

12. PROBLEMS ON TOTAL INCOME**PROBLEM NO.1**

Computation of income-tax liability for the A.Y.2018-19

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Nonresident	Resident	Nonresident
Applicable basic exemption limit	Rs.2,50,000	Rs.2,50,000	Rs.5,00,000	Rs.2,50,000
Asset sold	Vacant site	Listed shares (STT paid)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	Rs. 15,000 [Taxable@20% u/s 112]	Rs. 10,000 [exempt u/s 10(38)]	Rs. 60,000 (Exempt – not a capital asset)	-
Other income	Rs.2,40,000	Rs.2,80,000	Rs.5,90,000	Rs.4,80,000
Tax liability				
On LTCG (after adjusting Basic Exemption limit)	Rs.1,000	-	-	-
On Other income	Rs.Nil	Rs.1,500	Rs.18,000	Rs.11,500
	Rs.1,000	Rs.1,500	Rs.18,000	Rs.11,500
Less: Rebate u/s 87A	Rs.1,000	-	-	-
	Nil	Rs.1,500	Rs.18,000	Rs.11,500
Add: Education cess @2% & SHEC @1%	-	45	540	345
Total tax liability (Rs.)	Nil	1,545	18,540	11,845

Notes:

- Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of Rs. 3,00,000 and Rs. 5,00,000 for persons over the age of 60 years and 80 years, respectively.
- Since Mr. A is a resident whose total income does not exceed Rs. 3.5 lakhs, he is eligible for rebate of Rs. 2,500 or the actual tax payable, whichever is lower, under section 87A

PROBLEM NO.2

S. No.	Particulars	Heads of income
i)	Rental income in case of dealer in property	Income from house property
ii)	Dividend on shares in case of a dealer in shares	Income from other sources
iii)	Salary by a partner from his partnership firm	Profit and gains of business or profession
iv)	Rental income of machinery (see note below)	Income from other sources / Profit and gains of business or profession
v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
vi)	Salaries payable to a Member of Parliament	Income from other sources
vii)	Receipts without consideration	Income from other sources
viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized.	Income from other sources

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

PROBLEM NO.3**Computation of total income of Mr. Chand for the A.Y.2018-19**

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Current year business income	1,10,000	
Less: Brought forward business loss of discontinued business Rs. 1,50,000 set-off to the extent of current year business income as per section 72	<u>1,10,000</u>	Nil
Income from other sources		
Interest on enhanced compensation taxable on receipt basis under section 56(2)(viii)	4,00,000	
Less: Deduction under section 57(iv) @ 50%	<u>2,00,000</u>	2,00,000
Total income		2,00,000

The unabsorbed business loss of Rs. 40,000 (Rs. 1,50,000 – Rs. 1,10,000) of A.Y.2010-11 relating to discontinued business will be carried forward for set-off against income from any business in the next year i.e. A.Y.2018-19.

PROBLEM NO.4**Computation of total income and tax liability of Siddhant for the A.Y.2018-19**

Particulars	Rs.	Rs.
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (Rs. 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
30% of NAV	Rs. 11,310	
Interest on loan from LIC @15% of Rs. 1,60,000 [See Note 2]	<u>Rs. 24,000</u>	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business	4,200	
Net loss from speculative business (to be carried forward as it cannot be set off against any other head of income)	1,500	
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) Less: Exempt under section 10(32)	3,800 <u>1,500</u> 2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds Rs. 50,000)	1,00,000	1,08,000

Gross Total Income		4,79,390
Less: Deduction under section 80C Contribution to Public Provident Fund		50,000
Total Income		4,29,390

Particulars	Rs.
Tax on total income	8,970
Add: Education cess@2%	179
Add: Secondary and higher education cess@1%	90
	9,239
Tax liability (rounded off)	9,240

Notes:

- It is assumed that the entire loan of Rs. 1,60,000 is outstanding as on 31.3.2018;
- Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

