of Sales Tax.

b) Receipt of insurance claim from National Insurance Company Ltd. of Rs. 45,000 on account of a partly burnt stock-in-trade.

c) Recovery of bad debt of Rs.3,750 from a customer which was disallowed in assessment year 2014-15.

The following expenses were debited to the Profit and loss Account:

iii) The company's former accountant had been defalcating the books of account over a period of years and had misappropriated sums aggregating to Rs.3,45,000. This came to the notice of the management during the relevant year and a police complaint was filed immediately. He was untraceable and the company could obtain his personal assets worth Rs.50,000 and car whose market value was Rs.35,000. The balance amount of Rs.2,60,000 was written off in the books of account as the police authorities expressed inability to apprehend the culprit.

iv) The company spent a sum of Rs.6,000 towards fee paid to the Registrar of Companies to increase its share capital and Rs.3,500 for amendment of the Memorandum and Articles of Association

v) The company had imported six cases of spark plugs from West Germany. The Customs Authorities decided to confiscate the said imported goods on the ground that the import of these items was banned. The company paid a fine of Rs.65,000 in lieu of confiscation and paid Rs.7,500 as demurrage charges since the goods were not cleared within the specified time.

vi) The company had decided to start a manufacturing unit to manufacture car batteries in a backward area with foreign collaboration of a West German company. It spent Rs.56,000 on the travelling expenses and remuneration of two West German experts and Rs.75,000 for a feasibility report. However, due to technical difficulties, the project had to be abandoned. The company wrote off this expenditure in the P&L Account.

vii) The company's Managing Director went to USA to explore the possibilities of exports. However, he suddenly fell ill and was hospitalised for a period of 3 weeks resulting in payment of medical expenses of US $ 1,200 equivalent to Rs.60,000 by the company. He was paid a salary of Rs.65,000 plus bonus of Rs.6,500 as per service agreement. He was given reimbursement of medical expenses of Rs.75,000, house-rent allowance of Rs.12,000 and chauffeur driven car for which company spent Rs.15,000.

viii) The company had received a notice from Bombay Municipal Corporation on 10.02.2019 for payment of municipal taxes of 4 preceding years on account of enhancement of ratable value amounting to Rs 11,600 of which a sum of Rs 2,680 was paid on 31.03.2019 and the balance on 11.5.2019.

ix) The company has made a provision for payment of gratuity for its staff amounting to Rs 82,500. The company actually paid gratuity of Rs 17,650 to two of its employees during the relevant previous year.

x) The company has claimed depreciation as under:

a) Motor car (Indian, purchased in 1998) WDV Rs.21,875.

b) Furniture and Fixture WDV Rs.79,600.

c) Air-conditioners installed in office WDV Rs.17,900.

xi) The company has paid income-tax of Rs.1,00,000.

Solution:

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit as per P&L A/c		27,68,950
Deductions:		
i) Refund of penalty of sales-tax cannot be treated as income u/s 41 as in the relevant year it must have been disallowed like other penalties.	35,000	
ii) Recovery of disallowed bad debt	3,750	
iii) Insurance claim rightly credited	-	38,750
		27,30,200
Add: Disallowable items:		
i) Provision for taxation		33,75,780
ii) Amount misappropriated by the Accountant and written off in the books in the nature of revenue loss as it is incidental to the business (Badridas Daga vs. CIT (1958) 34 ITR 10 (SC))		
iii) Expenses incurred in connection With increasing the share capital are capital expenditure; hence, not allowable [See PSIDC v CIT (1997) 225 ITR 792 (SC)]. But expenses for amending Memorandum and Articles of Association are allowable.		6,000
iv) Demurrage charges even if they were paid for unauthorisedly importing the goods are allowable, [Nanhoomal Jyoti Prasad v CIT (1980) 3 Taxman 60 (All)] Fine of Rs.65,000 paid in lieu of confiscation of goods by customs authority is not allowable		65,000
v) The expenditure for starting a new unit of industry is of capital nature whether: the same produces capital asset or not is not decisive. Hence, the sum of Rs.1,31,000 (56,000 + 75,000) is disallowed.		1,31,000
vi) Salary and other benefits to Managing Director-Fully allowed.		
vii) Municipal taxes Rs 2,680 paid during the previous year and the balance amount paid on 11.5.2019, i.e., after the end of previous year but before the due date of furnishing the return of income, allowed as a deduction u/s 43B.		
viii) Gratuity actually paid during the previous year is allowed. The excess over this amount is added as inadmissible u/s 40(7) (Rs.82,500 - Rs.17,650)		64,850
ix) Income tax		1,00,000
Less: Depreciation		(14,466)
Business Income		64,58,364

Particulars	Amount (Rs.)
a) Motor car (Indian) WDV (Rs.21,875 @ 15%)	3,821
b) Furniture & Fixture WDV (Rs.79,600 @ 10%)	7,960
c) Air-conditioner WDV (Rs.17,900 @ 15%)	2,685
	14,466

6. INCOME FROM SALARIES

1. R is the Managing Director of a company since 1987. On 01.01.2019 he sends his resignation to the Chairman of the company. On January 7, the company requested him to withdraw his resignation and in consideration thereof promises to pay Rs. 2,00,000. R accepted the offer of the company but due to his poor health has to work for short hours and on reduced salary. R contends that Rs. 2,00,000 received from the employer company is not taxable as it is neither salary nor perquisites. Is R correct?

Solution: R's contention is not correct. The amount of Rs. 2,00,000 is not exempted and therefore the said sum is treated as profit in lieu of salary under section 17(3) and taxable.

2. An Indian Company pays Gross Salary including Allowances and Monetary Perquisites amounting to Rs.5,80,000 to its General Manager on which the tax liability works out to Rs.46,000 for the Previous Year 2018-2019. Besides, the Company provides Non-Monetary Perquisites to him for the same period whose value is estimated at Rs.1,20,000. Discuss the liability for tax deduction at source in the above case.

Solution:

Computation of Taxable Salary

Particulars	Amount (Rs.)
Gross Salary before inclusion of Non-Monetary Perquisites	5,80,000
Add: Non-Monetary Perquisites	1,20,000
Gross Salary after inclusion of Non-Monetary Perquisites (A)	**7,00,000**
Less: Deduction u/s 16 (ia) Standard Deduction	(40,000)
Income under the Head Salary	**6,60,000**
Tax on above [12,500 + (6,60,000 - 5,00,000) x 20%]	34,500
Add: H&EC at 4%	1,380
Net Tax Payable (B)	35,880
Average Rate of Tax (B/A)	5.43%

a) Tax on Non-Monetary perquisites: Perquisites x Average Rate of Tax = Rs.1,20,000 x 5.43% = Rs. 6,516.

b) So, if the Employer prefers to pay tax on the Non-Monetary Value of Perquisites, he is required to pay Rs. 6,520 and the balance tax of **Rs.29,360** (Rs.35,880 - Rs.6,520) should be deducted from the Salary payable to the Employee.

3. Determine the taxable value of the perquisite in the following cases:

a) R is employed by A Ltd. on 01.07.2018, the company gives an interest-free housing loan of Rs.12,00,000. Loan is repayable within 5 years. The lending rate of SBI for similar Loan as on 01.04.2018 is 10.25%.

b) S is employed by B Ltd. On 1.4.2018, he takes a personal loan of Rs.50,000 from B Ltd. B Ltd. recovers interest @ 7% p.a. from S. SBI lending rate for similar loan is 15%.

c) C Ltd. gives the following interest-free loan to T, an employee of the company - Rs.12,000 for child's education and Rs.8,000 for purchasing a refrigerator. No other loan is given by C Ltd.

d) R purchases a Honda City 1.6 xi on 01.03.2018 from a loan of Rs.12,00,000 taken at concessional rate of 7% p.a. from his employer XYZ Ltd. As per the agreed terms of repayment, R is supposed to repay in monthly instalments of Rs.40,000 starting from 01.01.2019. Compute the taxable value of perquisite in respect of concessional loan for the previous year 2018-19. SBI lending rate for similar loan is 12%.

e) R taken an interest-free loan of Rs.10,00,000 from his employer R Ltd., on 12.06.2018 for medical treatment of his wife who is suffering from a disease specified in rule 3A. Mrs. R is also covered under a mediclaim insurance cover. Insurance company reimburses her of the hospitalization charges of Rs.4,00,000 on 01.01.2019. According to terms of repayment of loan, R has to pay Rs.20,000 p.m. on the seventh day of each month starting November 2018. Ascertain the taxable value of perquisite in respect of interest-free loan for the previous year 2018-19. The amount paid by the insurance company is retained by R. SBI lending rate is 16%.

