

1. INTRODUCTION TO INCOME TAX

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO.1

Computation of Tax liability of Mr. Arun (aged 45 years) for the Assessment Year 2019 -20

- a) Tax payable including surcharge on total income of Rs. 1,04,00,000

Tax slabs	Computation	Tax Rs.
Up to 2,50,000	-	Nil
From 2,50,000 to Rs.5,00,000	$(5,00,000-2,50,000) \times 5\%$	12,500
From 5,00,000 to Rs.10,00,000	$(10,00,000-5,00,000) \times 20\%$	1,00,000
In excess of 10,00,000	$(1,04,00,000-10,00,000) \times 30\%$	28,20,000
Sub-Total		29,32,500
Add: Surcharge @ 15% on above		4,39,875
Total		33,72,375

- b) Tax Payable on total income of Rs. 1 crore [(Rs. 12,500 plus Rs. 1,00,000 plus Rs. 27,00,000) plus surcharge @ 10%] 30,93,750
- c) Excess tax payable (i.e. difference between the 33,72,375-30,93,750) 2,78,625

In this case Rs. 2,78,625 is less than the amount of Rs. 4,00,000 (i.e. 1.04 Crore - 1 crore) so marginal relief is not available.

Therefore, Tax liability of Mr. Arun for A.Y. 2019 - 20 is:

Tax including surcharge	33,72,375
Add: Health and education cess @4% on above	<u>1,34,895</u>
Total tax liability (rounded off)	<u>35,07,270</u>

Computation of Tax liability of Mr. Murthy (aged 65 years) for the Assessment Year 2019 -20

- a) Tax payable including surcharge on total income of Rs. 1,04,00,000

Tax slabs	Computation	Tax Rs.
UP to 3,00,000	-	Nil
From 3,00,000 to Rs.5,00,000	$(5,00,000-3,00,000) \times 5\%$	10,000
From 5,00,000 to Rs.10,00,000	$(10,00,000-5,00,000) \times 20\%$	1,00,000
In excess of 10,00,000	$(1,04,00,000-10,00,000) \times 30\%$	28,20,000
Total		29,30,000
Add: Surcharge @ 15% on above		4,39,500
Sub-total		33,69,500

- b) Tax Payable on total income of Rs. 1 crore [(Rs. 10,000 plus Rs. 1,00,000 plus Rs. 27,00,000) plus surcharge @ 10%] 30,91,000
- c) Excess tax payable (i.e. difference between the 33,69,500-30,91,000) 2,78,500

In this case Rs. 2,78,500 is less than the amount of Rs. 4,00,000 (i.e. 1.04 Crore - 1 crore) so marginal relief is not available

Therefore

Tax liability of Mr. Arun for A.Y. 2019 - 20

Tax including surcharge	33,69,500
Add: Health and education cess @ 4% on above	<u>1,34,780</u>
Total tax liability (rounded off)	<u>35,04,280</u>

Computation of Tax liability of Mr. Shekhar (Aged 84 years) for the Assessment year 2019 - 20

a) Tax payable including surcharge on total income of Rs. 1,04,00,000

Tax slabs	Computation	Tax Rs.
UP to 5,00,000	-	Nil
From 5,00,000 to Rs.10,00,000	$(10,00,000 - 5,00,000) \times 20\%$	1,00,000
In excess of 10,00,000	$(1,04,00,000 - 10,00,000) \times 30\%$	28,20,000
Total		29,20,000
Add: Surcharge @ 15% on above		4,38,000
Sub-total		33,58,000

b) Tax Payable on total income of Rs. 1 crore

[(Rs. 1,00,000 + Rs. 27,00,000) + surcharge @ 10%] 30,80,000

c) Excess tax payable (i.e. difference between the 33,58,000-30,80,000) 2,78,000

In this case Rs. 2,78,000 is less than the amount of Rs. 4,00,000 (i.e. 1.04 Crore - 1 crore) so marginal relief is not available

Therefore, Tax liability of Mr. Arun for A.Y. 2019 - 20

Tax including surcharge	33,58,000
Add: Health and education cess @ 4% on above	1,34,320
Total tax liability (rounded off)	34,92,320

Note: Students are advised to rectify the hint answer given in our material as per above solution.

PROBLEM NO.2

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

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

Tax liability

Particulars of source of income	Computation	Amount
Winnings	$20,000 \times 30\%$	6,000
LT CG	$40,000 \times 20\%$	8,000
Other income	$[3,70,000 - 20,000 - 40,000 - 2,50,000 \text{ (Exemption limit)}] \times 5\%$	3,000
Total		17,000
Add: Health and education cess @ 4% on above		680
Total tax liability		17,680

PROBLEM NO.3

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

a) Computation of Tax Liability:

Particulars	Computation	Amount Rs.
Gross tax liability	Rs.1,01,00,000 x 30%	30,30,000
Add: Surcharge @ 7%	(Rs.30,30,000 x 7%)	2,12,100
Subtotal		32,42,100

- b) Tax Payable on total income of Rs. 1 crore [(Rs. 30,00,000) + surcharge @ 7%] **32,10,000**
- c) Excess tax payable (i.e. difference between 32,42,100 - 32,10,000) **32,100**
- d) In this case Rs. 32,100 is less than the amount of Rs. 1,00,000 (i.e. 1.01 Crore - 1 crore) so marginal relief is not available

Therefore, Tax liability of X Ltd for A.Y. 2019 - 20:

Tax including surcharge	32,42,100
Add: Health and education cess @ 4% on above	<u>1,29,684</u>
Total tax liability (rounded off)	<u>33,71,780</u>

PROBLEM NO.4

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

a) Computation of Tax Liability

Particulars	Computation	Amount Rs.
Gross tax liability	Rs. 10,01,00,000 x 30%	3,00,30,000
Add: Surcharge @ 12%	(Rs. 3,00,30,000 x 12%)	36,03,600
Subtotal		3,36,33,600

- b) Tax Payable on total income of Rs. 10 crores [(Rs. 3,00,00,000) + surcharge @ 12%] **3,36,00,000**
- c) Excess tax payable (i.e. difference between the 3,36,33,600 - 3,36,00,000) **33,600**
- d) In this case Rs. 33,600 is less than the amount of Rs. 1,00,000 (i.e. 10.01 Crores - 10 crores) so marginal relief is not available

Therefore, Tax liability of X Ltd for A.Y. 2019 - 20:

Tax including surcharge	3,36,33,600
Add: Health and education cess @ 4% on above	<u>13,45,344</u>
Total tax liability (rounded off)	<u>3,49,78,940</u>

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2. RESIDENTIAL STATUS - I**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

For the purpose of determination of his residential status in India for A.Y. 2019-20, the relevant previous year is 2018-19.

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

Step 2: As per section 6(6) a not ordinarily resident person is one who satisfies any one of the conditions specified below:

- i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less

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

Therefore, the residential status of Steve Waugh for the assessment year 2019-20 is resident but not ordinarily resident.

PROBLEM NO.2

During the previous year 2018-19, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2018-19, he was in India for 355 days (i.e. $55+60+90+150$ days).

Thus, he does not satisfy section 6(1). Therefore, he is a non-resident for the previous year 2018-19.

PROBLEM NO.3

During the previous year 2018-19, Mr. C was in India for 173 days (i.e. $22+30+31+31+28+31$ days). His stay in the last 4 years is:

Previous Year	2017-18	2016-17	2015-16	2014-15
No. of days of stay	46	62	365***	365***

***Since he left India on 01.06.2015 after 10 years

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

Mr. C is a resident since his stay in the previous year 2018-19 is 173 days and in the last 4 years is more than 365 days.

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

- a) his stay in the last 7 years is more than 729 days and
- b) Since he was in India for 10 years prior to 01.06.2015, he was a resident in at least 2 out of the last 10 years preceding the relevant previous year.

Therefore, Mr. C is a resident and ordinarily resident for the A.Y. 2019-20.

PROBLEM NO.4

Determination of residential status of Mr. Soham:

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

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

In this case, Mr. Soham is an Indian citizen who left India to set up a software firm in Singapore on 20.04.2016. Therefore, he is an Indian citizen living in Singapore, who comes on a visit to India during the P.Y. 2018-19. His stay in India during the period of his visit is only 99 days (i.e., 17+30+31+21 days). Since his stay in India during the previous year 2018-19 is only 99 days, he does not satisfy the minimum criterion of 182 days stay in India for being a resident. Hence, his residential status for A.Y. 2019-20 is Non-Resident.

Taxability of income:

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

In this case, Mr. Soham, a non-resident, charges fees from LK Ltd., an Indian company, for transfer of technical documents and designs to set up an automobile factory in Faridabad shall be taxable in India for the P.Y. 2018-19. Business/ professional income derived from India is regarded as Indian income.

PROBLEM NO.5

An individual being an Indian citizen leaving India for employment, is said to be resident in India in any previous year if he has been in India during the previous year for a total period of 182 days or more

During the previous year 2018-19, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30 + 31 + 30 + 31 + 31 + 22 days).

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2019-20.

PROBLEM NO.6

a) During the P.Y. 2018-19, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30 +31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy any of the conditions for being ordinarily resident.

Therefore, the residential status of Mr. E for the P.Y. 2018-19 is resident but not ordinarily resident.

b) Since the business of the HUF is transacted from Australia and nothing is mentioned regarding its control and management, it is assumed that the control and management is also wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2018-19.

PROBLEM NO.7

(i) Determination of residential status and scope of total Income

- An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:
- He has been in India during the previous year for a total period of 182 days or more, or
- He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non resident. Mr. Surya, an Indian citizen, has not satisfied either of the basic conditions for being a resident.

Hence, he is non-resident in India for A.Y.2019-20

(ii) Computation of total income of Mr. Surya for A.Y.2019-20

Particulars	Amount (₹)
1 Dividend of ₹ 20,000 received from Switzerland based company transferred to Swiss bank account is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction	Nil
2 Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Surya, since it has accrued and arisen in India even through the sale	35,000

	proceeds were credited to Swiss bank account. 35	
3	Interest on fixed deposit with SBI credited to his savings bank account is taxable in the hands of Mr. Surya as Income from other sources, since it has accrued and arisen in India and is also received in India.	8,000
	Total Income	43,000

PROBLEM NO.8**Computation of Total Income for the A.Y. 2019-20**

Particulars	ROR (Rs.)	RBNOR (Rs.)	NR (Rs.)
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Profits on sale of shares of an Indian company received in London (assuming that they are in the nature of short-term capital gains)	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Profits on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which Rs. 40,000 is received in India	70,000	70,000	70,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Bombay managed from London	26,000	26,000	26,000
Pension for services rendered in India but received in Burma	4,000	4,000	4,000
Income from property situated in Pakistan received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company [Exempt under section 10(34)]	-	-	-
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,51,000	2,17,000	1,82,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of Rs. 10,000]	(10,000)	(10,000)	(10,000)
Total Income	3,41,000	2,07,000	1,72,000

PROBLEM NO.9

The residential status of Mrs. Geetha and Mrs. Leena has to be determined on the basis of the number of days of their stay in India. Since Mrs. Geetha is settled in Malaysia since 1986, she would be a non-resident for A.Y. 2019-20. Her visit to India for a month every year would not change her residential status. However, Mrs. Leena would be resident and ordinarily resident for A.Y. 2019-20, since she is settled in India permanently since 1994.

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

Computation of total income of Mrs. Geetha & Mrs. Leena for the A.Y. 2019-20

Particulars	Mrs. Geetha (Non-Resident) (Rs.)	Mrs. Leena (Resident) (Rs.)
Income from profession in Malaysia (set up in India) received there (Note 1)	-	-
Profit from business in Delhi, but managed directly from Malaysia (Note 1)	40,000	-
Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (Note 1)	-	-
Dividend from PQR Ltd. an Indian Company [Exempt under section 10(34)]	-	-
Dividend from Malaysian Company received in Malaysia (Note 1)	-	8,000
Cash gift received from a friend on Mrs. Leena's 50th birthday Note: As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	-	51,000
Agricultural income from land in Maharashtra [Exempt under section 10(1), both in the hands of non-resident and resident].	-	-
Past foreign untaxed income brought to India. [Not taxable, since it does not represent income of the P.Y.2018-19].	-	-
Fees for technical services rendered in India, but received in Malaysia (Note 1)	25,000	-
Income from a business in Pune (Mrs. Geetha receives 50% of the income in India) (Note 2)	12,000	15,000
Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia) (Note 2)	18,500	14,000
Short-term capital gain on sale of shares of an Indian company (Note 2)	15,000	25,500
Interest on savings account with SBI (Note 2)	12,000	8,000
Gross Total income	1,22,500	1,21,500
Less: Deductions under Chapter VIA		
Section 80C [Life insurance premium paid] [Assuming that premium paid is within the specified percentage (10%/20%, as the case may be) of capital sum assured]	-	30,000
Section 80TTA	10,000	8,000
(In case of an individual, interest upto Rs. 10,000 from savings account the, inter alia, a bank is allowable as deduction under section 80TTA)		
Total Income	1,12,500	83,500

Notes:

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

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

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

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

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

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

PROBLEM NO.10

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, *inter alia*, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The Explanation below section 9(2) clarifies that income by way of, *inter alia*, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

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

According to sec-27 (deemed ownership)

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

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

Computation of total income of Mr. Rahul Jadav for the A.Y- 2019-20

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

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

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

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

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

PROBLEM NO.2**Computation of income from house property of Mr. R for the A.Y.2019-20**

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

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

- a) Pre-construction period interest = Nil
(Because the five equal installment have been exhausted) (From 2011-12 to 2015-16)
- b) Current year interest
Current year interest = 3,00,000 x 12% = 36,000
- c) Total interest = Pre construction period interest + Current year interest = 0 + 36,000 = 36,000

Loan 2:

- a) Pre-construction period interest = Nil
(Because the loan was taken in the year of construction completion) (From 2011-12 to 2015-16)
- b) Current year interest
Current year interest = Rs.2,00,000 x 12% = 24,000
- c) Total interest = Pre construction period interest + Current year interest = 0 + 24,000 = 24,000

PROBLEM NO.3**Computation of Income from House Property of Smt. Poorna for A.Y.2019-20**

Particulars	Rs.
Annual Value of one house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24	
Interest on borrowed capital	2,00,000
Interest on loan was taken for construction of house on or after 01.04.1999 and same was completed within 5 years - interest paid or payable subject to a maximum of Rs.2,00,000 (including apportioned preconstruction interest) will be allowed as deduction.	
In this case the total interest is Rs. 1,80,000 + Rs. 30,000 (Being 1/5th of Rs. 1,50,000) = Rs. 2,10,000. However, the interest deduction is restricted to Rs. 2,00,000	
Loss from house property	(2,00,000)

PROBLEM NO.4**Computation of income from house property of Ganesh for the A.Y.2019-20**

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

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

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

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

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

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

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

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

Since Option 2 is more beneficial, Ganesh should opt to treat House II as self-occupied and House I as deemed to be let out. His income from house property would be Rs. 24,600 for the A.Y. 2019-20

PROBLEM NO.5

Computation of Income from House Property of Ganesh for A.Y.2019-20

S.No.	Particulars	Amount (Rs.)	
Computation of GAV:			
Step 1	Compute ER ER = Higher of MV of Rs. 2,50,000 p.a. and FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a.	2,10,000	
Step 2	Compute Actual rent received/receivable Actual rent received/receivable for let out period Less: Unrealized rent as per Rule 4 = Rs. 2,00,000 - Rs. 20,000	1,80,000	
Step 3	Compare ER and Actual rent received/receivable		
Step 4	In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (Rs.1,80,000 + Rs.40,000). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			1,80,000
Less:	Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
Net Annual Value (NAV)			1,60,000
Less:	Deductions under section 24	48,000	
	a) 30% of NAV = 30% of Rs. 1,60,000		
	b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from House Property			47,000

PROBLEM NO.6

Computation of Income from House Property of Smt. Rajya Lakshmi for the A.Y.2019-20

	Particulars	Amount in Rs.	
Computation of GAV:			
Step 1	Compute ER for the whole year ER = Higher of MV of Rs. 5,00,000 and FR of Rs. 4,20,000, but restricted to SR of Rs. 4,80,000	4,80,000	
Step 2	Compute Actual rent received / receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (Rs. 50,000×9) - (Rs. 50,000 × 2) = Rs. 4,50,000 - Rs. 1,00,000 =	3,50,000	
Step 3	Compare ER for the whole year with the actual rent received / receivable for the let out period i.e. Rs.4,80,000 and Rs. 3,50,000		
Step 4	GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period.	4,80,000	
Gross Annual Value (GAV)			4,80,000
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of Rs. 5,00,000		60,000
Net Annual Value (NAV)			4,20,000
Less:	Deductions under section 24		
	a) 30% of NAV = 30% of Rs. 4,20,000	1,26,000	
	b) Interest on borrowed capital	25,000	1,51,000
Income from House Property			2,69,000

PROBLEM NO.7

Computation of Income from House Property of Mr. R for the A.Y.2019-20

Particulars	Unit - A	Unit-B
	(8M - SOP, 4M - LOP)	(6M - SOP, 6M - LOP)
Gross annual value (See note below)	1,20,000	96,000
Less: Municipal taxes (6 : 4)	(24,000)	(16,000)
Net Annual Value	96,000	80,000

Less: Deduction under section 24		
a) 30% of Net Annual Value	(28,800)	(24,000)
b) Interest (6 : 4)	(12,000)	(8,000)
Income From House Property	55,200	48,000

Total Income from House Property = Rs.1,03,200

Notes:

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

PROBLEM NO.8

Computation of income from house property of Mr. Vikas for the A.Y. 2019-20

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

Note: Interest on loan taken for construction of building

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

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

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

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

PROBLEM NO.9

Computation of Income from House Property of Mr. X for the A.Y.2019-20

Particulars	3/4 th (SOP)	1/4 th (9M-LO, 3M-SO)
Gross Annual Value	0	8,400
Less: Municipal Taxes	0	-
Net Annual Value	0	8,400
Less: Deduction under section 24		
a) 30% of Net Annual Value	0	(2,520)
b) Interest (See Note below)	(6,750)	(2,520)
Income From House Property	(6,750)	3,630

Total Income from House Property = (3,120)

Working Note:

- a) Pre-construction period interest (From 2011-12 to 2015-16) = Nil
(Because the loan was taken in the year in which the construction was completed)
- b) Current year interest = $60,000 \times 15\% = 9,000$
- c) Total interest = Pre construction period interest + Current year interest = $0 + 9,000 = 9,000$

Note: In the absence of information relating to fair rental value, then actual rent for full year shall be considered as fair rental value.

PROBLEM NO.10**Computation of Income from house property of Mr. Krishna for A.Y. 2019-20**

	Particulars	Rs.	Rs.
(A)	Rented unit (50% of total area)		
	Step I - Computation of Expected Rent		
	Municipal valuation (Rs. 2,44,000 x ½)	1,22,000	
	Fair rent (Rs. 2,35,000 x ½)	1,17,500	
	Standard rent (Rs. 2,20,000 x ½)	1,10,000	
	Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	1,10,000	
	Step II - Actual Rent		
	Rent receivable for the whole year (Rs. 12,000 x 12)	1,44,000	
	Step III - Computation of Gross Annual Value		
	Actual rent received owing to vacancy (Rs. 1,44,000 - Rs. 36,000)	1,08,000	
	Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual value		
	Gross Annual Value (GAV)		1,08,000
	Less: Municipal taxes (12% of Rs. 1,22,000)		14,640
	Net Annual Value (NAV)		93,360
	Less: Deductions under section 24		
	a) 30% of NAV	28,008	
	b) Interest on borrowed capital (Rs. 1,000 x 12)	12,000	40,008
	Taxable income from let out portion		53,352
(B)	Self-occupied unit (50% of total area)		
	Annual value	Nil	
	Less: Deduction under section 24:		
	Interest on borrowed capital (Rs. 1,000 x 12)	12,000	(12,000)
	Income from house property		41,352

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

PROBLEM NO.11**Computation of total income for the A.Y. 2019-20**

Particulars	Arun (Rs.)	Bimal (Rs.)
Income from house property		
I. Self-occupied portion (25%)		
Gross Annual value	-	-
Less: Deduction under section 24(b) Interest on loan taken for construction Rs. 37,500 (being 25% of Rs.1.5 lakh) restricted to maximum of Rs. 30,000 for each co-owner since the property was constructed before 01.04.1999	30,000	30,000
Loss from self-occupied property	30,000	30,000
II. Let-out portion (75%) - See Working Note below	1,25,850	1,25,850
Income from house property	95,850	95,850
Other Income	2,90,000	1,80,000
Total Income	3,85,850	2,75,850

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

Particulars	Rs.	Rs.
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of Rs. 9 lakh)	6,75,000	
(b) Actual rent [(Rs. 12000 x 6 x 12) - (Rs. 12,000 x 1 x 4)]	8,16,000	
= Rs. 8,64,000 - Rs.48,000 - whichever is higher		8,16,000
Less: Municipal taxes 75% of 1,80,000 (20% of Rs. 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of Rs. 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

PROBLEM NO.12

Computation of Income from House Property of Mr. A for A.Y. 2019-20

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

Computation of Income from House Property of Mr. B for A.Y. 2019-20

Particulars	Ground floor (Self-occupied)	First floor
Gross annual value (See note below)	Nil	90,000
Less: Municipal taxes (for first floor)		4,000
Net Annual Value (A)	Nil	86,000
Less: Deduction under section 24		
a) 30% of net annual value		25,800
b) Interest on borrowed capital		
Current year Interest (Rs. 12,00,000 x 10% = Rs. 1,20,000)	60,000	60,000
Pre-construction Interest (Rs. 12,00,000 x 10% x 9/12 = Rs. 90,000)		
Rs. 90,000 allowed in 5 equal installments		
Rs. 90,000 / 5 = Rs. 18,000 per annum	9,000	9,000
Total deduction under section 24 (B)	69,000	94,800
Income from house property (A)-(B)	69,000	8,800
Loss under the head "income from house property" of Mr. B (both ground floor and first floor)	(77,800)	

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

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

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.06.2018.

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

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

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

Actual rent = Rs. 90,000 (Rs. 15,000 p.m. for 6 months from July to December, 2018)

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

PROBLEM NO.13

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

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

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

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

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

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

PROBLEM NO.14**Computation of Income from House Property of Mr. Raphael for A.Y.2019-20**

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

Working Note:

Interest on borrowed capital (Shopping Complex)	Rs.
Interest for the current year (10% of Rs. 25 lakhs)	2,50,000
Add: 1/5th of pre-construction interest (interest for the period from 01.08.2015 to 31.03.2016 for 8 months (Rs. 1,66,667 x 1/5)	33,333
Interest deduction allowable under section 24	2,83,333

Note:

1. In case all the conditions specified in Section 80EE are satisfied, out of the remaining interest of Rs.1 lakh (Rs. 3 lakh - Rs. 2 lakh) Mr. Raphael can claim deduction of Rs. 50,000 towards interest paid for acquisition of self-occupied resident house.
2. It has been assumed that loan of Rs. 25 lakhs has to be repaid after the five year period. Hence, there has been no repayment upto 31.03.2019. Interest computation has been made accordingly.

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4. CAPITAL GAINS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM: 1**

Computation of capital gain of Mr. C for the A.Y. 2018-19

Particulars	Rs.	Rs.
Gross sale consideration		68,00,000
Less: Expenses on transfer		50,000
Net sale consideration		67,50,000
Less: Indexed cost of acquisition (Note 1)	(23,80,000)	
Less: Indexed cost of improvement (Note 2)	<u>(25,88,073)</u>	49,68,073
Long-term capital loss		17,81,927

Notes:

- Indexed cost of acquisition = Rs. 8,50,000 × 280 / 100 = Rs. 23,80,000
- Fair market value on April 1, 2001 (actual cost of acquisition is ignored as it is lower than market value on April 1, 2001.)

Indexed cost of improvement is determined as under:	Rs.
Construction of first floor in 1982-83 (expenses incurred prior to April 1, 2001 are not considered)	Nil
Construction of second floor in 2003-04 (i.e., Rs. 7,35,000 × 280 / 109)	18,88,073
Alternation/reconstruction in 2013-14 (i.e., Rs. 5,50,000 × 280 / 220)	<u>7,00,000</u>
Indexed cost of improvement	25,88,073

PROBLEM: 2

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

Particulars	Rs.
Opening W.D.V of the Machinery	10,80,000
Less: Insurance Compensation received	<u>(6,00,000)</u>
STCL	<u>4,80,000</u>

3. **Treatment of compensation for loss of Jewellery:** Any Jewellery, except those held as Stock-in-trade shall be treated as capital asset. By virtue of Sec.45(1A) any compensation received towards loss or damage to the capital asset shall be treated as sale consideration.

Particulars	Rs.
Compensation received	1,80,000
Less: Indexed cost of acquisition – $1,20,000 \times 280 / 117$	(2,87,179)
Long Term Capital Loss	(1,07,179)

PROBLEM:3**Computation of Gross Total Income of ABC Ltd for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition ($Rs.50,000 \times 254/109$)	1,16,514	3,33,486
Gross Total Income		5,33,486

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

PROBLEM-4

- a) **Computation of capital gain in the hands of Mr. R for the A.Y. 2019-20**

Sale consideration	7,00,000
Less: indexed cost of acquisition ($2,00,000 \times 280 / 100$)	5,60,000
LTCG	1,40,000

- b) No capital gain, since it is a personal car.

PROBLEM:5

FMV on date of transfer	25,00,000
Less: indexed cost of acquisition ($5,00,000 \times 280 / 105$)	13,33,333
LTCG	11,66,667

PROBLEM:6**Computation of capital gains of Mr. Y for the A.Y. 2017-18**

Particulars	Amount	Amount
Compensation granted		3,00,000
less: indexed cost of acquisition (ICOA)		

Cost of acquisition as on 1980-81	- 20,000		
Fair market value as on 1-4-2001	- 80,000		
So, FMV will be taken as COA i.e. 80,000			
Indexation			
= COA x $\frac{\text{In the year of transfer (i.e, in the year of Govt acquired)}}{\text{In the year of Asset first held by the assessee}}$			
= 80,000 x $\frac{254}{100}$			
= 2,03,200			
ICOA			
Long term capital gain			
			<u>(2,03,200)</u>
			96,800

Computation of capital gains of Mr. Y for the A.Y. 2019-20.

Particulars	Amount	Amount
Additional compensation		1,00,000
Less: Expenses		(2,000)
Capital gain		98,000

PROBLEM:7

- There is a "Transfer" on 01.05.2018 in hands of Mr. X since he has given the possession of residential plot pursuant to Development Agreement.
- However as per section 45(5A) introduced by Finance Act, 2017, the capital gains shall not be taxable in Previous Year 31.03.2019 but shall be taxable in the Previous Year in which certificate of completion is issued by competent Authority. Thus, capital gains shall be taxable.
- Section 45(5A) is applicable since assessee is an individual
- The holding period of residential plot shall be taken from 01.01.1998 to 30.04.2018 i.e. long term.
- As per section 55, the COA of plot is 50,00,000 or FMV as on 01.04.2001, whichever is higher. Therefore, COA of plot is 65,00,000.
- The sale consideration of plot shall be worked out as under as per section 45(5A):

Sale consideration = SDV on the date of issue of completion certificate of his share in land / building in project plus consideration received in cash.

- Capital Gains shall be worked out as under:

CASE I: In Previous Year 31.03.2021, when completion certificate is issued by Competent Authority.

Assessment Year 2021-22Capital Gains:

Period of holding : 01.01.1998 to 30.04.2018 (Long Term)

Sales Price:

SDV of 6 Flats on 30.06.2020 + Cash received : 45 Lakh x 6 + Rs.60,00,000 Rs.3,30,00,000

Less: Indexed Cost of Acquisition : 65,00,000 X 280/ 100 Rs.1,82,00,000

Long term Capital Gain Rs.1,48,00,000

CASE II: In Previous Year 31.03.2021, when completion certificate is issued by Competent Authority.

Assessment Year 2022-23Capital Gains:

Period of holding : 01.01.1998 to 30.04.2018 (Long Term)

Sales Price:

SDV of 6 Flats on 30.04.2021 + Cash received : 50 Lakh x 6 + Rs.60,00,000 Rs.3,60,00,000

Less: Indexed Cost of Acquisition : 65,00,000 X 280/ 100 Rs.1,82,00,000

Long term Capital Gain Rs.1,78,00,000

PROBLEM 8**a) Computation of depreciation for A.Y. 2019-20**

Particulars	Rs.
W.D.V. of the block as on 1.4.2018	8,50,000
Add: Purchase of new plant during the year	<u>8,50,000</u>
	17,00,000
Less: Sale consideration of old machinery during the year	<u>(11,00,000)</u>
W.D.V of the block as on 31.03.2019	6,00,000

Note: Since the value of the block as on 31.3.2019 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is **Rs. 45,000**, being 7½% of Rs. 6,00,000.

b) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- i) When one or some of the assets in the block are sold for consideration more than the value of the block.
- ii) When all the assets are transferred for a consideration more than the value of the block.
- iii) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value exceeds the sale consideration, the resultant figure would be a short term capital loss.

In the given case, **capital gains will not arise** as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- c) If the three machines are sold in June, 2018 for Rs. 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs.	Rs.
Sale consideration		21,00,000
<i>Less:</i>		
W.D.V. of the machines as on 1.4.2018	8,50,000	
Purchase of new plant during the year	<u>8,50,000</u>	(17,00,000)
Short term capital gains		4,00,000

PROBLEM:9

Computation of capital gains on slump sale of Unit 1

Particulars	Rs.
Sale value	25,00,000
Less: Expenses on sale	<u>(28,000)</u>
Net sale consideration	24,72,000
Less: Net worth (See Note 1 below)	<u>(12,50,625)</u>
Long term capital gain	<u>12,21,375</u>

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	Rs.	Rs.
Building (excluding Rs. 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (Rs.1,50,000 – Rs.50,000)		<u>1,00,000</u>
Total assets		14,28,125
Less: Creditors	37,500	
Bank Loan	<u>1,40,000</u>	<u>(1,77,500)</u>
Net worth		12,50,625

2. Written down value of patents as on 1.4.2018

Value of patents	Rs.
Cost as on 1.7.2016	50,000
Less: Depreciation @ 25% for Financial Year 2016-17	<u>(12,500)</u>
WDV as on 1.4..2017	37,500
Less: Depreciation for Financial Year 2017-18	<u>(9,375)</u>
WDV as on 1.4.2018	<u>28,125</u>

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs.3 lakh and Rs.9 lakh (Rs.12 lakh - Rs.3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

PROBLEM:10**Computation of total income of Ms. Mohini for A.Y. 2019-20**

Particulars	Rs.	Rs.
Long-term capital gain		
Full value of consideration	41,00,000	
(As per section 50C read with Section 155(15), in case the actual sale consideration is less than the stamp duty value fixed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration.		
Where the assessee contests the stamp valuation, and the value is reduced by the Divisional Revenue Officer, such reduced value will be regarded as the full value of consideration accruing as a result of transfer.		
Hence, in this case, Rs.41,00,000, being the valuation by Divisional Revenue Officer on which stamp duty is paid, would be deemed as full value of consideration, since the same is lower than the valuation by the Sub-registrar)		
Less: Indexed cost of acquisition [Rs. 26,50,000 x 280 / 200]		
Other Income		
Total Income		
Note: Cost of acquisition includes purchase price plus registration expenses i.e., Rs. 25,00,000 + Rs. 1,50,000	<u>(37,10,000)</u>	3,90,000
		<u>2,80,000</u>

	<u>6,70,000</u>
	<u>6,70,000</u>

Computation of total income of Ms. Ragini for A.Y. 2019-20

Particulars	Rs.
Income from other sources	
<p>i) Immovable property received for inadequate consideration As per section 56(2)(x), where an individual receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the Divisional Revenue Officer, as in this case) by an amount exceeding Rs. 50,000, then, the difference between such value and actual consideration of such property would be chargeable to tax as income from other sources.</p> <p>Therefore, Rs. 6,00,000 (i.e., Rs. 41,00,000 – Rs. 35,00,000) would be chargeable to tax as income from other sources.</p>	
ii) Other Income	
Total Income	6,00,000
	<u>3,45,000</u>
	9,45,000

PROBLEM:11

In the hands of Mr. Raj kumar (Seller):

Computation of capital gains in the hands of Mr. Raj kumar for A.Y. 2019-20

Particulars	Rs.
<u>On sale of land</u>	
Consideration received or accruing as a result of transfer of land	22,00,000

Less: Indexed cost of acquisition Rs.5,19,000 x 280 / 184	(7,89,783)
Long-term capital gain (A)	14,10,217
<u>On sale of building</u>	
Consideration received or accruing from transfer of building	10,00,000
Less: Cost of acquisition	(14,00,000)
Short term capital loss (B)	4,00,000

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be Rs. 10,10,217 (i.e., Rs. 14,10,217 - Rs. 4,00,000).