PROBLEM NO.5**Computation of taxable income of Dr. Krishna for the A.Y.2018-19**

Particulars	Rs.	Rs.
Income from Salaries		
Salary received @ Rs. 5,000 per month		60,000
Income from house property		
Gross Annual Value	27,000	
Less: Municipal tax	2,000	
Net Annual Value	25,000	
Less: Deduction under section 24 @ 30%	7,500	17,500
Income from business or profession		
Net income as per income & expenditure account	2,46,000	
Add: Rent paid to residence	30,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	2,000	
	2,88,000	
Less: Depreciation (See working note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies [Exempt u/s 10(34)]	9,000	1,62,000
Capital Gains (Long term capital gains)		
Sale consideration	6,00,000	
Less: Indexed cost acquisition (Rs. 1,50,000 x 272/100) (See Note 3)	4,08,000	1,92,000
Gross Total income		4,31,500
Less: Deduction under Chapter VIA		
Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following		
i) 25% of total income = 25% of Rs. 2,39,500 (See Note 1)	59,875	
ii) Excess of rent paid over 10% of total income (Rs. 30,000 - Rs. 23,950)	6,050	
iii) Rs. 5,000 per month Least of the above	60,000	6,050
	6,050	
Total Income		4,37,550

Note:

1. Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI-A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = Rs. 4,31,500 – Rs.1,92,000 = Rs. 2,39,500.
2. Depreciation on plant & machinery

Particulars	Rs.
On opening WDV of Rs. 5,00,000 @ 15%	75,000
On equipment acquired Rs. 2,00,000 @ 7.5% (50% thereon, since acquired in December)	15,000
	90,000

3. Since the property was acquired by Dr. Krishna through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the base year (FY 2001-02) as the assessee (i.e., Dr. Krishna in this case) first held the asset i.e. F.Y. 1997-98.

PROBLEM NO.6**Computation of tax liability of Mrs. Priti for A.Y. 2018-19**

Particulars	Rs.
Total income other than business of dealing in shares (Rs. 21,05,000 –Rs.2,20,000) (before deduction under section 80C)	18,85,000
Income from business of dealing in shares [See Note below]	2,05,000
Gross Total Income	20,90,000
Less : Deduction under section 80C in respect of PPF deposit	1,50,000
Total income	19,40,000
Tax on total income	3,94,500
Add: Education cess @ 2%	7,890
Add: Secondary and Higher Education cess @1%	3,945
Tax Liability (Rounded off)	4,06,340

Note: Rs. 2,20,000 less amount of Rs. 15,000 paid towards securities transaction tax eligible for deduction under section 36(1)(xv).

PROBLEM NO.7**Computation of total income of Mr. Balaji for the A.Y. 2018-19**

Particulars	Rs.	Rs.	Rs.
Income from salaries			
Pension from Central Government (See Note 1)			2,47,000
Income from house property			
Gross Annual Value (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)		2,40,000	
Less: Municipal Taxes paid		NIL	
Net Annual Value (NAV)		2,40,000	
Less: Deduction under section 24			
(a) Standard deduction @ 30% of NAV	72,000		
(b) Interest on borrowed capital (Rs. 1,60,000+ Rs. 12,000) (See Note 2)	1,72,000	2,44,000	(4,000)

Income from business or profession			
Income from business of trading in grains and pulses		4,10,000	
Rent of factory building with machinery (Rs. 20,000 x12) (See Note 3)		2,40,000	
Less: Depreciation			
- Factory building (8,10,000 x 10%)	81,000		
- Machinery (4,91,300 x 15%)	73,695	85,305	4,95,305
			7,38,305
Less: Brought forward depreciation relating to A.Y. 2014-15 from discontinued textile business (See Note 4)			2,00,000
Total Income			5,38,305

Notes:

- Uncommuted pension is fully taxable in the hands of both government and nongovernment employees.
- Interest accrued is allowable as deduction under section 24(b). Therefore, interest of Rs. 12,000 accrued but not paid during the year can also be claimed as deduction.
- Composite rent from letting out of building along with machinery is not taxable under the head "Income from house property", if the two lettings are not separable. It would be taxable either as business income or income from other sources.

It has been assumed that the composite rent received by Mr. Balaji from letting out of factory building and machinery is not separable and letting out of factory building by Mr. Balaji is incidental to his main business of trading in grains and pulses and therefore, such income would be taxable under the head "Profit and gains from business or profession".

- Unabsorbed depreciation under section 32 can be carried forward indefinitely and set-off against income under any head, even if it relates to a discontinued business.
- As per section 73, loss from a speculation business can be set off only against profit of another speculation business. Therefore, loss from speculation in jewellery of Rs. 80,000 cannot be set off in the current year since there is no profit from any other speculation business. The loss of Rs. 80,000 from speculation business has to be carried forward for set off against profit and gains of any speculation business in the succeeding 4 years.