Solution:

For the assessment year 2019-20, the taxable value of the perquisite will be as under:

a) Rs.92,250 (being interest @ 10.25% on Rs.12,00,000 from 01.07.2018 to 31.03.2019) is taxable in the hands of R.

b) Rs.4,000 [being interest @ 8% (i.e. 15% - 7%) on Rs. 50,000 for one year] is taxable in the hands for S.

c) Nothing is taxable in the hands of T as the aggregate amount of loan does not exceed Rs.20,000.

d) Maximum monthly outstanding amount for the various months in the previous year 2018-19 is as follows:

Month	Maximum monthly outstanding amount on last day of the month (Rs.)	Interest (Rs.)
30.04.2018	12,00,000	5,000 (i.e. Rs. 12,00,000 x 5% x 1/12)
31.05.2018	12,00,000	5,000
30.06.2018	12,00,000	5,000
31.07.2018	12,00,000	5,000
30.08.2018	12,00,000	5,000
30.09.2018	12,00,000	5,000
31.10.2018	12,00,000	5,000
30.11.2018	12,00,000	5,000
31.12.2018	12,00,000	5,000
31.01.2019	11,60,000	4,833 (i.e. Rs. 11,60,000 x 5% x 1/12)
28.02.2019	11,20,000	4,667 (i.e. Rs. 11,20,000 x 5% x 1/12)
31.03.2019	10,80,000	4,500 (i.e. Rs. 10,80,000 x 5% x 1/12)

Taxable value of concessional loan is Rs.59,000 for the previous year 2018-19.

e) The perquisite in respect of interest-free loan provided for medical treatment in respect of a disease specified in rule 3A is not taxable. However, it will not include that amount as has been reimbursed to the employee under any medical insurance scheme. Therefore, out of loan of Rs.10,00,000 granted to R, Rs.4,00,000 reimbursed by insurance company on 01.01.2019 will be taken into account for computing taxable value of perquisite. The SBI lending rate for a similar loan is 16% on 01.04.2018.

Month	Maximum monthly outstanding amount on last day of the month (Rs.)	Interest (Rs.)
31.01.2019	3,80,000	5,067 (i.e., Rs.3,80,000 x 16% x 1/12)
28.02.2019	3,60,000	4,800 (i.e., Rs.3,60,000 x 16% x 1/12)
31.03.2019	3,40,000	4,533 (i.e., Rs.3,40,000 x 16% x 1/12)

Taxable value of interest-free loan is Rs.14,400 for the previous year 2018-19.

4. Shri Vinod, who was in part-time employment with A Ltd. and B Ltd. furnishes the following information:

Particulars	A. Ltd. (Rs.)	B. Ltd. (Rs.)
Basic salary per month (last drawn)	10,000	6,000
Dearness Allowance	30% (Forming part of salary for retirement benefits)	30% (40% forming part of salary for retirement benefits)
Date of Retirement	1.12.2018	15.11.2018
Period of Service	22 years 11 months	20 years 4 months
Amount of Gratuity received	1,43,000	1,20,000
Date of last increment in Basic Salary	1.4.2018	1.8.2018
Amount of last increment	Rs. 1,000	Rs. 500

Compute the Gross Salary of Shri Vinod for assessment year 2019-20.

Solution:

Particulars		A Ltd. (Rs.)	B Ltd. (Rs.)
Salary: (A Ltd. 10,000 x 8)		80,000	
(B Ltd. 6,000x 3½ + 5,500 x 4)			43,000
Dearness Allowance @ 30%		24,000	12,900
Gratuity received			
From A Ltd.	1,43,000		
Less: Exempt (See working note)	1,40,140	2,860	
From B Ltd.	1,20,000		
Less: Exempt (See working note)	63,280		56,720
		1,06,860	1,12.620

Therefore Total Gross Salary = Rs. 2,19,480

Note: Gratuity shall be exempt to the extent of minimum of the following:

S.No.	Particulars	Amount (Rs.)	Amount (Rs.)
i)	Actual amount received	1,43,000	1,20,000
ii)	Half month average salary for every completed year of service		
	$\left(\frac{12,740}{2} \times 22\right)$	1,40,140	
	$\left(\frac{6,328}{2} \times 20\right)$		63,280
iii)	Specified Amount	10,00,000	10,00,000

Computation of Average Salary

Basic Salary for last 10 months (8 x 10,000 + 2 x 9,000)	98,000	Basic Salary for last 10 months (3 x 6,000 + 7 x 5,500)	56,500
DA @ 30%	29,400	DA $\left(56,500 \times \frac{30}{100} \times \frac{40}{100}\right)$	6,780
	1,27,400		63,280
∴ Average Salary	12,740	∴ Average Salary	6,328

Note: It is assumed that employee is not covered under Gratuity Act.)

5. A, an Indian citizen is an employee of the Government of India. He was transferred to London in Indian High Commission on 01.01.2018. During the previous year 2018-19 he did not come to India at all. He was entitled to the following emoluments in London:

a)	Basic Salary	Rs. 17,000 p.m.
b)	Overseas Allowance	Rs. 20,000 p.m.

c) Rent-free furnished accommodation at London, whose FRV is Rs. 1,20,000 p.a. and cost of furniture provided is Rs.1,00,000.

His elder son was studying in London School of Economics and he was allowed Rs. 12,000 p.m. as education allowance for his education. His younger son was studying in a school run by Indian High Commission in London. He was provided with a car of 1,800 cc engine cubic capacity which he drives himself and uses the same partly for official purposes and partly for personal purposes. He has also been provided with the services of a gardener, watchman, sweeper and a cook: the salary of each being Rs. 2,500 per month.

Compute his income from salary for the assessment year 2019-20.

Solution:

Particulars	Amount (Rs.)
Salary (17,000 x 12)	2,04,000
Less: Standard deduction under section 16	40,000
	1,64,000

Note: Overseas Allowance, Rent Free furnished accommodation in London, Education Allowance, Car Facility as well as service of gardener, watchman, sweeper and cook are exempt u/s 10(7) as he is a citizen of India and employed by Government of India in a country outside India.

6. R is an employee posted at Bangalore. The following are the particulars of his salary income.

i) Salary @ Rs.10,000 p.m.

ii) D.A. @ 6,000 p.m. (50% enters for service benefits).

iii) He is provided with a car of 1.8 ltr. engine capacity with chauffeur for his official and private purposes.

iv) Commission on turnover achieved by R @ 2% of Rs.10,00,000.

v) Bonus Rs.16,000

vi) He is provided and rent free furnished house and the employer pays Rs.9,000 p.m. for the house and Rs.1,500 p.m. for the furniture.

vii) The employee contributes 15% of his salary towards his provident fund and the employer is contributing the same amount. Interest credited during the year @ 14% being 14,000.

viii) He paid Rs.18,000 as Life Insurance Premium on his life.

Compute his salary income if provident fund is:

a) Statutory Provident Fund.

b) Recognised Provident Fund.

c) Unrecognised Provident Fund.

Solution:

Computation of salary income of R

	Under SPF Amount (Rs.)	Under RPF Amount (Rs.)	Under URPF Amount (Rs.)
Salary	1,20,000	1,20,000	1,20,000
D.A.	72,000	72,000	72,000
Commission on turnover achieved by R	20,000	20,000	20,000
Bonus	16,000	16,000	16,000
Employer's contribution to PF			
[Taxable only for RPF = Rs. 26,400 - Rs.21,120]	-	5,280	-
Interest credited on PF balance			
[Taxable only for RPF = 14,000 - (14,000 x 9.5/14)	-	4,500	-
Value of rent free house (Note 1)	46,800	46,800	46,800
Car at concessional rate (2,400 + 900 = 3,300) x 12	39,600	39,600	39,600
Gross salary	3,14,400	3,24,180	3,14,400
Less: Standard Deduction u/s 16 (ia)	40,000	40,000	40,000
Income under the head **Salary**	2,74,400	2,84,180	2,74,400

Notes:

1. Salary or P.F. = 1,20,000 + 36,000 + 20,000 = Rs. 1,76,000

2. Value of rent free house at Bangalore

Rent of furniture = Rs. 18,000

Salary = 1,20,000 + 36,000 + 20,000 + 16,000 = Rs. 1,92,000

Particulars	Amount (Rs.)
15% of salary	28,800
Add: Rent of furniture	18,000
Value of rent free furnished house	46,800

3. Qualifying amount for deduction u/s 80C

Particulars	SPF	RPF	URPF
Own contribution to PF	26,400	26,400	-
Life Insurance Premium	18,000	18,000	18,000
	44,400	44,400	18,000

7. R retired from G Ltd., Pune on 31.10.2018, after service of 18 years and 8 months. At the time of retirement his employer pays a gratuity of Rs.96,000 (not covered under gratuity Act, 1972) (his average monthly salary of preceding 10 months is Rs.8,200). He also receives pension of Rs.1,000 per month but on 01.12.2018, he gets 70% of the pension commuted for Rs.35,000. Besides the aforesaid pension and gratuity, he receives the following emoluments from G Ltd:

Basic Pay (Rs.8,600 x 7); House rent Allowance (Rs.600 x 7). [Rent paid by him (Rs. 1,250 x 7)]. Entertainment Allowance (Rs.600 x 7); recognised provident fund repayment (contribution of employer and employee: 10% of salary): Rs.90,000

On 1.1.2019 he joins S Ltd., Mumbai. The emoluments relevant to the previous year 2018-19 are:

Basic Pay (Rs.8,500 x 3); Medical Allowance (Rs.600 x 3); High Cost of Living Allowance (Rs.1,800 x 3); a Rent-Free House [Rent of the House paid by employer (Rs.600 x 3) Rs.1,800]; a Free Motor Car of 1400 cc for Private and Official Purposes. Expenditure on the car by the company maintenance expenditure of 3 months Rs.18,000. Registration Fee (One year): Rs.1,000; Depreciation as per the Income Tax Rules (One year); Rs.6.000; Salary of Driver (Rs.1,600 x 3) Rs.4,800 (Use of the Motor Car: 60% for Official Purposes, 40% for private purposes); and contributions of the employer and employee towards unrecognised provident fund: 10% of Salary.

Determine the taxable income and tax liability of R for the assessment year 2019-20, assuming his income from other sources Rs.2,00,000.