Note: In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

In the hands of Mr. Dhuruv (Buyer):

As per section 56(2)(x), where an individual receives from a non – relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the appellate authority, as in this case) by an amount exceeding Rs. 50,000, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, Rs. 7,00,000 (i.e. Rs. 32,00,000 – Rs. 25,00,000) would be charged to tax as income from other sources under section 56(2)(x).

PROBLEM :12

Computation of capital gain in the hands of Mr. A for the A.Y-2018-19

Particulars	Rs.
Sale proceeds	12,00,000
Less: Indexed cost of acquisition [Note 1]	(3,25,581)
Indexed cost of improvement [Note 2]	(3,45,560)
Long term capital gain	(5,28,859)

Note 1:

Indexed cost of acquisition is determined as under:

Cost of acquisition: actual cost (or) FMV as on 1-4-2001	1,50,000
1,05,000 (or) 1,50,000	
Note: Amount forfeited by the previous owner and the assessee should be ignored	
Indexed cost of acquisition (Rs.1,50,000 × 280/ 129)	3,25,581

Note 2:

Indexed cost of Improvement is determined as under:

Expenditure incurred before 1st April, 2001 should not be considered	Nil
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Expenditure incurred on or after 1st April, 2001	
During 2003-04 Indexed cost of Improvement [Rs.50,000 × 280/ 113]	1,23,894
During 2013-14 Indexed cost of Improvement [Rs.1,90,000 × 280 / 240]	<u>2,21,666</u>
Total indexed cost of improvement	3,45,560

PROBLEM:13**i) Computation of Capital Gains in the hands of Mr. G for the A.Y-2019-20**

Value of patents	Rs.
Consideration	10,00,000
(-) Indexed Cost of Acquisition (1,20,000x 280 / 109)	(3,08,256)
(-) Indexed cost of Improvement (70,000x 280 / 117)	<u>(1,67,521)</u>
Gross LTCG	5,24,223
(-) Exemption U/s 54 (Investment 3,00,000 (or) CG)	<u>(3,00,000)</u>
Taxable Gains	<u>2,24,223</u>

Note-1: Cut-off date for investment = 27.06.19 purchase)

Actual investment made = 21.10.18

Since the investment was made before the due date for filing the return of income i.e. 31.7.19, no need of making deposit in capital Gains deposit scheme.

ii) SALE OF NEWLY ACQUIRED ASSET**Computation of Capital Gains in the hands of Mr. G for the A.Y-2020-21**

Consideration	6,00,000
STCG	6,00,000

Note-2: Within the period of 3 years from the date of acquisition of the new Asset (up to 20.10.2021), it should not be sold. However, it was given that such an asset was sold within the locking Period.

∴ The capital Gains will be taxable on the sale of such Asset & the previously exempted capital Gains will also be indirectly taxed.

Note-3: No further exemption will be allowed on acquisition of a new house property as the asset sold was a STCA. What is required to be sold is LTCA.

PROBLEM :14**Computation of Capital Gains in the hands of Mr. R for the A.Y. 2019-20**

Consideration	50,00,000
(-) Indexed Cost of Acquisition (5,00,000× 280/100)	(14,00,000)
Gross LTCG	36,00,000
(-) Exemption U/s 54B	
Invst. 20,00,000 (or) C.G ↓	(20,00,000)
Net LTCG	16,00,000

ii) Sale of coffee estate:

Assessment year: 2020-21. Sale of coffee estate: Since the asset transferred is not a capital Asset nothing will be taxable as Capital Gain.

PROBLEM:15**Computation of capital Gains in the hands of ABC Ltd for the A.Y 2019-20**

Consideration	5,00,000
(-) Opening WDV: 01-04-18 (WN-1)	(3,14,500)
(-) Cost of Additions	-
Gross ST CG's	1,85,500
(-) Exemption u/s 54D Invst. 3,00,000 (or) C.Gs' 1,85,500 ↓	(1,85,500)
Net taxable capital gains	0

Note-1: It was given that there is only one asset in that Block. The same was sold during the previous year 2018-19. Therefore, it can be concluded that there was no single asset in that block as on the date of previous year. Sec.32 fails and Sec 50 is applicable.

WN-1: Sec 43 (6)

Cost of the Asset	4,00,000
(-) Dep. [1.1.2017 to 31.3.2017] $(4,00,000 \times 15\% \times \frac{1}{2})$	30,000
Closing WDV as on 31.03.17	3,70,000
(-) Dep. [1.4.17 to 31.3.18] $(3,70,000 \times 15\%)$	(55,500)
WDV as on 31.03.18	3,14,500

Note-2: Usage as a tenant will also be Considered for the purpose of claiming exemption U/s 54D.

Total period of usage = 2 years (Tenant) + 1 year 8 months (as an owner) = 3 years 8 months.

Note-3: By application of Sec.54H. The asset can be acquired / constructed within three years from the date of receipt of compensation instead of the date of transfer.

PROBLEM:16**Computation of capital gains in the hands of Mr. Chandru for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
Sale consideration		1,00,00,000
Less: Indexed cost of acquisition $(Rs.9,99,300 \times 280 / 100)$		27,98,040
		72,01,960
Less: Deduction under section 54EC		
RECL bonds (issued as on 20.03.2019)	50,00,000	
		50,00,000
Long term capital gain		22,01,960

Note: However, investments made in such bonds by an assessee during any financial year cannot exceed Rs.50 lakhs.

PROBLEM 17

(i) Computation of Capital Gains in the hands of Mr. M for the A.Y-2019-20

Consideration	10,00,000
(-) Indexed cost of Acquisition (1,00,000 x 280/ 280)	<u>(1,00,000)</u>
Gross LTCG	9,00,000
(-) Exemption U/s 54F [9,00,000 × 70% (7L/10L)]	<u>(6,30,000)</u>
Net taxable LTCG's	2,70,000
Eligible Investments	Cut off dates
1. Amount incurred for construction = 2,00,000	Purchase : 15.07.20
2. Amount deposited = <u>5,00,000</u>	Construction : 15.07.21
Total = 7,00,000	Deposit : 31.07.19

ii) Computation of Capital Gains in the hands of Mr. M for the A.Y- 2022-23

Particulars	Amt.
Exemption previously given [9,00,000 × 70% (7L/10L)]	6,30,000
(-) Exemption to be granted [9,00,000 × 60% (6L/10L)]	<u>(5,40,000)</u>
Taxable LTCG	90,000

PROBLEM:18

Computation of capital gains in the hands of Mr. 'X' for A.Y. 2019-20

	Particulars	Rs.	Rs.
	Sale consideration received on sale of 10,000 shares @ Rs.500 each		50,00,000
	Less: Indexed cost of acquisition		
a)	5,000 shares received as gift from father on 1.6.2001		
	Indexed cost Rs.5000 x 50 x 280/100	7,00,000	
b)	2,000 bonus shares received from AB Ltd	Nil	
	Bonus shares are acquired on 21.7.2009 (i.e., after the year 2002 when the original shares were purchased). Hence, the cost is Nil.		
c)	3000 shares purchased on 1.2.2012 @ Rs.125 per share. The		
	indexed cost is 3000 x 125 x 280/ 184	<u>5,70,652</u>	<u>(12,70,652)</u>
	Long term capital gain		37,29,348
	Less : Exemption under section 54F		
	Rs. 37,29,348 x Rs.25,00,000 / Rs.50,00,000		<u>(18,64,674)</u>
	Taxable long term capital gain		18,64,674

PROBLEM:19

Computation of Capital Gains in the hands of Ashwin for the A.Y-2018-19

1. Sale of residential house

Consideration	7,50,000
(-) Indexed cost of acquisition (4,00,000 x 280/167)	<u>(6,70,659)</u>
Gross LTCG	79,341
(-) Exemption U/s 54 [10 L (or) C.G's]	<u>(79,341)</u>
Taxable capital gains	NIL

2. Sale of house plot

Consideration	5,00,000
(-) Indexed cost of acquisition (2,00,000 x 280/167)	<u>(3,35,329)</u>
Gross LTCG	1,64,671
(-) Exemption U/s 54F	<u>(1,64,671)</u>
(Invest required – 5 lakhs, Actual – 9,85,135)	
Taxable capital gains	NIL

Note: Amount required to be invested = 5,00,000

Actually invested = 10,00,000 – 79,341 = 9,20,659

PROBLEM:20

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

Particulars	Amount	Amount
Capital Gains on sale of residential house property		
Value declared by Mr. C	75,00,000	
Value adopted by Stamp Valuation Authority	98,00,000	
Valuation as per Valuation Officer.	1,05,00,000	
Gross Sale consideration (See Note 1)		98,00,000
Less: Brokerage@1% of sale consideration		<u>(75,000)</u>
Net Sale consideration		97,25,000
Less: Indexed cost of acquisition (Rs. 35,00,000 x 280/ 129)	75,96,899	
Indexed cost of improvement (Rs. 5,00,000 x 280/ 137)	<u>10,21,898</u>	<u>(86,18,797)</u>

Long-term capital gains (Total Income)		<u>11,06,203</u>
Tax on total income (See Note 2)		
Long-term capital gain taxable@20% (Rs. 11,06,203– Rs. 2,50,000)		1,71,241
Add: Health & Education cess @ 4%		6,850
Total tax liability		<u>1,78,091</u>
Tax liability (rounded off)		1,78,090

Notes:

1. As per section 50C, in case the value of sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In case the valuation is referred to the Valuation Officer and the value determined is more than the value adopted by the Stamp Valuation Authority, the value determined by the Valuation Officer shall be ignored. Therefore, in the present case, the sale consideration would be the stamp valuation of Rs.98,00,000, since the same is more than the sale value declared by Mr. C and less than the value determined by the Valuation Officer.

As per section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of Rs. 2,50,000 is exhausted against the long-term capital gains of Rs. 11,06,203, Mr. C is a resident individual below the age of 60 years

PROBLEM:21 REPEATED**Computation of Capital Gains in the hands of Mr. Roy for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Gross Sale Consideration on transfer of residential house (W.N:- 1)		72,00,000
Less: Brokerage @ 2% of actual sale consideration of Rs. 65,00,000		(1,30,000)
Net Sale Consideration		70,70,000
Less: Indexed cost of acquisition [Rs. 24,00,000 x 280/ 137]		(49,05,109)
Long-term capital gain		21,64,891
Less: Exemption under section 54 (W.N:- 2)	11,00,000	
Exemption under section 54EC (W.N:- 3)	3,00,000	14,00,000
Long-term capital gain (rounded off)		7,64,891
		(or)
		7,64,890

Computation of tax liability of Mr. Roy for A.Y. 2019-20

Particulars	Rs.	Rs.
L.T.C.G	7,64,890	
Less: Basic Exemption Limit	(2,50,000)	
	5,14,890	
Tax @ 20% on 5,14,890		1,02,978

Add: Education Cess @ 2% and SHEC @ 1%		3,089
Tax liability		1,06,067
Rounded off		1,06,070

W.N: - 1

As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration.

W.N: - 2**Eligible Amount u/s 54:**

Acquisition of residential house property at Kolkata on 10.12.2018 (i.e., within the prescribed time of two years from 4.11.2018, being the date of transfer of residential house at Ghaziabad).	7,00,000
Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kolkata. Since Mr. Roy has no other source of income, his due date for filing return of income is 31st July, 2019. [Therefore, Rs. 4,00,000 deposited on 6.7.2019 will be eligible for exemption whereas Rs. 9,00,000 deposited on 1.11.2019 will not be eligible for exemption under section 54]	4,00,000
	11,00,000

Amount of Exemption u/s 54:

L.T.C.G	} Whichever is lower
or	
Eligible Amount	

i.e., 21,64,891 (OR) 11,00,000, Whichever is lower = 11,00,000

W.N: - 3

Exemption under section 54EC: Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 3.5.2019) would qualify for exemption.

[Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 10.4.2019 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 15.6.2019 would not qualify for exemption].

PROBLEM:21

Computation of capital gains and business income of Ms. Gunjan for A.Y.2019-20

Particulars	
Capital Gains	
Fair market value of land on the date of conversion deemed as the full	3,20,00,000

value of consideration for the purposes of section 45(2)	
Less: Indexed cost of acquisition [Rs.50,00,000 × 280/105]	1,33,33333
	1,86,66667
Proportionate capital gains arising during the A.Y.2019-20 (1,86,66667 × 5/8)	1,16,66667
Less: Exemption under section 54EC (restricted to Rs. 50 lakh)	50,00,000
Capital gains chargeable to tax for A.Y.2019-20	<u>66,66667</u>
Business Income	
Sale price of flats [5 × Rs.90 lakh]	4,50,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion (3,20,00,000 × 5/8)	2,00,00,000
Cost of construction of flats [5 × Rs.36 lakh]	1,80,00,000
	70,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would be available only up to the year of conversion of capital asset to stock-in-trade and not up to the year of sale of stock-in-trade.
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 5/8th of stock-in trade (5 flats out of 8 flats) is sold in the P.Y. 2013-14 only proportionate capital gains (i.e. 5/8th) would be chargeable to tax in the A.Y. 2019-20.
- (5) On sale of such stock-in-trade (i.e., flats, in this case), business income would arise. The business income chargeable to tax would be the price at which the flats are sold as reduced by the fair market value on the date of conversion of the capital asset (i.e., land) into stock-in-trade and the cost of construction of flats.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months, for the purpose of exemption under section 54EC, is to be reckoned from the date of sale of stock-in-trade [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC, subject to a maximum of ` 50 lakh.

PROBLEM:22

- (a) Computation of income chargeable under the head "Capital Gains" for A.Y. 2017 -18

Particulars	Rs.
Capital Gains on sale of residential house	
Actual sale consideration ` 80 lakhs	
Value adopted by Stamp Valuation Authority ` 90 lakhs	
Full value of sale consideration [Higher of the above]	
[As per section 50C, in case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration	90,00,000
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since	
20% of ` 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house	
[` 20 lakhs x 1125/426]	52,81,690
Long-term capital gains [Since the residential house property was held by Mr. Sunil for more than 36 months immediately preceding the date of its transfer]	37,18,310
Less: Exemption u/s 54	35,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset ⁶ .	
Long term capital gains chargeable to tax	2,18,310

PROBLEM:23

Computation of Capital Gains in the hands of Mr. Roy for the A.Y. 2019-20

Particulars	Rs.	Rs.
Gross Sale Consideration on transfer of residential house (W.N:- 1)		72,00,000
Less: Brokerage @ 2% of actual sale consideration of Rs. 65,00,000		<u>(1,30,000)</u>
Net Sale Consideration		70,70,000
Less: Indexed cost of acquisition [Rs. 24,00,000 x 280/ 137]		<u>(49,05,109).</u>

Long-term capital gain		21,64,891
Less: Exemption under section 54 (W.N:- 2)	11,00,000	
Exemption under section 54EC (W.N:- 3)	<u>3,00,000</u>	<u>14,00,000</u>
Long-term capital gain (rounded off)		7,64,891 (or) 7,64,890

Computation of tax liability of Mr. Roy for A.Y. 2019-20

Particulars	Rs.	Rs.
L.T.C.G	7,64,890	
Less: Basic Exemption Limit	<u>(2,50,000)</u>	
	5,14,890	
Tax @ 20% on 5,14,890		1,02,978
Add: Education Cess @ 2% and SHEC @ 1%		<u>3,089</u>
Tax liability		1,06,067
Rounded off		1,06,070

W.N: - 1

As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration.

W.N: - 2**Eligible Amount u/s 54:**

Acquisition of residential house property at Kolkata on 10.12.2018 (i.e., within the prescribed time of two years from 4.11.2018, being the date of transfer of residential house at Ghaziabad).	7,00,000
Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kolkata. Since Mr. Roy has no other source of income, his due date for filing return of income is 31st July, 2019. [Therefore, Rs. 4,00,000 deposited on 6.7.2019 will be eligible for exemption whereas Rs. 9,00,000 deposited on 1.11.2019 will not be eligible for exemption under section 54]	4,00,000
	11,00,000

Amount of Exemption u/s 54:

L.T.C.G
or } Whichever is lower

Eligible Amount

i.e., 21,64,891 (OR) 11,00,000, Whichever is lower = 11,00,000

W.N: - 3

Exemption under section 54EC: Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 3.5.2019) would qualify for exemption.

[Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 10.4.2019 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 15.6.2019 would not qualify for exemption].

PROBLEM:24

Computation of long term capital gains of Mr. R for the A.Y 2019-20

Particulars	Option 1	Option 2
Consideration	1,00,000	1,00,000
(-) Indexed COA/COA	28,000 (10,000 × 280/100)	50,000 (FMV)
LTCG	72,000	50,000
Tax rate	@ 20%	-
Tax there on incl. education cess	14832 (or) 14,830	-

Decision: Option 2 is to be selected.

Since the assessee has satisfied all the conditions u/s 112A, he is eligible for that exemption upto 1 lakh

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THE END

5. INCOME FROM BUSINESS OR PROFESSION**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

Computation of depreciation allowable to Mr. Gopi for A.Y. 2019-20

Particulars	Rs.	Rs.
Block 1 Plant and Machinery (15% rate)		
WDV as on 01.04.2018	12,00,000	
Depreciation @ 15%		1,80,000
Block 2 Building (10% rate)		
WDV as on 1.4.2018	25,00,000	
Depreciation@10%		<u>2,50,000</u>
Total depreciation for the year		<u>4,30,000</u>
Proportionate depreciation allowable to Mr. Gopi for 91 days (i.e., from 01.04.2018 to 30.06.2018) [i.e., 91/365 x Rs.4,30,000]		1,07,205

Computation of depreciation allowable to Gopi Pipes (P) Ltd. for A.Y.2019-20

Particulars	Rs.
i) Depreciation on building and plant and machinery: Proportionately for 274 days (i.e. from 01.07.2018 to 31.03.2019) (274/365 x Rs.4,30,000)	3,22,795
ii) Depreciation @ 50% of 15% on Rs.10 lakh, being the value of plant and machinery purchased after conversion, which was put to use for less than 180 days during the P.Y. 2018-19	75,000
Depreciation allowable to Gopi Pipes (P) Ltd.	3,97,795

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

PROBLEM NO. 2

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

Computation of depreciation allowable to Sidhant & Co. for A.Y.2019-20

Particulars	Rs.	Rs.
Building		
WDV as on 1.4.2018	3,50,000	
Depreciation @ 10%		35,000
Furniture		
WDV as on 1.4.2018	50,000	
Depreciation @ 10%		5,000
Plant and Machinery		
WDV as on 1.4.2018	2,00,000	
Add: Additions during the year (purchased on 15.10.2018)	<u>1,00,000</u>	
	3,00,000	
Less: Depreciation for the year		<u> </u>

(15% of Rs. 2,00,000 + 50% of 15% of Rs. 1,00,000) (Rs.30,000 + Rs.7,500) (Depreciation on new machinery is restricted to 50% of eligible depreciation, since the asset is put to use for less than 180 days in that year)		37,500
Total depreciation for the year		77,500
Proportionate depreciation allowable to Sidhant & Co. for 242 days		
On existing assets (i.e. 1.4.2018 to 28.11.2018) (i.e. 242/365 x Rs. 70,000)	46,411	
On new machine for 45 days i.e., 45/168 x Rs. 7,500	2,009	48,420

Computation of depreciation allowable to Sidhant Co. Ltd. for A.Y.2019-20

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

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

PROBLEM NO. 3

Computation of depreciation and additional depreciation for A.Y. 2019-20

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

WORKING NOTES:

1. Computation of written down value of Plant & Machinery as on 31.03.2019

Particulars	Plant & Machinery	Computer
Written down value as on 1.4.2018	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2018	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2018	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2019	58,00,000	3,00,000

2. Composition of plant and machinery included in the WDV as on 31.3.2019

Particulars	Plant & Machinery	Computer
Plant and machinery put to use for 180 days or more [Rs. 30,00,000 (Opening WDV) + Rs. 20,00,000 (purchased on 8.6.2018)]	50,00,000	-

Plant and machinery put to use for less than 180 days	8,00,000	-
Computers put to use for less than 180 days	-	3,00,000
	<u>58,00,000</u>	<u>3,00,000</u>

Notes:

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

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2018 and computer acquired and installed on 02.01.2019, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to Rs.80,000, being 10% (i.e., 50% of 20%) of Rs.8 lakh.

- As per third proviso to section 32(1)(ii), the balance additional depreciation of Rs.80,000 being 50% of Rs.1,60,000 (20% of Rs.8,00,000) would allowed as deduction in the A.Y.2020-21.
- As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, @ 20% of the actual cost of such machinery or plant.

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

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

PROBLEM NO. 4**Computation of depreciation allowance under section 32 for the A.Y. 2019-20**

Particulars	Plant & Machinery (15%)	Computers (40%)
	(Rs. in crore)	
WDV as on 01.04.2017	25.00	-
Add: Plant and Machinery acquired during the year		
- Second hand machinery	12.00	
- New plant and machinery	90.00	
- Air conditioner installed in office	<u>0.15</u>	
	102.15	
Computers acquired during the year	-	<u>0.40</u>
	127.15	0.40
Less: Asset sold during the year	<u>4.00</u>	<u>Nil</u>
Written down value before charging depreciation	123.15	0.40
Less: Depreciation for the P.Y.2017-18 (See Note 1 below)	<u>29.47</u>	<u>0.08</u>
WDV as on 1.4.2018	<u>93.68</u>	<u>0.32</u>
Note 1 : Computation of depreciation for the P.Y.2017-18	(Rs. in crore)	
Normal depreciation		
Depreciation @ 30% on computers put to use for less than 180 days (50% of 60% × 0.40 crore)	-	0.08
Depreciation on plant and machinery (15% block) (40 × 7.5%) + [(123.15-40) × 15%]	15.47	
Additional depreciation		
- New plant and machinery installed on		
31.7.2017 (Rs.50 crore × 20%)	10	

31.10.2017 (Rs.40 crore × 10%)	4	14.00	Nil
Total depreciation		29.47	0.08

Computation of depreciation allowance under section 32 for the A.Y. 2019-20

Particulars	Plant and Machinery (15%)	Plant and Machinery (40%)
	(Rs. in crore)	
WDV as on 01.04.2018	93.68	0.32
Add: Plant and Machinery acquired during the year	15.00	-
	108.68	0.32
Less: Asset sold during the year	Nil	Nil
Written down value before charging depreciation	108.68	0.32
Less: Depreciation for the P.Y.2018-19 @15% and 40%, respectively	16.30	0.13
Additional depreciation@20% on 15 crore	3.00	-
WDV as on 1.4.2019	89.38	0.19

PROBLEM NO. 5**Computation of depreciation under section 32 for Mr. X for A.Y. 2019-20**

Particulars		Rs. in crores
Plant and machinery acquired on 01.06.2018		30.000
Plant and machinery acquired on 01.11.2018		25.000
WDV as on 31.03.2019		55.000
Less: Depreciation @ 15% on Rs. 30 crore	4.500	
Depreciation @ 7.5% (50% of 15%) on Rs. 25 crore	1.875	
Additional Depreciation@35% on Rs. 30 crore	10.500	
Additional Depreciation@17.5% (50% of 35%) on Rs. 20 crore	3.500	20.375
WDV as on 01.04.2019		34.625

Computation of deduction under section 32AD for Mr. for A.Y. 2019-20

Particulars	Rs. in crores
Deduction under section 32AD @ 15% on Rs. 50 crore	7.50
Total benefit	7.50

Notes:

- As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage. Therefore, normal depreciation on plant and machinery acquired and put to use on 1.11.2018 is restricted to 7.5% (being 50% of 15%) and additional depreciation is restricted to 17.5% (being 50% of 35%).
- The balance additional depreciation of Rs. 3.5 crores, being 50% of Rs. 7 crores (35% of Rs. 20 crores) would be allowed as deduction in the A.Y.2020-21.
- As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing. In this case, since new plant and machinery acquired was installed by a manufacturing unit set up in a notified backward area in the State of Telengana, the rate of additional depreciation is 35% of actual cost of new plant and machinery. Since plant and machinery of Rs. 20 crores was put to use for less than 180 days, additional depreciation@17.5% (50% of 35%) is allowable as deduction. However, additional depreciation shall not be allowed in respect of second hand plant and machinery of Rs. 5 crores. Likewise, the benefit available under sections 32AD would not be allowed in respect of second hand plant and machinery.

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

PROBLEM NO. 6

Computation of deduction allowable under section 35

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

Notes:

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

PROBLEM NO. 7

- As per section 35(2AB), where a company engaged in, *inter alia*, the business of biotechnology incurs any expenditure on scientific research during the current year, it is eligible for claiming weighted deduction of a sum equal to 150% of the eligible expenditure.

The eligible expenditure and quantum of deduction will be:

- Current year capital expenditure (except expenditure in the nature of cost of any land or building) or revenue expenditure incurred for scientific research (weighted deduction @ 150%) under section 35(2AB).
- Any expenditure incurred during earlier 3 years immediately preceding the date of commencement of business on payment of salary or purchase of materials, or capital expenditure incurred other than expenditure on acquisition of land [actual expenditure qualifies for deduction under section 35(1)].

The deduction available under section 35 for scientific research will, therefore, be:

	Particulars	Rs.
(a)	Land	Nil
(b)	Building	25,00,000

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

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

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

(1) Sale proceeds i.e., Rs.8,00,000

(2) Total amount of deduction earlier allowed under section 35 i.e., Rs.5,00,000

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

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

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

PROBLEM NO. 8

Computation of income under the head "Profit and gains of business or profession" of MNP Ltd. for A.Y. 2019 - 20.

Particulars	Rs.in lakh	Rs.in lakh
Profits from the specified business of new four-star hotel in Chennai (before providing deduction under section 35AD)		80
Less: Deduction under section 35AD		
Capital expenditure incurred during the P.Y. 2018-19 (excluding the expenditure incurred on acquisition of land) = Rs.250 lakh - Rs.100 lakh (See Notes 1 & 2 below)	150	
Capital expenditure incurred during January 2018 to March 2018 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2018 (See Note 3 below)	<u>40</u>	
Total deduction under section 35AD for A.Y.2019-20		<u>190</u>
Income from the specified business of new hotel in Chennai		(110)
Profit from the existing business of running a four-star hotel in Kanpur (See Note 4 below)		<u>130</u>
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		<u><u>20</u></u>

Notes:

- According to the provisions of section 35AD, an assessee shall be allowed a deduction in respect of 100% of the capital expenditure incurred wholly and exclusively for the purpose of the specified business
- The expenditure on acquisition of land, however, does not qualify for deduction under section 35AD.
- The capital expenditure incurred prior to commencement of specified business shall be allowed as deduction under section 35AD(1) in the year of commencement of specified business, if the same is capitalized in the books of accounts of the assessee on the date of commencement of its operations.

4. As per section 73A, the loss computed under section 35AD in respect of a specified business can be set off against the profit of another specified business. Building and operating a hotel of two-star and above category, anywhere in India, is a specified business, therefore, the loss from the business of new four-star hotel in Chennai can be set-off against the income of the existing four-star hotel in Kanpur.
5. Section 35AD(6A) provides that where the assessee, MNP Ltd., builds a hotel of two-star or above category as classified by the Central Government and subsequently, while continuing to own the hotel, transfers the operation of the said hotel to another person, the assessee shall be deemed to be carrying on the specified business of building and operating a hotel. Therefore, in this case, MNP Ltd. would be eligible to claim investment linked deduction under section 35AD even if it transfers the operation of the Chennai hotel to PQR Ltd.

PROBLEM NO. 9

Computation of profits and gains of business or profession for A.Y.2019-20

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

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

	Particulars	Food Grains	Sugar	Total
A.	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
B.	Less: Deduction under section 35AD			
B.	Capital expenditure incurred prior to 1.4.2018 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2018 (excluding the expenditure incurred on acquisition of land) = Rs.30 lakh (Rs.80 lakh - Rs.50 lakh) and Rs.20 lakh (Rs.60 lakh - Rs.40 lakh)	30	20	50
C.	Capital expenditure incurred during the P.Y.2018-19	<u>20</u>	<u>15</u>	<u>35</u>
D.	Total capital expenditure (B + C)	<u>50</u>	<u>35</u>	<u>85</u>
E.	Deduction under section 35AD			
E.	100% of capital expenditure (food grains, sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2019-20	<u>50</u>	<u>35</u>	<u>85</u>
F.	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2019-20 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2018-19.
- iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs.55 lakh from the specified businesses of setting up and operating a

warehousing facility for storage of food grains and sugar cannot be set-off against the profits of Rs.28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set off against profits of the same or any other specified business.

PROBLEM NO. 10

Computation of income under the head "Profits and gains of business or profession" for the A.Y.2019-20

Particulars		Rs.	Rs.
Net profit as per profit and loss account			15,25,890
<i>Add:</i>	Items debited to profit and loss account, but to be disallowed		
	Purchase price of Land used in in-house research and development - being capital expenditure not allowable as deduction under section 35	5,00,000	
	Purchase price of building used in in-house research and development - being capital expenditure, 100% of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)	-	
	Expenditure incurred on notified agricultural extension project (to be treated separately)	1,50,000	
	Expenditure incurred on notified skill development project - Purchase of land - being capital expenditure not qualifying for deduction under section 35CCD	2,00,000	
	Expenditure incurred on notified skill development project - Expenditure on training for skill development (to be treated separately)	2,50,000	
	Expenditure incurred on advertisement in the souvenir published by a political party not allowed as deduction as per section 37(2B)	<u>75,000</u>	<u>11,75,000</u>
			27,00,890
<i>Less:</i>	Purchase price of raw material used for in-house research and development qualifies for 150% deduction under section 35(2AB). Since, it is already debited to profit and loss account balance 50% is allowed.	90,000	
<i>Less:</i>	Expenditure incurred on notified agricultural extension project qualifies for 150% deduction under section 35CCC.	2,25,000	
<i>Less:</i>	Expenditure incurred on training for skill development in a notified skill development project qualifies for 150% deduction under section 35CCD.	3,75,000	<u>7,80,000</u>
	Profit and gains from business		<u>20,10,890</u>

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

PROBLEM NO. 11

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

S.No.	Nature of payment	Compliance / violation	Tax consequence
a)	Contract payment	Tax not deducted at source	Rs.72,000 shall be disallowed (Rs.2,40,000*30%)
b)	Salary to a resident	Tax not deducted at source	Rs.1,50,000 shall be disallowed (Rs.5,00,000*30%)
c)	Rent	TDS remitted within stipulated time limit.	The assessee has remitted the amount of TDS on 28.09.2019 which is within the time limit for filing return

			of income. i.e. 30.09.2019. accordingly, no disallowance of expenditure u/s.40(a)(ia) is warranted.
d)	Interest	Tax not deducted at source during the financial year.	Rs.60,000 shall be disallowed in A.Y 2019-20. However, the same shall be allowed as a deduction in AY 2020-21. (Rs.2,00,000*30%)
e)	Professional charges	Delay in remittance of TDS.	Rs.1,50,000 shall be disallowed in A.Y 2019-20 since the same is not remitted within time limit stipulated u/s 139 (1). However, the same shall be allowed as a deduction in AY2020-21(Rs.5,00,000*30%)
f)	Non-compete fee	Tax not deducted at source	Rs.3,00,000 shall be disallowed (Rs.10,00,000*30%)

PROBLEM NO. 12

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

- i) **Purchase of building for setting up a warehousing facility for storage of food grains:** Mr. MN, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs. 4,50,000 invested in purchase of building for setting up a warehousing facility for storage of food grains which commences operation on or after 1st April, 2012 (P.Y.2018-19, in this case). Therefore, the deduction under section 35AD while computing business income would be Rs. 4,50,000.
- ii) **Interest on loan paid to Mr. X (a resident) Rs. 50,000 on which tax has not been deducted:** As per section 194A, Mr. MN, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2017-18 exceeds the monetary limit of Rs. 100 lacs. Therefore, Rs. 15,000, being 30% of Rs. 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. MN for non-deduction of tax at source under section 194A on interest of Rs. 50,000 paid by it to Mr. X. The balance Rs. 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.
- iii) **Commodities transaction tax of Rs. 20,000 paid on sale of bullion:** Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

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

PROBLEM NO. 13

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

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

- b) **Permissible Remuneration in case of losses = 1,50,000 (or) 68,000 whichever is lower = 68,000**
- c) **Income of Partnership Firm:**

Particulars	Amount
Net loss as per P/L A/c	(1,72,000)
Add: Other expenses	13,600
	(1,58,400)

Add: Interest Disallowed [Sec.40(b)] Excess remuneration (68,000 - 68,000)	7,100
Loss	(1,51,300)

PROBLEM NO. 14

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

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

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

Particulars	Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 (See note below)	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	<u>60,000</u>	<u>60,000</u>
Book Profit		<u>5,40,000</u>

Note: As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on plant and machinery purchased on 15.7.2018 is not allowable since the payment is made otherwise than by A/c payee cheque/ A/c payee draft/ ECS to a person in a day.