PROBLEM NO.8**Computation of total income and tax liability of Ms. Purvi for the A.Y.2018-19**

Particulars	Rs.	Rs.
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		15,800
Gross Total Income		9,93,820
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		9,83,820
Tax on total income		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 @ 5%	12,500	
Rs. 5,00,001 - Rs. 9,83,820 @20%	96,764	1,09,264
Add: Education cess @ 2%		2,185
Secondary and higher education cess @ 1%		1,093
Total tax liability		1,12,542
Tax payable (rounded off)		1,12,540

Working Notes:**1. Income from House Property**

Particulars	Rs.	Rs.
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	<u>3,000</u>	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	<u>24,780</u>	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

2. Income under the head "Profits & Gains of Business or Profession"

Particulars	Rs.	Rs.
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000	30,000	
ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
iii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
i) Dividend on shares of Indian companies	10,524	
ii) Income from UTI	7,600	
iii) Honorarium for valuation of answer papers	15,800	
iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes:

- i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- iii) Repairs and maintenance paid in advance for the period 1.4.2018 to 30.9.2018 i.e. for 6 months amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- iv) Rs. 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

3. Income from other sources

Particulars	Rs.	Rs.
Dividend on shares of Indian companies	10,524	
Less: Exempt under section 10(34)	<u>10,524</u>	Nil
Income from UTI	7,600	

Less: Exempt under section 10(35)	7,600	Nil
Honorarium for valuation of answer papers		15,800
		15,800

4. Deduction under Chapter VI-A :

Particulars	Rs.
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

PROBLEM NO.9**Computation of Total income of Dr. Shashank for the Assessment Year 2018-19**

Particulars	Rs.
Profits and gains of business or profession (Working Note 1)	6,33,700
Income from other sources (Working Note 2)	74,000
Gross Total Income	7,07,700
Less: Deduction under Chapter VI-A (Working Note 3)	2,52,635
Total Income	4,55,065
Total Income (rounded off)	4,55,070

Computation of tax liability of Dr. Shashank for the Assessment Year 2018-19

Particulars	Rs.
Tax on winnings from TV game show [Rs. 50,000 @ 30%]	15,000
Tax on balance income of Rs. 4,05,070 (Rs. 4,55,070 – Rs. 50,000) 5% of Rs. 1,55,070 [i.e., Rs. 4,05,070 – Rs. 2,50,000 (basic exemption limit)]	7,754
	22,754
Add: Education cess@2% and secondary and higher education cess@1%	683
Total tax liability	23,437
Less: Tax deducted at source	15,000
Net tax liability	8,437
Net tax liability (rounded off)	8,440

WORKING NOTES:

1. Computation of income under the head "Profits and gains of business or profession"

Particulars	Rs.	Rs.
Surplus as per Income and Expenditure Account		6,58,700
Add: Expenses disallowed		
Depreciation (Rs. 1,25,000 – Rs. 75,000)	50,000	
Medicine consumed for self and family (disallowed under section 37, being expenditure of personal nature)	18,000	
Medicine consumed for treating poor patients from whom fees was not charged is an allowable expense, since the same is incurred in the course of carrying on medical profession	-	
Cash payment of salary disallowed under section 40A(3), since the same is in excess of Rs. 10,000	30,000	
Donation to National Children's Fund (not allowable as deduction while computing income from profession)	51,000	1,49,000
		8,07,700

Less: Income credited to Income and Expenditure Account but not chargeable to income-tax or not chargeable under this head		
Maturity proceeds of LIC policy [Exempt under section 10(10D)] [See Note 2]	1,15,000	
Winning from TV game show (taxable under the head "Income from other sources")	35,000	
Honorarium for giving lectures at seminars (taxable under the head "Income from other sources")	24,000	1,74,000
Chargeable income from profession		6,33,700

2. Computation of Income under the head income from other sources

Particulars	Rs.	Rs.
Honorarium for giving lectures at seminars		24,000
Winning from TV Game Show (Gross)		50,000
Income from other sources		74,000