Solution:

Computation of tax liability of R (For the Assessment Year 2019-20)

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Income from Salary:			
Basic pay (Rs.8,600 x 7)			60,200
House Rent Allowance		4,200	
Less: Exemption, being the least of **a)** 40% of salary (as the house is in Pune)	24,080		
b) HRA actually received	4,200		
c) Excess of rent paid over 10% of salary (Rs.1,250 x 7) - 10% of 60,200	2,730	2,730	1,470
Entertainment allowance			4,200
Pension (Rs.1,000 received on 30.11.2017 and Rs.300 per month afterwards for 4 months)			2,200
Commuted Pension		35,000	
Less: Exemption, being the lower of 1/3 of full value (i.e. 35,000 x 1/3)		16,667	18,333
Gratuity		96,000	
Less: Exemption, being the least of **a)** Rs.10,00,000 **b)** Rs. 73,800 (1/2 of Rs.8,200 x 18 years) **c)** Rs. 96,000 (actually received)		73,800	22,200
Salary from S Ltd.:			
Basic pay (Rs.8,500 x 3)			25,500
Medical allowance (Rs.600 x 3)			1,800
High cost of living allowance (Rs.1,800 x 3)			5,400
Rent free house			
15% of salary i.e. 32,700 + 900 (Uncommuted pension) (or) actual rent Rs.1,800 Whichever is lower			1,800
Motor car (1,800 + 900 = Rs. 2,700 x 3)			8,100
Gross salary			1,51,203
Less: Standard deduction under section 16			40,000
Income under the head salary			1,11,203
Income from other sources			2,00,000
Gross total income			3,11,203
Less: Deductions under section 80C (RPF contribution)			(6,020)
Net income			3,05,183
Net income (rounded off)			3,05,180
Tax on Rs. 3,05,180			2,759
Less: Rebate under Sec. 87A			(2,500)
			259
Add: Health and Education Cess @ 4%			11
Tax (Rounded off)			270

Notes:

1. R can claim relief under section 89 read with rule 21A in respect of gratuity of Rs.22,200 and Commuted pension of Rs.18,333.
2. Recognised provident fund repayment is not taxable as the period of service is more than 5 years.
3. Deduction under section 80C is not available in respect contribution towards unrecognised provident fund.

7. INCOME FROM OTHER SOURCES

1.

a) Purchase of 12% IDBI debentures of Rs.2,40,000 on 01.10.2018 directly from IDBI. Due date of interest is 31st of March every year.

b) Purchased 240, 12% IDBI debentures on 04.03.2019 from market @ Rs.1,050 per debenture. Face value of debenture is Rs.1,000. Due date of interest is 31st of March every year. IDBI had issued these debentures in 2016.

c) Purchased 100, 10% debentures of A Ltd. listed on stock exchange from a broker at Rs.100 each on 01.12.2018. Due dates of interest are 30th of June and 31st of December every year.

d) Purchased 100, 10% debentures of B Ltd. @ Rs.100 each by subscribing to the company directly. Date of issue was 30.11.2018. Interest due on 30th June and 31st of December of every year.

e) Purchased 2.400 shares of Rs.10 each of Y Ltd. Rs.60 per share from market on 17.06.2018. The company declared a dividend 20% on 30.09.2018.

Solution:

Income under the head 'Income from Other Sources' (For the assessment year 2019-20)

	Particulars	Amount (Rs.)
a)	12% IDBI debentures purchased directly from IDBI for 6 months	14,400
b)	12% IDBI debentures bought from market	28,800
c)	10% debentures of A Ltd. for 6 months	500
d)	10% debentures of B Ltd. for 1 month	100
e)	Dividend from Y Ltd.	Exempt
	Income under the head 'Income from Other Sources'	43,800
	TDS on item No. 1 will amount to Rs.1,440 TDS on item No. 2 will amount to Rs.2,880 TDS on item No. 3 and 4 will be Nil TDS on item No. 5 will be Nil	

2. X (42 years) gives the following information for the previous year 2018-19:

a) On 01-12-2018, he gets gift of House A from his friend B (stamp duty value is determined at Rs.6,00,000).

b) On 03-12-2018, he gets gift of House B from C (who is father-in-law of his elder brother) (stamp duty value is Rs.40,000, however, current market value is Rs.65,000).

c) On 07-12-2018, X purchases a second hand car for Rs.70,000 from D (market value is, however, Rs.3,00,000).

d) On 14-12-2018, X purchases a work of art for Rs.5,00,000 from E (fair market value is Rs.5,30,000).

e) On 20-12-2018, X purchases jewellery for Rs.7,00,000 from F (fair market value is Rs.7,25,000). F is not a registered dealer.

f) On 21-12-2018, X purchases a painting for 4,00,000 from G (who is brother of Mrs. X) (fair market value is Rs.7,00,000).

g) On 24-12-2018, X purchase a commercial property for Rs.72,00,000 from H (fair market value is Rs.90,00,000).

h) On 25-12-2018, X gets a gift of 100 preference shares in A Ltd. from J (on 25-12-2018, stock exchanges are closed, the lowest quotation on the immediate preceding working day in National Stock Exchange is Rs.45).

i) On 25-01-2019, X gets a gift cheque of Rs.1,00,000 from his friend L on his birthday.

j) On 28-01-2019, minor son of X gets the gift of Rs.55,000 from elder brother of X's grandfather.

k) X contributes Rs.10,000 in the public provident fund account of his dependent mother.

Determine the amount of net income of X for the assessment year 2019-20.

Solution:

Computation of total income of X for assessment year 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Income from other sources (See note below)		26,08,500
Gross total income		26,08,500
Less: Deductions		
Under section 80C (Contribution to PPF account of mother not eligible)		-
Total Income		26,08,500
Note: Treatment of gifts received shall be as under:		
I. Immovable property received without consideration		
i) Gift of house A from friend (Stamp duty value)	6,00,000	
ii) Gift of house B (Stamp duty value Rs. 40,000 being less than Rs.50,000) (Value of each property should be taken separately)	Not taxable	6,00,000
II. Immovable property acquired for inadequate consideration		
Purchase of commercial property for inadequate consideration (Rs.90,00,000 - Rs.72,00,000)		18,00,000
III. Movable property received without consideration		
Gift of preference shares (market value Rs.4,500) (Aggregate value of gift of movable property does not exceed 50,000)		Not taxable
IV. Movable property acquired for inadequate consideration		
(Taxable if aggregate value exceeds Rs.50,000)		
i) Purchase of car (not a property within the meaning of section 56(2)(x)	Not taxable	
ii) Purchase of work of art (Rs.5,30,000 FMV - Rs.5,00,000 purchase price)	30,000	
iii) Purchase of jewellery (Rs.7,25,000 - Rs.7,00,000)	25,000	
iv) Purchase of painting (not taxable as brother of wife is a relative)	-	55,000
V. Gift of sum of money		
i) Gift from friend	1,00,000	
ii) Gift received by minor son (Rs.55,000 less exempt Rs.1,500)	53,500	1,53,000
Income from other sources		26,08,500

3. R submits you the following particulars of his income for the previous year 2018-19

Particulars	Amount (Rs.)
Income under the head salary (computed)	8,00,000
Income under the head house property (computed)	4,00,000
Dividends from domestic company	16,00,000
Income from winnings of lottery	80,000

Solution:

Computation of total income of R for the assessment year 2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Income under the head salary (computed)		8,00,000
Income under the head house property		4,00,000
Income from other sources	16,00,000	
Less: Exemption u/s 10(34)	10,00,000	
Balance taxable	6,00,000	
Income from winnings of lottery	80,000	6,80,000
Gross total income		18,80,000
Less: Deductions u/s 80C to 80U		Nil
Total Income		18,80,000
Tax payable		
Tax on dividends exceeding Rs.10,00,000 (Rs.6,00,000 x 10%) u/s 115BBDA		60,000
Tax on lottery Income (Rs.80,000 x 30%)		24,000
Tax on balance total income of Rs.12,00,000		

Upto Rs. 2,50,000	Nil	
Tax on Next Rs.2,50,000 @ 5%	12,500	
Tax on Next Rs.5,00,000 @ 20%	1,00,000	
Tax on balance income 2.00,000 @ 30%	60,000	1,72,500
Tax		2,56,500
Add: Health and Education Cess @ 4%		10,260
Total Tax Payable		2,66,760

4. Find out the income chargeable to tax in the following cases for the assessment years 2019-20 and 2020-21:

a) On May 5, 2018, X borrows Rs. 1,00,000 at the rate of 9 per cent per annum from a bank to invest in public issue of 10 per cent debentures of A Ltd. A Ltd. allots debentures on May 10, 2018 (as per terms of allotment, interest is payable every year on November 30. However, the first interest on November 30, 2018 would be for the period commencing May 10, 2018 to November 30, 2018).

b) On April 18, 2018, Y borrows Rs. 2,00,000 at the rate of 8 per cent per annum from a bank to invest in public issue of 9.5 per cent debentures of B Ltd. B Ltd. allots debentures on April 30, 2018 (as per terms of allotment, interest is payable every year on May 15; however, the first interest would be payable only on May 15, 2019 for the period commencing April 30, 2018 to May 15, 2019).

c) On June 6, 2018, Z borrows Rs. 4,00,000 at the rate of 10 per cent per annum from a hank to purchase (ex-interest) 11 per cent debentures of C Ltd. from B (purchase consideration being Rs. 4,00,000 + interest payable by C Ltd. on June 30, 2018). Interest is payable by C Ltd. every year on June 30. However, at the time of purchase of debentures from B, Z has agreed that interest received by him on June 30, 2018 would be given to B. Cost of acquisition of these debentures in the hands of B was Rs. 3,80,000 (date of acquisition being June 17, 1986).