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

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

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

Therefore, the maximum allowable working partners' salary for the A.Y. 2019-20 in this case would be:

Particulars	Rs.
On the first Rs.3,00,000 of book profit [(Rs.1,50,000 or 90% of Rs.3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (Rs.5,40,000 - Rs.3,00,000)]	<u>1,44,000</u>
Maximum allowable partners' salary	<u>4,14,000</u>

PROBLEM NO. 15

Case -1:

Taxable Income of the Partnership Firm

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

W.N.1:

Calculation of Book profits

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

Remuneration as per Slab system

On Rs.2,98,000 - Rs.1,50,000 (or) 90% of Book Profit whichever is higher.

∴ Remuneration = Rs.2,68,200

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

∴ Allowable Remuneration = 1,32,000

Taxable Income of Partners

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

Case - 2:

a)

Taxable Income of the Partnership Firm

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

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

PROBLEM NO. 16

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

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

Accordingly, the amount of interest eligible for deduction for the A.Y.2019-20 shall be calculated as follows:

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

PROBLEM NO. 17

Computation of Taxable Income of X & Co. for the A.Y.2019-20

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

Calculation of Presumptive income

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

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

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

PROBLEM NO. 18

**Computation of profits and gains of business or profession of Mr. Qureshi under
Presumptive Income scheme as per section 44AD**

For the P.Y.2018-19, the turnover of Mr. Qureshi from Hypermarket business is Rs.75 lakhs and Supermarket business is Rs.50 lakhs. Since his turnover in respect of such business is less than Rs.200 lakhs, he is eligible to opt for presumptive tax scheme under section 44AD in respect of these businesses.

The presumptive income under section 44AD would be as under:

- | | |
|---|--------------|
| (i) Hypermarket business (100% cash sales) = 8% x Rs.75 lakhs | Rs.6,00,000 |
| (ii) Supermarket business (online sales) = 6% x Rs.50 lakhs | Rs. 3,00,000 |

No deduction in respect of any expenditure is allowed while computing presumptive business income as per the provisions of section 44AD.

In the question, it is stated that Mr. Qureshi "maintains proper books of accounts for both businesses in mercantile system". The income as per regular books of account has to be computed and if such income is more than the presumptive income computed under section 44AD, the higher income can be declared under section 44AD.

Hence, income of Mr. Qureshi for the assessment year 2019-20 as per books of account is computed below:

Computation of Profits and gains of business as per books of account

Particulars	Rs.
Net Profit (as given in question)	3,93,950
Add: Depreciation debited in the books	8,12,000
Cash payment in excess of Rs.10,000 made in the current year in respect of expenditure allowed on mercantile basis in the previous year, would be deemed as income in the current year	75,000
Building construction expenditure debited to P & L A/c	<u>1,00,000</u>
	13,80,950
Less: Depreciation as per Income-tax Act, 1961	7,17,000
Depreciation on building extension of a room @ 10% [See Working Note 1]	<u>10,000</u>

	7,27,000
Profits and gains of business computed as per books of account	<u>6,53,950</u>

Note: The assessee's total income from hypermarket and supermarket business computed as per books of account is less than the income computed under section 44AD. The question states that the assessee wants to declare income under presumptive provision i.e. section 44AD. Hence, the total income computation would include only the presumptive income computed under section 44AD for both hypermarket and supermarket businesses.

Computation of Total Income

Particulars	Rs.
Profits and gains from business: [As per Section 44AD]	
Hypermarket business Rs.75 lakhs@ 8%	6,00,000
Supermarket business Rs.50 lakhs@ 6%	3,00,000
Furniture business [Discontinued]	
Amount of insurance compensation deemed as income	4,00,000
Less: Unabsorbed business loss of discontinued business	3,00,000
	<u>1,00,000</u>
Total Income	<u>10,00,000</u>

Note: It is assumed that since capital repairs of Rs.1 lakh on building has been debited to profit and loss account, depreciation in respect of the same is not included in the figure of Rs.7,17,000 computed as per the Income-tax Act, 1961. Alternatively, if it is assumed that the same is included in the said figure, Rs.95,000, being the difference between Rs.8,12,000 and Rs.7,17,000 has to be added back. In such a case, the adjusted net profit would be Rs.6,63,950.

PROBLEM NO 19

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be Rs.1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is Rs.13,72,500 (See Notes 1 & 2 below) and his total income would be Rs.14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be Rs.4,45,000 instead of Rs.13,72,500 and his total income would be Rs.5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2019-20

Particulars	Presumptive income Rs.	Where books are maintained Rs.
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	<u>70,000</u>	<u>70,000</u>
Total Income	<u>14,42,500</u>	<u>5,15,000</u>

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount Rs.
(1)	(2)		(3)	(4)

Heavy goods vehicle:				
1 goods carriage upto 1 st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6 th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	<u>3,60,000</u>
Total				<u>13,72,500</u>

PROBLEM NO. 20**Computation of Taxable Income of Mr. D for the A.Y.2019-20**

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

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

Note-1: As per Sec. 43B to get deduction towards the taxes for the P.Y 2017-18 will be allowed only if the payment was made before 31-07-18. Since the payment was not made with in the due date the same will be allowed as deduction in the year of actual payment 2018-19.

Note-2: The cut-off date for payment of customs duty is 31st July, 2018. Since the amount was made within the cut-off date it should have been allowed as deduction for the previous year 2017-18. So, it will not be allowed as deduction again in 2018-19 (i.e., year of payment)

PROBLEM NO. 21**Computation of Taxable Income of P for the A.Y.2019-20**

Particulars	Amount
Net profit as per the P & L A/c	1,76,300
(+) Expenses to be disallowed:	
Prop. Salary	60,000
Donation	1,000
Small machine - capital exp.	5,000
Adv. Income tax	4,000
Wooden show case - capital exp.	6,000
Depreciation	2,000
Motor car Exp. @ 1/4 th	2,125
Int. on prop. Capital	15,000
Reserve for future losses	4,000
Income tax paid	7,100
Life insurance premium	6,000
(-) Allowable Exp.	
Depreciation on small mach. @ 15%	750
Depreciation on show case @ 10%	600
Donation to Delhi university.(10K x125%-10K)	2,500

(-) Income taxable under other heads	
L.T.C.G	90,000
Bad debts recovered (Note:2)	24,000
Int. on govt. Securities	14,000
Dividends	6,000
Interest from bank account	2,000
Income from Horse racing	10,000
Business profits	1,38,675

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

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

PROBLEM NO. 22

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

Particulars	Rs.	Rs.
Income from Business or profession		
Net profit as per Profit and Loss Account		11,50,000
Add : Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note - 1)	1,00,000	
Provision for bad debts (Refer Note - 2)	50,000	
Family planning expenditure incurred on employees (Refer Note - 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note - 4)	1,00,000	
Employer's contribution to recognized provident fund (Note-5)	25,000	
		<u>3,25,000</u>
		14,75,000
Less : Expense allowed		
Depreciation as per Income- tax Rules, 1962		<u>40,000</u>
		14,35,000
Add : Employee's contribution included in income as per Section 2(24)(x) (Refer Note-6)		<u>25,000</u>
Business Income / Gross Total Income		<u>14,60,000</u>

Notes:

1. Donation to Prime Minister Relief Fund is not allowed as deduction from the business income. It is allowed as deduction under section 80G from the gross total income.
2. Provisions for bad debts is allowable as deduction under section 36(1)(viiia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Gupta.
3. Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Gupta.
4. Income-tax paid is not allowed as deduction as per the provisions of section 40(a)(ii).
5. Since, Mr. Gupta's contribution to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B.
6. Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date. It has been assumed that it has not been already debited in the given profit and loss account.
7. TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PROBLEM NO. 23

Calculation of Business income of Mr. S for the AY 2019 - 20

Particulars	Plant & Machinery (15%)	Buildings (10%)
	Amount Rs.	
Net Profit as per profit and loss account		16,300

Add: Inadmissible expenses / losses		
Purchases	21,000	
Depreciation (See Note)	900	
Office salaries	10,400	
Interest on capital	3,300	
Income tax	6,000	
Diwali expenses (Gifts of Rs.1,000 was disallowed as it is not a business expenditure)	1,000	
Medical expenses of proprietor	3,000	
Bonus payable	20,000	
Provision for sales tax (disallowance under sec.43B attracts for Rs.5,000 (Rs.25,000 - Rs.20,000))	5,000	
General reserve	<u>26,000</u>	<u>96,600</u>
		1,30,900
Less: Incomes to be disallowed		
Over valuation of closing stock (Rs.26,400x10/110)	2,400	
Refund of Income tax	2,000	
Sale of machinery	25,000	
Recovery of Bad debts	<u>6,000</u>	<u>(35,400)</u>
Income under the PGBP		<u>77,500</u>

Note:

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

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

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

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

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

PROBLEM NO. 24**Computation of PGBP of Mr. S for A.Y. 2019-20**

Particulars	Rs.	Amount
Net profit		1,40,900
Add: Expenses to be disallowed		
Outstanding liability for excise duty (disallowed because payment is made after the due date of ROI. i.e., 31-7-18)	3,500	3,500
Less: Incomes to be disallowed		
Customs duty recovered	15,300	
Gift from son	<u>40,000</u>	(55,300)
Less: Expenses to be allowed		
General expenses on scientific research [(9,000x150%)-9,000]	4,500	
Expenditure on in house research (5,000x100%)	<u>5,000</u>	(9,500)
Add: Incomes to be allowed		=
PGBP		<u>79,600</u>

PROBLEM NO. 25**Computation of business income of Mr. Sivam for the A.Y. 2019 - 20**

Particulars	Amount	Amount
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses / losses		
Under valuation of closing stock	18,000	
Salary paid to brother - unreasonable [Section 40A(2)]	2,000	
Printing and stationery paid in cash [Section 40A(3)]	23,200	

Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	<u>2,000</u>	1,58,300
Less: Deductions items:		2,08,300
Under valuation of opening stock	9,000	
Income from UTI [Exempt under section 10(35)]	<u>2,400</u>	11,400
Business income before depreciation		1,96,900
Less: Depreciation (See Note 1)		66,000
		1,30,900

Computation of business income as per section 44AD:

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

Notes:**1. Calculation of depreciation**

Particulars	Amount
WDV of the block of plant & machinery as on 1.4.2018	4,20,000
Add : Cost of new plant & machinery	<u>70,000</u>
	4,90,000
Less : Sale proceeds of assets sold	<u>50,000</u>
WDV of the block of plant & machinery as on 31.3.2019	<u>4,40,000</u>
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

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

PROBLEM NO. 26**Computation of total income of Mr. X for the A.Y. 2019-20**

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

Computation of Tax liability of Mr. X for the A.Y. 2019-20

Particulars	Amount
Total income	1,37,300
Less: Other income	(91,300)
Taxable income	46,000
Tax payable (46,000 x 30%)	13,800

Less: Rebate u/s 87A	(2,500)
	11,300
Add: Health and Education Cess @ 4%	452
Net tax liability	11,752
Tax liability rounded off	11,750

Working Notes:

1. PGBP (cash basis)

Particulars	Amount	
Taxable receipts		
Fee from clients (1,30,500+11,500+13,000)	1,55,000	
Presents from clients	<u>24,000</u>	1,79,000
Less: Allowable expenses		
Deprecation on type writer (6,000x15%)	900	
Car expenses (18,000x40%)	7,200	
Office expenses	40,000	
Salary to staff (32,000+11,000)	43,000	
Deprecation on car (2.4x7.5%x40%)	7,200	
Repairs of office	12,000	
Interest on loan	<u>10,000</u>	(1,20,300)
PGBP		58,700

2. Income from House Property

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

PROBLEM NO. 27

Cash system of Accounting

Taxable receipts	Amount
Audit Fees	60,000
Consultancy Fees	5,000
(-) Allowable Expenses	
Rent	8,000
Salary (10K-1800)	8,200
Membership Fee	1,000
Repairs	125
Municipal Taxes	250
Dep. on books (1,200 × 40%)	480
Dep. on professional Assets	2,500
Taxable Income	44,445

Mercantile system of accounting

Taxable Income	Amount
Audit Fees (WN- 1)	55,000
Consultancy	5,000
(-) Allowable Exp.	
Rent $\left(\frac{8K}{10} \times 12M\right)$	9,600
Salary [10K - 1800]	8,200
Member ship fee	1,000
Repairs	125
Municipal Taxes	250
Dep. on books	480
Dep. On Professional assets	2,500
Taxable Income	37,845

W.N.1:

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

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THE END

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

- a) Value of the rent free unfurnished accommodation
 = 15% of salary for the relevant period
 = 15% of [(Rs. 6000 × 5) + (Rs. 2,000 × 30% × 5) + (Rs. 1,500 × 5)] = 15% of Rs. 40,500 = Rs. 6,075.

Note: Since, Mr. C occupies the house only from 1.11.2018, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2018 to 31.03.2019) will be considered.

- b) First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding 25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.

In this case, 15% of salary would be Rs. 6,075 (i.e. 15% of Rs. 40,500). The rent paid by the employee is Rs. 5,000 (i.e., Rs. 1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation = Rs. 6,075

Less: Rent paid by the employee (Rs. 1,000 × 5) = Rs. 5,000

Perquisite value of unfurnished accommodation given at concessional rent = Rs. 1,075

- c) In this case, 15% of salary is Rs. 6,075 (i.e. 15% of Rs. 40,500). Rent paid by the employer is Rs. 6,000 (i.e. Rs. 1,200 × 5). The lower of the two is Rs. 6,000, which exceeds the rent paid by the employee i.e. Rs. 5,000 (Rs. 1,000 × 5). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation [Note 1] = Rs. 6,000

Less: Rent paid by the employee (Rs. 1,000 × 5 = Rs. 5,000)

∴ Value of unfurnished accommodation given at concessional rent = Rs. 1,000

Note 1: Value of the rent free unfurnished accommodation is lower of

(i) Lease rent paid by the company for relevant period = Rs. 1,200 × 5 = Rs. 6,000

(ii) 15% of salary for the relevant period (computed earlier) = Rs. 6,075

- d) In this case, 15% of salary is Rs. 6,075 (i.e. 15% of Rs. 40,500). The rent paid by the employee is Rs. 5,000 (i.e. Rs. 1,000 × 5). The value of furniture of Rs. 4,625 (see Note below) is to be added to 15% of salary. The deemed concession in the matter of rent is Rs. 6,075 + Rs. 4,625 - Rs. 5,000 = Rs. 5,700. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (computed earlier) = Rs. 6,075

Add: Value of furniture provided by the employer [Note 1] =	<u>Rs. 4,625</u>
Value of rent free furnished accommodation =	Rs. 10,700
Less: Rent paid by the employee (Rs. 1,000 × 5) =	<u>Rs. 5,000</u>
Value of furnished accommodation given at concessional rent =	<u>Rs. 5,700</u>

Note 1: Value of the furniture provided = (Rs. 400 p.m. × 2 × 5 months) + (Rs. 25,000 × 10% p.a. for 3 months) = Rs. 4,000 + Rs. 625 = Rs. 4,625

- e) In the case of Government employees, the excess of license fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/ recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent. Therefore, the deemed concession in the matter of rent is Rs. 3,125 [i.e. Rs. 3,500 (license fees: Rs. 700 × 5) + Rs. 4,625 (Value of furniture) - Rs. 5,000 (Rs. 1,000 × 5)]. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (Rs. 700 × 5) = Rs. 3,500

Add: Value of furniture provided by the employer (computed earlier) = Rs. 4,625

Value of rent free furnished accommodation = Rs. 8,125

Less: Rent paid by the employee (Rs. 1,000 × 5) = Rs. 5,000

Perquisite value of furnished accommodation given at concessional rent = Rs. 3,125

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PROBLEM NO. 2

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

	Particulars	Amount (Rs.)	Amount (Rs.)
(a)	Actual house rent allowance (HRA) received		1,00,000
(b)	Excess of rent paid over 10% of basic salary		
	Rent paid (10,000 × 12)	1,20,000	
	Less: 10% of basic pay (i.e. 10% of Rs. 1,20,000)	12,000	1,08,000
(c)	50% of salary (i.e. 50% of Rs. 1,20,000)		60,000

Least of the above is Rs. 60,000.

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

- ii) Perquisite value in respect of concessional accommodation

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

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

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

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

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

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

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

Working Notes:

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

Particulars	Amount (Rs.)
Salary:	
Basic Pay	1,20,000
HRA (taxable)	40,000
Special allowance	30,000

Total salary	1,90,000
Tax on Rs. 1,90,000 (including cess)	Nil

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

Particulars	Amount (Rs.)
Salary:	
Basic Pay	1,20,000
Special allowance	30,000
Concessional accommodation	Nil
Total salary	1,50,000
Tax on Rs. 1,50,000	Nil

PROBLEM NO. 3

1. **Taxable perquisite**

a) Treatment of X	4,200
b) Treatment of Mrs. X	
c) Treatment of X mother	3,600
d) Treatment of X's brother (non - dependent)	
e) Treatment of grand father (not covered in family definition)	1,200
	400
	1,500
	10,900

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

3. **Taxable perquisite**

Medical expenses (75,000 - 60,000)	15,000
Loading expenses (65,000 - 45,000)	20,000
Traveling expenses (W.N.1)	1,20,000
	1,55,000

Gross Total Income (WN 1)

Other income	1,80,000
Add: Staying Exp.	20,000

(+) Medical Exp.	15,000
Gross Total Income	2,15,000

Since Gross Total Income has exceeded Rs. 2,00,000; no exemption is available in respect of traveling expenses.

PROBLEM NO. 4

- a) Since laptop is given for usage to employee nothing is taxable in the hands of employee.
 b) Amount of perquisite = $15,000 \times 10\% \times \frac{5.5}{12} = 687.5$
 c) i) Name of the employee: Z

Value of perquisite (car)

Particulars		Rs.
1. <u>Value of asset sold:</u>		
Original Cost	6,96,000	
(-) Dep. for 1 st completed year of usage (6,96,000 x 20%) (15-05-16 to 14-05-17)	1,39,200	
	5,56,800	
(-) Dep. for 2 nd completed year of usage (5,56,800 x 20%) (15-05-17 to 14-05-18)	1,11,360	4,45,440
2. Asset sold for		2,10,000
3. Value of perquisite (1-2)		2,35,440

- ii) Name of the employee: A

Particulars		Rs.
1. <u>Value of asset sold</u>		
Original Cost	1,17,000	
(-) Dep. for 1 st completed year of usage (1,17,000 x 50%) (15-05-16 to 14-05-17)	58,500	
	58,500	
(-) Dep. for 2 nd completed year of usage (58,500 x 50%) (15-05-17 to 14-05-18)	29,250	29,250
2. Asset sold for		24,270

3. Value of perquisite (1-2)		4,980
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iii) Name of the employee: B

Particulars		Rs.
1. <u>Value of asset sold for</u>		
Cost of the asset	40,000	
(-) Dep. for two completed years of usage (40,000 × 10% × 2y)	8,000	32,000
2. Asset sold for		1,000
3. Value of perquisite (1-2)		31,000

PROBLEM NO. 5

a) He is a government employee:

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

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

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

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

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

PROBLEM NO. 6

a) He is a government employee:

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

b) He is a non-government employee:

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

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

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

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

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

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

Leave Due = Leave allowed - Leave taken = (30 days per year × 20 years) - 480 days = 120 days

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

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

PROBLEM NO. 7

Computation of total income of Mr. Narendra for A.Y. 2019-20

Particulars	Rs.	Rs.
Income from Salaries:		
Gross salary received during 01.04.2018 to 31.01.2018 @ Rs.16,000 p.m. (Rs.16,000 × 10)		1,60,000

Pension for 2 months @ 30% of the basic salary (i.e. 10,000 x 30% x 2)		6,000
Leave Salary	75,000	
Less: Exempt under section 10(10AA) (Note 1)	50,000	25,000
Gratuity	50,000	
Less: Exempt under section 10(10) (Note 2)	25,000	25,000
Total Income		2,16,000
Less: Standard Deduction u/s 16(ia)		(40,000)
Net Salary Income		1,76,000

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

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

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

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

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

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

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

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

PROBLEM NO. 8

1. Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2019 - 20 is computed here under:

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

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

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

PROBLEM NO. 9

Computation of gross salary of Mr. Mohit for A.Y. 2019 - 20

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

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (Rs.)	June-Oct (Rs.)	Nov-Dec (Rs.)	Jan (Rs.)	Feb-March (Rs.)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (Rs. 6,000×5)	16,000 (Rs. 8,000×2)	8,000 (Rs. 8,000×1)	16,000 (Rs. 8,000×2)
House rent allowance (HRA) received	12,000 (Rs.)	30,000 (Rs.)	12,000 (Rs.)	7,000 (Rs.)	14,000 (Rs.)

during the relevant period (A)	6,000×2)	6,000×5)	6,000×2)	7,000×1)	7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad - June to Oct, 2018) 50% of salary (Residence at Delhi- Nov, 18 - March, 19)	-	30,000 (40% × Rs. 75,000)	15,000 (50% × Rs. 30,000)	7,500 (50% × Rs. 15,000)	16,500 (50% × Rs. 33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (-) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

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

PROBLEM NO.10

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

Particulars	Amount (Rs.)
Basic Salary = Rs.20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension = Rs.5000 x 2	10,000
Commuted pension (See Note - 5)	1,50,000
Gross salary	7,32,769
Less: Standard Deduction u/s 16 (ia)	(40,000)
Taxable Salary / Gross Total Income	6,92,769

Note:

- As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the

previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of Rs. 5,000. Therefore, the entire amount of Rs. 6,000 is liable to tax as perquisite.

Note: An alternate view possible is that only the sum in excess of Rs.5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up to Rs.5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs.1,000 and gross taxable income would be Rs.6,87,769.

2. **Perquisite value of transfer of car:**

Particulars	Rs.
Purchase price (01.02.2016)	5,00,000
Less: Depreciation @ 20%	<u>1,00,000</u>
WDV on 31.01.2017	4,00,000
Less: Depreciation @ 20%	<u>80,000</u>
WDV on 31.01.2018	3,20,000
Less: Depreciation @ 20%	<u>64,000</u>
WDV on 31.01.2019	2,56,000
Less: Amount recovered	<u>2,00,000</u>
Value of perquisite	<u>56,000</u>

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

3. **Taxable gratuity:**

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

4. **Taxable leave encashment:**

Particulars	Rs.
Leave Salary received	3,30,000
<u>Less: Exempt under section 10(10AA) - Least of the following:</u>	
i. Notified limit	Rs.3,00,000
ii. Actual leave salary	Rs.3,30,000

iii. 10 months x Rs.20,000 (Assuming that dearness allowance does not form part of pay for retirement benefit)	Rs.2,00,000	
iv. Cash equivalent of leave to his credit $\left(\frac{330}{30} \times 20,000\right)$	Rs. 2,20,000	
Taxable Leave encashment		<u>2,00,000</u>
		1,30,000

Note: In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be Rs.3,00,000 (i.e. 10 x Rs.30,000) and the fourth limit Rs.3,30,000, in which case, the taxable leave encashment would be Rs.30,000 (Rs.3,30,000 - Rs.3,00,000). In such a case, the gross total income would be Rs.5,92,769.

5. **Commuted Pension:**

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

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

PROBLEM NO.11

Computation of taxable income of Mr. Harish for the A.Y.2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Basic salary (Rs. 50,000 x 12)		6,00,000
Dearness allowance @ 40% of basic salary		2,40,000
Transport allowance (Rs. 3,000 x 12)	36,000	36,000
Motor car running & maintenance charges paid by employer (See Note-1)		28,800
Expenditure on accommodation in hotels while touring on official duty is not a perquisite in the hands of employee and hence not chargeable to tax		Nil

Loan from recognized provident fund - not chargeable to tax		Nil
Value of lunch provided during office hours	24,000	
Less: Exempt under Rule 3(7)(iii) (See Note-2)	15,000	9,000
Computer provided in the residence of employee by the employer - not chargeable to tax [Rule 3(7)(vii)]		Nil
Gross Salary		9,13,800
Less: Standard Deduction u/s 16(ia)		(40,000)
Net Salary		8,73,800
Less: Deduction under Chapter VI-A		
Deduction under section 80D in respect of medical insurance premium paid by cheque amounting to Rs. 25,700 but restricted to Rs.25,000 (See Note-3)		25,000
Taxable income		8,48,800

Notes:

- As per Rule 3(2), if the motor car (whose engine cubic capacity is above 1.60 litres) is owned by the employer and is used for both official and personal purpose by the employee, then, the value of perquisite for use of motor car would be Rs. 2,400 per month.
Therefore, value of perquisite for use of motor car would be Rs. 2,400 x 12 = Rs. 28,800
- As per Rule 3(7)(iii), lunch provided by the employer during office hours is not considered as perquisite up to Rs. 50 per meal. Since, the number of working days is not given in the question, it is assumed to be 300 days during the P.Y. 2018-19. Therefore, Rs. 15,000 (i.e. 300 x Rs. 50) would be exempt and the balance Rs. 9,000 (i.e. Rs. 24,000 - Rs. 15,000) would be taxable.
- Medical insurance premium paid in cash of Rs. 4,800 is not allowable as deduction under section 80D. Further, deduction for medical insurance premium paid through cheque is restricted to Rs. 25,000, which is the maximum deduction allowable.

PROBLEM NO.12**Computation of Income from salaries of Mr. X for the A.Y.2019-20**

Basic Pay (9,000 × 9M)		81,000
H.R.A (5,000 × 9M) (W.N. 1)		45,000
Medical allowance (1,200 × 9M)		10,800
Leave travel concession	5,600	
(-) Exemption u/s 10(5)	<u>5,600</u>	0
Car facility (1,800 + 900) X 9 months		24,300
Employer contribution to R.P.F (up to 12%)		Exempted

Club facility	270
Gratuity (W.N.2)	800
Leave encashment (W.N.3)	18,000
Gross Salary	1,80,170
(-) Deduction U/s 16 (ia)	40,000
Gross total income	1,40,170
(-) Chapter VI A Deductions	
Employees' contribution to R.P.F u/s 80C (9K × 20% × 9M)	16,200
Net Taxable Income	1,23,970

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

W.N. 2: Gratuity:

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

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

W.N.3: Leave encashment:

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

18,000

PROBLEM NO.13**Computation of taxable salary of Mr. X for A.Y. 2019-20**

Particulars	Amount (Rs.)
Basic pay [(Rs. 20,000×9) + (Rs. 21,000×3)] = Rs. 1,80,000 + Rs. 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of Rs. 2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,93,464
Less: Deduction under section 16(ia) - Standard deduction of up to Rs. 40,000	40,000
Salary income chargeable to tax	3,53,464

Notes:

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

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

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

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

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

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

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

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below Rs. 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs. 5,000.

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

Note: An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts up to Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs. 5,000.

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

PROBLEM NO. 14

Computation of taxable income of Mr. Vignesh for the Assessment Year 2019-20

	Particulars	Rs.	Rs.
a)	Income from salaries (See Working Note below)		7,22,800
b)	Income from other sources		
	i) Interest on fixed deposit with a company	5,000	
	ii) Income from specified mutual fund exempt under section 10(35)	Nil	
	iii) Interest on Fixed Deposit received by minor daughter (Rs.3,000 - Rs.1,500)	1,500	6,500
	Gross total income		7,29,300
	Less: Deductions under Chapter VI-A		
	Section 80C - PPF	40,000	
	Section 80CCC	1,00,000	1,40,000
	Total Income		5,89,300
	Tax on total income		30,360
	Add: Health and Education cess @ 4%		1,214.4

Total tax liability		31,574.4
Total tax liability (rounded off)		31,570

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income under the head "salaries":		
Salary [Rs. 46,000 x 12]		5,52,000
Medical facility [in the hospital maintained by the company is exempt]		-
Rent free accommodation		
15% of salary is taxable (i.e. Rs. 5,52,000 × 15% as per Rule 3(1))		82,800
Use of dining table for 4 months [Rs. 60,000 x 10 /100 x 4 /12]		2,000
Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] - 10% is taxable which is to be reduced by actual rate of interest charged i.e. [10% - 6% = 4%]		24,000
Gift given on the occasion of wedding anniversary Rs. 4,750 is exempt, since its value is less than Rs. 5,000		-
Perquisite on sale of dining tables:		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 3 years	<u>(18,000)</u>	
Written Down Value	42,000	
Less: Amount paid by the assessee	<u>(30,000)</u>	12,000
Purchase through credit card - not being a privilege but covered by section 17(2)(iv)		10,000
Perquisite on sale of car:		
Original cost of car	2,50,000	
Less: Depreciation from 16.07.2015 to 15.07.2016 @ 20%	<u>(50,000)</u>	
	2,00,000	

Less: Depreciation from 16.07.2016 to 15.07.2017 @ 20%	(40,000)	
Value as on 14.06.2018- being the date of sale to employee	1,60,000	
Less: Amount received from the assessee on 14.06.2018	(80,000)	80,000
Gross Salary		7,62,800
Less: Standard Deduction u/s 16 (ia)		(40,000)
Net Salary		7,22,800

Note: Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case the third year of use of ambassador car is completed on 15.07.2017 where as the car was sold to the employee on 14.06.2018. The solution worked out above provides for wear and tear for only two years.

PROBLEM NO. 15

Computation of taxable salary of Mr. Anand for the Assessment Year 2019-20

Particulars	Amount (Rs.)
Basic Salary (Rs. 80,000 x 9)	7,20,000
Bonus	36,000
House Rent Allowance (Working Note 1)	1,17,000
Employer's contribution towards recognized provident fund in excess of 12% of salary [i.e., Rs. 1,10,000 - Rs. 86,400 (12% of Rs. 7,20,000)].	23,600
Gratuity (Working Note 2)	4,82,409
Uncommuted Pension [(Rs. 8,000 x 1) + (Rs. 2,000 x 2)]	12,000
Commuted Pension (Working Note 3)	2,50,000
Gross Salary	16,41,009
Less: Standard Deduction u/s 16(ia)	40,000
Less: Professional tax paid by Mr. Anand [deductible under section 16(iii)]	2,000
Taxable salary	15,99,009

Working Notes:

Particulars	Amount (Rs.)	Amount (Rs.)