3. Computation of deduction under Chapter VI-A

Section	Particulars	Rs.	Rs.
80C	Life Insurance Premium [Rs. 25,000 restricted to 10% of Rs. 2,00,000 (i.e. sum assured) since the policy is issued on or after 1.4.2012]		20,000
	Contribution to Public Provident Fund		1,20,000
			1,40,000
80CCG	Listed equity shares	Rs. 30,000	
	Units of equity oriented fund	Rs. 40,000	
	Total investment under Rajiv Gandhi Equity Savings Scheme [See Note 3]	Rs. 70,000	
	Maximum deduction – 50% of Rs. 70,000 or Rs. 25,000, whichever is lower		25,000
80E	Interest on loan taken for higher education of daughter		10,000
80G	Donation to National Children's Fund [100% deduction allowable, since it is made by a mode other than cash]	51,000	
	Donation to a registered charitable trust [50% of actual contribution of Rs. 1,00,000 or 10% of adjusted total income, whichever is lower] [See Working Note 4 below]	26,635	77,635
	Total deduction under Chapter VI-A		2,52,635

4. Deduction under section 80G in respect of donation to charitable trust

Particulars	Rs.	Rs.
Adjusted Total Income		
Gross Total income	7,07,700	
Less: Deductions under Chapter VI-A except under section 80G	1,75,000	
	5,32,700	
10% of Adjusted Total Income (A)		53,270
Actual contribution to charitable trust (B)		1,00,000
Lower of A & B	53,270	
Deduction under section 80G in respect of donation to registered charitable trust [See Note 1]		
50% of Rs. 53,270		26,635

Notes:

- It is assumed that the donation of Rs. 100,000 to the charitable trust is made by any mode other than cash.
- The maturity proceeds received under a life insurance policy are wholly exempt from tax under section 10(10D), assuming that the conditions given thereunder are satisfied (i.e., the annual premium does not exceed the specified percentage of actual capital sum assured)

3. Dr. Sashank is eligible for deduction under section 80CCG since his gross total income does not exceed Rs. 12 lakh. It is assumed that he is not a new retail investor and has not claimed the deduction under this section in the assessment year prior to AY 2018-19.

PROBLEM NO.10**Computation of total Income and tax payable by Dr. Parekh for the A.Y. 2018-19**

Particulars	Rs.	Rs.
Income from House Property (Note 1)		11,900
Profits and gains of business or profession (Note 2)		8,71,000
Income from other sources (Note 3)		2,60,400
Gross Total income		11,43,300
<i>Less: Deductions under Chapter VIA</i>		
(i) Deduction under section 80C		
Investment in PPF	1,20,000	
Life insurance premium paid	80,000	
	2,00,000	
Deduction restricted to	1,50,000	
(ii) Deduction under section 80D		
Mediclaime premium of Rs. 32,500 paid by cheque for himself. However, deduction restricted to Rs.25,000	25,000	1,75,000
Total income		9,68,300
Components of Total Income		
Winning from lotteries (chargeable at special rate @ 30% under section 115BB)		10,000
Normal income (Rs.9,68,300 - Rs.10,000)		9,58,300
		9,68,300
Computation of Tax		
Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (Rs. 9,58,300)		
First Rs. 2,50,000 Nil	NIL	
Next Rs. 2,50,000 5%	12,500	
Balance Rs. 4,58,300 20%	91,660	1,04,160
Income tax payable		1,07,160
<i>Add: Education cess @2%</i>		2,144
<i>Secondary and higher education cess @1%</i>		1,072
Total Tax Payable		1,10,376
<i>Less: Tax deducted at source</i>		
From Interest	3,000	
From lottery income	3,000	6,000
		1,04,376
<i>Less : Advance tax paid</i>		1,40,000
Refund		(-) 35,624

Notes:**1. Computation of Income from House Property**

Particulars	Rs.
Gross Annual Value – Rent received (treated as fair rent)	20,000
<i>Less : Municipal taxes paid</i>	3,000
Net Annual Value (NAV)	17,000
<i>Less : Statutory deduction under section 24 @ 30% of NAV</i>	5,100
Income from House Property	11,900

2. Computation of Profits and gains of business or profession

Particulars	Rs.	Rs.
Net Profit as per Income & Expenditure Account		6,70,900
<i>Add : Depreciation charged</i>	42,500	

Municipal Taxes paid	3,000	
Advance Tax (See Note-4)	1,40,000	1,85,500
		8,56,400
Less: Rent received	20,000	
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income-tax Act, 1961	45,000	1,85,400
		6,71,000
Salary from Nursing Home as partner	1,50,000	
Commission from Nursing home as partner	50,000	2,00,000
Income from business		8,71,000

3. Computation of Income from Other Sources

Particulars	Rs.
Interest Post Office MIS	86,400
Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross)	10,000
Fees from University of Trividad	50,000
Pension from LIC Jeevan Suraksha	84,000
Income from Other Sources	2,60,400

4. Advance Tax is not allowable as deduction.

5. **Depreciation of Apparatus :** Rs.