Solution:

Computation of income for the assessment year 2019-20

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
Due date of interest falling in the previous year 2018-19	November 30, 2018	May 15, 2018	June 30, 2018
Amount of interest income [see Notes 1, 2 and 3]	5,589	Nil	44,000
Less: Interest on borrowed capital [see Note 4]	(8,137)	(15,210)	(32,758)
Income from other sources	(2,548)	(15,210)	11,242

Computation of income for the assessment year 2020-21

Due date of interest falling in the previous year 2019-20	November 30, 2019	May 15, 2019	June 30, 2019
Amount of interest income [see Note 1]	10,000	19,781	44,000
Less: Interest on borrowed capital	(9,000)	(16,000)	(40,000)
Income from other sources	1,000	3,781	4,000

Notes:

1. Normally, interest is payable on the due date specified in terms of allotment for the full period. For instance, if interest is payable once in a year, then interest of the full year is payable to the person who is the owner of debentures on that date. Likewise, if interest is payable twice in a year, then whosoever is the registered holder of these debentures will get half yearly interest on each of the due dates. However, in the case of public issue, the first interest is payable from the date of allotment till the first due date as per the terms of allotment. X has been allotted debentures of A Ltd. at the time of public issue. According to the terms of allotment, he has been paid interest by A Ltd. on November 30, 2018 for the broken period commencing on May 10, 2018 to November 30, 2018 (204 days ÷ 365 days x Rs. 10,000).

2. Y has also acquired debentures at the time of public issue of B Ltd. As per terms of allotment, no interest is paid by B Ltd. on May 15, 2018. Consequently, nothing is taxable in the hands of Y for the previous year 2018-19. For the next year, income of Y will include interest for the period commencing from April 30, 2018 to May 15, 2019.

3. Z has purchased debentures from B on ex-interest basis. In simple words, the term "ex-interest" means the next interest immediately after this transaction will be given to the seller. Consequently, the interest received by Z on June 30, 2018 is given to the seller B. However, under the Income-tax Act, Z is chargeable to tax in respect of interest of Rs. 44,000 received by him on June30, 2018, since he is the registered owner of the debentures on the said date. The cost of acquisition of these debentures in the hands of Z would be Rs. 4,44,000 (i.e., Rs. 4,00,000 + Rs. 44,000). To put it differently, B, the seller, is not chargeable to tax in respect of interest of Rs. 44,000, since he is not the registered holder of these debentures on June 30, 2018. Rs. 44,000 received by B would be part of sale consideration. The capital gain in the hands of B would be calculated as follows:

Particulars	Amount (Rs.)
Sale consideration (Rs. 4,00,000 + Rs. 44,000)	4,44,000
Less: Cost of acquisition (indexation benefit is not available in case of debentures)	(3,80,000)
Long-term capital gains	64,000

4. Interest on borrowed capital is calculated from the date of borrowing till the end of the previous year.

8. INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME (CLUBBING PROVISIONS)

1. Under section 61, income arising by virtue of a revocable transfer of asset is taxable in the hands of the transferor. Is there anti exception to this rule?

Solution: There is only one exception to the aforesaid rule. Income arising by virtue of transfer of an asset to any person is not taxable in the hands of the transferor if the following conditions are satisfied:

a) If the transfer is by way of trust which is not revocable during the lifetime of the beneficiary or, in the case of any other transfer, is not revocable during the lifetime of the transferee or, if transfer is made prior to April 1, 1961, is not revocable for a period exceeding 6 years [sec. 62(1)].

b) It should not contain any provision for the retransfer (directly or indirectly) of the whole or any part of the income or the asset to the transferor [sec. 63(a)(i)].

c) It should not in any way give the transferor a right to reassume power, directly or indirectly, over the whole or any part of the asset/income [sec. 63(a)(ii)].

d) The transferor should not derive any direct or indirect benefit from the income.

If all the above-mentioned conditions are satisfied, then section 61 is not applicable or income is not taxable in the hands of transferor. When, however, the power to revoke arises to the transferor (though it may not be actually exercised) the application of section 61 would be attracted.

2. State in whose income, the following incomes will be included:

i) M transferred Rs.50,000 to his daughter-in-law in 2016 without any consideration. She received Rs.12,000 as interest on this amount during the previous year.

ii) R transferred his self-acquired property to the HUF, of which he is a member. During the previous year 2018-19 the HUF earned an income of Rs.42,000 from this property.

iii) R transferred his self-acquired property to the HUF of which he is a member. The HUF earns an income of Rs.42,000 per annum. During the previous year 2018-19 the HUF is partitioned and the property is divided as under:

R	1/5th of share
R's minor son	1/5th of share
R's major son	1/5th of share
Mrs. R	1/5th of share
R's Brother	1/5th of share

iv) R transferred debentures worth Rs.5,00,000 to his wife on 01.04.2014. The debentures carry an interest of 12% per annum. Mrs. R accumulates the interest of Rs.60,000 per annum, which she receives on the debentures. The accumulated amount of interest of Rs.1,80,000 is invested in a fixed deposit with a bank and Mrs. R receives interest amounting to Rs.15,000 on this FDR.

Solution:

i) Rs.12,000 shall be taxable in the hands of M

ii) Income from house property shall be taxable in the hands of R

iii) Amount to be taxed in the hands of R

Particulars	Amount (Rs.)	Amount (Rs.)
R's own share 1/5th		8,400
Mrs. R's Share 1/5th		8,400
R's Minor son share 1/5th	8,400	
Less: Exempt u/s 10(32)	(1,500)	6,900
Total income		23,700

iv) Interest on debentures amounting to Rs.60,000 to be taxable in the hands of R and interest on FDR amounting to Rs.5,000 shall be taxable in the hands of Mrs. R.

3. R held 18 percent shares in a private limited company. He gifted all the shares to his wife, G on 01.10.2018. On 01.11.2018, G obtained a loan of Rs.90,000 from the company, when the company's accumulated profit was Rs.60,000. What are the tax implications of the above transactions?

Solution:

This problem is based on section 2(22)(e) and section 64(1)(iv).

According to section 2(22)(e), any payment by a company, (other than a company in which the public are substantially interested), of any sum by way of advance or loan,-

i) to a equity shareholder, holding not less than ten per cent of the voting power; or

ii) to any concern in which such shareholder (holding not less than 10% voting power) is a member or a partner and in which he has a substantial interest; or

iii) any payment by any such company on behalf, or for the individual benefit, of any such shareholder.

is deemed as dividend to the extent of accumulated profits (excluding capitalised profits):

This provision is applicable only with effect from 1st June. 1987 and is applicable only to companies in which the public is not substantially interested i.e. closely held companies.

Accordingly, Rs.60,000 shall be treated as dividend in the hands of G on which the company shall have to pay tax @ 30%.

Further section 64(1)(iv) provides that in computing the total income of an individual, all such income as arises directly or indirectly to the spouse of such individual from assets (other than house property) transferred directly or indirectly to the spouse of such individual otherwise than for adequate consideration or in connection with an agreement to live apart shall he included.

As Rs.60,000 is deemed dividend in the hand of G due to these shares it shall not part of total income of her husband R as it is exempt but as the company shall pay tax on such dividend.

9. SET OFF AND CARRY FORWARD OF LOSSES

1. Mr. Banerjee furnishes you the following details for the year ended 3103.2019. Compute the Total Income of Mr. Banerjee for the Assessment Year 2019-2020.

Income (loss) from house property:	**Amount (Rs.)**
House 1:	36,000
House 2: Self-occupied	(20,000)
House 3:	60,000
Profits and gains from Business or Profession:	
Textile Business	2,00,000
Automobile Business	(3,00,000)
Speculation Business	2,00,000
Capital Gains:	
Long Term Capital Gain from Sale of Shares (STT) paid	90,000
Long Term Capital Gain from Sale of Vacant Site	2,00,000
Short Term Capital Loss from Sale of Building	1,00,000

Other Sources:	
Gift from a Friend (Non-Relative) on 05.06.2018	60,000
Gift from Maternal Uncle on 25.02.2019	1,00,000
Gift from Grandfather's Younger Brother on 10.02.2019	1,00,000

Note: Assume that the figures given above are computed and arrived at after considering eligible deductions.

Solution:

Assessee: Mr. Banerjee **Previous Year:** 2018-2019 **Assessment Year:** 2019-2020

Computation of Total Income

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property:		
House - 1	36,000	
House - 2: (Self-Occupied)	(20,000)	
House - 3	60,000	76,000
Profits and Gains of Business or Profession:		
Textile Business	2,00,000	
Automobile Business	(3,00,000)	
Speculation Business	2,00,000	1,00,000
Capital Gains:		
LTCG from sale of shares (STT paid) 90,000		
Less: Exempt under Sec. 112A (90,000)	-	
LTCG from sale of vacant site	2,00,000	
STCL from sale of building	(1,00,000)	1,00,000
Income from Other Sources:		
Gift from a friend (non-relative)	60,000	
Gift from Maternal Uncle (Gift from brother of parents is not taxable being a Relative)	-	
Gift from Grandfather's Younger Brother (Not covered under the definition of Relative)	1,00,000	1,60,000
Gross Total Income		**4,36,000**
Less: Deductions u/s VIA		Nil
Total Income		**4,36,000**

2. P, a Resident Individual, furnishes the following particulars of income and other details for PY 2018-2019:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Income from Salary	18,000	Unabsorbed Depreciation	9,000
Net Annual Value Taxable under Income from House Property	70,000	Depreciation allowable under the IT Act, for which no treatment is given above	8,000
Income from Business	80,000	Short Term Capital Loss	7,800
Income from Speculative Business	12,000	Unrealized Rent	17,000
Long Term Capital Gain on Sale of Land	15,800	Loss from Speculative Business	16,000
Loss on Maintenance of Race horses	9,000	Loss on Gambling	8,000

Compute the Gross Total Income, for AY 2019-2020 and amount of Loss that can be carried forward.

