

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) x 5% | 12,500 |
| From 5,00,000 to Rs.10,00,000 | (10,00,000-5,00,000) x 20% | 1,00,000 |
| In excess of 10,00,000 | (1,04,00,000-10,00,000) x 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 1,34,895

Total tax liability (rounded off) **35,07,270**

Computation of Tax liability of Mr. Morthy (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) x 5% | 10,000 |
| From 5,00,000 to Rs.10,00,000 | (10,00,000-5,00,000) x 20% | 1,00,000 |
| In excess of 10,00,000 | (1,04,00,000-10,00,000) x 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 1,34,780

Total tax liability (rounded off) **35,04,280**

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) x 20% | 1,00,000 |
| In excess of 10,00,000 | (1,04,00,000-10,00,000) x 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: | |
| LTCG | 40,000 |
| STCG | 30,000 |
| Other Sources: | |
| Interest on Bank Deposits | 90,000 |
| Winnings | <u>20,000</u> |
| 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 x 30% | 6,000 |
| LTCG | 40,000 x 20% | 8,000 |
| Other income | [3,70,000 - 20,000 - 40,000 - 2,50,000 (Exemption limit)] x 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 33,71,784 - 32,10,000) 1,61,784
- d) In this case Rs. 1,61,784 is more than the amount of Rs. 1,00,000 (i.e. 1.01 Crore - 1 crore) so marginal relief is available
- Marginal relief (1,61,784 - 1,00,000) 61,784

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

| | |
|----------------------------------------------|-------------------------|
| Tax including surcharge | 32,42,100 |
| Less: Marginal relief | <u>61,784</u> |
| | 31,80,316 |
| Add: Health and education cess @ 4% on above | <u>1,27,213</u> |
| Total tax liability (rounded off) | <u>33,07,530</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> |

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

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. $75 + 60 + 90 + 150$ 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

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

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

Since the sailor stays inside the territorial waters of India (i.e., in India) for a period of 182 days, he is a resident in India for the P.Y. 2018-19.

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 (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) | 10,000 | 8,000 |
| 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.

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

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) | | <u>4,000</u> |
| 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 | <u>9,000</u> | <u>9,000</u> |
| Total deduction under section 24 (B) | <u>69,000</u> | <u>94,800</u> |
| Income from house property (A)-(B) | <u>69,000</u> | <u>8,800</u> |
| 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 x 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.

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

MASTER MINDS

4. CAPITAL GAINS**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

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

| 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) | (25,88,073) | 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 |
| Alteration/reconstruction in 2013-14 (i.e., Rs. 5,50,000 × 280 / 220) | 7,00,000 |
| Indexed cost of improvement | 25,88,073 |

PROBLEM NO. 2

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

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

| Particulars | Option 1 | Option 2 |
|--------------------------------------------|--------------------------------|--------------|
| Consideration | 1,00,000 | 1,00,000 |
| Less: Indexed COA/COA | 28,000 (10,000 × 280 / 100) | 10,000 (FMV) |
| LTCG | 72,000 | 90,000 |
| Tax rate | @ 20% | @ 10% |
| Tax | 14,400 | 9,000 |
| Less: Rebate U/s 87A | (2,500) | (2,500) |
| | 11,900 | 7,500 |
| Add: Health and Education Cess @ 4% | 476 | 300 |
| Tax Payable | 12,376 | 7,800 |

Decision: Option 2 is to be selected.

- b) Since the income from sale of listed equity shares not exceeding Rs. 1,00,000. Hence the assessee is eligible for exemption u/s 112A.

PROBLEM NO. 3

- 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 X 280 / 117) | <u>(2,87,179)</u> |
| Long Term Capital Loss | <u>(1,07,179)</u> |

PROBLEM NO. 4

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

| 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 | | <u>(2,03,200)</u> |
| Long term capital gain | | 96,800 |

Computation of capital gains of Mr. Y for the A.Y. 2020-21

| Particulars | Amount | Amount |
|-------------------------|--------|----------------|
| Additional compensation | | 1,00,000 |
| Less: Expenses | | <u>(2,000)</u> |
| Capital gain | | 98,000 |

PROBLEM NO. 5

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

| Particulars | Rs. |
|------------------------------------------------------------------|--------------------|
| W.D.V. of the block as on 01.04.2018 | 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 31.03.2019 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:
- When one or some of the assets in the block are sold for consideration more than the value of the block.
 - When all the assets are transferred for a consideration more than the value of the block.
 - When all the assets are transferred for a consideration less than the value of the block.