1) Taxable House Rent Allowance			
Actual HRA Received:			1,35,000
As per section 10(13A), least of the following is exempt:			
(i) Actual HRA received		1,35,000	
(ii) Excess of rent paid over 10% of salary (basic pay, in this case)			
- Rent paid (Rs. 10,000 x 9)	90,000		
- Less: 10% of salary (i.e., 10% of Rs. 7,20,000)	72,000	18,000	
(iii) 50% of salary (i.e., 50% of Rs. 7,20,000) 3,60,000		3,60,000	
Least of the above 18,000			18,000
Taxable HRA			1,17,000
2) Taxable Gratuity:			
Actual Gratuity received			20,51,640
As per section 10(10), least of the following is exempt:			
(i) Statutory limit		20,00,000	
(ii) Actual gratuity received		20,51,640	
(iii) 15 days salary for each completed year of service or part thereof in excess of 6 months (i.e., $15/26 \times 80,000 \times 34$)			
Least of the above		15,69,231	15,69,231
Taxable Gratuity			4,82,409
3) Commuted Pension:			
Since Mr. Anand is a non-government employee in receipt of gratuity, exemption under section 10(10A), would be available to the extent of 1/3 rd of the amount of the pension which he would have received had he commuted the whole of the pension. Amount received (Commuted value of 75% of pension) 4,50,000			4,50,000
Amount exempt from tax = $(Rs.4,50,000 \times 100/75) \times 1/3$			2,00,000
Taxable amount			2,50,000

4)	Accumulated balance of Recognized Provident Fund (RPF):		
	Rs.6 lakh, representing the accumulated balance of RPF, received on retirement is exempt since Mr. Anand has rendered a continuous service for a period of 5 years or more (33 years and 7 months) in XYZ Ltd.		

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THE END

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7. INCOME FROM OTHER SOURCES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Solution: Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value and the stamp duty value exceeds 105% of consideration.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account on or before the date of agreement. In this case, since the payment is made by crossed cheque, the option cannot be exercised.</p> <p>Therefore, Rs. 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., Rs. 150 lakh, and the purchase price i.e., Rs. 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 105% of the consideration</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs. 4,50,000, being the higher of Rs. 50,000 and 5% of consideration.</p> <p>Therefore, Rs. 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs. 150 lakh) and the actual consideration (i.e., Rs. 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS.</p>

Case 2: Tax implications if Mr. Hari is a stock broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In case Mr. Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari and Rs.75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs.150 lakh) and the purchase price (i.e., Rs.75 lakh) would be chargeable as short term capital gains.</p> <p>It may be noted that under section 50C, there is option to adopt the stamp duty value on the date of agreement, if the date of agreement is different from the date of registration and part of the consideration has been received on or before the date of agreement.</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker.</p> <p>Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration.</p> <p>Therefore, Rs.60 lakh, being the difference between the stamp duty value of the property (i.e., Rs.140 lakh) and the actual</p>

In this case, since the payment on the date of agreement is made by crossed cheque, the option cannot be exercised.	consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh.
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PROBLEM NO. 2

Computation of "Income from other sources" of Mr. A for the A.Y.2019-20

	Particulars	Rs.
1.	Cash gift is taxable under section 56(2)(x), since it exceeds Rs. 50,000	75,000
2.	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs. 50,000	60,000
3.	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
4.	Difference of Rs. 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
5.	Difference between the stamp duty value of Rs. 23 lakh on the date of booking and the actual consideration of Rs. 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds Rs. 1,00,000 being, the higher of Rs. 50,000 and 5% of consideration	3,00,000
	Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2019-20

Particulars	Amount (Rs.)
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note: The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

PROBLEM NO. 3

Taxable/ Not taxable	Amount liable to tax (Rs.)	Reason

(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Not taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs. 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs. 10,000) and Jewellery (Rs. 45,000) exceeds Rs. 50,000. Hence, the entire amount of Rs. 55,000 shall be taxable.
(iv)	Not taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

PROBLEM NO. 4

Computation of taxable income of Mrs. Rashmi from gifts for A.Y. 2019-20

S.No.	Particulars	Taxable amount	Reason for taxability or otherwise of each gift
1.	Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable
2.	Cousin of Mrs. Rashmi's mother	18,000	Cousin of Mrs. Rashmi's mother is not a relative. Hence, the cash gift is taxable
3.	Friend	Nil	Cell phone is not included in the definition of property. Hence, it is not taxable
4.	Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the cash gift is Taxable
5.	Friend	12,000	Cash gift from friend is taxable.
	Aggregate value of gifts	55,000	

Since the sum of money received by Mrs. Rashmi without consideration during the previous year 2018-19 exceeds Rs. 50,000, the whole of the amount is chargeable to tax under section 56(2)(x) of the Income-tax Act, 1961.

PROBLEM NO. 5

Section 56(2)(x) would get attracted in case of transfer of immovable property for inadequate consideration, since the difference between the stamp duty value and sale consideration is more than

Rs. 50,000 and therefore Rs. 1,75,000 (i.e. Rs. 6,00,000 - Rs. 4,25,000) will be taxed under the head "income from other sources" in the hands of transferee, i.e., Ms. Dayama. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	Chhaya (Transferor)	Dayama (Transferee)
Capital gains		
Deemed sale consideration under section 50C	6,00,000	
Less: Indexed cost of acquisition	<u>4,00,000</u>	
	2,00,000	
Income from other sources		
Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(x)		1,75,000
Other income (computed)	<u>50,000</u>	<u>2,05,000</u>
Total income	<u>2,50,000</u>	<u>3,80,000</u>

PROBLEM NO. 6

Interest on enhanced compensation: Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates. Sec. 56(2)(viii) states that such income shall be taxable as 'Income from other sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such income. Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources for the A.Y 2019 - 20:

Particulars	Amount (Rs.)
Interest on enhanced compensation taxable under section 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x 5,00,000)	<u>2,50,000</u>
Taxable interest on enhanced compensation	<u>2,50,000</u>

PROBLEM NO. 7

S.No.	Taxable / Not Taxable	Reason
i)	Taxable	Since ABC Private Limited, a closely held company, issued 10,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of

		the issue price of the shares over the fair market value would be taxable under section 56(2)(viiB) in its hands under the head "Income from other sources". Therefore, Rs. 1,00,000 [10,000 × Rs. 10 (Rs. 130 - Rs. 120)] shall be taxable as income in the hands of ABC Private Limited under the head "Income from other sources".
ii)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of Rs. 50,000 received as advance would be chargeable to tax in the hands of Mr. A under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.
iii)	Not Taxable	As per section 56(2)(x), immovable property received without consideration by a HUF from its relative is not taxable. In the present case, since Mr. N is a member of his father's HUF, he is a relative of the HUF. Hence, Rs.10 lakhs, being the stamp duty value of house property received by HUF, without consideration, would not be chargeable to tax in the hands of the HUF. Note: However, income from such asset would be included in the hands of Mr. N under section 64(2).
iv)	Not Taxable	Car is not included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Sunil from his mother's brother, who falls within the definition of "relative". Hence, Rs.5,00,000, being the fair market value of car received without consideration from a relative is not taxable in the hands of Sunil, even though its value exceeds Rs.50,000.

PROBLEM NO. 8

- i) **False:** As per section 56(2)(x), where any sum of money is received without consideration by an individual or a Hindu undivided family from any person or persons and the aggregate value of all such sums received during the previous year exceeds Rs. 50,000, the whole of the aggregate value of such sum shall be included in the total income of such individual or Hindu Undivided Family under the head "Income from other sources".

However, in order to avoid hardship in genuine cases, certain sums of money received have been exempted, which includes, inter-alia, any sum received on the occasion of the marriage of the individual and any sum received from any relative. As such, Rs. 2 lakhs received from friends on the occasion of marriage is exempt.

However, brother of father-in-law is not included in the definition of relative. Hence, Rs. 1 lakh is taxable under the head "Income from other sources".

The statement that Rs. 3 lakh is includible in A's income is, therefore, false.

- ii) True: By virtue of section 56(2)(i), dividend received [other than dividend in respect of which dividend distribution tax is paid by the company and hence, is exempt in the hands of recipients u/s 10(34)] is always taxable under the head "Income from other sources". Even if such dividend is received by a dealer in shares or one engaged in buying/selling of shares, the same would be taxable under the head "Income from other sources".

Note: In this content, it may be noted that section 115BBDA brings to tax any income by way of aggregate dividend in excess of Rs. 10 lakhs in the hands of an individual, HUF or a firm, resident in India @ 10%.

PROBLEM NO. 9

Computation of Net total income of Mr. M for the AY 2019-20:

Particulars	Rs.	Rs.
Director's fees		2,000
Income from agricultural land in Pakistan		5,000
Ground rent from land in guntur		10,000
Interest on deposits with Industrial Finance Corporation of India		500
Dividend from a foreign company		700
Rent from sub-letting a house	26,250	
Less: Rent Payable	(12,000)	
Other Expenses	(1,000)	
Realisation expenses	(600)	12,650
Winnings from horse-races (Gross)		12,300
Interest on Securities		4,000
Family pension received	24,600	
Less: Deduction U/S.57 (1/3 rd of Rs.24,600 or Rs.15,000 whichever is lower)	(8,200)	16,400
Royalty from coal mine		20,000
Daily allowance as M.P. (Exempt U/S.10(17))		-
Salary as M.P.		36,000
Dividend from A Ltd. Declared (Exempt U/S.10(34))		-
Lottery prize received after T.D.S. (Rs.8,000 / 70%)		11,428
Interest from bank on F.D.R.		10,776
Interest on post office saving account (Exempt U/S.10(15) up to Rs.3,500)		-

Interest on Govt. securities		1,200
Interest on Public Provident Fund a/c (Exempt U/S.10(11))		-
Interest on National Savings Certificate VIII issue		3,000
Income from other Sources		1,45,954
Less: Deductions under Chapter VI A		
Re-investment of interest on NSC Bonds (Sec.80C)		(3,000)
Total Income		1,42,954

PROBLEM NO.10

Computation of Net total income of Dr. Kallam for the AY 2019-20:

Particulars	Rs.	Rs.
Income from salary		1,30,000
Income from other sources:		
Gross royalty		15,000
Add: Income from Nagarjuna university	1,500	
Gross receipts from coaching Institutes	20,000	
Examiner fees	2,500	
Income from Articles	3,000	
Income from sub-letting [(Rs.500 p.m. x 12 months) - {(Rs.900 p.m.x12 months +		
Rs.600 + Rs.900)/3} (Since 1/3 rd portion has been let out)]	1,900	
Winnings from card games	6,500	
Winning from chess	1,000	
Lottery	6,500	
Interest from Govt. of England bonds	<u>500</u>	43,400
Less: Salary to clerk	2,400	
Purchase Book	400	
Telephone Expenses	800	
Running Expenses	<u>8,000</u>	(11,600)
Total Income		1,76,800

PROBLEM NO.11

Computation of net income of Mr. X for the AY 2019-20:

Particulars	Rs.
UP Government loan (Rs.10,00,000 x 5/100)	50,000
Debentures of ABC Ltd. (40,000 x 6/100)	2,400
Debentures of PQR Ltd. [interest accrued on June 15, 2016 (Rs.25,000 x 8/100 x 6/12)]	1,000
Post office savings bank interest (up to Rs.3,500 is exempt and balance is chargeable to tax) (4,300 - 3,500)	800
SBI savings account interest	9,500
Gift	<u>1,00,000</u>
Amount taxable under the head "Income from other sources"	1,63,700
Business income	<u>5,64,000</u>
Gross total income	7,27,700
Less: Deduction under section 80TTA (i.e., savings account interest)	
Post office: Rs.800 + SBI: Rs.9,500, subject to a maximum of Rs.10,000	<u>10,000</u>
Net income	7,17,700

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THE END

8. CLUBBING PROVISIONS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

Computation of Mr. S Income

Income from business		90,000
Salary of Mrs. S (Note 1)	-	
Interest on deposits-Deepu	12,000	
Less: Exemption U/s 10 (32) (Note.2)	1,500	10,500
Receipts from painting to deepali (Note.3)	-	
Lottery Income to Chandu	6,000	
Less: Exemption U/s 10(32)	1,500	4,500
Gross total Income		1,05,000

Note:

1. Since Mr. S is not having any substantial interest in the educational institution Sec.64 1(ii) is not applicable
2. Since Mr. S is having higher income compared to Mrs. S so the income of minor child will be taxable in the hands of Mr. S.

Since income derived by Deepali is by application of skill & talent not subject to clubbing

PROBLEM NO.2

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2019-20

Particulars	Mr. A (Rs.)	Mrs. A (Rs.)	Minor Son (Rs.)
Salary income (of Mrs. A)		- 2,40,000	-
Pension income (of Mr. A) (Rs. 10,000×12)	1,20,000		
Less: Standard deduction u/s 16 (ia)	(40,000)	(40,000)	
	<u>80,000</u>	<u>2,00,000</u>	
Income from House Property [See Note (3) below]	52,000	-	-
Income from other sources			
Interest on Mr. A's fixed deposit with Bank of India (Rs. 5,00,000×9%) [See Note (1) below]	45,000		
Commission received by Mrs. A from a partnership firm, in			

which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son under sec. 64 (1A)		2,02,000	2,00,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,20,500	2,00,000	20,000

Notes:

- As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs. 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of Rs. 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.

- According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

- As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.

Therefore, the income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs. 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs. 2,40,000. Therefore, Rs. 18,500 (i.e., Rs. 20,000 – Rs. 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative

i.e., his father.

5. In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs. 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

PROBLEM NO.3

Computation of Total Income of Mr. Dhaval and Mrs. Hetal for the A.Y. 2019-20

Particulars		Mr. Dhaval (Rs.)	Mrs. Hetal (Rs.)
Salaries			4,60,000
Profits and gains of business or profession		7,50,000	
Income from other sources:			
Income by way of interest from company deposit earned by minor daughter A [See Note(d)]	30,000		
Less : Exemption under section 10(32)	1,500	28,500	
Total Income		7,78,500	4,60,000

Notes:

- a) The income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parents. Hence, Rs. 1,08,000, being the income of minor son 'B' who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.
- b) The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialised knowledge or experience will not be included in the income of his parent. Hence, in the given case, Rs. 86,000 being the income of the minor daughter 'C' shall not be clubbed in the hands of the parents.
- c) Under section 56(2)(x), cash gifts received from any person/persons exceeding Rs. 50,000 during the year in aggregate is taxable. Since the cash gift in this case does not exceed Rs. 50,000, the same is not taxable.

The clubbing provisions are attracted even in respect of income of minor married daughter. The income of the minor will be included in the income of that parent whose total income is greater. Hence, income of minor married daughter 'A' from company deposit shall be clubbed in the hands of the Mr. Dhaval and exemption under section 10(32) of Rs. 1,500 per child shall be allowed in respect of such income

PROBLEM NO.4

WN - 1: Share of profits earned by the minor child will not be subject to clubbing as the same was exempted

WN - 2: **Income from House Property:** In the absence of information actual rent is taken as G.A.V. Mr. Ram

G.A.V (Gross Annual Value) (4,000 X 8)	32,000
(-) Municipal Taxes paid	Nil

Net Annual value	32,000
(-) Deductions U/s 24	
Repairs & Maintenance (30% of 32,000)	9,600
Taxable Income	22,400

Mrs. Ram

Gross Annual Value (4,000 X 4)	16,000
(-) Municipal Taxes paid	Nil
Net Annual Value	16,000
(-) Deductions U/s 24	
Repairs 30% of 16,000	4,800
Taxable Income	11,200

Computation of Income of Mr. Ram

Particulars	Amount (Rs.)
Share of Profits [Sec.10 (2A)]	Exempted
Share of Profits earned by minor (W.N.1)	Exempted
Income from house property (W.N.2)	22,400
Interest on debentures (acquired out of own money) (1,00,000 X 14%)	14,000
Loan given by Mrs. Ram to Sumitra [Sec. 64(1)(IV)]-(60K X 10%)	6,000
Income derived by trust [As per Sec.64 (1)(VIII) (Note.3)]	6,000
Income from shares (Dividends) (Note.4)	Nil
Income from sale of original shares U/s 64(1)(IV)	50,000
Gross Total Income	98,400

Computation of Income of Mrs. Ram

Particulars	Amount (Rs.)
Share of Profits [Sec.10 (2A)]	Exempted
Share of Profits earned by minor (W.N -1)	Exempted
Income from house property (W.N.2)	11,200
Interest on debentures:	
Acquired out of own money	14,000
Gifted to Mr. Ram (Sec. 64(1)(IV)-1,00,000x 14%)	14,000
Loan given to Sumitra (15,000x 10%) (Note.7)	1,500
Income from sale of bonus shares U/s 64 (1)(IV) (Note.5)	90,000
Interest earned by the minor child from a partnership firm Sec.64 (1A) - (Note.6) (24,000- 1,500) Exempt U/s 10(32)	22,500
Gross Total Income	1,53,200

Working Note:

- Income derived by the son's minor child will not be subject to clubbing in the absence of specific provision.
- Dividend income earned by Mrs. Ram on the shares transferred by Mr. Ram will not be subjected

to clubbing as it's an exempted income.

3. Income arising out of additions made to assets given will not be subject to clubbing.
4. Income of the minor child will be added to either of parents whose income is higher.
5. Income on income not subject to clubbing.

PROBLEM NO. 5

1. Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.
2. Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.
3. Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.
4. Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

Income/loss to be clubbed in the hands of Mr. Janak

Long-term capital gains/loss

S.No.	Particulars	Rs.
1.	Sale of 100 original shares on 21.5.18	
	Sale consideration	2,20,000
	Less: Cost of acquisition (2,050 x 100) (Wn.1)	<u>2,05,000</u>
	Long term capital gain	<u>15,000</u>
2.	Shares sold to a friend on 28.02.2019	
	Sale consideration	1,70,000
	Less: Indexed cost of acquisition of 100 shares (Rs. 2,000 x 100 x 280/272)	<u>2,05,882</u>
	Long term capital loss to be included in the hands of Mr. Janak	<u>(35,882)</u>

Working Note :

Cost of acquisition is higher of 1 and 2

1. Actual cost of asset: 2,000

2. Lower of

- FMV of such asset as on 31.1.18: 2,050
- Sale consideration: 2,200

Therefore cost of acquisition = 2,050 per share

Income taxable in the hands of Mrs. Thilagam

Short-term capital gains (on sale of 100 bonus shares)

Particulars	Amount (Rs.)
Sale consideration	1,25,000
Less: Cost of acquisition of bonus shares	Nil
Short-term capital gains	1,25,000

Taxability in the hands of Mrs. Hema under the head "Income from other sources": Mrs. Hema has received shares from her friend, Mrs. Thilagam, for inadequate consideration. Even though shares fall within the definition of "property" under section 56(2)(x), the provisions of section 56(2)(x) would not be attracted in the hands of Mrs. Hema, since the difference between the fair market value of shares and actual sale consideration does not exceed Rs. 50,000.

PROBLEM NO. 6

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of Rs.2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2019-20 is computed as under:

Particulars	Smt. Rani's Capital Contribution (Rs.)	Capital Contribution Out of gift from husband (Rs.)	Total (Rs.)
Capital as at 01.04.2017	3,00,000	-	3,00,000
Investment on 10.04.2017 out of gift received from her husband	-	2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2017-18 to be apportioned on the basis of capital employed on the first day of the previous year i.e. on 01.04.2017	1,50,000		1,50,000
Capital employed as at 01.04.2018	4,50,000	2,00,000	6,50,000
Profit for F.Y.2018-19 to be apportioned on the basis of capital employed as at 01.04.2018 (i.e. 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2019-20 is Rs.1,20,000.

PROBLEM NO. 7

In the given case, Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16.04.2018 and simultaneously, his brother gifted debentures worth Rs. 6 lacs to Mr. Ramesh's wife on 18.04.2018. Mr. Ramesh's brother's minor son invested the gifted amount of Rs. 5 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately

connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includible in the hands of the parent whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Ramesh's brother's son from fixed deposits would be included in the total income of Mr. Ramesh's brother, assuming that Mr. Ramesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of Rs. 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh as per section 64(1)(iv).

This is because both Mr. Ramesh and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Ramesh, interest received by his spouse on debentures of Rs. 5 lacs alone would be included and not the entire interest income on the debentures of Rs. 6 lacs, since the cross transfer is only to the extent of Rs. 5 lacs.

Hence, only proportional interest (i.e., $\frac{5}{6}$ th of interest on debentures received) Rs. 37,500 would be includible in the hands of Mr. Ramesh.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative

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9. SET OFF AND CARRY FORWARD OF LOSSES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property		
Gross Annual Value	4,32,000	
Less: Municipal taxes paid	<u>32,000</u>	
Net Annual Value (NAV)	4,00,000	
Less: Deductions under section 24		
a) 30% of NAV	1,20,000	
b) Interest on housing loan	<u>97,000</u>	1,83,000
Income from business		
Income from business	1,75,000	
Less: Current year depreciation under section 32(1)	<u>40,000</u>	
	1,35,000	
Less: Set-off of brought forward business loss of A.Y.2016- 17 under sec. 72	<u>70,000</u>	
	65,000	
Less: Unabsorbed depreciation set-off [See Note 3]	<u>65,000</u>	Nil
Capital gains		
Long term capital gain on sale of debentures	60,000	
Less: Long term capital loss u/s 112A [See Note 1]	<u>60,000</u>	Nil
Short term capital gain on sale of land [See Note 2]	2,30,000	
Less: Unabsorbed depreciation set-off [See Note 3]	<u>90,000</u>	1,40,000
Income from other sources		

Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) – exempt under section 10(34)	-	Nil
Gross total income		3,23,000
Less: Chapter VI-A deduction		
Section 80C [Principal repayment of housing loan]		70,000
Total income		2,53,000

Notes:

1. Long term capital loss u/s 112A can set off against long term capital gain u/s 112 or 112A. So Long term capital loss to the extent of 60,000 set off against long term capital gain balance 15,000 can be carry forwarded for 8 assessment years
2. Since land is held for a period of less than 24 months, the gain of Rs.2,30,000 arising from sale of such land is a short-term capital gain.
3. Brought forward unabsorbed depreciation can be adjusted against any head of income. However, it is adjusted against business income to the extent of Rs. 65,000 and the balance of Rs. 90,000 is adjusted against short-term capital gains.

In the alternative, the balance of Rs. 90,000 may also be set-off against income from house property, in which case, the net income from house property would be Rs. 93,000 and short-term capital gains would be Rs. 2,30,000. The gross total income and total income would, however, remain unchanged.

PROBLEM NO. 2**Computation of total income of Mr. Rajat for the A.Y. 2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
1. Income from house property		
House No.1	72,000	
House No.2	(-) <u>30,000</u>	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Less: Current year loss of textile business	(-) <u>40,000</u>	
Bad debts recovered taxable under section 41(4)	60,000	
	<u>35,000</u>	
Less: Brought forward business loss of textile business for A.Y.2014-15 set off against the business income of current year	95,000	
3. Capital Gains		

Short-term capital gain	<u>95,000</u>	Nil
Gross Total Income		
Less: Deduction under Chapter VI-A		<u>60,000</u>
Under section 80C – LIC premium paid		1,02,000
Total Income		<u>10,000</u>
		<u>92,000</u>

Statement of losses to be carried forward to A.Y. 2020-21

Particulars	Rs.
Business loss of A.Y. 2016-17 to be carried forward under section 72	50,000
Long term capital loss of A.Y. 2019-20 to be carried forward under section 74	35,000

Notes:

- Share of profit from firm of Rs. 16,550 is exempt under section 10(2A).
- Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

PROBLEM NO. 3

According to section 78(1), where there is a change in the constitution of the firm, the loss relating to outgoing partner (whether by way of retirement or death) has to be excluded for the purposes of carry forward. However, this provision does not apply in the case of unabsorbed depreciation.

Accordingly, M/s. Vivitha & Co. is entitled to carry forward the losses to the extent detailed here below:

Item	Loss (Rs.)	Relatable to C	Balance eligible for carry forward (Rs.)
Business loss of A.Y.2017-18	1,20,000	30,000	90,000
Business loss of A.Y.2018-19	1,90,000	47,500	1,42,500
Long term capital loss of A.Y.2018-19	3,00,000	75,000	2,25,000

Set off of items in the hands of M/s. Vivitha & Co. for the A.Y. 2019-20

	Particulars	Rs.	Rs.
1.	Income from house property		
	Current year income	70,000	
	Less: Brought forward unabsorbed depreciation (See Note 1)	<u>70,000</u>	Nil

2.	Profits and gains of business or profession	2,20,000	
	Current year speculative business profits	<u>50,000</u>	
	Less: Current year Non-speculation loss set off (See Note 2)	1,70,000	
	Less: Brought forward business losses of earlier year	<u>1,70,000</u>	
	(2016-17 Rs.90,000 and 2017 -18 Rs. 80,000) (See Note 3)		Nil
3.	Capital gain		
	Short term (from sale of shares)		40,000
	Long-term (from sale of building)	2,10,000	
	Less: Brought forward long term capital loss of A.Y.2017-18 (See Note 4)	<u>2,10,000</u>	Nil
4.	Income from other sources	60,000	
	Current year income (before set off)	<u>50,000</u>	<u>10,000</u>
	Less: Brought forward depreciation (See Note 1)		<u>50,000</u>
	Total Income		
	Losses to be carried forward to A.Y. 2019-20		62,500
	Business loss (Rs. 1,42,500 - Rs. 80,000)		15,000
	Long term capital loss (Rs. 2,25,000 - Rs. 2,10,000)		
	Both these losses relate to A.Y. 2019-20		

Notes:

- Unabsorbed depreciation can be set off against income from any head. Hence, it will be advantageous to set off unabsorbed depreciation against income from house property and income from other sources.
- In the current year, non-speculation business loss can be set off against speculation business income.
- Brought forward non-speculation business loss can also be set off against speculation business income of current year.
- According to section 74, brought forward long-term capital losses shall be set off only against long-term capital gains of current year.
- The set-off and carry forward of losses should be most beneficial to the assessee. If the students set off brought forward depreciation against current year's business income first, then the quantum of brought forward business loss which can set off against current year's business income will be lower. This will not be beneficial to the assessee.

PROBLEM NO. 4

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

Particulars	Amount	Amount
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	(Rs.)	(Rs.)
i) Income from salary		18,000
ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of Rs. 70,000)	21,000	49,000
iii) Income from business and profession		
a) Income from business	80,000	
Less: Current year depreciation	8,000	
	72,000	
Less: Unabsorbed depreciation	9,000	63,000
b) Income from speculative business	12,000	
Less: Brought forward loss from speculative business	12,000	Nil
(Balance loss of Rs. 4,000 (i.e. Rs. 16,000 - Rs. 12,000) can be carried forward to the next year)		
iv) Income from capital gain		
Long-term capital gain on sale of Urban land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

Particulars	Amount (Rs.)
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

- i) Loss on gambling can neither be set-off nor be carried forward.
- ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- iii) Speculative business loss can set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2020-21. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

PROBLEM NO. 5

Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2019 - 20

Particulars	Amount (Rs.)
Profits and gains of business and profession	

Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: Brought forward business loss of Assessment Year 2018-19 to be set-off against business income		<u>7,50,000</u>
Business Income		Nil
Capital Gains:		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2)	<u>3,00,000</u>	2,00,000
Income from other sources:		
Cash gift received from friends - since the value of cash gift exceeds Rs. 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is exempt under section 10(34)	<u>Nil</u>	51,000
Gross Total Income		2,51,000

Notes:

- Balance brought forward business loss of assessment year 2018-19 of Rs. 5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under sec. 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per sec. 70(3).

PROBLEM NO. 6**Computation of total income and tax liability of Mr. A for the A.Y. 2019 - 20**

Particulars	Amount (Rs.)
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	<u>3,20,000</u>
	10,70,000
Less: Set off of brought forward depreciation relating to A.Y. 2017-18	<u>1,00,000</u>
Total income	<u>9,70,000</u>
Tax liability	1,06,500
Add: Health and Education cess @4%	4,260

Total tax liability	1,10,760
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Note:

1. Income from retail trade: Presumptive business income under section 44AD is Rs. 9,73,600 i.e., 8% of turnover of Rs. 1,21,70,000 assuming the amount of sales turnover was received in cash. However, the income computed as per books is Rs. 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of Rs. 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds Rs. 1 crore. Also, his case would be falling under section 44AD (4) and hence tax audit is mandatory.

2. Income from plying of light goods vehicles: Income calculated under section 44AE(1) would be Rs. $7,500 \times 12 \times 5$ which is equal to Rs. 4,50,000. However, the income from plying of vehicles as per books is Rs. 3,20,000, which is lower than the presumptive income of Rs. 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. Rs. 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	Amount (Rs.)
Income from retail trade under section 44AD [Rs. 1,21,70,000 @ 8%]	9,73,600
Income from plying of light goods vehicles under section 44AE [Rs. 7,500 x 12 x 5]	4,50,000
	14,23,600
Less: Set off of brought forward depreciation - not possible as it is deemed that it has been allowed and set off	Nil
Total income	14,23,600
Tax thereon	2,39,580
Add: Health and Education cess @ 4%	9,583
Total tax liability	2,49,163
Total tax liability (rounded off)	2,49,160

PROBLEM NO. 7

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

Particulars	(Rs.)	(Rs.)	(Rs.)
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<u>Profits and gains from business and profession:</u>			
Income from chartered accountancy profession			10,00,000
<u>Capital gains:</u>			
Long term capital gains of Rs. 10,00,000 from shares is taxable under section 112A, since STT has been paid on transfer and acquisition of shares		10,00,000	
Less: Exemption under section 112A		(1,00,000)	
		9,00,000	
Less: Short term capital loss under section 111A		(9,00,000)	Nil
Long term capital gain (other than above)		4,00,000	
Less: Short term capital loss under section 111A		<u>(1,00,000)</u>	
Less: Short term capital loss set off against long-term capital gain as per section 74		<u>(3,00,000)</u>	Nil
<u>Income from other sources:</u>			
Income of minor son Biju			
Income from company deposit includible in the hands of Mr. Jaji as per section 64(1A)	1,50,000		
Less: Exemption in respect of income of minor child u/s 10(32)	<u>1,500</u>	1,48,500	
Income of minor daughter Chitra			
- Income of Rs. 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	18,500	
Other incomes:			
- Gift of Rs. 45,000 received by her from friends of Mr. Jaji is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed Rs. 50,000		Nil	1,67,000

Total Income			11,67,000
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Losses to be carried forward to A.Y.2020-21

Particulars	Amount (Rs.)
Short term capital loss under section 111A	-
Short term capital loss (other than above) [Rs. 6,00,000 - Rs. 3,00,000]	3,00,000

Note: Alternative way for set off :

Particulars	Amount (Rs.)
Short term capital loss under section 111A [Rs.10,00,000 - Rs. 3,00,000-4,00,000]	3,00,000
Short term capital loss (other than above)	-

PROBLEM NO. 8

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

Particulars	Amount (Rs.)	Amount (Rs.)
Salaries:		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per sec. 71(1)	<u>(2,00,000)</u>	1,00,000
Profits and gains of business or profession:		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2014-15 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	<u>(5,000)</u>	40,000
Income from speculative business B	5,000	
Less: Loss from speculative business A set-off as per section 73(1)	<u>(25,000)</u>	
Loss from speculative business A to be carried forward to A.Y.2019 -20 as per section 73(2)	<u>(20,000)</u>	
Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.	20,000	
Capital Gains:		

Long term capital gain on sale of urban land.	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	<u>(75,000)</u>	
(Long-term capital loss of Rs. 82,000 on sale of listed shares on which STT is paid cannot be set-off against long-term capital gain on sale of urban land since loss from an exempt source cannot be set-off against profit from a taxable source.)	<u>(1,02,000)</u>	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y.2020-21

Particulars	Amount (Rs.)
<u>Loss from House property:</u>	50,000
As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only.	
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2027-28, in this case.	
<u>Loss from speculative business A:</u>	20,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., up to A.Y. 2023-24, in this case, as specified under section 73(4).	
<u>Loss from specified business:</u>	20,000
Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so setoff, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.	
<u>Loss from the activity of owning and maintaining race horses:</u>	2,000
Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., up to A.Y.2021-22, in this case, as specified under section 74A(3).	

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10.DEDUCTIONS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

Computation of total taxable income of Mr. A for A.Y.2019-20

Particulars	Amount (Rs.)	Amount (Rs.)
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: Though the value of eligible deductions is Rs. 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = Rs. 2,85,000 - Rs. 1,20,000 = Rs. 1,65,000.