Solution:

Assessee: Mr. P **Previous Year: 2018-2019** **Assessment Year: 2019-2020**

Computation of Gross Total Income

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salaries		18,000
Income from House Property: Net Annual Value taxable (Note 1)		81,900
Unrealised Rent 17,000 **Less:** Standard Deduction @ 30% (5,100) 11,900		

Add: Net Annual Value Taxable under IFHP 70,000		
Income from Business or Profession		
i) Non-Speculative Business	80,000	
Less: Depreciation for the Current Previous Year allowed as a deduction u/s 32	(8,000)	
Less: Unabsorbed Depreciation relating to preceding previous years	(9,000)	63,000
ii) Speculative Business	12,000	
Less: Unabsorbed losses carry forward from preceding previous years u/s 73 (Rs. 16,000 restricted to profits available in current year Rs. 12,000)	(12,000)	Nil
Capital Gains:		
Long Term Capital Gain on Sale of Land	15,800	
Less: Brought Forward Short Term Capital Loss of the preceding previous years u/s 74	(7,800)	8,000
Gross Total Income		**1,70,900**

Notes:

1. It is assumed that the **Taxable Net Annual Value** as given is arrived **after providing deductions u/s 24**.
2. **Loss from Maintenance of Race Horses** shall be **carry forward for 4 subsequent Assessment Years u/s 74A** and it can be setoff only against the Income from such activity.
3. **Losses from Gambling** shall **not be eligible** for carry forward under Chapter VI of the Income Tax Act, 1961.
4. As per **Circular No.587 of 11.12.1990**, the order of set-off / carry-forward off losses, effect has to be **first** given to the provisions of **Sec.70** and **then Sec.71** and then **Sec.72 to 74**. So, **first, current year loss have been set-off against income under the same head i.e. Short Term Capital Loss against Long Term Capital Gains.**

3. R submits the following information for previous year 2018-19 relevant to the assessment year 2019-20:

Particulars	Amount (Rs.)
a) Profit from Business X situated in Bangalore	2,80,000
b) Profit from Business Y situated in Hyderabad	1,25,000
c) Loss from Business Z carried in Germany (the business is controlled from India but profits are not received in India)	85,000
d) Unabsorbed depreciation of business Z	45,000
e) Income from house property situated in India	30,000
f) Income from house property situated in London (rent received in London)	50,000

Find out the Gross Total Income of R for the assessment year 2019-20 if he is (a) Resident in India (b) Not ordinarily resident in India and (c) Non-resident in India.

Solution:

Particulars	Resident (Rs.)	Not Ordinary Resident (Rs.)	Non-Resident (Rs.)
Business Income:			
Business X (Profit)	2,80,000	2,80,000	2,80,000
Business Y (Profit)	1,25,000	1,25,000	1,25,000
	4,05,000	4,05,000	4,05,000
Business Z (Loss) (controlled from India but received out of India)	(85,000)	(85,000)	Nil
	3,20,000	3,20,000	4,05,000
Unabsorbed depreciation of business Z	(45,000)	(45,000)	-
	2,75,000	2,75,000	4,05,000
Income from house property			
Property in India	30,000	30,000	30,000
Property in London	50,000	-	-
Gross Total Income	3,55,000	3,05,000	4,35,000

4. From the following data, you are required to work out alternate options for determining the total income chargeable to tax and ascertain the tax thereon of R Ltd., a domestic company, for the assessment year 2019-20.

Particulars	Amount (Rs.)
Business loss	50,00,000
Property income	45,00,000
Income from other sources	1,00,000
Capital gains:	
Short-term	3,00,000
Long-term	10,00,000

Solution:

Computation of total income

Particulars	Amount (Rs.)	Amount (Rs.)
Property income		45,00,000
Business loss		(50,00,000)
Capital gains:		
Short-term	3,00,000	
Long-term	10,00,000	13,00,000
Income from other sources		1,00,000
Taxable Income		9,00,000
Alternative 1:		
Tax assuming business loss is first set off from long-term capital gain		2,70,000
Add: Surcharge		Nil
		2,70,000
Add: Health and education cess @ 4%		10,800
		2,80,800

Alternative 2:

Assume that business loss is first set off with income other than long-term capital gain and then from the long-term capital gain. Tax (20% assume that business loss is set off with income other than long-term capital gain.

Tax on long-term capital gain (20% of Rs.9,00,000)		1,80,000
Add: Surcharge		Nil
		1,80,000
Add: Health and education cess 4%		7,200
Tax Liability		1,87,200

Hence, the second alternative is better as the tax liability is lower.

10. DEDUCTIONS UNDER CHAPTER VIA

1. Rohit, a Doctor in Delhi, furnishes following particulars relevant to Previous Year 2018-2019:

i) Income from Profession 1,26,000

ii) Short-Term Capital Gains on Sale of Shares 20,000

iii) Long-Term Capital Gains on Sale of Land 25,000

iv) Interest on Government Securities (Gross) 14,000

v) Repayment of Loan (Principal Only) taken from a Bank for higher studies 15,000

vi) Payment made for Mediclaim Policy on his health and the health of his wife 6,000

vii) Rent paid for a house in Delhi 25,000

Determine his Total Income for the Assessment Year 2019-2020.

Solution:

Assessee: Rohit **Previous Year:** 2018-2019 **Assessment Year:** 2019-2020

Computation of Total Income

Particulars	Amount (Rs.)	Amount (Rs.)
Profits and Gains of Business or Profession: Profession of Medicine		1,26,000
Capital Gains: Short-Term Long-Term	20,000 25,000	45,000
Income from Other Sources: Interest on Government Securities		14,000
Gross Total Income		**1,85,000**
Less: Deduction under Chapter VI-A		
u/s 80D Medical Insurance Premium	6,000	
u/s 80E Interest on Education Loan (Repayment of Principal not eligible)	Nil	
u/s 80GG Deduction for Rent Paid (W.N. 2)	11,600	(17,600)
Total Income		**1,67,400**

Working Notes:

i) Computation of Adjusted Total Income:

Particulars	Amount (Rs.)	Amount (Rs.)
Gross Total Income		1,85,000
Less: Long-Term Capital Gain	25,000	
Short-Term Capital Gain on Sale of Shares	20,000	
Deduction u/s 8OCCC to 80U (excluding Sec.80GG)	6,000	(51,000)
Adjusted Total Income		**1,34,000**

ii) Deduction u/s 80GG:

Particulars	Amount (Rs.)
a) Rent paid **Less** 10% Adjusted Total Income = Rs.25,000 **Less** 10% of Rs.1,34,000	11,600
b) 25% of Adjusted Total Income: Rs. 1,34,000 x 25%	33,500
c) Rs.5,000 p.m. x 12 Months	60,000
Permissible Deduction	**11,600**

Note: STCG on Sale of Shares assumed to be covered u/s 111 A.

2. Prem has computed his income under various heads for PY 2018-19. He submits the following information

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Income under the head Salary	4,50,000	Payment made by Cheque for Mediclaim Policy	10,000
Income under the head House Property	(90,000)	Expenses on Medical Treatment of dependent son being a person with disability	40,000
Profits and Gains of Business or Profession	1,50,000	Repayment of interest on loan from Canara Bank (taken on 01.04.2009 for pursuing approved higher education)	20,000
Capital Gains - Short Term	75,000	Donations to:	
- Long Term	1,20,000	Prime Minister's Drought Relief Fund	2,000
Income from Other Sources - Winnings from Lotteries	30,000	National Foundation for Communal Harmony	3,000
Interest on Government Securities	45,000	Jawaharlal Nehru Memorial Fund Prime Minister's National Relief Fund	4,000 1,000

Compute Prem's Total Income for A.Y. 2019-20. Compute his Tax Liability if he deposits Rs.60,000 in his PPF Account, Rs.40,000 in NSC during the previous year.