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

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

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

- c) If the three machines are sold in June, 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 |
| Less: | | |
| W.D.V. of the machines as on 01.04.2018 | 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 NO. 6

Computation of capital gains on slump sale of Unit 1

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

Notes:

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

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

2. Written down value of patents as on 01.04.2018

| 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 NO. 7**Computation of total income of Ms. Mohini for A.Y. 2019-20**

| Particulars | Rs. | Rs. |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|
| Long-term capital gain | | |
| Full value of consideration (As per section 50C read with Section 155(15), in case the actual sale consideration is less than the stamp duty value fixed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration. Where the assessee contests the stamp valuation, and the value is reduced by the Divisional Revenue Officer, such reduced value will be regarded as the full value of consideration accruing as a result of transfer. Hence, in this case, Rs.41,00,000, being the valuation by Divisional Revenue Officer on which stamp duty is paid, would be deemed as full value of consideration, since the same is lower than the valuation by the Sub-registrar) | 41,00,000 | |
| Less: Indexed cost of acquisition [Rs. 26,50,000 x 280 / 200] | (37,10,000) | 3,90,000 |
| Other Income | | 2,80,000 |
| Total Income | | 6,70,000 |
| Note: Cost of acquisition includes purchase price plus registration expenses i.e., Rs. 25,00,000 + Rs. 1,50,000 | | |

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

| Particulars | Rs. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Income from other sources | |
| i) Immovable property received for inadequate consideration As per section 56(2)(x), where an individual receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the Divisional Revenue Officer, as in this case) by an amount exceeding the higher of Rs. 50,000, and 5% of Consideration then, the difference between stamp duty value and actual consideration of such property would be chargeable to tax as income from other sources. Therefore, Rs. 6,00,000 (i.e., Rs. 41,00,000 - Rs. 35,00,000) would be chargeable to tax as income from other sources. | 6,00,000 |
| ii) Other Income | 3,45,000 |
| Total Income | 9,45,000 |

PROBLEM NO. 8**Computation of capital gain in the hands of Mr. A for the A.Y-2019-20**

| 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 Whichever is higher 1,05,000 (or) 1,50,000 Whichever is higher | 1,50,000 |
| Note: Amount forfeited by the previous owner 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 |
| 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] | 2,21,666 |
| Total indexed cost of improvement | 3,45,560 |

PROBLEM NO. 9

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

| Particulars | |
|--------------------------------------------------------------------------------------------------|-------------------|
| Consideration | 17,50,000 |
| Less: Transfer Expenses | <u>(12,000)</u> |
| Net consideration | 17,38,000 |
| Less: Indexed cost of acquisition (1,50,000 x 280 /100) | <u>(4,20,000)</u> |
| Gross LTCCG | 13,18,000 |
| Case A: | |
| Gross LTCCG | 13,18,000 |
| Less: Exemption U/s 54 [Amt. of Investment (or) C.G ↓] | <u>(3,00,000)</u> |
| Net LTCCG | 10,18,000 |
| Case B: | |
| Gross LTCCG | 13,18,000 |
| Less: Exemption U/s 54 (Note - 1) (Amt. of Investment 3,00,000 (Land + Deposit) or C.G ↓) | <u>(3,00,000)</u> |
| Net LTCCG | 10,18,000 |
| Case C: | |
| Gross LTCCG | 13,18,000 |
| Less: Exemption U/s 54 (Amt. of Investment 3,15,000 (or) C.G ↓) | <u>(3,15,000)</u> |
| Net LTCCG | 10,03,000 |
| Case D: | |
| Gross LTCCG | 13,18,000 |
| Less: Exemption U/s 54 (Note - 2) (Amt. of Investment 4,00,000 (or) C.G ↓) | <u>(4,00,000)</u> |
| Net LTCCG | 9,18,000 |

Note-1: Case B:**Eligible investment:**

| | |
|-------------------------------------|--------------------------|
| Cost of land acquired before 1 year | = 2,00,000 |
| Amount of deposit | = <u>1,00,000</u> |
| Total | = <u>3,00,000</u> |

Deposit made after the due date for filing the income is not eligible.

Note-2: Case D: The deposit made on 1st August will not eligible (or) qualify for exemption since it was made after the cut-off date. Unused amount = 4L - 2.5L = 1.5L**PROBLEM NO. 10**i) **Computation of Capital Gains in the hands of Mr. G for the A.Y-2019-20**

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

Note-1: Cut-off date for investment = 27.06.20 (for 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 NO. 11

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

| | |
|----------------------------------------------------------------|-------------------------|
| Consideration | 10,00,000 |
| Less: Indexed cost of Acquisition (1,00,000 x 280/ 280) | <u>(1,00,000)</u> |
| Gross LTCG | 9,00,000 |
| Less: Exemption U/s 54F [9,00,000 × 70% (7L/10L) | <u>(6,30,000)</u> |
| Net taxable LTCG's | 2,70,000 |
| Eligible Investments | Cut off dates |
| 1. Amount incurred for construction = 2,00,000 | Purchase : 15.07.20 |
| 2. Amount deposited = 5,00,000 | 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 | Amount (Rs.) |
|----------------------------------------------------------------|-------------------|
| Exemption previously given [9,00,000 × 70% (7L/10L)] | 6,30,000 |
| Less: Exemption to be granted [9,00,000 × 60% (6L/10L)] | <u>(5,40,000)</u> |
| Taxable LTCG | 90,000 |