WDV as on 1.4.2017 3,00,000

Depreciation @15% 45,000

WDV as on 31.3.2018 2,55,000

6. Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.

7. As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being Rs. 350, cannot be allowed as deduction from income from winnings of lotteries.

8. Pension from LIC Jeevan Suraksha is taxable as Income from other sources.

PROBLEM NO.11

Computation of taxable income and tax liability of Smt. Savita Rani for A.Y. 2018-19

Particulars	Rs.	Rs.
Income from salary		
Basic salary (Rs. 45,000 x 12)		5,40,000
Dearness Allowance (Rs. 12000 x 12)		1,44,000
House Rent allowance (fully taxable)		72,000
Employer's contribution to recognized provident fund in excess of 12% is taxable as salary income		
12% of salary is Rs. 73,440. Employer's contribution is 15% of salary, which is Rs. 91,800		
Excess contribution is (Rs. 91,800 – Rs. 73,440)		18,360
Perquisite in respect of interest free loan (Rs. 1,50,000 x 8% x ½)		6,000
Net Salary		7,80,360
Income from house property (See Note below)		30,000
Long term Capital Gain:		
Sale consideration of GOI capital indexed bonds	1,50,000	
Less: Indexed cost of acquisition (Rs. 80,000 x 272/100)	2,17,600	
Long-term capital loss (to be carried forward)	67,600	

Gross Total Income		8,10,360
Deduction under section 80C – in respect of recognized provident fund contribution	91,800	
Deduction under section 80D – Mediclaim	15,000	1,06,800
Total Income		7,03,560
Tax Payable on Rs. 7,03,560		50,712
Add : Education cess and Secondary and higher education cess @ 3%		1,521
Total tax payable		52,233
Total tax payable (rounded off)		52,230

Note: As per section 27, any property transferred to the minor child without adequate consideration would be deemed to be the property of the assessee. Therefore, the income from house property of Rs. 30,000 (computed) is to be assessed in the hands of Smt. Savita Rani.

PROBLEM NO.12

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2018-19

S. No.	Particulars	Mrs. Rosy Rs.	Mrs. Mary Rs.
(I)	Salaries		
	Pension received from State Government	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a) @ 30%	18,000	9,000
		42,000	21,000
(III)	(III) Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	50,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,00,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,31,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	
	3. Investment in PPF	-	20,000
		40,000	30,000
2.	Deduction under section 80D – Mediclaim premium paid (assuming that the same is paid by cheque)		25,000
		40,000	55,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,00,000
	Tax liability of Mrs. Rosy for A.Y. 2018-19		
	Tax on long-term capital gains @ 20%	20,000	
	Tax on short-term capital gains @ 15%	3,000	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2018-19		
	Tax on short-term capital gains @ 15% of Rs. 50,000 [i.e. Rs.		

	2,50,000 less Rs. 2,00,000, being the unexhausted basic exemption limit as per proviso to section 111A]		7,500
	Less: Rebate under section 87A		2,500
			5,000
	Education cess @ 2% & SHEC@ 1%	690	150
	Total tax payable	23,690	5,150

Notes :

- Long-term capital gains are chargeable to tax @ 20% as per section 112.
- The short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust there unexhausted basic exemption limit against long-term capital gains and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of Rs. 2,50,000 against long-term capital gains of Rs. 50,000 and the balance limit of Rs. 2,00,000 (i.e., 2,50,000 – 50,000) against short-term capital gains.