Solution:

Assessee: Mr. Prem **Previous Year:** 2018-19 **Assessment Year:** 2019-20

Computation of Total Income and Tax Payable

Particulars	Amount (Rs.)	Amount (Rs.)
1. Income from Salaries		4,50,000
2. Income from House Property		(90,000)
3. Profits (or) Gains from Business (or) Profession		1,50,000
4. Capital Gains		
Short Term Capital Gains	75,000	
Long Term Capital Gains	1,20,000	1,95,000
5. Income from Other Sources		
Winnings from Lotteries	30,000	
Interest on Government Securities	45,000	75,000
Gross Total Income		**7,80,000**
Less: Deduction under Chapter VI A:		
u/s 80C NSC & PPF (60,000 + 40,000)	1,00,000	
u/s 80D Medical Insurance Premium	10,000	
u/s 80DD Maintenance of dependent son with disability	75,000	
u/s 80E Repayment of Interest on Educational Loan [W.N.2]	20,000	
u/s 80G Donations [W.N. 1]	7,000	(2,12,000)
TOTAL INCOME (Rounded Off)		**5,68,000**
Tax on Above		
i) On Winnings from Lotteries (Rs. 30,000 x 30%)	9,000	
ii) On Long Term Capital Gains (Rs. 1,20,000 x 20%)	24,000	
iii) On Balance Income [(Rs.4,18,000 - Rs. 2,50,000) x 5%]	8,400	41,400
Add: Health & Education Cess @ 4%		1,656
Net Tax Payable		43,056
Net Tax Payable (Rounded off)		43,060

Working Notes: **1. Computation of Deduction u/s 80G**

Particulars	Amount (Rs.)	Amount (Rs.)
Donations allowed @ 100% without qualifying Limit:		
National Fund for Communal Harmony	3,000	
Prime Minister's National Relief Fund	1,000	4,000
Donations allowed @ 50% without qualifying Limit:		
Prime Minister's Drought Relief Fund (2,000 x 50%)	1,000	
Jawaharlal Nehru Memorial Fund (4,000 x 50%)	2,000	3,000
Total Deduction u/s 80G		**7,000**

2. **Note:** Deduction u/s 80E is available for a maximum of 8 A.Y.'s or until payment of Interest whichever is earlier.

3. X, who is a resident in India, is a person with disability. He provides the following particulars of his income for the year ending 31.01.2019.

Particulars	Amount (Rs.)
Salary for working as a telephone operator in a company	17,500 p.m.
Honorarium from school of blind for giving his service	47,000
Interest on Government Securities (gross)	1,34,000
Income from Unit Trust of India (gross)	5,000

He has contributed Rs.2,000 to Prime Minister National Relief Fund and donated Rs.20,000 to the school for blind which is approved as a charitable institution. He has also paid Rs.3,000 by cheque as premium of mediclaim policy. His father is also a person with disability and is dependent on him for medical treatment and rehabilitation. X spends Rs.8,000 during the year on him.

Compute his total income for the assessment year 2019-20, assuming he has deposited Rs.20,000 in Public Provident Fund Account.

Solution:

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Income from salary:			
Gross Salary	2,10,000		
Less: Standard deduction	(40,000)		1,70,000
Income from other sources:			
Honorarium	47,000		
Interest on Govt. Securities	1,34,000		
UTI Dividend	Exempt		1,81,000
Gross Total Income			3,51,000
Less: Deductions:			
U/s 80C		20,000	
U/s 80D		3,000	
U/s 8ODD		75,000	
U/s 80U		75,000	
U/s 80G			
PMNRF (100% of Rs.2,000)	2,000		
Blind school (50% of Rs.17,800)	8,900	10,900	
i.e. 10% of Rs.1,78,000 (Rs.3,01,000 - Rs.1,23,000)			1,83,900
Total Income			1,67,100

4. Find out the amount of deduction under section 80DDB in the following cases for the assessment year 2019-20:

Name of the taxpayer	X	Y	Z	A	B
Resident status of the taxpayer	Resident	Resident	Resident	Resident	Non-Resident
Expenditure incurred on medical treatment of dependent mother in a hospital recognised by the Chief Commissioner (amount in rupees)	90,000	26,000	70,000	1,00,000	34,000
Age of mother	89 years	59 years	64 years	63 years	65 years
Residential status of dependent mother	Resident	Non-resident	Resident	Non-resident	Resident
Whether the disease is specified under rule made by the Board	Yes	Yes	Yes	Yes	Yes
Amount received from insurance company (amount in rupees)	4,000	14,000	80,000	15,000	7,000
Amount received from the employer of the taxpayer (amount in rupees)	2,000	3,000	4,000	20,000	16,000

Solution:

Name of the taxpayer	X	Y	Z	A	B
Deduction under section 80DDB if no money is recovered from insurance company and employer	90,000	26,000	70,000	1,00,000	Nil
Less: Amount received from insurance company and employer	6,000	17,000	84,000	35,000	23,000
Amount of deduction under section 80DDB	84,000	9,000	Nil	5,000	(23,000)

Note: The perquisite in respect of reimbursement of medical expenditure by employer is not chargeable to tax.

5. During the previous year 2018-19, X makes the following contributions: (a) contribution to an approved scientific research association for carrying out research in natural science: Rs. 3,000; and (b) contribution to National Fund for Rural Development Rs. 5,000. Determine the taxable income of X if he is (a) salaried employee, drawing Rs. 9,00,000 as taxable salary (i.e., after standard deduction): or (b) a businessman whose income from business (without deducting the aforesaid payment) is Rs. 9,00,000.

Solution:

Particulars	Salaried Employee (Rs.)	Businessman (Rs.)
Salary	9,00,000	-
Income from business:	-	9,00,000
Less: Deductions		
Under section 35: Rs. 3,000 x 1.50	-	(4,500)
Under section 35CCA	-	(5,000)
Gross total income	9,00,000	8,90,500
Less: Deduction under section 80GGA (*Rs. 3,000 + Rs. 5,000, **Not available in the case of an assessee where income includes income chargeable under the head "Profits and gains of business or profession")	8,000*	Nil**
Net Income	8,92,000	8,90,500

6. Find out the tax liability iii the following cases for the assessment year 2019-20

Particulars	Mrs. X (Rs.)	Y (Rs.)	Z (Rs.)
Age during 2018-19	40 years	66 years	86 years
Income from business of dealing in equity shares (income computed after deducting securities transaction tax Rs. 18,750)	30,000	-	-
Income from royalty of text books for Post-graduation courses	80,000	-	-
Income from profession of acting	-	7,35,000	2,16,750
Bank interest (fixed deposit)	30,000	60,000	5,250
Lottery winning	20,000	-	-
Other income	7,75,000	-	10,00,000
Gross Total Income	9,35,000	7,95,000	12,22,000
Contribution towards public provident fund	1,10,500	4,000	14,000
Life insurance premium (it is less than 10% of sum assured)	20,400	21,000	23,000
Mediclaim insurance premium on own life	19,000	40,000	-
Expenditure on own medical treatment (no mediclaim insurance premium paid)	-	-	40,000

Solution: Computation of Income

Particulars	Mrs. X (Rs.)	Y (Rs.)	Z (Rs.)
Gross total income	9,35,000	7,95,000	12,22,000
Less: Deduction under sections 80C to 80U			
Under section 80C	(1,30,900)	(25,000)	(37,000)
Under section 80D	(19,000)	(40,000)	(40,000)
Under section 80TTB (interest on bank fixed deposit)	Nil	(50,000)	(5,250)
Under section 80QQB (in respect of royalty)	(80,000)		
Net Income	7,05,100	6,80,000	11,39,750
Income-tax on net income	55,520	46,000	1,41,925
Add: Surcharge	Nil	Nil	Nil
Tax and surcharge	55,520	46,000	1,41,925
Add: Health and Education cess @ 4%	2,221	1,840	5,677
Tax Payable (rounded off)	57,740	47,840	1,47,600

11. PROBLEMS ON TOTAL INCOME

1. Mrs. X (30 years) owns a business. Net profit of the business of the year ending March 31, 2018 as per auditor's certificate is Rs.19,40,000. Salary debited to profit and loss account includes a payment by an account payee cheque of Rs.9,60,000 to her brother who is employed by Mrs. X to look after marketing department. However, no other businessman will pay more than Rs.1,40,000 as salary to her brother. Profit and loss account also includes an agricultural income of Rs.4,00,000.

On November 1, 2018, Mrs. X purchased 500 equity shares of A Ltd. at the rate of Rs. 400 per share from a friend. Shares are quoted in Bombay Stock Exchange but these were purchased outside stock exchange. Opening quotation of shares of A Ltd. in Bombay Stock Exchange on November 1, 2018 was Rs. 2,100 (closing quotation : Rs. 1,950, lowest quotation of the day: Rs. 1,700).

Other incomes:

a) Mrs. X borrowed Rs. 3,00,000 in the year and invested it in units of quoted mutual funds. None of the mutual funds declared a dividend in the year. She paid an interest of Rs. 35,000 on the loan taken by him.

b) Dividend on other units purchased, received in the year was Rs. 46,000.

c) Interest on fixed deposits with banks was Rs. 8,000.

d) Interest on bank deposit in the name of her dependent mother was Rs. 20,000. Deposit was made by her mother out of gifts received from relatives.

e) Minor son of Mrs. X has received birthday gift of Rs. 65,000 from family friends on November 1, 2018. This amount is deposited in a bank fixed deposit at interest rate of 6 per cent per annum.

Find out the net income and tax liability of Mrs. X for the assessment year 2019-20 on the assumption that she deposited Rs. 1,10,000 in a fixed deposit with SFI for claiming deduction under section 80C.