In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction up to Rs. 50,000 under section 80TTB.

PROBLEM NO.2

Computation of deduction under section 80C for A.Y.2019-20

Particulars	Rs.
Deposit in public provident fund	1,20,000
Investment in units of mutual funds	40,000
Insurance premium paid on the life of the spouse	
(Maximum 10% of the assured value Rs.2,00,000, as the policy is taken after 01.04.2013)	20,000
Total	1,80,000
However, the maximum permissible deduction is restricted to	1,50,000

Note: As per section 80CCE, total deduction under section 80C, 80CCC and 80CCD (1) cannot exceed Rs.1,50,000

PROBLEM NO. 3

Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD:

- a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, Rs.1,80,000, being 15% of basic salary of Rs.12,00,000, will be included in Mr. A's salary.
- b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, salary for the purpose of deduction under section 80CCD, in this case, would be

Particulars	Rs.
Basic salary = Rs.1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of Rs.12,00,000 = Rs.4,80,000	
50% of DA forms part of pay = 50% of Rs.4,80,000	<u>2,40,000</u>
Salary for the purpose of deduction under section 80CCD	<u>14,40,000</u>
Deduction under section 80CCD(1) = 10% of Rs.14,40,000 (as against actual contribution of Rs.1,80,000, being 15% of basic salary of Rs.12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of up to Rs. 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is Rs. 36,000 (Rs. 1,80,000 - Rs. 1,44,000).	36,000

Rs.1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of Rs. 1,50,000 under section 80CCE. Rs. 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of Rs. 1,50,000 under section 80CCE.

In the alternative, Rs. 50,000 can be claimed as deduction under section 80CCD(1B). The balance Rs. 1,30,000 (Rs. 1,80,000 - Rs. 50,000) can be claimed as deduction under section 80CCD(1).

- c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to Rs. 1,44,000, even though the entire employer's contribution of Rs. 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of Rs. 1,44,000 to

pension scheme would be outside the overall limit of Rs. 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of Rs. 1,50,000.

PROBLEM NO.4**1. Deduction available to Mr. A under Chapter VI-A for A.Y.2019-20**

Section	Particulars	Rs.	Rs.
80C	Deposit in public provident fund	1,20,000	
	Life insurance premium paid Rs. 15,000 (deduction restricted to Rs. 12,000, being 10% of Rs. 1,20,000, being sum assured, since the policy was taken after 31.03.2012)	12,000	
	Five year term deposit with bank	30,000	
	Total	1,62,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, Rs.1,30,000 [Rs.1,80,000 – Rs.50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [Rs.1,80,000 x 10/15] [See Note (i)]		1,20,000
	Total		2,70,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), Rs.2,70,000, but restricted to		1,50,000
80CCD(1B)	Rs.50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note (ii)]		1,20,000
Deduction under Chapter VI-A			3,20,000

Notes:

- i) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs.1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. A to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs.1,30,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary.
- ii) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary.
- iii) If the contribution towards NPS is Rs.1,20,000, here again, it is beneficial for Mr. A to first claim deduction of Rs.50,000 under section 80CCD(1B) and the balance of Rs.70,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs.1,50,000 under section 80CCE. In any case, the aggregate deduction of Rs.2,20,000 [i.e., Rs.1,50,000 under section 80C and Rs.70,000 under section 80CCD(1)] cannot exceed the overall limit of Rs.1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs.3,20,000.

PROBLEM NO.5

S.No.	Date of issue of policy	Person insured	Actual capital Sum assured	Insurance premium paid during 2018-19	Deduction u/s 80C for A.Y.2019-20	Remark (restricted to % of sum assured)
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i)	01.04.2011	Self	5,00,000	40,000	40,000	20%
ii)	01.05.2014	Spouse	1,50,000	20,000	15,000	10%
iii)	01.06.2015	Handicapped Son (Sec. 80U disability)	4,00,000	80,000	60,000	15%
Total					1,15,000	

PROBLEM NO.6**Computation of deduction under section 80D for the A.Y. 2019-20**

No.	Particulars	Amount (Rs.)
1.	i) In respect of premium paid for insuring the health of -	
	➤ Self	10,000
	➤ Spouse	8,000
	➤ Dependant son	4,000
	Total	<u>22,000</u>
	ii) In respect of expenditure on preventive health checkup of -	
	➤ Self	22,000
	➤ Spouse	
	Total	25,000
	Restricted to [Rs. 25,000-Rs. 22,000, since maximum deduction is Rs. 25,000]	2,000
Aggregate of deduction (I+II) under (1) restricted to	<u>3,500</u>	
	3,000	
2.	i) In respect of payment towards health insurance premium for his mother	18,000
	ii) In respect of preventive health checkup of his mother	2,000
	iii) Medical expenditure for father would only be eligible for deduction [See Note below]	
	Amount of deduction under (2)	<u>15,000</u>
		<u>35,000</u>
Total deduction under section 80D [(1) + (2)]		60,000

Note: Irrespective of the fact that the mother of Arjun is a very senior citizen the deduction under section 80D would not be available to him in respect of the medical expenditure incurred for his mother, since Mr. Arjun has taken a health insurance policy for his mother.

PROBLEM NO.7**Deduction allowable under section 80D for the A.Y.2019-20**

Particulars	Actual Payment (Rs.)	Maximum deduction allowable (Rs.)

A.	Premium paid and medical expenditure incurred for self and spouse	20,000	20,000
	i) Medical insurance premium paid for self and spouse	3,600	3,600
	ii) Contribution to CGHS		
	iii) Exp. on preventive health check-up of self & spouse	<u>3,000</u>	<u>1,400</u>
		<u>26,600</u>	<u>25,000</u>
B.	Premium paid and medical expenditure incurred for father, who is a senior citizen		
	i) Mediclaim premium paid for father, who is over 60 years of age		
	ii) Expenditure on preventive health check-up of father	47,000	47,000
	Total deduction under section 80D (25,000 + 30,000)	<u>4,000</u>	<u>3,000</u>
		<u>51,000</u>	<u>50,000</u>
			<u>75,000</u>

Notes:

- The total deduction under A. (i), (ii) and (iii) above should not exceed Rs.25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs.1,400, being (Rs.25,000 - Rs.20,000 - Rs.3,600).
- The total deduction under B. (i) and (ii) above should not exceed Rs.50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to Rs.3,000, being (Rs.50,000 - Rs.47,000).
- In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is Rs.4,400 (i.e., Rs.1,400 + Rs.3,000), which is less than the maximum permissible limit of Rs.5,000.

PROBLEM NO. 8**Deduction allowable under section 80D for the A.Y.2019-20**

Particulars	Amount (Rs.)	Amount (Rs.)
i) Medical insurance premium paid for self, spouse and dependent children	22,000	
ii) Contribution to CGHS	6,000	
	28,000	
restricted to		25,000
iii) Mediclaim premium paid for mother, who is over 60 years of age	33,000	
iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
	53,000	

restricted to		50,000
		75,000

PROBLEM NO. 9

Computation of eligible deduction under Chapter - VI A of Mr. Roma for A.Y. 2019-20

Particulars	Rs.	Rs.
Deduction under section 80C		
Life insurance premium paid Rs. 35,000	35,000	
(allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 01.04.2012)		
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of Rs. 1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of Rs. 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid Rs. 52,000 for parents, being senior citizen, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

PROBLEM NO. 10

- i) Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.
- ii) Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of Rs. 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be Rs. 1,25,000.

PROBLEM NO. 11

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.
Deduction under section 80E = Rs.20,000 + Rs.10,000 + Rs.18,000 = Rs.48,000

PROBLEM NO.12**Computation of eligible deduction under Sec.80EE for the A.Y. 2019-20**

Particulars		Amount
Interest deduction for A.Y.2019-20		
(i)	Deduction allowable while computing income under the head "Income from house property"	
	Deduction under section 24(b) [35,00,000 × 11%]	3,85,000
		2,00,000
(ii)	Restricted to	
	Deduction under Chapter VIA from Gross Total Income	
	Deduction under section 80EE (3,85,000 - 2,00,000)	1,85,000
	Restricted to	50,000

PROBLEM NO.13**Computation of Taxable Income of Mr. A for the A.Y.2019-20**

Income from Salaries	1,76,000
Income from PGBP	40,000
Income from Capital Gains	50,000
Income from Other Sources	22,000
Total	2,88,000
(-) Set off of loss from House Property (Sec. 71)	10,000
Gross Total Income	2,78,000
(-) Chapter IV A deductions:	
1. 80D (Mediclaime)	6,000
2. 80DD (Medical Treatment)	
3. 80E (Education Loan)	75,000
4. 80G:	25,000
Prime ministries drought relief fun (50%)	
Swachh bharat kosh	

Jawaharlal Nehru memorial fund (50%)	500
Clean Ganga Fund (100%)	2,000
* Govt. for family planning (12,200 x 100%)	1,000
*Approved Charitable Institutions	1,200
5. 80C (PPF)	12,200

	20,000
Taxable Income	1,35,100

***Adjusted Total Income**

Gross Total Income	2,78,000
Less: LTCG (112)	30,000
All deductions except 80G (6,000 + 75,000 + 25,000 + 20,000)	1,26,000
Adjusted total Income	1,22,000

Deduction is to be calculated for the above two donations in the following manner:

The aggregate amount of 20K (17K+3K) should not exceed 10% of the adjusted total income 1,22,000 i.e. 12,200.

∴ As an assessee, I would like to make use of this limit to a donation which qualifies for a higher percentage i.e., 100%

Taxable Income (1,35,100)			
↓	↓	↓	
Lottery Income (115BB)	LTCG (112A)	Other Income	95,100
10,000	30,000	(-) Basic Exemptions	<u>2,50,000</u>

(*) Here, there is unexhausted basic exemption limit is Rs.1,54,900 (2,50,000-95,100). It can be set off from long term capital gain.

Computation of tax liability

Tax on Total Income	3,000
(-) Rebate u/s 87A	<u>(2,500)</u>
Total	500
(+) Health and Education Cess @ 4%	<u>20</u>
Total	520

PROBLEM NO. 14

The deduction under section 80GG will be computed as follows:

- i) Actual rent paid less 10% of total income $1,44,000 - (4,60,000 \times 10\%) = 98,000$
 - ii) 25% of total incomes $= 4,60,000 \times 25\% = 1,15,000$
 - iii) Amount calculated at Rs. 5,000 p.m. $= 12 \times 5,000 = 60,000$
- Deduction allowable (least of i, ii and iii) = 60,000

PROBLEM NO.15

1. An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.
2. Therefore, **ABC Ltd. is eligible for a deduction of Rs.2,25,000** under section 80GGB in respect of sum of Rs.2 lakh contributed to an electoral trust and Rs.25,000 incurred by it on advertisement in a brochure of a political party.
3. It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of Rs.25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

PROBLEM NO.16

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

- I. If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = Rs. 24,000 \times 12 \times 75 [See Working Note below] = Rs. 2,16,00,000

Deduction under section 80JJAA = 30% of Rs. 2,16,00,000 = Rs. 64,80,000.

Working Note: Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 01.08.2018 who do not participate in recognized provident fund	50	
Regular employees employed on 01.05.2018, since their total monthly emoluments exceed Rs. 25,000	125	
Regular employees employed on 01.09.2018 since they have been employed for less than 240 days in the P.Y.2017-18.	100	275
Number of "additional employees"		75

Note: Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 01.05.2018 also do not

qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 01.09.2018 do not qualify as additional employees for the P.Y.2018-19, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 01.04.2018 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y. 2018-19 is deemed to be the additional employee cost.

II. If Mr. A is engaged in the business of manufacture of apparel

If Mr. A is engaged in the business of manufacture of apparel, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 01.09.2018, since they have been employed for more than 150 days in the previous year 2018-19.

Additional employee cost = Rs. 2,16,00,000 + Rs. 24,000 × 7 × 100 = Rs. 3,84,00,000

Deduction under section 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000

PROBLEM NO.17

Computation of Taxable Income of Mr. X for the A.Y.2019-20

Income from Salaries (3,000×12)		36,000
Income from Capital Gains		1,45,000
<u>Income from other sources:</u>		
Govt. Securities		2,000
Bank Deposits		34,000
Gross Total Income		2,17,000
<u>(-) Chapter VI A Deductions:</u>		
Public Provident fund U/s 80C	10,000	
Deduction U/s 80U (Restricted to 72,000) (36,000 + 2,000 + 34,000)	1,25,000	72,000
Taxable Income		1,45,000

Note:

1. Deductions under chapter VI A are not available for LTCG.
2. As the taxable income is less than the basic exemption. Therefore no tax liability will arise

PROBLEM NO.18

Computation of total income and tax payable by Mr. Chaturvedi for the A.Y. 2019-20

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A:		

Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of Rs. 51,000 is paid by otherwise than by cash. The deduction would be restricted to Rs. 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578
Total income (including long term capital gains)		5,80,578
Total income (rounded off)		5,80,580
Tax on total income (including long-term capital gains of Rs. 2,45,000) LTCG Rs. 2,45,000 x 20%		49,000
Balance total income Rs. 3,35,580		1,779
		50,779
Add: Health and Education cess @ 4%		2,031
Total tax liability		52,810

Notes:**1. Computation of deduction under section 80G:**

Particulars	Rs.
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTA	2,20,000
	3,53,240
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section 80G	35,324
Deduction under section 80G: 50% of Rs. 35,324	17,662

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding Rs. 2,000. Therefore the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.

Deduction of up to Rs.50,000 under section 80TTB is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.

PROBLEM NO.19**Computation of total income of Mr. Gurnam for the Assessment Year 2019-20**

Particulars	Rs.	Rs.	Rs.
Professional Income (computed)			5,50,000
Interest on saving bank deposit			<u>14,500</u>
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			

Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- major son	25,000		
- self Rs. 22,500 restricted to 10% of Rs. 2,00,000	<u>20,000</u>	45,000	
Under section 80D (See Note 3)			
Premium paid for health insurance of self and wife by Cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 5)			
Interest on savings bank account Rs. 14,500 restricted to		10,000	
			<u>91,000</u>
Total Income			4,73,500

Notes:

1. As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of Rs. 25,000 is allowable in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of Rs. 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

2. As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of Rs. 26,000 paid for health insurance of self and wife, deduction would be restricted to Rs. 25,000. Since the limit of Rs. 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of Rs. 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of Rs. 5,000.

3. No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding Rs. 2,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein.
4. As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, a deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is Rs. 14,500.

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11. PROBLEMS ON TOTAL INCOME**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

Computation of total income of Ms. Vaishali for the A.Y.2019-20

Particulars	Rs.	Rs.
Income from salary (computed)		3,45,000
Income from other sources: Bank Interest (Fixed Deposit)		15,000
Gross Total Income		3,60,000
Less: Deductions under Chapter VI-A		
Section 80C: Contribution to recognized provident fund	60,000	
Section 80D: Medical insurance premium (Note -2)	7,000	
Section 80DD: Medical expenditure for dependent sister with disability (flat deduction irrespective of expenditure incurred)	75,000	1,42,000
Total income		2,18,000

Note:

1. Tax on non-monetary perquisite paid by employer is exempt in the hands of employee under section 10(10CC).
2. Medical insurance premium paid by cheque for self is allowed as deduction under section 80D.

PROBLEM NO.2

Computation of total income of Balamurugan for the year ended 31.03.2019

Particulars	Rs.	Rs.
Salaries	60,000	
Less: Loss from house property	(15,000)	
Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off	<u>(1,35,000)</u>	
Net business loss to be set-off against long-term capital gain	(35,000)	
Capital Gains		
Long term capital gain	70,000	

Less: Business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

Computation of tax liability

Particulars	Amount (Rs.)
On total income of Rs. 80,000 (excluding lottery winning)	Nil
On lottery winnings of Rs. 5,00,000 @ 30%	1,50,000
Add: Health and Education Cess @ 4%	6,000
Total tax liability	1,56,000

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of Rs. 6,000 (Rs. 1,56,000 – Rs. 1,50,000) is less than Rs. 10,000, advance tax liability is not attracted.

Notes:

- The basic exemption limit of Rs. 2,50,000 has to be first exhausted against salary income of Rs. 45,000. The unexhausted basic exemption limit of Rs. 2,05,000 can be adjusted against long-term capital gains of Rs. 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining installments of advance tax which are due. Where no such installment is due, the entire tax should be paid by 31st March, 2019. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

PROBLEM NO.3

Computation of total income and tax liability of Shri Madan for the A.Y.2019-20

Particulars	Rs.	Rs.
Income from house property (Refer Note 1)		80,500
Business Income		1,00,000
Long-term Capital Gains		50,000
Income from Other Sources		1,00,000

Total Income		3,30,500
Computation of tax liability		
Long-term Capital Gain of Rs. (50,000 - 19,500*) @ 20%		6,100
Other income of Rs. 2,80,500 (Refer Note 2)		Nil
		6,100
Less: Rebate under section 87A		2,500
		3,600
Add: Health and Education Cess @ 4%		144
Tax liability		3,744

* Unexhausted Basic Exemption Limit: Rs. 3,00,000 - 2,80,500 = Rs. 19,500

Computation of total income and tax liability of Smt. Hema for A.Y. 2019-20

Particulars	Rs.	Rs.
Short-term Capital Gains	2,00,000	
Less: Business loss	75,000	1,25,000
Income from Other Sources		50,000
Total Income		1,75,000
Tax liability (Since total income is less than basic exemption limit of Rs. 2,50,000)		Nil

Notes:

- As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual.

Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01.10.2017 is includible in the hands of Shri Madan.

Computation of Income from House Property

Particulars	Madan (Rs.)	Hema (Rs.)
	Period	Period
	(01.04.2018 - 30.09.2018)	(01.10.2018 - 31.03.2019)

Gross Annual Value (Rs. 10,000 × 6 months) (Rental income taken as GAV in the absence of information relating to Municipal Value, fair value and standard rent)	60,000	60,000
Less: Municipal taxes paid (paid in June for first half year only)	5,000	Nil
Net Annual Value (NAV)	55,000	60,000
Less: Deduction under section 24(a), 30% of NAV	16,500	18,000
Income from House Property	38,500	42,000
Income from House Property of Hema to be clubbed in the hands of Madan as per section 64(1)(vi)	42,000	
Income from house property	80,500	

2. Since the threshold limit for an individual who is having age of 60 years is Rs.3,00,000, no tax shall be payable on a lower amount.

PROBLEM NO.4**Computation of taxable income of Mrs. Deepali for the A.Y.2019-20**

Particulars	Rs.	Rs.
Income from Salaries		
Basic salary (Rs. 60,000 × 12)		7,20,000
Dearness Allowance (40% of basic salary)		2,88,000
Perquisite value of Concessional Accommodation taken on hire. Lower of: (i) actual rent (Rs. 15,000 × 12) Rs.1,80,000 (ii) 15% of salary (15% of Rs. 7,20,000) Rs.1,08,000 (assuming that dearness allowance does not form part of pay for retirement benefits)	1,08,000	
Less: Rent recovered (Rs. 2,000×12)	24,000	84,000
Perquisite value of concessional loan [Rule 3(7)(i)] [Rs. 20,000 (10% of Rs. 2,00,000) – Rs. 10,000]		10,000
Gross Salary		11,02,000
Less: Standard Deduction U/s 16 (ia)		40,000
Deduction under section 16(iii) - Professional tax paid		6,000

		46,000
Net Salary		10,56,000
Income from house property		
Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information)	1,80,000	
Less: Deduction under section 24		
(a) 30% of Rs. 1,80,000	Rs. 54,000	
(b) Interest on loan	Rs. 1,75,000	
	2,29,000	(49,000)
Gross Total Income		10,07,000
Less: Deductions under Chapter – VIA		
80C – Repayment of housing loan		1,00,000
Total Income		9,07,000

Computation of tax liability for A.Y. 2019-20.

Tax on Rs. 9,07,000	Rs.
Upto Rs. 2,50,000	Nil
250,001 -5,00,000 - 5%	12,500
5,00,001 – 9,07,000 - 20%	81,400
	93,900
Add: Higher & Education cess @ 4%	3,756
Total Tax Liability	97,656
Total Tax Liability (Rounded off)	97,660

Note: Mrs. Deepali cannot claim benefit of self-occupation (i.e., taking the annual value as nil and claiming a higher loss of Rs. 2,00,000) in respect of the house property owned and occupied by her, since the same has been given on rent to her employer, who has allotted the same as residence for Mrs. Deepali.

PROBLEM NO.5

Computation of total income of Ms. Rachna for the A.Y.2019-20.

Particulars	Rs.	Rs.
Business Income (Refer Note -1)		17,15,500
Capital Gain on Sale of land:		
Sale consideration (Refer Note- 2)	90,00,000	
Less: Indexed Cost of Acquisition (Rs. 6,00,000 × 280/100) (Refer Note: 3)	16,80,000	73,20,000
Gross Total Income		90,35,500
Less: Deduction under Chapter VI-A		
Section 80CCC: Contribution to approved pension fund	20,000	
Section 80D: Medical insurance premium paid for self and spouse Rs. 35,000, deduction limited to Rs. 25,000	25,000	
Section 80E: Interest paid on education loan for studies of son	20,000	65,000
Total Income		89,70,500

Computation of tax liability of Ms. Rachna for the A.Y. 2019-20

Particulars	Rs.	Rs.
Agricultural income (Profit from nursery business)	4,00,000	
Non-agricultural income	89,70,500	
	93,70,500	
Step 1: Tax on Rs.93,70,500 (aggregate of agricultural and non agricultural income)		
Long-term capital gain (Rs. 73,20,000 × 20%)	14,64,000	
Tax on balance income of Rs. 20,50,500	<u>4,27,650</u>	18,91,650
Step 2: Tax on Rs. 6,50,000 (aggregate of agricultural income and basic exemption limit of Rs. 2,50,000)		42,500
Step 3: Tax on non-agricultural income (Difference of step 1 & Step 2)		18,49,150
Add: surcharge @ 10%		1,84,915
		20,34,065

Add: Health and Education Cess @ 4%		81,363
Total Tax Liability		21,15,428
Total tax liability (rounded off)		21,15,430

Notes:

1.

Computation of Business Income**Trading Account for the year ended 31.03.2019**

Particulars	Rs.	Particulars	Rs.
To Purchases (Rs. 80 lacs - Rs. 30 lacs + Rs. 70 lacs)	1,20,00,000	By Sales	1,00,00,000
To Gross Profit	20,00,000	By Closing Stock (Assuming Market value is less than cost of shares)	40,00,000
	1,40,00,000		1,40,00,000
Particulars		Rs.	Rs.
Gross Profit as per Trading Account			20,00,000
Less: Expenses on net connectivity		20,000	
Salary		2,00,000	
Rent (Rs. 2,500 x 6)		15,000	
Depreciation on Computers (Rs. 60,000 x 40% x 50%) (Assuming used for less than 180 days in the year)		12,000	2,47,000
			17,53,000
Less: Contribution to Scientific Research Institution under section 35(1) (Rs. 25,000 x 150%)			37,500
Business Income			17,15,500

2.

Computation of consideration on sale of land

Particulars	Rs.
Value of cash received	20,00,000
Market value of shares received	70,00,000

Total Sale consideration	90,00,000
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3. Since the property was acquired by Ms. Rachna by way of gift, the cost of acquisition will be cost to the previous owner.
As per the definition of indexation cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit will be available only from the previous year in which Rachna first held the asset i.e. P.Y. 2001-02.
4. Deduction under section 80C is not provided in respect of Rs. 5 lacs subscription to equity shares forming part of eligible issue of capital by a public company, assuming it has been sold in the current year.
5. Repayment of principal portion of education loan does not qualify for deduction under Section 80E.
6. Income from seedlings grown in nursery is exempt under section 10(1) as it is agricultural income. However, the same would be aggregated for rate purposes.

PROBLEM NO.6

Computation of total income of Dr. Shuba for the A.Y.2019-20.

Particulars	Rs.	Rs.	Rs.	Rs.
Income from house property:				
Annual value of self-occupied house		Nil		
Less: Interest on loan [Rs. 45,000, being 3/4th of Rs. 60,000] (Restricted to Rs. 30,000)		<u>(30,000)</u>		(30,000)
Income from profession:				
Sale of medicine	2,50,000			
Consultation fees	50,000			
Visiting fee	2,00,000			
Total income		5,00,000		
Less: Expenses				
Medicine purchases	47,000			
Medical journal	5,000			
Vehicle expenses (3/4th)	37,500			
Interest on loan (3/4th)	16,750			
Interest on housing loan (1/4th)	15,000			

Depreciation				
Surgical instrument(15% of Rs. 50,000)	7,500			
Vehicle (3/4th of 15% of Rs. 4,00,000)	45,000			
Total expenses		1,73,750		
			3,26,250	
Income from other sources				
Family Pension	2,80,000			
Less: Deduction under section 57(iiia) [33 $\frac{1}{3}$ % or Rs. 15,000, whichever is lower]	15,000	2,65,000		
Lecture fees		5,000		
Savings bank interest		1,000		
Interest on bank FD in the name of minor daughter [Rs. 1,50,000 \times 9% \times 9/12] Less: Exempt under section 10(32)	10,125 1,500	8,625		
Winnings from lottery		50,000		
			3,29,625	
Gross Total Income				6,25,875
Less: Deductions under Chapter VI-A				
Under section 80C				
Repayment of housing loan (Rs. 48,000 \times $\frac{3}{4}$)			36,000	
Under section 80D				
Medical Insurance Premium Own (Senior Citizen, hence fully allowed)		16,000		
Mother (Senior Citizen, hence fully allowed since premium is less than Rs. 50,000)		16,000		
Under section 80TTB				

Interest on deposit in a saving account of bank		9,625	41,625	
Total deduction				(77,625)
Total income				5,48,250
Total Income (Rounded - off)				5,48,250

Notes:

1. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to Rs. 30,000.
2. Since ¼th portion of house is used for business purposes, therefore, ¼th share of interest paid is deductible while computing business income.
3. Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
4. Term deposit of Rs. 1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (¾th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be Rs. 36,000 (i.e. ¾th of Rs. 48,000).
5. Depreciation on the portion of the house used for business purposes has not been provided since the written down value is not given in the question.

PROBLEM NO.7**Computation of total income of Mr. Mahesh for the A.Y.2019-20.**

Particulars	Rs.
Income from salary (as per note 3)	3,70,053
Business Income (assuming that his wife carries on the business of hiring of cars) [Income of wife from hiring of car clubbed under section 64(1)(iv)]	30,000
Gross Total Income	4,00,053
Less: Deduction under section 80C (as per note 5)	1,10,000
Total income	2,90,053
Total income (rounded off)	2,90,050

Computation of tax liability of Mr. Mahesh for the A.Y.2018-19

Particulars	Rs.	Rs.

Step 1		
Add: Agricultural income and Non-agricultural income (Rs. 45,000 + Rs. 2,90,050)		
Tax on Rs. 3,35,050	4,253	
Step 2		
Add: Basic exemption limit to agricultural income (Rs. 2,50,000 + Rs. 45,000)		
Tax on Rs. 2,95,000	2,250	
Step 3		
Tax on non-agricultural income (Tax under step 1 - Tax Under step 2)		2,003
(Rs. 4,253 - Rs. 2,250)		
Less: Rebate under section 87A (Rs. 2,500 or Total Income Whichever is lower)		2,003
Tax liability		Nil

Notes:**1. Valuation of rent free house**

Particulars	Rs.
Basic salary	1,75,000
D.A. (not to be considered as it is not forming part of salary)	Nil
Commission on extra production	12,000
Bonus	8,000
Special allowance	18,000
Education allowance (See Note 4)	6,400
Medical allowance	5,000
Salary for the purpose of valuation of rent-free house	2,24,400
Value of rent-free house = 15% of Rs. 2,24,400	33,660

2. Valuation of perquisite of CD Player given for use by the employee

Taxable value of this perquisite is 10% p.a. of cost of the CD player w.e.f. 1.1.2018 (i.e. for 90 days)

10% of Rs. 20,000 = $2,000 \times 90/365$ = Rs. 493

Provision of laptop by the employer is a tax-free perquisite.

3. Income from salary

Particulars	Rs.	Rs.
Basic pay		1,75,000
Dearness allowance		1,40,000
Bonus		8,000
Commission		12,000
Special Allowance		18,000
Taxable education allowance (See Note-4 below)		6,400
Medical Allowance		5,000
Total		3,64,400
Add : Taxable perquisites :		
1. Rent free accommodation (Note 1)	33,660	
2. Electricity Bill paid by employer	11,500	
3. CD Player given by employer (Note 2)	493	45,653
Gross salary		4,10,053
Less: Standard Deduction u/s 16(ia)		(40,000)
Taxable salary		3,70,053

4. Education allowance exempt under section 10(14)

Education allowance of Rs. 100 per month per child for a maximum of 2 children plus hostel allowance of Rs. 300 per month per child for a maximum of 2 children is exempt. i.e. (Rs. 100×2×12) + (Rs. 300×2×12) =Rs. 2,400 + Rs. 7,200 = Rs. 9,600

Therefore, taxable education allowance would be Rs. 16,000 – Rs. 9,600 = Rs. 6,400.

5. Investments/payments deductible under section 80C

Particulars	Rs.
Investment in notified mutual fund	25,000
Investment in PPF	15,000
Investment in 5 year Time Deposit in Post Office	10,000
Tuition fees of children (assumed to be paid to an eligible educational institution – hence qualifies for deduction under section 80C)	60,000
	1,10,000

The total deduction under section 80C cannot exceed Rs.1,50,000. This restriction is contained in section 80CCE.

Therefore, the permissible deduction under section 80C would be Rs.1,10,000

6. **Taxability of gift received from grandfather:** Gift from a relative is not taxable under section 56(2)(x). Grandfather is a relative as per the definition of "relative" given in the Explanation to section 56(2)(x) and hence Rs. 25,000, being gift received from grandfather, is not taxable.

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PROBLEM NO.8

Computation of total income of Kamal for the A.Y. 2019-20

Particulars	Rs.	Rs.
Salaries		
Salary including dearness allowance		5,00,000
Bonus		15,000
Perquisites:		
i) Salary of servant provided by employer [As per Rule 3(3), the actual cost to employer is the value of perquisite]	12,000	
ii) Free gas, electricity and water [As per Rule 3(4), the amount paid by employer on this account is the value of perquisite]	14,500	
iii) Facility of Laptop provided by employer is an exempt perquisite, whether the same is used for personal or official purpose or both [Rule 3(7)(vii)].	Nil	26,500
Gross salary		5,41,500
Less: Standard Deduction u/s 16(ia)		40,000
Income from salary		5,01,500
Income from house property		
Gross Annual Value (GAV) (Lease rental is taken as GAV, in the absence of other information) (Rs. 5,500 × 12)	66,000	
Less: Municipal taxes paid	4,500	
Net Annual Value (NAV)	61,500	

Less: Deductions under section 24		
i) 30% of NAV	Rs. 18,450	
ii) Interest on loan from SBI @15% of Rs. 1,60,000	<u>Rs. 24,000</u>	
	42,450	19,050
Profits and gains of business or profession		
Income from share speculation business	15,000	
Less: Loss from cotton speculation business	20,200	
Net loss from speculation business to be carried forward	(5,200)	
[As per section 73, any loss from speculation business can be setoff only against income from another speculation business. Hence, the net loss from speculation business in the current year has to be carried forward to the next year for set-off against speculative business income for that year. Such loss can be carried forward for a maximum of four succeeding assessment years]		
Income from Other Sources		
i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal, since as per section 64(1A) all income of a minor child is includible in the hands of the parent (Rs. 30,000 x 15%) [During the P.Y.2014-15, Kamal's son is still a minor] Less: Exempt under section 10(32)	4,500 <u>1,500</u> 3,000	
ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of Mr. Kamal as per section 64(1) [Rs. 50,000 x 15%]	7,500	
iii) Gift of Rs. 25,000 each received from four friends on the occasion of his birthday [taxable under section 56(2)(x), since the aggregate amount received during the year exceeds Rs. 50,000]	1,00,000	1,10,500
Gross Total Income		6,31,050
Less: Deduction under section 80C		
a) Contribution to Public Provident Fund	10,500	
b) Unit Linked Insurance Plan	6,000	
c) Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction under section 80C.		