PROBLEM NO. 12

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

1. Sale of residential house:

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

2. Sale of house plot:

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

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

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

PROBLEM NO. 13

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 01.06.2001 | | |
| | 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 21.07.2009 (i.e., after the year 2002 when the original shares were purchased). Hence, the cost is Nil. | | |
| c) | 3,000 shares purchased on 01.02.2012 @ Rs.125 per share. The | | |
| | Indexed cost (Rs.3000 x 125 x 280/184) | 5,70,652 | (12,70,652) |
| | Long term capital gain | | 37,29,348 |
| | Less: Exemption under sec. 54F (Rs. 37,29,348 x Rs.25,00,000 / Rs.50,00,000) | | (18,64,674) |
| | Taxable long term capital gain | | 18,64,674 |

PROBLEM NO. 14

Computation of taxable capital gain of Mr. Malik for A.Y. 2019-20

| | Particulars | Rs. | Rs. |
|--|--------------------------------------------------------------------|--------------------|-----------------|
| | Factory building | | |
| | Sale price of building | 8,00,000 | |
| | Less: WDV as on 01.04.2018 | (8,74,800) | |
| | Short-term capital loss on sale of building | | (-) 74,800 |
| | Land appurtenant to the above building: | | |
| | Sale value of land | 40,00,000 | |
| | Less: Indexed cost of acquisition (Rs. 11,50,000 x 280/109) | (29,54,128) | |
| | Long-term capital gains on sale of land | | 10,45,872 |
| | Chargeable long term capital gain | | 9,71,072 |

Investment under section 54EC: In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset are invested in long-term specified assets like bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is Rs. 9,71,072 (rounded off to Rs. 9,71,070) in this case.

Notes:

- Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. Rs. 12,00,000 - Rs. 50,000 = Rs. 11,50,000. It may be noted that in cases where the advance money is forfeited during the previous year 2016-17 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains.
- Factory building on which depreciation has been claimed is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
- Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.
- As per section 74, short term capital loss can be set-off against any income under the head "Capital gains", long-term or short-term. Therefore, in this case, short term capital loss of Rs. 74,800 can be set-off against long-term capital gain of Rs. 10,45,872.

PROBLEM NO. 15**In the hands of Mr. Raj kumar (Seller):****Computation of capital gains in the hands of Mr. Raj kumar for A.Y. 2019-20**

| Particulars | Rs. |
|--------------------------------------------------------------------|-------------------------|
| On sale of land: | |
| Consideration received or accruing as a result of transfer of land | 22,00,000 |
| Less: Indexed cost of acquisition Rs.5,19,000 x 280 / 184 | <u>(7,89,783)</u> |
| Long-term capital gain (A) | <u>14,10,217</u> |
| On sale of building: | |
| Consideration received or accruing from transfer of building | 10,00,000 |
| Less: Cost of acquisition | <u>(14,00,000)</u> |
| Short term capital loss (B) | <u>4,00,000</u> |

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 NO. 16**Computation of Total Income and Tax Liability of Mr. C for A.Y. 2019-20**

| 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 × 280/ 129) | 75,96,899 | |
| Indexed cost of improvement (Rs. 5,00,000 × 280/ 137) | <u>10,21,898</u> | <u>(86,18,797)</u> |
| Long-term capital gains (Total Income) | | 11,06,203 |
| Total Income Rounded off | | 11,06,200 |
| Tax on total income (See Note 2) | | |
| Long-term capital gain taxable @ 20% (Rs. 11,06,200 - Rs. 2,50,000) | | 1,71,240 |
| Add: Health and Education cess @ 4% | | <u>6,850</u> |
| Total tax liability | | 1,78,090 |

Notes:

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

2. 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 NO.17

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) | | 7,64,890 |

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: Health and Education Cess @ 4% | | <u>4,119</u> |
| Tax liability | | 1,07,097 |
| Rounded off | | 1,07,100 |

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 04.11.2018, 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 31 st July, 2019. [Therefore, Rs. 4,00,000 deposited on 06.07.2019 will be eligible for exemption whereas Rs. 9,00,000 deposited on 01.11.2019 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 03.05.2019) would qualify for exemption.

[Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 10.04.2019 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 15.06.2019 would not qualify for exemption].