Solution:

Particulars	Amount (Rs.)	Amount (Rs.)
Business income	19,40,000	
Add: Excess payment to brother (Rs. 9,60,000 - Rs. 1,40,000)	8,20,000	
Less: Agricultural income	(4,00,000)	23,60,000
Income from other sources:		
Purchase of equity shares [(Rs. 1,700 - Rs. 400) x 500 shares]	6,50,000	
Dividend on units (exempt)	Nill	
Bank interest	8,000	
Interest on deposit of dependent mother (not taxable as income of Mrs. X)	Nill	
Birthday gift received by minor son of Mrs. X (Rs.65,000 - Rs.1,500)	63,500	
Interest income of minor Son (6% of Rs.65,000 x 5 ÷ 12)	1,625	7,23,125
Gross total income (Rounded off)		30,83,125
Less: Deduction under section 80C		(1,10,000)
Net income (rounded off)		29,73,130
Tax liability of Mrs. X will he calculated as under:		
Non-agricultural income		29,73,130
Agricultural income		4,00,000
Total		33,73,130
Tax on total		8,24,439
Less: Tax on Rs. 6,50,000 (i.e., agricultural income of Rs. 4,00,000 + exemption limit of Rs. 2,50,000)		42,500
Balance		7,81,939
Add: Health and education cess		31,278
Tax liability (rounded off)		8,13,220

2. R is a lawyer of Delhi High Court. He keeps his accounts on cash basis. His receipts and payments A/c for the year ending 31.03.2019 is given below.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Balance b/d	7,500	Subscription and membership	6,000
Legal fees	1,80,000	Purchase of legal books	9,000
Special commission fees	7,000	Rent	51,000
Salary from Law College as part time lecturer	88,000	Car expenses	17,000
Exam Remuneration	2,500	Office expenses	7,500
Interest on Saving Bank Deposit	6,000	Electricity Expenses	5,000
Sale proceeds of residential property	2,95,000	Income tax	9,000
Dividend from Co-operative society	3,000	Gift to daughter	15,000
Dividend received from the units of U.T.I.	6,000	Domestic expenses	27,000
		Donation to Institutions approved u/s 80G	3,000

		Car purchased	2,30,000
		Life Insurance premium	7,000
		Balance C/f	2,08,500
	5,95,000		**5,95,000**

Following information is available:

1. The Rent and electric expenses are related to a house, of which half portion in used for self-residence and remaining half portion in used for office.
2. Car is used only for professional purposes.
3. Outstanding legal fees Rs.25,000.
4. Rent has been paid for 10 months only.
5. Car was purchased on 25.09,2018. Law books being annual publications of 3,000 were purchased on 05.05.2018 and balance on 03.12.2018.
6. The house was purchased in January, 2002 for 80,000 and sold on 1.8.2018.
7. Rent of the property which has been sold was 6,000 p.m. The property was vacated by the tenant on 31.07.2018.

Compute his Total Income for the assessment year 2019-20.by assuming that:

a) He does not want to opt for presumptive income u/s 44ADA

b) He wants to opt for presumptive income u/s 44ADA

Solution:

a) He does not want to opt for presumptive income u/s 44ADA

Computation of Total Income of R for the assessment year 2019-20

Particulars		Amount (Rs.)	Amount (Rs.)
1. Income from salary			
Salary as a part time lecturer		88,000	
Less: Standard deduction		(40,000)	48,000
2. Income from House Property			
(Gross Annual Value 6,000 x 12 = 72,000)			
Proportionate for 4 months 72,000 x 4/12		24,000	
Less: Municipal taxes		-	
Net Annual Value		24,000	
Less: Standard deduction @ 30%		(7,200)	16,800
3. Income from Profession			
Professional Earnings:			
i) Legal fees		1,80,000	
ii) Special commission		7,000	
		1,87,000	
Less: Allowable expenses			
i) Subscription etc.	6,000		
ii) 1/2 Rent (office)	25,500		
iii) Car expenses	17,000		
iv) 1/2 electric charges	2,500		
v) Office expenses	7,500		
vi) Depreciation on car	34,500		
vii) Depreciation on books	6,000	99,000	88,000
4. Capital gains			
Sale consideration		2,95,000	
Less: Indexed cost of acquisition Rs. 80,000 x 280/100		(2,24,000)	71,000
5. Income from Other Sources			
Interest on saving bank deposit		6,000	
Examiner's fees		2,500	
Dividend from Co-operative Society		3,000	

Dividend from UTI		Exempt	11,500
Gross Total Income			2,35,300
Less: Deductions			
i) U/s 80C		7,000	
ii) U/s 80G Donation @ 50% on 3,000		1,500	
iii) U/s 80TTA		6,000	(14,500)
Total Income			2,20,800

As the assessee follows the cash system of accounting, amount actually received and payment actually made on account of expenditure, during the year, shall be considered for computing the income. Therefore, any outstanding receipts will not be included in the Total Income. Similarly rent not paid for two months will not be allowed as deduction.

The system of accounting does not effect the computation of income from salary, house property and capital gains. Therefore, in this case, rent for three months, though not received (as it has not been shown in the Receipt and Payment Account) shall be taken into account in computing the income under the head house property.

Car was purchased arid put to use for more than 180 days. Therefore, full depreciation @ 15% has been claimed.

Law books worth 3,000 were purchased and put to use for more than 180 days and are, therefore, eligible for depreciation @100%. The balance books worth Rs.6,000 were purchased on 03.12.2018; Therefore, 50% of the normal depreciation will be allowed as the books were purchased and put to use for less than 180 days. The total depreciation shall, therefore, be Rs.3,000 + 50% of Rs.6,000 = Rs.6,000.

b) He wants to opt for presumptive income u/s 44ADA

Particulars	Amount (Rs.)	Amount (Rs.)
1. Income from salary:		
Salary as a part time lecturer	88,000	
Less: Standard deduction	(40,000)	48,000
2. Income from House Property:		
(Gross Annual Value 6,000 x 12 = 72,000)		
Proportionate for 4 months 72,000 x 4/12	24,000	
Less: Municipal taxes	-	
Net Annual Value	24,000	
Less: Standard deduction @ 30%	(7,200)	16,800
3. Income from Profession:		
50% of receipts (Rs. 1,87,000 x 50%)		93,500
4. Capital gains		
Sale consideration	2,95,000	
Less: Indexed cost of acquisition Rs. 80,000 x 280/100	(2,24,000)	71,000
5. Income from Other Sources		
Interest on saving bank deposit	6,000	
Examiner's fees	2,500	
Dividend from Co-operative Society	3,000	
Dividend from UTI	Exempt	11,500
Gross Total Income		2,40,800
Less: Deductions		
i) U/s 80C	7,000	
ii) U/s 80G Donation @ 50% on 3,000	1,500	
iii) U/s 80TTA	6,000	(14,500)
Total Income		2,26,300

12. RETURN OF INCOME

1. For the assessment year 2018-19, the company submitted the return of Income on 28.09.2018 declaring income of Rs.5,62,500. Subsequently, it is found that the depreciation provided in the accounts as per the Companies Act. 1956 was Rs.3,67,500. This was claimed as deduction under section 32 of the Income-tax Act, 1961. However, as per section 32, Amount of depreciation is Rs.4,12,500. What remedy is available to the company?

Solution:

A revised return can be submitted under section 139(5) of the Income-tax Act. 1961 if the assessee discovers any omission or wrong statement. The revised return can be submitted before the end of the relevant assessment year or before assessment is completed whichever is earlier.

2. Find out the due date for submission of return of income in the following case for assessment year 2018-19.

Name of the tax payer: A Ltd.

Taxable income: (Rs. 30,000).

Turnover: (Rs.70,00,000).

Solution: In case of company assessee it is mandatory to file return of income even if there is no income chargeable to tax and the due date for filing the return of income u/s 139(1) is 30th September of the assessment year. The company shall have to file return even if there is a loss.

3. Tax liability of X for the assessment year 2019-20 is Rs. 2,40,000. He is liable to pay interest under sections 234A, 234B and 234C of Rs. 4,340; Rs.12,000 and Rs.10,000, respectively. He is liable to pay a late fee of Rs.5,000 under section 234F. He is entitled for tax credit on account of pre-paid taxes (i.e., advance tax paid during the financial year 2018-19: Rs. 17,000 and tax deducted/collected at source: Rs.6,000). At the time of filing of return of income for the assessment year 2019-20 on December 12, 2019. The tax payable under section 140A shall be determined as under:

Particulars	Amount (Rs.)	Amount (Rs.)
Income-tax		2,40,000
Add: Interest/fees		
Under section 234A	4,340	
Under section 234B	12,000	
Under section 234C	10,000	
Under section 234F	5,000	
Total		31,340
Less: Prepaid taxes		2,71,340
Advance tax	17,000	
Tax deducted, collected at source, MAT credit and double taxation relief under section 90/90A/91	6,000	(23,000)
Self-assessment tax under section 140A		2,48,340

Solution: If the amount of tax paid under section 140A is less than Rs. 2,48,340, then the amount paid under section 140A, shall be first adjusted towards interest and fee payable and the balance if any, shall be adjusted towards tax payable. Suppose in the above case X pays (a) Rs. 1,69,000 or (b) Rs. 25,000 under section 140A, then tax so paid shall be adjusted as under:

Particulars	Situation A (Rs.)	Situation B (Rs.)
Tax paid under section 140A	1,69,000	25,000
Amount treated as payment of interest under sections 234A, 234B and 234C or fee under section 234F	(31,340)	25,000
Amount treated as payment of tax	1,37,660	Nil

13. ADVANCE TAX AND INTEREST

1. Mr. Barun provides you the following information and requests you to determine the Advance Tax Liability with due dates for the Financial Year 2018-2019.