The deposit has to be in Mr. Kamal's own name.	Nil	
d) Life Insurance Premium [paid to insure life of married daughter is allowable] [In respect of policies taken on or after 01.04.2013, the deduction is restricted to 10% of minimum capital sum assured. Hence, in this case, deduction is restricted to 10% of Rs. 2,00,000]	20,000	36,500
Total Income		5,94,550

Notes:

- No separate deduction is available for insurance of Rs. 1,275, while computing income under the head "Income from house property".
- It is assumed that Rs. 1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction under section 80C. Interest under section 24 has, accordingly, been calculated at the rate 15% of Rs. 1,60,000.
- It is assumed that Mr. Kamal's total income, before including minor's income, is higher than that of his spouse.

PROBLEM NO.9**Computation of total income of Mr. Rankaj for the A.Y. 2019-20**

Particulars	Rs.
Income from salaries (See Working Note 1)	1,000
Capital gains (See Working Note 2)	5,58,000
Income from other sources (See Working Note 3)	82,500
Gross Total Income	6,41,500
Less: Deductions under Chapter VI-A (See Working Note 4)	83,500
Total Income	5,58,000

Working Notes:**1. Income from salaries**

Particulars	Rs.
Salary for 3 months received from Government of India (Rs. 6,000 x 3)	18,000
Pension for 5 months from July 2018 to Nov 2018 @ Rs. 3,000 p.m. (Rs. 3,000 x 5)	15,000

Pension for 4 months from Dec 2018 to March 2018 @ Rs. 2,000 p.m. (Rs. 2,000 x 4)	8,000
	41,000
Less: Standard deduction	(40,000)
	1,000

Note: Commuted value of pension of Rs. 1,20,000 received from the Central Government is fully exempt under section 10(10A).

2. Capital gains

Particulars	Rs.
Long term capital gains on sale of house plot at Ernakulam on 01.02.2019	
Sale consideration received is Rs. 5,00,000. However, since the value assessed by the stamp valuation authority (i.e. Rs. 6,00,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C	6,00,000
Less: Indexed cost of acquisition (Rs. 15,000 x 280/100)	42,000
	5,58,000

3. Income from other sources

Particulars	Rs.	Rs.
Interest on bank FDRs		72,500
Dividend of Rs. 15,000 on units of Mutual Fund [exempt under section 10(35)]		-
Interest on maturity of NSC	50,000	
Less: Interest already shown on accrual basis in the past returns	(40,000)	10,000
		82,500

4. Deductions under Chapter VI-A

Particulars	Rs.	Rs.
Under section 80C		
Purchase of NSC	30,000	
Tax Magnum units of Mutual Fund of SBI	80,000	1,10,000

Under section 80D		
Medical insurance premium paid Rs. 22,500 (assumed to have been paid by cheque)		22,500
		1,32,500
Restricted to Gross total income (excluding Long Term Capital Gains)		<u>83,500</u>

Investment in approved modes

Section 54F (by constructing a new house)

In order to avail exemption under section 54F by constructing a new residential house, the assessee should construct a residential house within three years from the date of transfer of house plot. To avail the maximum exemption, the entire net consideration received from sale of house plot should be invested. If only part of the net consideration is invested, then proportionate exemption of long term capital gains would be available i.e

$$\text{Long term capital gain} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

Section 54EC: In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. Rs. 5,58,000, within six months from the date of sale of house plot, in bonds of National Highways Authority of India (NHAI) or Rural Electrification Corporation Ltd. (RECL). If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

PROBLEM NO.10

Computation of total income of Mr. X for A.Y.2019-20

Particulars	Rs.	Rs.
Income from Salaries		
Basic salary (Rs. 25,000 x 9 months)		2,25,000
House rent allowance		
Actual amount received (Rs. 6,000 x 9 months)	54,000	
Less: Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(iii) (Note 2)	3,50,000	-
Leave encashment		

Actual amount received	3,15,000	
Less: Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		40,000
		2,73,000
Profits and gains of business or profession		
Business loss of Rs. 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,73,000
Less: Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,73,000
Tax on total income		Nil

Notes:

1. As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

Particulars	Rs.
i) HRA actually received (Rs. 6,000 x 9)	54,000
ii) Rent paid in excess of 10% of salary (Rs. 6,500 - Rs. 2,500) x 9 months	36,000
iii) 50% of salary	1,12,500

2. Gratuity of Rs. 3,50,000 is exempt under section 10(10)(iii), being the minimum of the following amounts :

Particulars	Rs.
i) Actual amount received	3,50,000
ii) Half month salary for each year of completed service [(Rs. 25,000 x 15/26) x 26 years]	3,75,000
iii) Statutory limit	10,00,000

3. Leave encashment is exempt upto the least of the following:

Particulars	Rs.
i) Actual amount received	3,15,000
ii) 10 months average salary (Rs. 24,500 x 10)	2,45,000
iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,06,250
iv) Statutory limit	3,00,000

4. Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer = 30 days/year x 25 = 750 days

Less: Leave taken /availed by Mr. X during the period of his service = 15 days/year x 25 = 375 days

Earned leave to the credit of Mr. X at the time of his retirement = 375 days

Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement

$$= 375 \times \text{Rs. } 24,500 / 30 = \text{Rs. } 3,06,250$$

PROBLEM NO.11

Computation of total income of Dr. Gurumoorthy for the A.Y.2019-20.

	Particulars	Rs.	Rs.	Rs.
I.	Income from house property			
	Gross Annual Value		54,000	
	Less: Municipal taxes paid		9,000	
	Net Annual Value		45,000	
	Less: Deduction under section 24 @30%		13,500	31,500
II.	Income from profession			
	Net profit as per Income and Expenditure account		2,92,500	
	Less: Items of income to be treated separately			
	(i) Income tax refund (including interest)	16,500		
	(ii) Dividend from Indian companies	27,000		
	(iii) Winning from lottery (net of TDS)	35,000		

	(iv) Rent received	54,000	1,32,500	
			1,60,000	
	Add: Expenditure debited but not allowable			
	(i) Rent for his residence	36,000		
	Municipal tax paid relating to residential house at Madurai included in administrative expenses	9,000	45,000	
	Less: Expenditure allowable but not debited			
	Depreciation on Clinic equipments u/s 32			
	- on Rs. 4,50,000 @ 15%	67,500		
	- on Rs. 1,00,000 @7.5% (i.e.50% of 15%)	<u>7,500</u>		
		75,000		
	Additional deduction of 50% in respect of amount paid to IIT [since weighted deduction of 150% is available in respect of such payment under section 35(2AA)]	50,000	1,25,000	80,000
III.	Income from other sources			
	Interest on Income-tax refund		1,500	
	Dividend from Indian companies	27,000		
	Less: Exempt under section 10(34)	<u>27,000</u>	Nil	
	Winnings from lottery (See Note 1)		50,000	51,500
	Gross Total Income			1,63,000
	Less: Deductions under Chapter VI A:			
	- Under section 80C			
	Tuition fee paid to university for full time education of his son		60,000	
	- Under section 80E			
	Interest on loan taken for higher education of daughter		65,000	
			1,25,000	

	but restricted to (See Note 2)			1,13,000
	Total income			50,000

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be Rs. 35,000/70% = Rs. 50,000
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore, the maximum deduction allowable would be Rs. 1,13,000. **Rs.**

Gross Total Income 1,63,000

Less: Winnings from lottery 50,000

Maximum deduction under Chapter VI-A 1,13,000

The total income of Rs. 50,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. Dr. Gurumoorthy is staying in a rented premises in Madurai itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Madurai which he has let out.

PROBLEM NO.12

Computation of Total Income and tax liability of CA. Suraj Chawla for Assessment Year 2019- 20.

Particulars	Working Note Nos.	Amount (Rs.)
Income from House Property	1	71,540
Profit and gains of Business or Profession	2	9,36,750
Short-term capital gains	3	25,200
Income from other sources	4	<u>26,300</u>
Gross Total Income		10,59,790
Less: Deduction under Chapter VI-A	5	<u>65,000</u>
Total Income		<u>9,94,790</u>
Tax on total income		
Total Income		9,94,790
Less: Short-term capital gains (See Note 9 below)		<u>25,200</u>
Normal Income		<u>9,69,590</u>

Tax on normal income		1,06,418
Tax on short-term capital gains @15%		<u>3,780</u>
Tax on Total Income		1,10,198
Add: Health and Education cess @ 4%		<u>4,408</u>
Total tax liability		<u>1,14,606</u>
Total tax liability (rounded off)		1,14,610

Notes:

1.	Income from House Property	Rs.	Rs.
	Gross Annual Value	1,04,000	
	Less: Municipal taxes paid by owner	<u>1,800</u>	
	Net Annual Value (NAV)	1,02,200	
	Less: Deduction under section 24 @ 30% of NAV	<u>30,660</u>	71,540
	Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.		
2.	Income under the head "Profits & Gains of Business or Profession"		
	Net profit as per Profit & Loss Account		10,78,055
	Add: Expenses debited to the Profit & Loss Account but not allowable		
	(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000	33,000	
	(ii) Municipal Taxes paid in respect of residential flat let out	<u>1,800</u>	<u>34,800</u>
			11,12,855
	Less: Expenses allowable but not debited to profit and loss account		
	Interest paid on loan taken from LIC used for repair of computer		<u>2,050</u>
			11,10,805
	Less: Income credited to Profit & Loss Account but not taxable under this head:		

	(i) Dividend on shares of Indian companies	10,155	
	(ii) Income from UTI	8,400	
	(iii) Profit on sale of shares	25,200	
	(iv) Honorarium for valuation of answer papers	26,300	
	(v) Rent received from letting out of residential flat	<u>1,04,000</u>	<u>1,74,055</u>
			9,36,750
3.	Capital gains:		
	Short term capital gain on sale of shares		25,200
4.	Income from other sources:		
	Dividend on shares of Indian companies	10,155	
	Less: Exempt under section 10(34)	<u>10,155</u>	Nil
	Income from UTI	8,400	
	Less: Exempt under section 10(35)	<u>8,400</u>	Nil
	Honorarium for valuation of answer papers	<u>26,300</u>	26,300
5.	Deductions under Chapter VI-A :		
	Deduction under section 80D (Medical Insurance Premium)		
	Policy holder	Amount of Premium (Rs.)	Amount eligible for deduction (Rs.)
	Self	15,000	15,000
	Wife (See note below)(made in Cash)	11,000	Nil
	Married daughter (See note below)	12,000	Nil
	Dependent brother (See note below)	<u>8,000</u>	<u>Nil</u>
			<u>15,000</u>
	Deduction under section 80D (Medical Expenditure)		
	Medical expenditure incurred on the health of Father is allowed as deduction to		50,000

	the maximum of Rs. 50,000, since he is a very senior citizen.	
	It is assumed that father is resident in India and no payment has been made to keep in force an insurance on his health.	
	Total deduction under Chapter VI-A	<u>65,000</u>
	Note: Premium paid to insure the health of brother is not eligible for deduction under section 80D, since brother is not included in the definition of family. Premium paid to insure the health of wife is not eligible for deduction since payment is made in cash. Premium paid to insure the health of married daughter is not eligible for deduction as she is not dependent on Mr. Suraj.	
		9,94,790

6. Rs. 25,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment, since the same has already been debited to Income & Expenditure A/c.
7. Incentive to articled assistants passing IPCC examination in their first attempt is deductible under section 37(1).
8. Repairs and maintenance paid in advance for the period 01.04.2019 to 30.09.2019 i.e. for 6 months amounting to Rs. 950 will be allowed since Mr. Suraj is following the cash system of accounting.
9. Since securities transaction tax has been paid on the shares and the period of holding of these shares is less than 12 months, the profit arising there from is a short-term capital gain chargeable to tax at 15% under section 111A.
10. Since depreciation debited to income and expenditure account is as per the Income-tax Rules, 1962, no adjustment for the same has been made.

PROBLEM NO.13**Computation of total income of Mr. Y for the A.Y. 2019-20**

Particulars	Rs.
Profits and gains of business or profession (See Working Note 1 below)	10,71,500
Income from other sources (See Working Note 2 below)	32,500
Gross Total Income	11,04,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	10,89,000

Working Notes:**1. Computation of profits and gains of business or profession**

Particulars	Rs.	Rs.
Net profit as per profit and loss account		11,20,000

Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (Rs. 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
		12,000
		12,34,000
Less: Under statement of opening stock		8,000
		12,26,000
Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction@150%. Since only the actual contribution (100%) has been debited to profit and loss account, the additional 50% has to be deducted.		50,000
		11,76,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [Exempt under section 10(35)]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from races (taxable under the head "Income from other sources")	15,000	54,500
		11,21,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		10,71,500

Notes:

- i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.

- ii) Disallowance under section 40A(3) is not attracted in respect of cash payment of Rs. 30,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of Rs. 35,000 is applicable (i.e. payment of upto Rs. 35,000 can be made in cash without attracting disallowance under section 40A(3))
- iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

2. Computation of "Income from other sources":

Particulars	Rs.
Interest on debentures	17,500
Winnings from races	15,000
	32,500

Note:

The following assumptions have been made in the above solution:

- The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is Rs. 50,000. It has been assumed that, in the said figure of Rs. 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

PROBLEM NO.14

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

Particulars	Rs.	Rs.
Income from business of plying goods vehicle (Refer Note 1)		6,75,000
Less: Brought forward business loss of financial year 2017-18 (Refer Note 2 & 3)		1,00,000
Gross Total Income		5,75,000
Less: Deduction under Chapter VI-A		
Section 80C:		
Life insurance premium paid for insurance of married daughter (Refer Note 5)	20,000	
Section 80D: Medical insurance premium paid for insurance of parents (Refer Note 6)	33,000	
Section 80E:		
Interest paid towards education loan taken for studies of his daughter (Refer Note 7)	15,000	68,000
Total Income		5,07,000

Working Notes:

1. Computation of income from business of plying goods vehicles under section 44AE

Particulars	Rs.
6 heavy goods vehicle held throughout the year (Rs. 7,500×6×12)	5,40,000

2 heavy goods vehicle – held for 9 months (Rs. 7,500×2×9)	1,35,000
Income under section 44AE	6,75,000

- As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. Therefore, the unabsorbed depreciation of Rs. 70,000 shall not be allowed as a deduction since it is covered by section 32.
- Brought forward business loss of Rs. 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2017-18 was filed before the due date specified under section 139(1).
- Fixed deposit in the name of married son does not qualify for deduction under section 80C.
- Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. In respect of policies issued on or after 1.04.2013, only premium paid to the extent of 10% of "minimum capital sum assured" qualifies for deduction under section 80C. Therefore, out of the life insurance premium of Rs. 25,000 paid for insurance policy of married daughter, only Rs. 20,000 (being 10% of Rs. 2,00,000) is allowed as deduction under section 80C.
- Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of Rs. 50,000. Hence, deduction of Rs. 33,000 is provided to Mr. Chandran, as his parents are senior citizens.
- It is only the payment of interest on education loan which qualifies for deduction under section 80E. Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction under section 80E.

PROBLEM NO.15**Computation of total income of Mr. Janak for the A.Y.2019-20.**

Particulars	Rs.	Rs.
Basic salary (Rs. 30,000 x 7)	2,10,000	
Dearness Allowance (Rs. 20,000 x 7)	1,40,000	
Ex-gratia	15,000	
Employers' contribution to Central Government Pension Scheme (Rs. 7,000 x 7)	49,000	
Professional tax paid by employer	3,000	
Concessional accommodation (See Notes 1 & 2)	150	
Value of furniture (See Note 3)	2,333	
Value of concessional educational facility (Rs. 1,800 x 7) (See Note 4)	12,600	
Gross salary	4,32,083	
Less: Deduction under section 16(iii)		
Professional tax	3,000	

Less: standard deduction u/s 16(ia)	40,000	
Net salary		3,89,083
Income from other sources		
Winnings from TV Game Show (Rs. 2,10,000 + Rs. 90,000)		3,00,000
Gross Total Income		6,89,083
Less: Deductions under Chapter VI-A		
80C Life insurance premium (Rs. 30,000 + Rs. 20,000)	50,000	
80CCD(1) (See Notes 5)		
Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of Rs. 2,66,000 (Rs. 30,000 + Rs. 8,000) x 7]	26,600	
Total deduction under section 80C & 80CCD(1)	76,600	
80CCD(1B) additional employee's contribution to pension scheme (49000 - 26,600)	22,400	
Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD(2)] [See Note 5]	26,600	
80D (Rs. 22,000 + Rs. 26,000) (See Note 6)	48,000	1,73,600
Total Income (see Note 8)		5,15,483
Total income (rounded off)		5,15,480

Computation of tax liability of Mr. Janak for the A.Y. 2019-20.

Particulars	Rs.
Tax @ 30% on winnings of Rs. 3,00,000 from game show	90,000
Tax on balance income of Rs. 2,15,480 (The basic exemption limit of Rs. 3,00,000 is applicable since Mr. Janak is of the age of 60 years during the P.Y. 2018-19)	Nil
	90,000
Add: Higher Education cess @ 4%	3,600
Total Tax Liability	93,600
Less: TDS	90,000
Net Tax Payable	3,600

Notes:

1. For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. Rs. 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be Rs. 2,81,000 [i.e., (Rs. 30,000 + Rs. 8,000) x 7 + 15,000].
2. In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. Rs. 63,000, being 9,000 x 7) and 15% of salary [i.e., Rs. 42,150, being 15% of Rs. 2,81,000]. This value (i.e. Rs. 42,150) would be reduced by the rent paid by the employee (i.e., Rs. 42,000, being 6,000 x 7).
The value of concessional accommodation is Rs. 150 [i.e. Rs. 42,150 – Rs. 42,000].
3. The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to Rs. 2,333 [i.e. 10% of 40,000 x 7/12].
Therefore, the value of furnished accommodation will be Rs. 2,483 (Rs. 150 + Rs. 2,333) provided to the employee.

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.
4. In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds Rs. 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs. 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be Rs. 12,600 (i.e. Rs. 1,800 x 7).
Note: An alternate view possible is that only the sum in excess of Rs. 1,000 per month is taxable. In such a case, the value of perquisite would be Rs. 5,600. The gross salary in that case shall be Rs. 4,25,083 and net salary would be Rs. 4,22,083. The total income and tax liability shall accordingly vary.
5. The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of Rs. 1.5 lakh stipulated under section 80CCE. Also, the deduction U/S 80CCD(1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. the balance Rs. 22,400 (49000- 26,600) can be claimed as deduction u/s 80CCD(1B)
6. The deduction for medical insurance premium of Rs. 26,000 paid for father is allowable in full under section 80D, as the maximum limit is Rs. 30,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be Rs. 22,000 (for self) + Rs. 26,000 (for father) = Rs. 48,000.
7. Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB.
No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
8. As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income.

From a plain reading of the provisions of section 71(2A), it is possible to take a view that even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.

9. Deduction under section 80GG has not been provided in respect of rent paid by Mr. Janak to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

PROBLEM NO.16**Computation of total income of Mr. Dinesh Karthik for the A.Y. 2019-20.**

Particulars		Rs.	Rs.
Income from house property			
Arrears of rent received in respect of the Chennai house taxable under sec. 25A	Note 2	75,000	
Less: Deduction @ 30%		<u>22,500</u>	52,500
Profits and gains of business or profession			
(a) Own business	Note 3		5,33,250
(b) Income from partnership firm (See Note 1)			
Interest on capital [As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]		2,40,000	
Salary of working partner		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		50,000	74,000
Gross Total Income			9,89,750
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs. 2,00,000.		20,000	
Contribution to pension fund of National Housing Bank	70,000	90,000	
Section 80D			

Mediclaim premium for father, a senior citizen (qualifies for deduction, even though the father is not dependent on the assessee)	32,000		
Maximum amount allowable		32,000	
			1,22,000
Total income			8,67,750

Notes:

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

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (net of TDS Rs. 5,000)	45,000	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,29,000
		3,03,000
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
Car	3,00,000	
Machinery	1,25,000	
Car expenses disallowed	<u>10,000</u>	5,05,000
		8,08,000
Less: Depreciation (See Working Note below)		2,74,750

Income from own business		5,33,250
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Working Note:**Computation of depreciation allowable under the Income-tax Act, 1961**

Particulars	Rs.	Rs.
On Car:		
15% on 3,00,000	45,000	
Less: 1/5 th for personal use	9,000	36,000
On Machinery:		
Opening WDV	6,50,000	
Additions during the year (Used for more than 180 days)	<u>3,25,000</u>	
Depreciation at 15% on	<u>9,75,000</u>	1,46,250
Additions during the year (used for less than 180 days)		
Hence, depreciation at 7.5% on	3,00,000	22,500
Total normal depreciation (A)		2,04,750
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation		
New machinery		
Used for more than 180 days at 20% Rs. 2,00,000		
Used for less than 180 days at 10% Rs. 3,00,000	40,000	
	30,000	
Total additional depreciation (B)		70,000
Total permissible depreciation (A) + (B)		2,74,750

PROBLEM NO.17**Computation of total income of Mr. Aditya for the A.Y.2019-20**

Particulars	Rs.
Income from house property (Working Note: 1)	1,90,000

Income from business (Working Note: 2)	1,44,250
Income from other sources (Working Note: 3)	11,500
Gross Total Income	3,45,750
Less: Deduction under Chapter VI-A (Working Note: 4)	1,35,000
Total Income	2,10,750

Working Notes:**1. Computation of income under the head "Income from house property":**

Particulars	Rs.	Rs.
Gross Annual Value (Higher of Actual Rent and Expected Rent)		
Actual Rent (Rs. 25,000 × 12)	3,00,000	
Expected Rent	2,50,000	3,00,000
Less: Municipal taxes paid by Mr. Aditya		Nil
Net Annual Value (NAV)		3,00,000
Less: Deductions under section 24		
a) 30% of NAV	90,000	
b) Interest on loan	20,000	1,10,000
Income from house property		1,90,000

2. Computation of income under the head "Profits and gains of business or profession":

Particulars	Rs.	Rs.
Net Profit as per profit and loss account		1,40,000
Add: Expenses disallowed:		
Advance income-tax	1,500	
Depreciation on car (not allowable, since the asset does not exist at the end of the year)	3,000	
Medical expenses of wife (personal expenses, disallowed)	4,500	
Driver's salary (¼ th being for personal use, disallowed)	4,500	
Repair of car (¼ th being for personal use, disallowed)	750	

Rent paid [Rs. 35,000 paid in cash - disallowed u/s 40A(3)]	35,000	49,250
		1,89,250
Less: Income not taxable/exempt under the Income-tax Act, 1961/ Income not taxable under this head		
Cash gift from friend (not taxable under this head)	25,000	
Sale of car	17,000	
Interest on income-tax refund (taxable under the head "Income from other sources")	3,000	45,000
Income under the head "Profits and gains of business or profession"		1,44,250

3. Computation of income under the head "Income from other sources"

Particulars	Rs.	Rs.
Cash gift from friend received on 15.09.2018 (not taxable under section 56(2)(x), since the aggregate value of gifts is less than Rs. 50,000)		-
Interest on income-tax refund		3,000
Interest on company deposits accruing to Mr. Aditya's minor daughter [See Note below]	10,000	
	1,500	8,500
Less: Exempt under section 10(32)		
Income from other sources		11,500

Note: Income received by Aditya's minor daughter from stage acting is not includible in the income of Mr. Aditya, since the income has been earned by her on account of her special talent. However, interest on company deposits is includible in Mr. Aditya's income as per section 64(1A), even though the deposit was made out of income derived from special talent.

4. Computation of deduction under Chapter VI-A:

Section	Particulars	Rs.
80DD	Medical treatment of dependent disabled [flat deduction of Rs. 1,00,000 in case of severe disability (80% or more) irrespective of the amount incurred]	1,25,000
80E	Interest on loan for higher education of son, being a relative	10,000
Total deduction under Chapter VI-A		1,35,000

PROBLEM NO.18

Computation of Taxable Income of Mr. Rajesh for the A.Y. 2019-20

Particulars	Amount	Amount
Income from salaries (W.N -1)		9,66,000
Income from H.P (W.N – 2)		1,00,000
Income from C.G (W.N – 3)		8,085
Income from other sources (W.N – 4)		750
Gross Total Income		10,74,835
(-) Chapter VI A Deduction		
Sec.80C - Housing Loan Repayment (Principal only)		65,000
Taxable Income		10,09,835
Taxable Income (rounded off u/s 288A)		10,09,840

W.N - 1: Income from Salaries:

Particulars	Amount	Amount
Basic		5,40,000
H.R.A		1,80,000
Transport Allowance		22,000
Value of laptop – Transfer (Note 1)		40,000
Value of car – Transfer (Note 2)		2,24,000
		10,06,000
Standard deduction u/s 16		40,000
Salary income		9,66,000

Note 1: Value of Laptop - Transfer

Particulars	Amount
Cost (sept 2017)	1,20,000
Less: Dep. For first completed year of usage @ 50%	60,000
WDV (sept 2018)	60,000
Less: amount paid to the employer	20,000
Value of perquisite (1-2)	40,000

Note 2: Value of Car - Transfer

Particulars	Amount
1. Value of Asset Sold	
Cost of the Asset (April 2016)	8,50,000
Less: Dep. For first completed year of usage @ 20% (April 2016 - March 2017)	1,70,000
WDV(April 2017)	6,80,000
Less: Dep. for 2 nd completed year of usage @ 20% (April 2017-March 2018)	1,36,000
WDV(April 2018)	5,44,000
2. Asset sold for	3,20,000
3. Value of perquisite (1-2)	2,24,000

W.N. - 2: Income from house property:

Status: Part of the year let out and part of the year S.O.P

Treatment: Treat it as if the property was let out for full year

Step 1: Fair rent = 2,00,000 (1,50,000 is for 9 months. Therefore, Fair Rent = $\frac{1,50,000}{9} \times 12$)

Step 2: Answer in Step. 1(2,00,000) or Actual Rent 1,35,000 (15,000X9) Whichever is higher

Step 3:

Particulars	Amount
GAV	2,00,000
Less: Municipal Taxes	Nil
NAV	2,00,000
Less: Deductions u/s 24	
Repairs 30% NAV	60,000
Interest	40,000
Income from House Property	1,00,000

W.N. - 3: Computation of Short Term Capital Gains

Sale of shares of A Ltd Sec 112A

Particulars	Amount
Sale consideration (Rs.200 x 150)	30,000

Less: Brokerage (0.1%)	30
Net Consideration	29,970
Less: Cost of acquisition (Rs.200 x 120)	24,000
Long term capital gains	5,970

Sale of shares of B Ltd. Sec.111A

Particulars	Amount
Sale consideration (Rs.82 x 125)	10,250
Less: Brokerage (0.1%)	10.25
Net Consideration	10,239.75
Less: Cost of acquisition (Rs.125 x 65)	8,125
Short term capital gains	2,115

Income from Other Sources: As income Tax paid will not be allowed as deduction Income Tax refundable will not be Taxable. Interest on Income Tax refundable Taxable = 750

Note: Assumed that the housing loan was taken either from specified employer or from notified financial Institution.

PROBLEM NO.19

Computation of Total Income of Dr. Sparsh Kumar for the A.Y.2019-20

Particulars	Amount
Income from salary (W.N.1)	32,000
Income from P.G.B.P (W.N.2)	2,65,550
Income from Long term C.G (W.N.3)	1,40,000
Income from other sources (W.N.4)	54,000
Gross total income	4,91,550
(-) Deductions under chapter VIA:	
L.I.C premium - Sec. 80C (10% of sum assured)	50,000
PPF	1,00,000
P.M relief fund - Sec. 80G	15,000
Net Total Income	3,26,550

Computation of tax liability:

Particulars	Rs.
Tax on total income (Working Note - 5)	32,810

Less: Rebate u/s 87A	(2,500)
Add: Health and Education cess @ 4 %	1,212
Total tax liability	31,522
Less: Tax deducted at source (TDS)	(12,000)
Tax Payable	19,522
Tax Payable (Rounded off)	19,520

W.N.1: Income from salaries:

Particulars	Amount
Gross Salary (6,000 X 12M)	72,000
Less: Deductions U/S 16	(40,000)
Salary Income	32,000

W.N.2: Income from PGBP:

Particulars	Amount
Surplus as per Income & Exp. a/c	2,47,800
Add: Depreciation as per books	91,000
Medicines consumed	16,000
Donation to P.M. relief fund	15,000
Less: Depreciation allowable	50,000
Winnings from lotteries	28,000
Income tax refund	2,750
Dividend from Indian co.	9,500
Honorarium for valuing answer books	14,000
Taxable Income from P.G.B.P	2,65,550

W.N.3: Income from Capital Gains - Sec.50 C

Particulars	Amount
Consideration 10L or 14 L whichever is higher	14,00,000
Less: Indexed cost of acquisition (Rs.4,50,000x280/100)	12,60,000
Taxable Income from Long term capital gains	1,40,000

W.N.4: Income from Other Sources

Dividend from Indian Co's [Sec.10(34)]		Exempted
Winning from lotteries (net)	28,000	
Add: TDS	<u>12,000</u>	40,000
Honorarium for valuing answer books		14,000
Income from Other Sources		54,000

Note: As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

W.N.5: Computation of tax on total income

Particulars	Rs.
Tax on agricultural income plus non-agricultural income i.e. tax on Rs. 4,16,550 (being Rs. 90,000 + Rs. 3,26,550) [See Note below]	37,310
Less: Tax on agricultural income plus basic exemption limit i.e. tax on Rs. 3,40,000 (being Rs. 90,000 + Rs. 2,50,000)	4,500
Tax on total income	32,810

Note: Tax on Rs. 3,26,550 plus agricultural income of Rs. 90,000 is computed hereunder:

Particulars	Rs.
Tax on long term capital gain Rs. (1,40,000 - 13,450*) @ 20%	25,310
Tax on winnings from lotteries Rs. 40,000 @ 30%	12,000
Tax on balance income of Rs. 2,36,550 (Rs. 4,16,550 - Rs. 1,40,000 - Rs. 40,000)	NILL
	37,310

* Unexhausted Basic Exemption Limit: Rs. 2,50,000 - Rs. 2,36,550 = Rs. 13,450

Note: Agricultural income is exempt from tax. It is considered for rate purpose only.

Tax on total income = 32,810

Rebate = 2,500

= 30,310

H & E cess @4 % 1212

31,522

PROBLEM NO.20

Computation of Total Income & Taxable Income of Mr. Ram. for the A.Y.2019-20

Particulars	Amount (Rs.)
Income from salaries (W.N.1)	2,39,600
Income from PGBP (W.N.2)	75,000
Income from other sources (W.N.3)	15,500
Gross total income	3,30,100
Less: Deductions under chapter VIA (W.N.4)	1,13,000
Net total Income	2,17,100
Tax Liability	NILL

W.N.1: Income from salaries

Particulars	Amount (Rs.)
Basic (20,000 X 12M)	2,40,000
C.C.A (1,000 X 12M)	12,000
H.R.A (5,000 X 12)	60,000
Less: Exempted [Sec.10 (13A)]*	48,000
Employer's contribution to employees insurance. (Sec. 17(2) (V))	Exempted
Education allowance (500 X 12 X 3)	18,000
Less: Exempted U/S 10(14) (100 X 12 X 2)	2,400
Taxable Income from salaries	2,79,600
Less: Standard Deduction u/s 16(ia)	(40,000)
Net Salary	2,39,600

(*) HRA Exempted

Particulars	Amount (Rs.)
(i) Excess of Rent paid over 10% of salary (72,000-10% of salary) (72,000 - 24,000)	48,000
(ii) H.R.A Received	60,000

(iii) 50% of salary	1,20,000
Least above three is exempted	48,000

W.N.2: Income from PGBP: In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each vehicle, in case of light goods vehicle, will be deemed to be Rs. 7,500/- for every month or part of the month during which the heavy vehicle is owned by the assessee during the previous year [Section 44AE].

Presumptive income = Rs. 7,500 × 10 = 75,000

If, however, the assessee declares a higher amount, such amount will be considered as income. In the instant case, since the assessee declares a lower amount, it cannot be considered, since no books of account are maintained. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed.