PROBLEM NO.13**Computation of Total Income and Tax liability of Mr. A for A.Y. 2018-19**

Particulars	Rs.	Rs.
1. Income from house property – House I	(70,000)	
– House II	(48,000)	
(See Working Note 1)		(1,18,000)
2. Profits and gains of business		(2,00,000)
3. Capital gains – long term (See Working Note 2)		1,30,00,000
4. Income from other sources – Bank interest		1,00,000
Gross total income		1,27,82,000
Less : Deduction under Chapter VI-A		
Deduction under section 80C (PPF)		1,00,000
Total income		1,26,82,000
Tax liability		
Total income other than long term capital gain is Nil.		
Taxable long term capital gain is Rs. 1,23,82,000		
[i.e. Rs. 1,30,00,000 – Rs. 3,18,000 – basic exemption limit of Rs. 3,00,000]		
On long term capital gains of Rs. 1,23,82,000 @ 20%		24,76,400
Surcharge @ 15%		3,71,460
		28,47,860
Education cess@2% and Secondary and higher education cess@1%		85,436
Total tax payable		29,33,296

Working notes:**1. Calculation of income from house property**

House I – Self occupied	Rs.
Annual value	Nil
Less : Interest as per section 24(b)	70,000

Loss from house property (House I)		(70,000)
House II - Let out		Rs.
Gross annual value (Rs. 9,000 x 8)		72,000
Less :Municipal taxes		<u>12,000</u>
Net Annual Value (NAV)		60,000
Less : Deductions under section 24		
30% of NAV	18,000	
Interest on borrowed capital	<u>90,000</u>	<u>1,08,000</u>
Loss from house property (house II)		<u>(48,000)</u>

Note: Interest on capital borrowed will be allowed in full for let out properties. As per section 23(1)(c), where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the expected rent (in this case, standard rent of Rs. 90,000), then, the actual rent received or receivable would be the Gross Annual Value of the property. In this case, the actual rent received (i.e. Rs. 72,000) is less than the expected rent (i.e. Rs. 90,000) on account of vacancy and therefore, the actual rent received is taken as the Gross Annual Value.

2. Calculation of Capital Gains

Particulars	Rs.	Rs.
Sale consideration	2,50,00,000	
Less: Indexed cost of acquisition (Rs. 20,00,000 x 272/272)	<u>20,00,000</u>	
	2,30,00,000	
Less : Exemption under section 54	<u>1,00,00,000</u>	
Taxable long term capital gain		1,30,00,000

As per the definition of the indexed cost of acquisition under clause (iii) of Explanation to section 48, indexation benefit will be available only from the previous year in which Mr. A first held the asset i.e. P.Y. 2017-18. Since Mr. A sold the asset in the same year in which it was held by him, cost of acquisition and indexed cost of acquisition would be same.

Note: As per the view expressed by Bombay High Court, in the case of CIT v. Manjula J. Shah 16 Taxmann 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner.

3. It has been assumed that the loss from house property and business loss have been set - off fully against long term capital gains. Therefore, Rs. 1 lakh relating to section 80C investments are deducted against "Income from other sources". The taxable income represents long term capital gains only and the tax liability is computed accordingly.

PROBLEM NO.14

Computation of Total Income for the A.Y.2018-19

Particulars	Amount	Amount
Income from Salaries		
Basic Salary (15,000 x 12)		1,80,000
Dearness Allowance (12,000 x12)		1,44,000
Commission on Turnover (0.5% of 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of 1,80,000]	36,000	
Less: Exempt (Note 2)	<u>33,240</u>	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	

Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth Rs. 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs. 85,000		8,500
		4,55,760
Profits and Gains of Business or Profession		
Lease of 2 trucks on contract basis against fixed charges of Rs. 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs. 7,500 p.m. for each of the two trucks (7,500x 2 x12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	
Dividend on shares [Exempt under section 10(34)]	Nil	13,400
Gross total Income		6,49,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D - Mediclaim Insurance		12,500
Section 80G (Note 4)		10,600
Total Income		5,00,690
Tax on total income		
Income-tax		12,638
Add: Education cess @ 2%		253
Add: Secondary and higher education cess @ 1%		126
Total Tax Payable		13,017
Tax Payable (rounded off)		13,020

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{Rs. } 1,80,000 + (50\% \text{ of } \text{Rs. } 1,44,000) + \text{Rs. } 25,000) = 12\% \text{ of } 2,77,000 = \text{Rs. } 33,240$
- An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite.
As per this view, the value of perquisite would be Rs. 5,000. In such a case the Income from Salaries would be Rs. 4,50,760.
- Deduction under section 80G is computed as under:

Particulars	Amount
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of Rs. 11,000) (amount contributed Rs. 11,000 or 10% of Adjusted Gross Total Income i.e. Rs. 51,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = Rs. 6,49,160 – Rs. 1,37,870 = Rs. 5,11,290.