Estimated Tax Liability for the Financial Year 2018-2019	Rs. 65,000
Tax Deducted at Source for this year	Rs. 5,000

Solution:

Advance Tax Payable = (Rs.65,000 - Rs.5,000)		Rs.60,000
1st Installment: 15th June 2018	= 15% of Rs.60,000	Rs. 9,000
2nd Installment: 15th September 2018	= 45% of Rs.60,000	Rs.27,000 (Cumulative) (Rs.18,000 Incremental)

3rd Installment: 15th December 2018	= 75% of Rs.60,000	Rs.45,000 (Cumulative) (Rs.18,000 Incremental)
4th Installment: 15th March 2019	= 100% of Rs.60,000	Rs.60,000 (Cumulative) (Rs.15,000 Incremental)

2. The following are the particulars of estimated income of Mr. Gurcharan for the previous year 2018-19:

Particulars	Amount (Rs.)
a) Income from salary	3,00,000
b) Rent from house property	2,90,000
c) Income from interest on Government securities	1,03,000
d) Winnings from lotteries (25.08.2018) (Gross)	40,000

i) Calculate the amount of advance tax payable by him in various instalments. Tax of Rs.12,000 has been deducted at source out of the lottery income and 5,000 from salary income. He has deposited Rs.10,000 in public provident fund.

ii) What will be your answer if the assessee does not have any house property income?

Solution:

Particulars	Amount (Rs.)
i) Estimated Total income:	
Salary	3,00,000
House property (Rs.2,90,000 - 30% of Rs.87,000)	2,03,000
Interest on Govt. Securities	1,03,000
Winning of lottery	40,000
Gross total income	6,46,000
Less: Deduction u/s 80C	(10,000)
	6,36,000
Advance Tax Payable	
Tax on Rs.40,000 @ 30%	12,000
Tax on other income of Rs.5,96,000	31,700
	43,700
Add: Health and education cess @ 4%	1,748
	45,448
Less: T.D.S. (Rs.12,000 + Rs.5,000)	17,000
	28,450
Amount to be deposited on or before 15.06.2018: 15% of Rs. 28,450	4,268
Amount to be deposited on or before 15.09.2018	
45% of Rs.28,450 - Rs.4,268 i.e. Rs.12,803 - Rs.4,268	8,535
Amount to be deposited on or before 15.12.2018	
75% of Rs.28,450 - Rs.12,803 i.e. Rs. 21,338 - Rs.12,803	8,535
Amount to be deposited on or before 15.03.2019	
100% of Rs.28,450 - Rs.21,338 i.e. Rs. 28,450 - Rs. 21,338	7,112
Total amount	28,450
ii) Estimated Total Income	
Income from salary	3,00,000
Income from Government securities	1,03,000
Winning of lotteries	40,000
	4,43,000
Less: Deduction u/s 80C	(10,000)
	4,33,000
Advance Tax Payable:	
Tax on Rs. 40,000 @ 30%	12,000
Tax on other income Rs.3,93,000	7,150
	19,150
Less: Rebate u/s 87A (Nil as the total income exceed Rs. 3,50,000)	Nil
	19,150
Add: Health and Education Cess @ 4%	766
	19,916

Less: TDS (Rs. 12,000 + Rs. 5,000)	17,000
Tax (Rounded off)	2,916

No liability of advance tax as the tax payable is less than Rs. 10,000.

14. EXEMPTED INCOMES

1. Mr. Suri received a sum of Rs.5,00,000 as compensation, from 'Yatra Foundation', towards the loss of property on account of Flood Disaster. State with reasons whether the receipt is taxable?

Solution: Disaster Compensation received / receivable from Central or State Govt or Local Authority is exempt u/s 10(10BC). In this case, since Yatra Foundation is not covered in the above, the receipt is taxable in suri's hands.

2. A capital asset is transferred by a charitable trust on 07.02.2019. The following particulars are available

Particulars	Amount (Rs.)
Sale proceeds	4,30,000
Expenses on transfer	20,000
Cost of acquisition	2,00,000
Cost of improvement	30,000
Cost of new asset purchased	
- Situation 1	5,00,000
- Situation 2	2,20,000

Find out the amount of exemption if the capital asset is held wholly for charitable purpose.

Solution:

Sale proceeds		4,30,000
Less: Expenses of transfer		(20,000)
Net consideration price		4,10,000
Less: Cost of acquisition	2,00,000	
Cost of improvement	30,000	(2,30,000)
Capital gain		1,80,000

Situation 1:

Amount investment in New Asset Rs. 5,00,000	Amount (Rs.)
which is more than net consideration price. Hence entire capital gain shall be treated as applied for charitable purposes	1,80,000
Capital gain	1,80,000

Situation 2:

Particulars	Amount (Rs.)	Amount (Rs.)
Amount invested	2,20,000	
Less: Cost of acquisition + cost of improvement	2,30,000	
Amount applied for charitable purpose		Nil
Amount of income		1,80,000

3. During the accounting period ending March 31, 2019 a charitable trust gets (a) income from property held for charitable purposes: Rs. 2,60,000 (Rs. 1,10,000 received in cash and the remaining balance of Rs. 1,50,000 is to be received in the year 2020-21), (b) voluntary contributions (not being contributions made with a specific direction that they shall form part of corpus of the trust) Rs. 70,000.

During the previous year 2018-19, the trust spends only Rs. 60,000 for charitable purposes. Determine its taxable income, on the assumption that the trust has obtained extension of time for applying the unrealised income of Rs. 1,50,000 in the year of receipt, i.e., 2020-21, whereas it actually spends Rs. 80,000 in the year 2020-21 and Rs. 40,000 in the year 2021-22.

Solution:

For the assessment year 2019-20 (previous year 2018-19)

Particulars	Amount (Rs.)
Income from property held under trust for charitable purposes	2,60,000
Voluntary contributions	70,000
Total income	3,30,000
Less: 15% set apart for future	49,500
Balance	2,80,500
Less: Amount spent during the previous year	60,000
Shortfall	2,20,500
Less: Amount not realised during the previous year (for which the trust has obtained extension of time)	1,50,000
Taxable income	70,500

For the assessment year 2022-23 (previous year 2021-22, i.e., the year next following the previous year in which the unrealised income of the previous year 2018-19 is received)

Particulars	Amount (Rs.)	Amount (Rs.)
Income received during the previous year 2020-21		1,50,000
Less: Amount spent		
- during the previous year 2020-21	80,000	
- during the previous year 2021-22	40,000	1,20,000
Amount deemed as income of the assessment year 2022-23		30,000

15. TDS AND TCS

1. Raman & Associates had made payment in excess of the limits prescribed to the Contractors for carrying out Labour Job Work at various sites, but had not deducted Tax at Source as per Sec. 194C. Examine whether they are liable for penalty.

Solution: U/s 271C, where the Assessee fails to deduct the whole or any part of the tax, then they are liable for a **penalty for a sum equal to the amount of tax which he failed to deduct**. However, no penalty is leviable if the Assessee proves to the satisfaction of the Assessing Officer, that he was prevented by sufficient and good reasons for such non-payment.

2. The following issues arise in connection with the deduction of tax at source under Chapter XVII-B. Discuss the liability for tax deduction in these cases:

a) R, an employee of the Central Government receives arrears of salary for the earlier three years. He enquires whether he is liable for deduction of tax on the entire amount during the current year

b) A TV channel pays Rs.11,00,000 on 1.7.2018 as prize money to the winner of a quiz programme. "who will be a Millionaire"?

c) State Bank of India pays Rs.50,000 per month as rent to the Central Government for building in which one of its branches is situated.

d) A television company pays Rs. 50,000 to a cameraman for shooting of a documentary film

e) A turf club awards a jackpot of Rs.5 lakh to the winner of one of its races.

Solution

a) Arrears of salary are taxable in the previous year in which there are paid and thus shall be liable for deduction of tax at source. However, if an employee receives any salary in arrears, he can claim relief as per section 89 read with rule 21A provided the employee furnishes the details of such arrears in Form No. 1OE to the employer. Further; relief under section 89 shall be given to the concerned employee while deducting tax at source under section 192.

b) As per section 194B, the TV channel is required at the time of payment of Rs. 11,00,000, to deduct income-tax thereon at the rate of 30%.

c) As per section 196 where the payee is the Government, there is no requirement to deduct income-tax at source on income by way of 'rent' and therefore State Bank of India is not liable to deduct tax while paying rent to the Central Government.

d) As per section 194J, the television company shall deduct tax at source at the time of making payment to the cameraman at the rate of 10%

e) As per section 194BB, the payer shall deduct income-tax at source at the rate of 30% at the time of making payment of any income by way of winning from horse races.

3. R Ltd. has taken a building on lease. It has sub-leased the building along with furniture and fixtures to G Ltd. from 01.04.2018 and receives the following amounts on 31.03.2019 as consideration for the sub-lease during the financial year 218-l9:

Particulars	Amount (Rs.)
Rent for the period 01.04.2018 to 31.03.2019	1,20,000
Furniture hire charges for the period 01.04.2018 to 31.03.2019	12,000
Non-refundable deposit received during the year	50,000

What is the liability of G Ltd. for deduction for tax at source u/s 194-I?

Solution:

This problem is based on section 194-I which provides that where any person, is responsible for paying to any person, any income by way of the rent, amounting in aggregate to more than Rs.1,80,000 in a financial year, he shall deduct income-tax thereon.

Tax should be deducted either at the time of actual payment of rent or at the time of its credit to the account of the payee (by whatever name called), whichever is earlier.

In view of the aforesaid provisions, the liability of G Ltd. for TDS will he as under:

Total payment	Amount (Rs.)
(1,20,000 + 12,000 + 50,000)	1,82,000

TDS @ 10% = Rs.18,200.

THE END