W.N.3:- Income from Other Sources

Interest on company deposits	15,000
Int. on bank deposits	5,000
Less: Deductions U/s. 57(3) $\left(1,00,000 \times 9\% \times \frac{6}{12}\right)$	(4,500)
Taxable Income from other sources	15,500

W.N.4: Deduction under Chapter VIA

Particulars	Rs.
i. U/s. 80C	
a. Investment in ELSS of UTI	12,000
b. LIC Premia (Restricted to Rs.4,000 being 10% of Sum assured)	4,000
c. Tuition Fees (Restricted to two children (Rs.15,000 + Rs.10,000))	25,000
d. Investment in PPF	52,000
ii. U/s. 80CCC – Pension Fund	15,000
iii. U/s. 80TTA – Interest on deposit in savings account	5,000
• Total Chapter VI A Deductions	1,13,000

Note: Total deduction under sections 80C, 80CC and 80CCD is limited to Rs. 1,50,000 as per section 80CCE. Deduction under section 80TTA is allowed in respect of interest from Saving Bank Account upto a maximum of Rs. 10,000. Therefore, interest from Saving Bank Account of Rs. 5,000 is allowed as deduction.

PROBLEM NO.21

Computation of Taxable income of Mr. Rinku for the A.Y. 2019-20

Particulars	Amount	Amount
Income from PGBP		2,20,000
Income from capital gains (2,00,000+30,000)		2,30,000
Income from other sources (T.V. Show)		20,000
Grass Total Income		4,70,000
Less: Chapter VI A deductions		
Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Taxable Income		4,10,000

Computation of tax liability:

Particulars	Amount	Amount
Step 1: Non – agricultural income and Agricultural income (4,10,000+ 40,000)		4,50,000
Step 2: Tax on above income		
Tax on prize winning from TV show U/S. 115BB (Rs.20,000 X 30%)	6,000	
Tax on long term capital gains U/S. 112 (1,30,000 X 20%) (Note 1)	26,000	
Tax on balance income Rs.2,30,000	Nil	32,000
Step 3: Agricultural income + Basic exemption (Rs.40,000+Rs.3,00,000)		3,40,000
Step 4: Tax on Step 3		2,000
Step 5: Tax payable (Step 2 – Step 4)		30,000
Add: Health and Education cess @ 4%		1,200
Total Tax Payable (Rounded off U/s 288 B)		31,200

Notes:

1. Repayment of house loan was not taken for deduction under chapter VI-A as the loan was taken in the name of assessee's dependant son.
2. Since the basic exemption limit of (Rs.3,00,000 - 2,30,000) is not yet exhausted, the unutilized part of Rs.70,000 is reduced from long-term capital gains.

3. As the assessee has attained 62 years of age during the previous year, basic exemption limit of Rs.3,00,000 was claimed.

PROBLEM NO.22**Computation of total income of Mr. Raghu for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Basic salary		12,00,000
Dearness allowance		6,00,000
Bonus		2,00,000
Employer contribution to recognized provident fund in excess of 12% is taxable (3% of 18,00,000)		54,000
Rent free accommodation @ 15% of Rs.20 lakh (basic salary + dearness allowance + bonus)		<u>3,00,000</u>
Less: Standard Deduction U/s 16 (ia)		23,54,000
Net Salary Income		(40,000)
Less: Deductions under Chapter VI-A		23,14,000
Section 80C		
Contribution to recognized provident fund		
Section 80D: Health insurance premium	1,50,000	
Wife Rs.30,000 restricted to	25,000	
Parents (Senior Citizens)	<u>33,000</u>	
Section 80DD	58,000	
Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred)	1,25,000	
Section 80E: Interest on loan taken for full-time education of		
- his son studying B.Com.	24,000	
- a student studying B.Sc. for whom he is the legal Guardian	<u>20,000</u>	
Total income	44,000	<u>3,77,000</u>
		<u>19,37,000</u>

PROBLEM NO.23**Computation of taxable income of Mr. X for the A.Y. 2019-20**

	Particulars	Rs.	Rs.	Rs.
1.	Income from House Property (Note 1)			26,250
2.	Profits and gain of business or profession (Note 2)			2,78,450
3.	Capital gains (Note 3)			37,800
4.	Income from other sources (Note 4)			<u>26,470</u>
	Gross Total income			3,68,970
	Less: Deductions under Chapter VIA			
i.	Deduction under section 80C (Note 5)		35,000	
ii.	Deduction under section 80DDB in respect of expenditure on medical treatment incurred on treatment of his father Less: Expenditure reimbursed by insurance Company	40,000		
iii.	Deduction under section 80GGC in respect of contribution to the Political Party (Note 11)	<u>7,500</u>	32,500	
	Total income			
	Components of total income		<u>1,000</u>	<u>68,500</u>
	Short-term capital gains from sale of shares (chargeable at a special rate of 15% u/s 111A)			<u>3,00,470</u>
	Long term capital Gain u/s 112 A (not taxable upto 1,00,000)			
	Normal income		4,200	
			4,600	
			<u>2,91,670</u>	
			<u>3,00,470</u>	

Computation of tax payable by Mr. X for the A.Y. 2019-20

Particulars	Rs.	Rs.
Tax on short-term capital gains from sale of shares @ 15% of Rs.4,200		630
Tax on agricultural income plus non-agricultural income aggregating to Rs.3,36,670 (2,95,870 +45,000)		
First Rs.2,50,000		Nil
Next <u>Rs. 86,670 @ 5%</u>	<u>4,334</u>	
<u>Rs.3,36,670</u>	4,334	<u>4,334</u>
		4,964

Less: Tax on agricultural income plus basic exemption limit aggregating to		
Rs.2,95,000		
First Rs.2,50,000	NIL	
Next <u>Rs.45,000 @ 5%</u>	<u>2,250</u>	
<u>Rs.2,95,000</u>	2,250	<u>(2,250)</u>
Income tax payable		2,714
Less: Rebate u/s87A 100% of tax		
		<u>2,500</u>
or which ever is		
2,500 lower		214
		<u>9</u>
Add: Health and Education cess @ 4%		<u>223</u>
Total tax		220
Total Tax Liability (Rounded off)		2,500
Less: Tax deducted at source		<u>17,000</u>
Less: Advance tax paid		<u>19,720</u>
Tax refundable		

Notes:**1. Computation of Income from House Property**

Particulars	Rs.
Gross Annual Value (GAV)	37,500
Rent received is taken as the GAV in the absence of other information	
Less: Municipal taxes paid	Nil
Net Annual Value (NAV)	37,500
Less: Deduction under section 24 @ 30% of NAV	11,250
	26,250

2. Computation of Profits and gains of business or profession

Particulars	Rs.	Rs.
Net profit as per Profit & Loss account		3,47,294

Add: Inadmissible expenses		
Depreciation charges	1,25,656	
Advance tax (Note 9)	17,000	
Donation to political party	<u>1,000</u>	
		1,43,656
Add: Recovery of bad debt (Note 8)		<u>15,000</u>
		5,05,950
Less: Income chargeable under any other head/exempt income		
Rent received	37,500	
Interest on debentures (gross)	25,000	
Agricultural income (Note 10)	45,000	
Short term capital gain on sale of investment	29,000	
Dividend from Indian Company (Note 10)	<u>16,000</u>	<u>1,52,500</u>
		3,53,450
Less: Depreciation as per Income-tax Rules, 1962		<u>75,000</u>
		<u>2,78,450</u>

3. Computation of Capital Gains

Particulars	Rs.	Rs.
Short term capital gains on sale of investment		29,000
Short term capital gains on sale of shares		
Shares of AB Co. Ltd.		
Sale consideration 150 shares @ Rs.98 each	Rs.14,700	
Less: Cost of 150 shares @ Rs.60 each	<u>Rs.9,000</u>	5,700
Shares of PQ Co. Ltd.:		
Sale consideration 150 shares @ Rs.102 each	Rs.15,300	
Less: Cost of 150 shares @ Rs.112 each	<u>Rs.16,800</u>	<u>(1500)</u>
		<u>4,200</u>
		33,200
Long term capital gains on sale of shares		
Sale consideration 200 shares @ Rs.98 each	Rs 19,600	

Less: Cost of 200 Shares @ 75 each	<u>Rs. 15,000</u>		
LTCG u/s 112A	4,600		
Since the holding period of 200 shares of AB Co. Ltd. is more than 12 months, the capital gain on sale of such shares is a long term capital gain and hence, exempt from income-tax under section 112A			
Capital Gains			<u>4,600</u>
			<u>37,800</u>

4. Computation of Income from other sources

Particulars	Rs.
Interest on debentures	25,000
Interest on refund from IT authority (Note 7)	1,470
Income from other sources	26,470

5. Five year time deposit in an account under Post Office Time Deposit Rules, 1981, is eligible for deduction under section 80C.
6. The maturity proceeds of the life insurance policy are exempt under section 10(10D) assuming that the policy does not fall under the exceptions stated under that section.
7. Refund of income tax is not taxable. However, interest on such refund is chargeable to tax under the head "Income from other sources".
8. Recovery of bad debts, assumed to be allowed in full in an earlier year, is taxable under section 41(4), whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time when it is recovered.
9. Advance tax is not allowable as deduction.
10. Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).
11. Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80GGC

PROBLEM NO.24

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

Particulars	Rs.	Rs.	Rs.
Income from house property [See Note 1]			
House block 1 used for business, hence GAV		Nil	
House block 2 let out (higher of fair rent and rent receivable)		1,80,000	
Less: Municipal tax paid			
Net annual value (NAV)		<u>12,000</u>	
Less: Deductions under section 24			
a) 30% of NAV		1,68,000	

b) Interest on bank loan @ 10% on Rs.5,00,000	50,400		
Profits and gains of business or profession [See Note 2]	<u>50,000</u>	<u>1,00,400</u>	67,600
Income prior to adjustment for depreciation			
Less: Depreciation on equipments used for Business		2,20,000	
Depreciation on building Rs.5,00,000 @ 10%	30,000		
	<u>50,000</u>	<u>80,000</u>	
Less: Set off of brought forward business loss relating to discontinued business [See Note 3]		1,40,000	
Capital Gains [See Note 4]			
Short term capital gains from sale of listed shares		<u>80,000</u>	60,000
Full value of consideration			
Less: Cost of acquisition			
Gross Total Income		2,30,000	
Less: Deduction under section 80C in respect of LIP Rs.32,000 and housing loan repayment in respect of II block Rs.23,000		<u>1,80,000</u>	<u>50,000</u>
Deduction under section 80D (for self)			1,77,600
Total income	55,000		
Tax on total income	<u>6,000</u>		<u>61,000</u>
			1,16,600
			Nil

Notes:

- On computation of Income from house property:**
 - The annual value of the house property which is used for business would not fall under the head "Income from house property". Therefore, the annual value of the first block is not chargeable to tax under the head "Income from house property". However, depreciation there on at 10% has been claimed while computing the income from business.
 - As regards the second block, the sum for which the property may be reasonably expected to be let is Rs.15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., Rs.15,000 p.m.) or the actual rent received (Rs.10,000 p.m.) Hence, the GAV of the second block is Rs.1,80,000 (i.e. Rs.15,000 p.m.)
 - Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the second block is Rs.50,000 (i.e. 10% of Rs.5 lakhs), which is allowable as deduction under section 24(b).
- On computation of Profits and gains of business or profession:** Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is Rs.50,000 (being 10% of Rs.5,00,000) and depreciation on equipments used for business is Rs.30,000. Hence the depreciation allowable during the year is Rs.80,000.

3. **On set off of business loss:** As per section 72, business loss relating to discontinued business is eligible for set off.
4. **On treatment of short-term capital gains (STCG):** The listed shares have been sold and securities transaction tax is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.
5. **On computation of deductions under sections 80C and 80D:** Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed Block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.
- However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of Rs.6,000 is eligible for deduction.

PROBLEM NO.25

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

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books		5,60,000
Add: Depreciation as per books	34,000	
Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (Rs. 7,000/2)	3,500	
Disallowance under section 40A (3) in respect of salary paid in cash since the same exceeds Rs. 20,000	21,000	
20% of car expenses for personal use	<u>8,000</u>	<u>66,500</u>

		6,26,500
<i>Less: Depreciation allowable (Note 1)</i>		<u>86,400</u>
		5,40,100
<i>Income from firm</i>		
<i>Interest on capital from partnership firm (Note 2)</i>		1,20,000
		6,60,100
<i>Income from other sources</i>		
<i>Interest on bank fixed deposit (Gross)</i>	15,000	
<i>Interest on income-tax refund</i>	<u>2,300</u>	<u>17,300</u>
<i>Gross total income</i>		6,77,400
<i>Less: Deduction under Chapter VIA (Note 3)</i>		<u>1,30,000</u>
<i>Total Income</i>		<u>5,47,400</u>

Notes:**1. Depreciation allowable under the Income-tax Rules, 1962**

	Opening WDV	Rate	Depreciation	Closing WDV
Block 1	Computers 1,20,000	40%	48,000	72,000
Block 2	Motor Car	15%	48,000	

	3,20,000			
Less: 20% disallowance for personal use		9,600	38,400	2,81,600
			86,400	

2. *Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. It is assumed that the partnership deed provides for the same and hence is allowable to this extent in the hands of the firm. Therefore, interest @12% p.a. amounting to Rs. 1,20,000 would be treated as the business income of Mr. Vidyasagar.*
3. *Deduction under Chapter VI - A*

Particulars	Rs.	Rs.
<i>Under section 80C</i>		
<i>LIP for major son</i>	60,000	
<i>PPF paid in wife's name</i>	70,000	
	1,30,000	
<i>Since the maximum deduction under section 80C and 80CCE is Rs. 1,50,000, the entire sum of Rs. 1,30,000 would be allowed as deduction</i>		1,30,000
<i>Total deduction</i>		1,30,000

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PROBLEM NO.26

Computation of total income of Mr. Rajiv for the assessment year 2019-20

Particulars	Rs.	Rs.	Rs.

Income from house property			
Self-occupied			
Annual value	<i>Nil</i>		
<i>Less: Deduction under section 24(b)</i>			
<i>Interest on housing loan</i>			
<i>50% of Rs. 88,000 = 44,000 but limited to</i>	<i>30,000</i>		
<i>Loss from self occupied property</i>		<i>(30,000)</i>	
Let out property <i>Annual value (Rent receivable has been taken as the annual value in the absence of other information)</i>	<i>60,000</i>		
<i>Less: Deductions under section 24</i>			
<i>a) 30% of Net Annual Value 18,000</i>			
<i>b) Interest on housing loan (50% of Rs. 88,000) 44,000</i>	<i>62,000</i>	<i>(2,000)</i>	
<i>Loss from house property</i>			<i>(32,000)</i>
<i>Profits and gains of business or profession</i>			
<i>Fees from professional services</i>		<i>59,38,000</i>	

<i>Less: Expenses allowable as deduction</i>			
<i>Staff salary, bonus and stipend</i>	21,50,000		
<i>Other administrative expenses</i>	11,48,000		
<i>Office rent</i>	30,000		
<i>Motor car maintenance (10,000 x 4/5)</i>	8,000		
<i>Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)</i>	Nil	33,36,000	
		26,02,000	
<i>Less: Depreciation</i>			
<i>Motor car Rs. 4,25,000 x 7.5% x 4/5</i>	25,500		
<i>Books being annual publications @ 40%</i>	8,000		
<i>Furniture and fittings @ 10% of Rs. 60,000</i>	6,000		
<i>Plant and machinery @ 15% of Rs. 80,000</i>	12,000		
<i>Computer @ 40% of Rs. 50,000</i>	20,000		
<i>Computer (New) Rs. 30,000 @ 40% x ½ thereon</i>	6,000	77,500	25,24,500

Gross Total income			24,92,500
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of Rs. 1,44,000 is allowed as deduction since it is within the limit of Rs. 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid Rs. 18,000		18,000	1,62,000
Total income			23,30,500

PROBLEM NO.27

Computation of total income and tax liability of Mr. Devansh for A.Y.2019-20

Particulars	WN No's	(Rs.)
Income from house property	1	1,02,900
Profit and gains of business or profession	2	62,600

<i>Long term capital gains</i>	3	2,20,000
<i>Income from other sources</i>	4	<u>1,81,000</u>
<i>Gross Total Income</i>		5,66,500
<i>Less: Deduction under Chapter VI-A</i>	5	45,000
<i>Total Income</i>		<u>5,21,500</u>
<i>Tax on total income</i>		
<i>Tax on Long term capital gain @20% (Rs. 2,20,000 x 20%)</i>	44,000	
<i>Tax on balance total income of Rs. 3,01,500</i>	<u>2,575</u>	46,575
<i>Add: Health and Education cess @ 4%</i>		<u>1,863</u>
<i>Total tax liability</i>		48,438
<i>Less: Tax deducted at source on interest on debentures [Rs. 5,400 x 10/90]</i>		<u>(600)</u>
<i>Net Tax liability</i>		<u>47,838</u>
<i>Net Tax liability (Rounded off)</i>		<u>47,840</u>

Working Notes:

	<i>Particulars</i>	(Rs.)	(Rs.)

1.	<i>Income from House Property</i>		
(i)	<i>Self-occupied portion (25%): As per section 23(2), income from self-occupied portion is Nil.</i>		<i>Nil</i>
(ii)	<i>Let-out portion - 50%</i>		
	Gross Annual Value		1,65,000
	<i>(Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)</i>		
	<i>Less: Municipal taxes paid in respect of let out portion (50% of Rs.36,000)</i>		<u>18,000</u>
	Net Annual Value (NAV)		1,47,000
	<i>Less: Deduction under section 24@30% of NAV</i>		<u>44,100</u>
			1,02,900
2	<i>Profits & Gains of Business or Profession</i>		
	Net profit as per profit and loss account		1,34,000
	Add: Expenses debited to profit and loss account but not allowable		
	<i>i) Fire Insurance [relating to let-out and self-occupied house property] (75% of Rs.10,000)</i>	7,500	

	<i>ii) Income-tax [disallowed as per section 40(a)(ii)/(iia)]</i>	27,000	
	<i>iii) Household expenses (Under section 37, personal expenses are disallowed)</i>	42,500	
	<i>iv) Contribution to university approved under sec. 35(1)(ii), considered separately</i>	1,00,000	
	<i>v) Municipal Taxes paid in respect of let-out and self-occupied portions [75% of Rs.36,000]</i>	<u>27,000</u>	<u>2,04,000</u>
			3,38,000
	<i>Less: Weighted deduction @ 150% for contribution to university approved and notified under section 35(1)(ii) [1,00,000 × 150%]</i>		<u>1,50,000</u>
			1,88,000
	<i>Less: Income credited to Profit & Loss Account but not taxable under this head:</i>		
	<i>(i) Cash gift</i>	1,20,000	
	<i>(ii) Interest on debentures</i>	<u>5,400</u>	<u>1,25,400</u>
			<u>62,600</u>
3.	<i>Capital gains</i>		
	<i>Sale consideration of bonus shares</i>		2,20,000
	<i>Less: Cost of acquisition [Nil, for bonus shares]</i>		Nil

	<i>Long term capital gain [Since unlisted shares are held by Mr. Devansh for more than 24 months]</i>		2,20,000
4.	<i>Income from Other Sources</i>		
	<i>Cash gift on the occasion of marriage is exempt, even if the same is received from a non-relative</i>		Nil
	<i>In case of vacant site received for inadequate consideration, difference between stamp duty value (Rs.2,80,000) and actual consideration (Rs.1,05,000) is taxable under section 56(2)(vii), since such difference exceeds Rs.50,000.</i>		1,75,000
	<i>Interest of Rs.500 on post-office savings bank account [In case of individual account, a sum upto Rs.3,500 is exempt under section 10(15)]</i>		Nil
	<i>Interest on debentures (gross) [Rs. 5,400 × 100/90] (The rate of TDS under section 194A is 10%)</i>		<u>6,000</u>
	<i>Income chargeable under this head</i>		<u>1,81,000</u>
5.	<i>Deduction under Chapter VI-A:</i>		
	<i>Deduction under section 80C</i>		
	<i>LIC Premium paid Rs.60,000 [Since the policy was taken after 31.03.2013 to insure the life of disabled son, the premium is restricted to 15% of sum assured] [15% of Rs. 3,00,000]</i>		45,000

PROBLEM NO.26

Computation of total income of Mr. Vinod Kumar for the Assessment Year 2019-20

<i>Particulars</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
<i>Income from Salary:</i>			
<i>Pension received (net of TDS)</i>		6,27,000	
<i>Add: Tax deducted at source</i>		25,000	
<i>Less: Standard Deduction u/s 16(ia)</i>		<u>(40,000)</u>	6,12,000
<i>Profits and gains from business or profession</i>			
Gross Receipts		51,60,000	
Less: Expenses			
<i>Rent for premises allowable under section 30(a)</i>	5,44,000		
<i>Salaries</i>	11,20,000		
<i>Miscellaneous expenditure</i>	3,91,000		
<i>Conveyance for official use [3/4th of 3,00,000]</i>	2,25,000	22,80,000	28,80,000
<i>Capital Gains</i>			
<i>Long-term capital gains on sale of listed shares u/s 112A (assuming that shares are acquired after 01.02.2018)</i>		1,24,000	

<i>Short-term capital gains on sale of listed shares - taxable @15% under section 111A, since securities transaction tax would have been paid as the same have been sold in a recognized stock exchange</i>		<u>65,000</u>	1,89,000
<i>Income from Other Sources</i>			
<i>Interest on fixed deposit from bank</i>		1,60,000	
<i>Interest on Post Office Savings Account</i>	18,000		
<i>Less: Exempt under section 10(15)</i>	<u>3,500</u>	<u>14,500</u>	<u>1,74,500</u>
<i>Gross Total Income</i>			38,55,500
<i>Less: Deductions under Chapter VI-A</i>			
<i>Under section 80C</i>			
<i>Contribution to PPF</i>	1,10,000		
<i>Life insurance premium paid Rs. 60,000 (restricted to 10% of sum assured, since the policy was taken after 31.03.2012)</i>	<u>50,000</u>		
	<u>1,60,000</u>		
<i>Restricted to</i>		1,50,000	
<i>Under section 80D:</i>			

Medical insurance premium (paid otherwise than by cash)	27,000		
Preventive health check-up (allowed even if paid by cash), 6,000, restricted to	<u>5,000</u>	32,000	
Under section 80G:			
As per section 80G (5D), cash donation to charitable trust of an amount exceeding 2,000 is not allowable as deduction			-
Under section 80TTA:			
Interest from post office savings account, Rs.14,500, restricted to		10,000	<u>1,92,000</u>
Total Income			<u>36,63,500</u>

Mr. Vinod Kumar is engaged in Technical Consultancy services which is specified under section 44AA.

Since Mr. Vinod Kumar's Gross Receipts exceeds 50 lakhs, he cannot opt for presumptive taxation u/s 44ADA. He has to get then audited u/s 44AB.

PROBLEM NO.29

Computation of total income of Mrs. Ann for the Assessment Year 2019-20

Income from Salary	(Rs.)	(Rs.)
Basic Salary (Rs. 60,000 × 12)		7,20,000
HRA (Rs. 15,000 × 12)	1,80,000	

<i>Less: Exempt under section 10(13A) [See Note 1 below]</i>		<u>1,44,000</u>	36,000
<i>Education Allowance (Rs. 1,500×12)</i>		18,000	
<i>Less: Exempt under section 10(14) @ Rs. 100 per month per child and maximum for 2 child (100 × 12 × 2)</i>		<u>2,400</u>	15,600
<i>Less: Standard Deduction u/s 16(ia)</i>			<u>40,000</u>
			7,31,600
<i>Profits and gains from business or profession</i>			
<i>Income from the business of letting on hire a truck under sec. 44AE [See Note 2 below]</i>			88,000
<i>Income from Other Sources</i>			
<i>Interest on Post Office Savings Bank Account</i>	8,500		
<i>Less: Exempt under section 10(15)</i>	<u>(3,500)</u>	5,000	
<i>Interest from company deposits</i>			
25,000			
<i>Less: Deduction u/s 57 in respect of interest on loan</i>			
<u>5,000</u>		20,000	
<i>paid for investing in company deposits</i>			

<i>Interest on National Savings Scheme, 1992</i>	<u>35,000</u>	<u>60,000</u>
<i>Gross Total Income</i>		8,79,600
<i>Less: Deductions under Chapter VI-A</i>		
<i>Under section 80C [Tuition fees paid for two children – most favorable to Mrs. Ann being Rs. 50,000 + Rs. 30,000]</i>	80,000	
<i>Deposit in 5 year Post Office Recurring Deposit Scheme does not qualify for deduction under section 80C.</i>	NIL	
<i>Under section 80D [Medical Insurance Premium paid by cheque for insurance of self and spouse together would qualify for deduction upto a maximum of Rs. 25,000]</i>	25,000	
<i>Under sec. 80TTA [Interest from Post Office Saving Bank Account: See Note 3 below]</i>	<u>5,000</u>	<u>1,10,000</u>
<i>Total Income</i>		<u>7,69,600</u>

Computation of tax payable for the A.Y. 2019-20

<i>Particulars</i>	<i>Amount (Rs.)</i>
Tax on 7,69,600	66,420
Add: Health and Education cess @ 4%	2,657

Tax Payable	69,077
Tax Payable (Rounded off)	69,080

Notes:

- HRA is exempt to the extent of the least of the following under section 10(13A) –
 - 50% of salary i.e., 50% of Rs. 7,20,000 = Rs. 3,60,000 (in case Mrs. Ann resides in Delhi, Mumbai, Calcutta or Chennai) **(or)** 40% of salary i.e., 40% of 7,20,000 = Rs. 2,88,000 (in case Mrs. Ann resides in any other place)
 - Excess of rent paid over 10% of salary = $(18,000 - 6,000) \times 12 = \text{Rs. } 1,44,000$
 - Actual HRA received = $\text{Rs. } 15,000 \times 12 = 1,80,000$ Least of the above i.e., 1,44,000 is exempt under section 10(13A)
- In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each vehicle will be deemed to be 7,500 for every month or part of the month during which such vehicle is owned by the assessee in the previous year or an amount claimed to have been actually earned from such vehicle, whichever is higher [Section 44AE]. In this case, since the assessee declares a higher amount of 11,000 per month as the net income actually earned by her from letting on hire truck, such amount will be considered as income under section 44AE. Interest paid @ 1,000 p.m. is not deductible, since under section 44AE, all deductions as per sections 30 to 38 are deemed to have been allowed. Truck was plied for the period 01.08.2018 to 31.03.2019 for 8 months.

Therefore, in this case, income under section 44AE is $11,000 \times 8 = \text{Rs. } 88,000$

Interest upto Rs. 3,500 on post office savings bank account is exempt under section 10(15). The balance interest of Rs. 5,000 would be included under the head "Income from other sources" and form part of gross total income. However, the same would qualify for deduction under section 80TTA, since interest upto Rs. 10,000 from, *inter alia*, post office savings bank account qualifies for deduction there under.

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12. RESIDENTIAL STATUS II**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM 1**

Answer: In the given problem Mr. A and Mr. B both are non-resident and in case of non-resident, interest is taxable when either it is accrued or deemed to be accrued in India or received or deemed to be received in India. Interest received by Mr. B is not accrued or deemed to be accrued or arise in India as defined in section 9(i)(iii) of the income Tax Act 1961. Hence that Interest income is not taxable in India, in the hands of Mr. B.

PROBLEM 2

Answer: Under section 6(1), an individual is said to be resident in India in any previous year. If he satisfies any one of the following conditions:

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y. 2019-20 has to be determined on the basis of her stay in India during the previous year relevant to A.Y 2019-20 i.e. P.Y. 2017-18 and in the preceding four assessment years.

Her stay in India during the previous year 2018-19 and in the preceding four years are as under:

P.Y. 2018-19	
01.04.2018 to 19.09.2018	172 days
27.03.2019 to 31.03.2019	5 days
	177 days
Four preceding previous years	
P.Y- 2017-18	16 days
P.Y - 2016-17	Nil
P.Y - 2015-16	Nil
P.Y - 2014-15	Nil
Total	16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding year were for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment year 2019-20.

Computation of total income of Miss Charlie for the A.Y 2019-20

Particulars	Rs.	Rs.
Income from house property		
Show room located in Mumbai remained on rent from 01.05.18 to 31.03.19 @ Rs. 25,000/- p.m.		
Gross Annual value [25,000 x 11] (see Note 1)	2,75,000	
Less: Municipal taxes	-	
Net Annual value (NAV)	2,75,000	
Less: Deduction under section 24:		
30% of NAV	82,500	
Interest on borrowed capital	<u>97,500</u>	(1,80,000)
Income from other sources		95,000
Gifts received from non-relatives is chargeable to tax as per sec, 56(2)(x) if the aggregate value of such gifts is in excess of Rs. 50,000.		
- Rs.50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relative and gifts from a relative are not chargeable to tax.		Nil
- Rs.11,000 received from married sister of husband is exempt, since sister falls within the definition of relative and gifts from a relative are not chargeable to tax.		Nil
- From two friends of husband Rs. 1,51,000 and Rs. 21,000 aggregating to Rs.1,72,000 since the aggregate of Rs. 1,72,000 exceeds Rs.50,000, the entire amount is taxable under section 56(2)(x) (see note 2)		1,72,000
		<u>1,72,000</u>
Total income		2,67,000

Computation of tax payable by Miss Charlie for the A.Y.2019-20.

Particulars	Rs.
Tax on total income of Rs.2,67,000	850
Add: Health and Education cess @ 4%	34
Total Tax Payable	854

Note:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceeds Rs. 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of Rs.1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2019-20, rebate under section 87A would not be available to her, even though her total income is less than Rs. 3.5 lacs.

PROBLEM 3

S.no	Taxable / Not Taxable	Amount liable to tax (Rs.)	Reason
i)	Taxable	7,00,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be

			deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India.
ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a nonresident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
iii)	Partly Taxable	5,500	The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of Rs. 3,500 in case of an individual account. Further, interest up to Rs. 10,000, would be allowed as deduction under section 80TTA from Gross Total Income. Balance Rs. 5,500 i.e., Rs. 19,000 - Rs. 3,500 - Rs. 10,000 would be taxable in the hands of Mr. Ram, a resident.
iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
v)	Taxable	5,00,000	Legal charges paid to the non-resident lawyer who visited India to represent a case at Delhi High Court would be taxable in India, since it accrues or arises in India.

PROBLEM 4

A non-resident is chargeable to tax in India in respect of following incomes:

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

In view of the above provisions, taxability of income is determined in following manner:

No.	Particulars	Rs.(in lacs)
i)	Amount received from an Indian domestic company for providing technical knowhow in India is deemed to accrue or arise in India and is, therefore, taxable in India.	5
ii)	Conducting the feasibility study for the new project in Finland for the Indian firm is not taxable in India as the income accrues outside India since such study is done for a business outside India.	Nil
iii)	Income received from a non-resident for use of patent for a business in India is taxable in India as it is deemed to accrue or arise in India.	4
iv)	Income received from a non-resident Indian for use of knowhow for a business in Singapore. It is not taxable in India since it does not accrue or arise in India nor is it deemed to accrue or arise in India,	Nil

v)	Income received for supply of manuals and designs for the business to be established in Singapore is not taxable in India, since it does not accrue or arise in India nor is it deemed to accrue or arise in India.	Nil
Total Income		9

PROBLEM 5

a) Taxability of certain receipts under the Income-tax Act, 1961

S.No.	Taxable/Not Taxable	Amount liable to tax Total (Rs.)	Reason
1	2	3	4
i)	Taxable	15,00,000	Salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India as per section 9(1)(iii). Mr. David is a citizen of India. Therefore, salary paid by the Central Government to him for services rendered in Canada would be deemed to accrue or arise in India in his hands.
ii)	Taxable	7,50,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to Mr. Johnson, a non-resident lawyer of London, who visited India to represent a case at the Supreme Court would be taxable in India. Note: This question can also be answered on the rationale that existence of professional connection tantamounts to existence of business connection, and hence, legal charges paid to a non-resident lawyer would be deemed to accrue or arise in India by virtue of section 9(1)(i).
iii)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried on outside India would not be taxable in the hands of the non-resident, as the same would not be deemed to accrue or arise in India as per the exception mentioned in section 9(1)(vi)(b). Therefore, royalty paid by Mukesh, a resident, to Rajeev, a non-resident, for a business carried on in Sri Lanka would not be deemed to accrue or arise in India. Note: It is assumed that the royalty was not received in India.

b) Determination of residential status of Ms. Bindu for the A.Y. 2019-20:

Ms. Bindu is a resident since she has stayed in India for 365 days during the P.Y.2018-19. Therefore, she satisfies the condition of stay in India for a period of 182 days or more in the relevant previous year as per the requirement under section 6(1).