PROBLEM NO.15**Computation of taxable income of Ramesh for the A.Y.2018-19**

Particulars	Amount	Amount
Income from salary		
Basic pay : April to June (Rs. 10,000 x 3)		30,000
Basic pay : July to November (Rs. 12,000 x 5)		60,000
Dearness allowance @ 50% basic pay		45,000
Transport allowance (Rs. 2,300 x 8) less exemption @ Rs. 1,600 per month (18,400 – Rs. 12,800)		5,600
Gratuity		
(i) Statutory limit Rs. 10,00,000		
(ii) Half month average salary [Rs.8,100 x 20 yrs (See Note below)] = 1,62,000		
(iii) Actual amount received = Rs. 3,00,000		
Least of the above i.e. Rs. 1,62,000 is exempt.		
Balance is taxable (Rs. 3,00,000 – Rs. 1,62,000)		<u>1,38,000</u>
		2,78,600
Income from house property:		
Self occupied – ALV	Nil	
Less: Interest on monies borrowed under section 24(b)	24,000	(24,000)
Income from other sources:		
Fixed deposit interest		<u>18,000</u>
Total income		<u>2,72,600</u>

Note:

Average salary of 10 months preceding the month of retirement is to be computed :Rs.

Basic pay 10,000 x 6	60,000
Basic pay 12,000 x 4	<u>48,000</u>
Total	1,08,000
Add: 50% of Dearness Allowance—eligible for retirement benefits	54,000
	<u>1,62,000</u>
Average salary : 1,62,000/10	16,200
Half month average salary 16,200 / 2	8,100

PROBLEM NO.16**Computation of Taxable Income of Mr. Venus for the A.Y. 2018-19**

Particulars	Amount	Amount
Salaries		
Income from Salary (50,000 x 12)	6,00,000	
Less: Loss from house property in respect of which Mr. Venus is the deemed owner to be set off against his salary income as per section 71(1) [See Note 1]	<u>90,000</u>	5,10,000
Capital Gains		
Long term capital gain	75,000	
Less: Brought forward long term capital loss of A.Y. 2015-16 set off against current year long-term capital gain as per section 74(1) & (2) [See Note 2]	<u>75,000</u>	Nil
Balance long-term capital loss of Rs. 21,000 (Rs. 96,000 – Rs. 75,000) of A.Y.2015-16 to be carried forward to A.Y.2018-19 [See Note 2]		

Income from Other Sources		
Interest on fixed deposit with SBI (Rs. 72,000 × 100/90)	80,000	
Less: Business loss incurred by wife includible in Mr. Venus's hands set off against interest income as per section 71(1) [See Notes 3 & 4]	80,000	Nil
Balance business loss of Rs. 1,20,000 (Rs. 2,00,000 – Rs. 80,000) to be carried forward to A.Y. 2019-20		
Taxable Income		5,10,000

Notes:

1. As per section 27(i), Mr. Venus is the deemed owner of the house transferred to his minor son without adequate consideration. Hence, the income from house property would be assessable in Mr. Venus's hands. Since there is a loss from house property transferred to minor son without adequate consideration, Mr. Venus can set-off the same against salary income, since he is the deemed owner of such property.
2. As per section 74(1) and 74(2), brought forward long-term capital loss can be set-off only against long-term capital gains. Unabsorbed long-term capital loss can be carried forward for a maximum of eight assessment years (upto A.Y.2023-24, in this case) for set-off against long-term capital gains.
3. As per section 64(1)(iv), income from funds gifted to spouse by an individual and invested in business by the spouse is includible in the hands of the individual. As per *Explanation 2* to section 64, income includes "loss". Hence, in the given case, loss arising out of the business carried on by Mr. Venus's wife is to be included in the income of Mr. Venus, as she has carried on business with the funds gifted to her by Mr. Venus.
4. As per section 71(2A), business loss cannot be set-off against salary income. However, the same can be set-off against income from other sources (consisting of interest on fixed deposit).

THE END