As per section 6(6), an individual is said to be "not ordinarily resident" in India in any previous year, if he has:

- i) been a non-resident in India in nine out of ten previous years preceding the relevant previous year; or
- ii) During the seven previous years immediately preceding the relevant previous year, been in India for a period of, or periods amount in all to, 729 days or less.

Ms. Bindu must, therefore, satisfy either of the conditions to qualify as a not ordinarily resident.

Ms. Bindu was a non-resident in India up to A.Y.2017-18.

She was resident in India only for P.Y. 2017-18 (A.Y.2018-19) out of the ten previous years preceding P.Y. 2018-19 (A.Y.2019-20). This implies that she has been a non-resident in India in nine out of ten previous years preceding P.Y. 2018-19 (A.Y. 2019-20).

Further, she was in India only for a period of 406 days [i.e., 10 days in February, 2016 + 31 days in March 2016 + 365 days during the P.Y.2017-18] in the seven previous years preceding P.Y. 2018-19 (A.Y.2019-20).

Therefore, since Ms. Bindu satisfies both the conditions for "not-ordinarily resident", her residential status for A.Y.2019-20 would be "Resident but not ordinarily resident"

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13.ADVANCE TAX AND INTEREST

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

Computation of advance tax liability in the hands of Mr. Narayan opting for presumptive taxation scheme under section 44AD.

As per section 211, an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year. Thus, Mr. Narayan is required to pay advance tax by 15th of March 2019.

However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during that financial year on or before 15th March.

The advance tax liability is computed as follows –

Business Income	Amount (Rs.)	Amount (Rs.)
8% of Rs. 35,00,000	2,80,000	
6% of Rs. 1,30,00,000	7,80,000	10,60,000
Tax liability		
Upto Rs.2,50,000	Nil	
Rs.2,50,001 to Rs.5,00,000 @5%	12,500	
5,00,001 to Rs.10,00,000 @20%	1,00,000	
Above Rs.10,00,001 @30%	18,000	1,30,500
Add: Health and Education cess @ 4%		5,220
Total Tax Payable		1,35,720

Note:

- In respect of the amount of turnover received by account payee cheque/bank draft or use of ECS through a bank account, the assessee can declare 6% (instead of 8%) of such turnover as presumptive income under section 44AD.
- Since Mr. Narayan does not have any other income during the previous year 2018-19, business income would be the total income Mr. Narayan is required pay Rs. 1,35,720 as minimum amount of advance tax by 15th March 2019.

PROBLEM NO. 2

Interest will be determined as under:

Period of default (i.e. (c) - (a) in the case of X, and (d) - (a) in other cases (a part of month is taken as full month)	7 months Rs.	1 month Rs.	4 months Rs.	2 months Rs.
Income assessed	<u>7,49,800</u>	<u>11,84,510</u>	<u>10,87,000</u>	<u>7,65,500</u>
Tax (see note)	62,460	1,65,353	3,26,100	65,600
Add: Surcharge	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
Tax and surcharge	62,460	1,65,353	3,26,100	65,600
Add: Health and Education cess (4% of tax and surcharge)	<u>2,498</u>	<u>6,614</u>	<u>13,044</u>	<u>2,624</u>
Tax payable on assessed income	64,958	1,71,967	3,39,144	68,224
Less: Advance tax paid and tax deducted at source	<u>43,600</u>	<u>1,23,300</u>	<u>1,66,100</u>	<u>57,160</u>
Shortfall	21,358	48,667	1,73,044	11,064
Shortfall (rounded off) (c)	<u>21,400</u>	<u>48,700</u>	<u>1,73,000</u>	<u>11,100</u>
Interest on (c) at the rate of 1% per month (c x 1% x No. of months)	<u>1,498</u>	<u>487</u>	<u>6,920</u>	<u>222</u>

Note: As per 119A, Shortfall should be Rounded off to nearest 100 but not 10.

Mr. X (31 yrs.) 7,49,800	Mrs. Y (62 yrs.) 11,84,510	X (P) Ltd. 10,87,000	X (HUF) 7,65,500
Up to 2,50,000 - Nil	Up to 3,00,000 - Nil	10,87,000 x 30%	Up to 2,50,000 - Nil
2,50,000 - 5,00,000 (2,50,000 x 5%) - 12,500	3,00,000 - 5,00,000 (2,00,000 x 5%) - 10,000		2,50,000 - 5,00,000 (2,50,000 x 5%) - 12,500
7,49,800 - 5,00,000 (2,49,800 x 20%) - <u>49,960</u>	5,00,000 - 10,00,000 (5,00,000 x 20%) - 1,00,000		7,65,500 - 5,00,000 (2,65,500 x 20%) - <u>53,100</u>
Tax <u>62,460</u>	11,84,510 - 10,00,000 (1,84,510 x 30%) - <u>55,353</u> Tax <u>1,65,353</u>	Tax <u>3,26,100</u>	Tax <u>65,600</u>

PROBLEM NO. 3

Interest liability under section 234B:

Particulars	Rs.
Income Tax on Rs. 20,02,720 (As per FY 2017-18 slab rates)	4,13,316
Add: Health and Education Cess @ 4%	16,533

Total Tax liability	
Less: Tax deducted at source	<u>2,800</u>
Assessed tax	<u>4,27,049</u>
90% of assessed tax	3,84,344
Advance tax paid during 2018-19 (i.e., Rs.52,000 + Rs. 1,02,000 + Rs.60,000 + Rs.30,000 + Rs. 20,000)	3,64,000
Shortfall (i.e., Rs. 4,27,049 - Rs. 3,64,000)	63,049
Shortfall (rounded off)	63,000
Interest is payable under section 234B on Rs.71,700 from April 1, 2019 to January 10, 2020 @ 1% per month (i.e., Rs.63,000 x 1/100 x 10) = Rs.6,300	6,300

Interest liability under section 234C:

Particulars	Rs.
Income as per return of income	<u>19,90,000</u>
Tax on Rs.19,90,000 (as per rates) (including Health and Education Cess @ 4%) (a)	4,25,880
Less: Tax deducted at source (b)	<u>2,800</u>
Assessed tax (a-b)	<u>4,23,080</u>
15% of assessed tax (15% of (a-b))	63,462
Tax paid on or before June 15, 2016 (c)	52,000
45% of assessed tax [45% of (a-b)]	1,90,386
Tax paid on or before Sept 15, 2016, i.e., Rs.52,000+Rs.1,02,000 (d)	1,54,000
75% of assessed tax [75% of (a-b)]	3,17,310
Tax paid on or before Dec 15, 2016 i.e., Rs.52,000+Rs.1,02,000+Rs.1,60,000 (e)	3,14,000
100% of assessed tax	4,23,080
Tax paid on or before Mar 15, 2017 i.e., Rs.52,000 + Rs.1,02,000 + Rs.1,60,000 + Rs.30,000 (f)	3,44,000

Particulars	1 st installment 15-06-2017	2 nd installment 15-09-2017	3 rd installment 12-10-2017	4 th installment 15-03-2018	Total
Shortfall					

15% of (a-b)-c	Note-1	-	-	-	
45% of (a-b)-d		Note-2	-	-	
75% of (a-b)-e	-	-	3,17,310 - 3,14,000=3,310	-	
100% of (a-b)-f	-	-	-	79,080 (4,23,080 - 3,44,000)	
Rounded off amount as per rule 119A	-	-	3,310	79,080	
Rate of interest	-	-	1%	1%	
Period of default	-	-	3 months	1 month	
Amount of interest	-	-	99	791 (79,080 x 1% x 1 month)	890

Interest payable u/s. 234C = 99 + 791 = Rs.890.

Note 1: In 1st installment paid Rs.52,000 being more than 12% of Assessed Tax (4,23,080 x 12%=50,770),so assessee is not liable to pay any interest for the first installment.

Note 2: In 2nd installment paid Rs.1,54,000 (52,000 + 1,02,000) being more than 36% of Assessed Tax, hence no need to calculate interest u/s 234C.

Note 3: As per 119A, Shortfall should be rounded off to nearest 100 but not 10.

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14.EXEMPTED INCOMES**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

S.No.	Taxable/Not Taxable	Amount liable to tax (Rs.)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(iii)	Not Taxable	-	Any income of a political party registered under section 29A of the Representation of the People Act, 1951 which is chargeable, <i>inter alia</i> , under the head "Income from house property" is exempt under section 13A provided the political party maintains such books of account as would enable the Assessing Officer to properly deduce its income therefrom and the accounts are audited by a chartered accountant.
(iv)	Taxable	-	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.
(v)	Partly Taxable	36,000	Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt, provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., Rs. 7,000 per month, being 70% of Rs. 10,000) or Rs. 10,000 per month, whichever is less. Hence, Rs. 84,000 (i.e., Rs. 7,000 × 12) is allowable as deduction under section 10(14). Balance Rs. 36,000 (Rs. 1,20,000 - Rs. 84,000) shall be taxable.
(vi)	Not taxable	-	Any amount withdrawn from public provident fund as per relevant rules is not eligible to tax. Such exemption is provided in section 10(11).
(vii)	Taxable	72,000	Agricultural income is exempt from tax as per section 10(1). Agricultural income means, <i>inter alia</i> , any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received from letting out of agricultural land for movie shooting, is not

			exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".
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PROBLEM NO. 2

- (i) Agriculture Income from land situated in India is exempt under section 10(1), both in the case of residents and non-residents. Therefore, agriculture income of Rs. 2,00,000 from land in Kanchipuram, Tamil Nadu would be exempt in the hands of Ms. Dolly, a non-resident.
- (ii) Amount withdrawn from Public Provident Fund is exempt under section 10(11). Therefore, amount of Rs. 5,00,000 withdrawn by Mr. Rajesh from Public Provident Fund in accordance with rules would not be chargeable to tax.
- (iii) Section 10(10D) (d) exempts, any sum received under a life insurance policy, other than any sum received under an insurance policy issued on or after 01.04.2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 10% of the capital sum assured.

Therefore, Rs. 1,30,000 received by Mr. Abhi towards maturity proceeds of the life insurance policy would be chargeable to tax, since Rs. 23,000, being the amount of annual premium exceeds Rs. 12,000, being 10% of capital sum assured i.e., Rs. 1,20,000.

- (iv) Section 10(2A) provides that partner's share in the total income of a firm is exempt in his hands. The term "firm" includes a limited liability partnership and "partner" includes a partner of a limited liability partnership. Therefore, Rs. 5,60,000, being Dinesh's share of profit in the limited liability partnership would not be chargeable to tax in his hands.
- (v) As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax, except to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster. Thus, Rs. 3,50,000, being the amount of compensation received from Central Government on account of disaster would be exempt under section 10(10BC) in the hands of Mr. Rohan, assuming that the same has not been allowed as deduction under any other provision of the Act.

PROBLEM NO. 3

- i) **False:** Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- ii) **True:** As per section 12AA (4), the Commissioner or the Principal Commissioner has power to cancel the registration of the trust, by passing a written order, where it is noticed that, inter alia, the income of the trust is applied for the benefit of specified persons, including the author of the trust. However, the registration shall not be cancelled if the trust proves that there was reasonable cause for application of income in such manner.
- iii) **False:** The obligation under section 13A to maintain proper details of voluntary contributions in excess of Rs. 20,000 is over and above the obligation to maintain such books of account and other documents as would enable the Assessing Officer to properly deduce its income therefrom.
- iv) **True:** Section 10(18) exempts any income by way of pension received by individual who has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.
- v) **False:** Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, Rs. 10,000 should not be included in Mr. A's chargeable income.
- vi) **False:** As per section 10(10D) (c), any sum received under an insurance policy issued on or after 1.4.2003 but before 31.03.2012, in respect of which the premium payable for any year during the term of the policy exceeds 20% of actual capital sum assured, shall not be exempt from tax.

Hence, the contention of Mr. Roy is not correct since the one-time premium of Rs. 10 lakh paid by him is in excess of 20% of the sum assured [i.e. it exceeds Rs. 3 lakh, being 20% of Rs. 15 lakh]. Further, tax is deductible @2% under section 194DA on such sum paid to Roy, since the same is not exempt under section 10(10D).

- vii) **False:** Section 2(24) defining the term 'income' includes voluntary contributions received by any trust, university or educational institution. Hence, the statement is not correct.
- viii) **False:** As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.
- ix) **False:** As per section 10(34), only income by way of dividend referred to in section 115-O shall be exempt in the hands of shareholders. Corporate dividend tax under section 115-O is not leviable on deemed dividend under section 2(22) (e) and hence, such deemed dividend is not exempt under section 10(34).
- x) **False:** Any payment from an approved superannuation fund made by way of transfer to the account of an employee under a notified pension scheme referred to in section 80CCD is exempt under section 10(13). Since Atal Pension Yojana is a notified pension scheme under section 80CCD, the payment of Rs.10 lakhs made by XYZ Ltd. by way of transfer from an approved superannuation fund to Mr. Satish's account under such scheme is exempt under section 10(13).

PROBLEM NO.4

Computation of business income of Nathan Aviation Ltd.

Particulars	Rs. (in lacs)
Total profit derived from Units S & N (Rs. 13 lacs + Rs. 4 lacs)	17
Less: Exemption under section 10AA [See Working Note below]	12
	5
Less: Brought forward business loss	2
	3

Working Note:

Computation of exemption under section 10AA in respect of Unit S located in a SEZ

Particulars	Rs. (in lacs)
Domestic turnover of Unit S	10
Export turnover of Unit S	120
Total turnover of Unit S	130
Profit derived from Unit S	13
Exemption under section 10AA	
Profit of Unit S $\times \frac{\text{Export turnover of unit S}}{\text{Total turnover of Unit S}} = 13 \times \frac{120}{130} =$	12

PROBLEM NO.5

Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006, but before 1st April 2021. there shall be allowed a deduction of 100% of the profit and

gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2010:

Since A.Y. 2019-20 is the 9th assessment year from A.Y. 2011-12, relevant to the previous year 2010-11, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = 22.50 \text{ lakhs}
 \end{aligned}$$

If Unit in SEZ was set up and began manufacturing from 14-05-2014:

Since A.Y. 2019-20 is the 5th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = 45 \text{ lakhs}
 \end{aligned}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (Rs.)	Unit in DTA (Rs.)	Unit in SEZ (Rs.)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales Net Profit	4,60,00,000	1,60,00,000	3,00,00,000
	80,00,000	20,00,000	60,00,000

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15.RETURN OF INCOME**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO.1**

1. As per section 139(4C), a research association referred to in section 10(21) must file its return of income within the due date under section 139(1) if its total income, without giving effect to the provisions of section 10, exceeds the maximum amount which is not chargeable to income-tax.

Since the total income of the research association exceeds the basic exemption limit of Rs. 2,50,000, it has to file its return of income for the A.Y.2019-20.

2. As per section 139(4C), a registered trade union referred to in section 10(24) must file its return of income if the total income exceeds the basic exemption limit without giving effect to the provisions of section 10.

Since the total income of the trade union is less than the basic exemption limit of Rs. 2,50,000, it need not file its return of income for the A.Y. 2019-20.

3. As per section 139(4A), a charitable trust registered under section 12AA must file its return of income, if its total income computed as per the provisions of the Income-tax Act,1961, without giving effect to the provisions of sections 11 and 12, exceeds the maximum amount which is not chargeable to income-tax. Since the total income of the charitable trust exceeds Rs. 2,50,000, it has to file its return of income for the A.Y. 2019-20.

4. As per third proviso to section 139(1), every company or firm shall furnish on or before the due date the return in respect of its income or loss in every previous year. Since LLP is included in the definition of "firm" under the Income-tax Act, 1961, it has to file its return mandatorily, even though it has incurred a loss.

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PROBLEM NO.2

1. **True** : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
2. **False**: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

PROBLEM NO.3

- a) **Disagree**

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- i) where for any unavoidable reason such designated partner is not able to verify the return, or,
ii) Where there is no designated partner.

- b) **Disagree**:

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2019, shall be 31st July, 2019.

It is only in case Mr. A does not opt for presumptive taxation provisions under section 44AD and offers income to be lower than 8% of total turnover and his total income exceeds the basic exemption limit, he has to keep books of account as per section 44AA and get his accounts audited under section 44AB, in which case the due date for filing return would be 30th September, 2019.

PROBLEM NO. 4

Since Mr. Vineet has income only under the heads "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2019-20 under section 139(1), in his case, is 31st July, 2019. Since Mr. Vineet had submitted his return only on 12.09.2018, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or A belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4), to claim deduction under section 80TTA, since the time limit of relevant assessment year has not elapsed.

PROBLEM NO. 5

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A, exceeds the maximum amount not chargeable to tax i.e., Rs.2,50,000 (for A.Y. 2019-20).

Computation of total income of Mr. Paras for A.Y. 2019-20

Particulars	Rs.
Income from other sources:	
Interest earned from Non-resident (External) Account Rs. 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under section 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

Since the total income of Mr. Paras for A.Y.2019-20, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit of Rs. 2,50,000, he is not required to file return of income for A.Y.2019-20.

Owning a shop having area of 150 sq. ft. in Kerala would not make any difference to the answer.

Note: In the above solution, interest of Rs. 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to the deductions under Chapter VIA, would be Rs. 3,21,000 (Rs. 30,000 + Rs. 2,88,000 + Rs. 3,000), which is higher than the basic exemption limit of Rs. 2,50,000. Consequently, he would be required to file return of income for A.Y.2018-19. Here again, ownership of shop in Kerala is immaterial.

PROBLEM NO. 6

Sec. 139B provides a scheme for submission of return of income for any assessment year through a tax return preparer. However, it is not applicable to persons whose books of account are required to be audited under sec. 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2018-19 through a tax return preparer.

PROBLEM NO. 7

a) As per section 139(4C), a university referred to in section 10(23C), should file the return of income if its total income exceeds the basic exemption limit without giving effect to the provisions of section 10.

Since the total income of the university before giving effect to the exemption under section 10, exceeds the basic exemption limit of Rs. 2,50,000, it has to file its return of income for the A.Y. 2018-19.

b) As per third proviso to section 139(1), every company or firm shall furnish on or before the due date the return in respect of its income or loss in every previous year. Since LLP is included in the definition of "firm" under the Income-tax Act, 1961 it has to file its return mandatorily, even though it has incurred a loss.

PROBLEM NO. 8

The following table enumerates the specific circumstances and the authorized persons empowered to verify the return of income of an individual assessee filed under section 139(1) in each such circumstance:

	<i>Circumstance</i>	<i>Return of income, to be verified by</i>
i)	<i>Where he is absent from India</i>	- the individual himself; or - any person duly authorised by him in this behalf holding a valid power of attorney from the individual. (Such power of attorney should be attached to the return of income)
ii)	<i>Where he is mentally incapacitated from attending to his affairs</i>	- his guardian; or - any other person competent to act on his behalf.
iii)	<i>Where, for any other reason, it is not possible for the individual to verify the return</i>	<i>any person duly authorised by him in this behalf holding a valid power of attorney from the individual (Such power of attorney should be attached to the return f</i>

		<i>income)</i>
iv)	<i>In circumstances not covered under (i), (ii) & (iii) above</i>	- the individual himself

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16.TDS & TCS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

In this case, the individual contract payments made to Mr. X does not exceed Rs. 30,000. However, since the aggregate amount paid to Mr. X during the P.Y.2018-19 exceeds Rs. 1,00,000 (on account of the last payment of Rs. 30,000, due on 01.03.2019, taking the total from Rs. 73,000 to Rs. 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @ 1% on the entire amount of 1,03,000 from the last payment of Rs. 30,000 and the balance of Rs. 28,970 (i.e. Rs. 30,000 - Rs. 1,030) has to be paid to Mr. X.

PROBLEM NO. 2

TDS provisions under section 194J would not get attracted, since the limit of Rs. 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2018-19.

PROBLEM NO. 3

Interest under section 201(1A) would be computed as follows:

Particulars	Rs.
1% on tax deductible but not deducted i.e., 1% on Rs. 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on Rs. 9,000 for 4 months	540
Interest u/s 201(1A)	860

PROBLEM NO. 4

- i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
 - He owns ten or less goods carriages at any time during the previous year.
 - He is engaged in the business of plying, hiring or leasing goods carriages;
 - He has furnished a declaration to this effect along with his PAN.
- ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds Rs. 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e. Rs. 25,000 and royalty Rs. 20,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2018 to M/s. X Ltd. is less than the threshold limit of Rs. 30,000.
- iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.
Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 2,00,000 to Mr. A, since the contract is a contract for 'sale'.
- v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any

immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed Rs. 2,50,000.

- vi) As per section 194H, any person (other than an individual or HUF) who is responsible for paying commission or brokerage to a resident shall deduct tax at source @ 5%. If the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year exceeds Rs. 15,000.

Since the commission payment made to Mr. Y does not exceeds Rs. 15,000, the provisions of section 194H are not attracted.

PROBLEM NO. 5

- a) Section 194J provides for deduction of tax at source @ 10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 up to which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @ 10% has to be deducted at source under section 194J in respect of the sum of Rs. 19,000 paid by ABC Ltd. to its director.

- b) Section 194-IA, inserted with effect from 1st June 2013, requires every person, being a transferee, responsible for paying any sum as consideration for transfer of any immovable property (other than agricultural land), to deduct tax @ 1% of such sum, at the time of credit of such sum to the account of the resident transferor or at the time of payment of such sum to a resident transferor, whichever is earlier.

Such tax is required to be deducted at source where the consideration for transfer of immovable property is Rs. 50 lakhs or more.

In this case, since the consideration for transfer of house exceeds Rs. 50 lakhs, Mr. Y is liable to deduct tax at source @ 1% under section 194-IA on the consideration of Rs. 60 lakhs payable for transfer of house to Mr. X.

PROBLEM NO. 6

As the turnover of Ashwin for F.Y.2017-18, i.e. Rs. 205 lakh, has exceeded the monetary limit of Rs. 100 lakh prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2018-19, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank:

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of Rs. 24,000 to Raj for 2 contracts of Rs. 12,000 each:

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee - Tax has to be deducted under section 194-I as the rental payment exceeds Rs. 1,80,000.

Commission paid to Balu - No, Tax has to be deducted under section 194-H as the commission does not exceeds Rs. 15,000.

PROBLEM NO. 7

- i) As per Circular No. 4/2008 dated 28th April, 2008 issued by the CBDT, the service tax paid by the tenant does not par take the nature of income of the landlord. The landlord only acts as a collecting agency for collection of service tax. Therefore, tax deducted at source under section 194-I would be required to be made on the amount of rent paid or payable excluding the amount of service tax, i.e. tax has to be deducted under section 194-I on Rs. 12 lakh.
- ii) Tax is deductible @ 10% under section 194-I.
- iii) Hence, in the given case, TDS under section 194-I would amount to Rs. 10,000, to be deducted every month.
- iv) Tax deducted should be deposited within prescribed time i.e. on or before seven days from the end of the month in which the deduction is made and up to 30th April for the month of March.

PROBLEM NO. 8

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

The assessee is a resident individual, who was not subjected to tax audit during the immediately preceding previous year i.e., P.Y.2017-18 (as his turnover is less than 1 crore in that year) and the TDS obligations have to be considered bearing this in mind.

- i) Disallowance under section 40(a)(ia) is not attracted for failure to deduct tax at source under section 192 from salaries
- ii) The obligation to deduct tax source from interest paid to a resident arises under section 194A in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year, i.e. P.Y. 2017-18. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y.2017-18. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- iii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance under section 40(a)(i)
- iv) The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y 2017-18. Hence, there is no obligation to deduct tax at source under section 194H during the P.Y. 2017-18. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PROBLEM NO. 9

- a) As per section 194-I, tax is to be deducted at source @ 2% on payment of rent for use of plant and machinery, only if the payment exceeds Rs. 1,80,000 during the financial year.
Since rent of Rs. 1,65,000 paid by a partnership firm does not exceed Rs.1,80,000, tax is not deductible.
- b) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @ 20%. Further, since Chris Gayle, a cricket player of West Indies team is a non-resident, Health and Education cess @ 4% on TDS should also be added.

Therefore, tax to be deducted = Rs. 59,000 x 20.80% = Rs. 12,272.

- c) Under section 194BB, tax is to be deducted at source, if the income arising by way of winning a jackpot in horse races exceeds Rs. 10,000. The rate of deduction of tax at source is 30%. Since, the winnings are paid to a resident, Health and Education cess @ 4% has not been added to the tax rate of 30%.

Hence, tax to be deducted = Rs. 1,80,000 × 30% = **Rs. 54,000.**

- d) Advertising is included in the definition of “work” under section 194C. Under section 194C, the provisions for tax deduction at source would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year.

Therefore, provisions for deduction of tax at source under section 194C are not attracted in respect of payment of Rs. 28,000 on 01.06.2018 to X Ltd. However, payment of Rs. 37,000 on 21.09.2018 to X Ltd. would attract TDS @ 2%, since it exceeds Rs. 30,000.

Hence, tax to be deducted = Rs. 37,000 × 2% = **Rs. 740**

- e) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.

Assuming that sub-contractor to whom payment has been made is an individual and the aggregate amount credited during the year is Rs. 4,20,000, tax is deductible @ 1% on Rs. 4,20,000.

Tax to be deducted = Rs. 4,20,000 × 1% = **Rs. 4,200**

PROBLEM NO. 10

- i) Theta Co-operative Bank has to deduct tax at source @ 10% on the interest of Rs. 48,000 ($8\% \times \text{Rs. } 12 \text{ lakh} \times \frac{1}{2}$) under section 194A.
- ii) Since Omega Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered, and if the same exceeds Rs. 10,000, tax is deductible under section 194A. Omega Bank has to deduct tax at source @ 10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs. 16,000, which exceeds the threshold limit of Rs. 10,000.

Branch	Amount of deposit (Rs.)	Rate of Interest	Period in months	Interest (Rs.)
Adyar	60,000	10%	10	5,000
Anna Nagar	80,000	10%	9	6,000
Nungambakkam	75,000	10%	8	5,000
TOTAL				16,000

- iii) Tax has to be deducted @ 10% under section 194A by Gamma Bank on the interest of Rs. 13,000 (See Working Note below) falling due on recurring deposit on 31.03.2019 to Ms. Meena, since - (1) - recurring deposit has been included in the definition of - time deposit; and (2) such interest exceeds the threshold limit of Rs. 10,000.

Working Note: Computation of Interest:

$$= \text{Rs. } 20,000 \times 10\% \times [(12 + 11 + 10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1) / 12]$$

$$= \text{Rs. } 2,000 \times (78/12) = \text{Rs. } 13,000$$

PROBLEM NO.11

As per section 194-IA, any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property (other than rural agricultural land) is required to deduct tax at source @ 1% of such sum, if the consideration for transfer is Rs. 50 lakhs or more. The deduction of tax at source has to be made at the time of credit of such sum to the account of the transferor or at the time of payment of such sum, whichever is earlier.

Accordingly, in this case, since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Raman, the transferee, is required to deduct tax at source at 1% of Rs. 65 lakhs, being the consideration for transfer of house property. The tax to be deducted under section 194-IA would be Rs. 65,000, being 1% of Rs. 65 lakh.

Since TDS provisions under section 194-IA are attracted in respect of transfer of any immovable property, other than rural agricultural land, no tax is required to be deducted by Mr. Raman from the sale consideration payable for transfer of rural agricultural land.

PROBLEM NO.12

i) In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of Rs. 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C (1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

ii) The issue of whether fees/charges taken or retained by advertising companies from media companies for canvassing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount' to attract the provisions of tax deduction at source has been clarified by the CBDT vide its *Circular No.5/2016 dated 29.02.2016. 9.20 Income-tax*

The Circular draws reference to the Allahabad High Court ruling in the case of *Jagran Prakashan Ltd.* and the Delhi High Court ruling in the matter of *Living Media Limited*. In both the cases, the Courts have held that the relationship between the media company and the advertising agency is that of a 'principal-to-principal' and, therefore, not liable for TDS under section 194H. Though these decisions are in respect of print media, the ratio is also applicable to electronic media/television advertising as the broad nature of the activities involved is similar.

In view of the above, the CBDT has clarified that no liability to deduct tax is attracted on payments made by television channels to the advertising agency for booking or procuring of or canvassing for advertisements.

Accordingly, in view of the clarification given by CBDT, no tax is deductible at source on the amount of Rs. 15 lakhs retained by Mudra Ad co Ltd., the advertising company, from payment due to Cloud TV, a television channel.

PROBLEM NO.13

i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.03.2012, the maturity proceeds of Rs. 4.50 lakhs are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @1% under section 194DA on the maturity proceeds of Rs. 4.50 lakhs payable to Mr. X.

- ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01.04.2012, the sum of Rs. 2.20 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.03.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

PROBLEM NO. 14

(i)	Tax implications in the hands of Mr. X
	<p>As per section 50C, the stamp duty value of house property (i.e. Rs. 85 lakh) would be deemed to be the full value of consideration arising on transfer of property. Therefore, Rs. 45 lakh (i.e. Rs. 85 lakh - Rs. 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2019-20.</p> <p>Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.</p>
(ii)	Tax implications in the hands of Mr. Y
	<p>In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds Rs. 50,000.</p> <p>Therefore, in this case Rs. 25 lakh (Rs. 85 lakh - Rs. 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x).</p> <p>Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.</p>
(iii)	TDS implications in the hands of Mr. Y
	<p>Since the sale consideration of house property exceeds Rs. 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs. 60,000, being 1% of Rs. 60 lakh.</p> <p>TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.</p>

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17. MISCELLANEOUS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM-1**

Solution: If Mr. Asim is engaged only in the business of roasting and grounding of coffee (and not growing and curing of coffee), his entire income of Rs. 10 lakhs would be treated as business income and his tax liability would be Rs. 1,14,400 (Rs. 1,10,000 + Rs. 4,400).

If Mr. Asim is also engaged in the business of growing and curing of coffee, in addition to roasting and grounding of coffee, the provisions of Rule 7B of the Income-tax Rules, 1962 would apply. As per Rule 7B, where income is derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income shall be treated as business income and the balance as agricultural income.

Therefore, in such a case, the business income would be 40% of Rs. 10,00,000 = Rs. 4,00,000

Calculation of tax liability for A.Y 2019-20

Particulars	Rs.
Tax on Rs. 10,00,000 [being the aggregate of non-agricultural income (i.e. Rs. 4,00,000) and agricultural income (i.e. Rs. 6,00,000)]	1,10,000
Less: Tax on Rs. 9,00,000 [being aggregate of agricultural income (i.e. Rs. 6,00,000) and basic exemption limit (i.e. Rs. 3,00,000)]	90,000
	20,000
Add: Health and Education cess @ 4%	800
Total tax liability	20,800

Note: _____

PROBLEM-2

Solution: Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	Rs.	Rs.	Rs.
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	

Car expenses (80% of Rs. 50,000)		40,000	
Depreciation on car (80% of 15% of Rs. 3,00,000)		36,000	
Total costs of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of 15,00,000) (See Computation below)	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			12,89,000
Amount regarded as business income (25% of above)			3,22,250
Amount treated as agricultural income (75% of above)			9,66,750

Computation of value of depreciable assets as on 31.03.2019

Particulars	Rs.	Rs.	Rs.
Car Opening value as on 01.04.2018		3,00,000	
Less: Depreciation thereon at 15%	45,000		
Less: Disallowance @ 20% for personal use	9,000		
Depreciation actually allowed		72,000	
Closing value as on 31.03.2019			2,64,000
Machinery Opening value as on 01.04.2018		15,00,000	
Less: Depreciation @ 15%		4,50,000	
Closing value as on 31.03.2018			12,75,000

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