THE END

5. PROFITS (OR) GAINS FROM BUSINESS (OR) PROFESSION

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

Computation of depreciation allowable in the hands of Mr. Gamma for the A.Y. 2019 - 20.

| Particulars | | Rs. in crore | |
|-------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------|---------------------|
| Total cost of plant and machinery | | 120.00 | |
| Less: Used for Scientific Research (Note 1) | | <u>15.00</u> | |
| | | <u>105.00</u> | |
| Normal Depreciation at 15% on Rs.105 crore | | | 15.75 |
| Additional Depreciation: | | | |
| Cost of plant and machinery | | 120.00 | |
| Less: Second hand plant and machinery (Note 2) | 20.00 | | |
| Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35(2)(ia) | <u>15.00</u> | <u>(35.00)</u> | |
| | | 85.00 | |
| Additional Depreciation at 20% on Rs.85 Crores | | | <u>17.00</u> |
| Depreciation allowable for A.Y.2019-20 | | | <u>32.75</u> |

Note:

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

However, additional depreciation shall not be allowed in respect of, *inter alia*, -

- any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

- Second hand plant and machinery;
- New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

PROBLEM NO. 2

Computation of depreciation allowable for A.Y.2019-20

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

Notes:**1. Computation of depreciation**

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

2. Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2018-19 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

PROBLEM NO. 3**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% | | 2,50,000 |
| Total depreciation for the year | | 4,30,000 |
| 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. 4

Tax treatment of depreciation and unabsorbed business loss of a private company on its conversion into a LLP

1. Depreciation:

The aggregate depreciation allowable to the Predecessor Company and successor LLP shall not exceed, in any previous year, the depreciation calculated at the prescribed rates as if the conversion had not taken place. Such depreciation shall be apportioned between the predecessor company and the successor LLP in the ratio of the number of days for which the assets were used by them [Fifth proviso to Section 32(1)]

Therefore, depreciation has to be first calculated as if the conversion had not taken place and then apportioned between the company and the LLP in the ratio of the number of days for which the assets were used by them.

| | | Rs. | | Rs. |
|----------|-----------|----------|-----|-----------------|
| Block I | Machinery | 3,30,000 | 15% | 49,500 |
| Block II | Patents | 3,00,000 | 25% | 75,000 |
| | | | | <u>1,24,500</u> |

Allocation of depreciation:

Depreciation on machinery and patents have to be apportioned between the company and the LLP in the ratio of the number of days for which the assets were used by them. Since patents were acquired only on 01.06.2018, it could have been used by the company for 214 days only. Therefore, the depreciation on assets has to be allocated between the company and LLP as follows:

| Asset | Total depreciation for the year | Company | | LLP | |
|-----------|---------------------------------|----------------------|-----------------|----------------------|---------------|
| | | No. of days of usage | Depreciation | No. of days of usage | Depreciation |
| Machinery | 49,500 | 275 | 44,485 | 31 | 5,015 |
| Patents | <u>75,000</u> | 214 | <u>65,510</u> | 31 | <u>9,490</u> |
| | <u>1,24,500</u> | | <u>1,09,995</u> | | <u>14,505</u> |

Therefore, depreciation to be allowed in the hands of the company is Rs.1,09,995 and depreciation to be allowed in the hands of the LLP is Rs.14,505.

2. Unabsorbed business loss to be carried forward by the LLP:

| Particulars | Rs. |
|----------------------------------------------------------------------------|-----------------|
| Profits of the company before depreciation | 8,00,000 |
| Less: Current year depreciation | <u>1,09,995</u> |
| Business income of the company after depreciation | 6,90,005 |
| Brought forward business loss | <u>9,00,000</u> |
| Unabsorbed business loss as on 31.12.2018 to be carried forward by the LLP | <u>2,09,995</u> |

The LLP would be allowed to carry forward and set-off the unabsorbed business loss and unabsorbed depreciation of the predecessor company [Section 72A(6A)].

3. Actual cost of assets to the LLP:

- a) The actual cost of the block of assets in case of the LLP shall be the WDV of the block of assets as in the case of the company on the date of conversion. The WDV as on 1.1.2019 for Machinery and Patents are Rs.2,85,515 and Rs.2,34,490, respectively, which would be the actual cost in the case of the LLP.

WDV of Machinery as on 1.1.2019 = Rs.3,30,000 - Rs.44,485 = Rs.2,85,515

WDV of Patents as on 1.1.2019 = Rs.3,00,000 - Rs.65,510 = Rs.2,34,490

- b) Land is not a depreciable asset. The cost of acquisition of land to the LLP would be the cost for which the company acquired it, as increased by the cost of improvement.
- c) In respect of the building, deduction had been allowed in the earlier year under section 35AD. Hence, there is no question of depreciation during the current year. The actual cost of the building to the LLP would be Nil. [Explanation 13 to Section 43(1)]

PROBLEM NO. 5

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 |
| | 58,00,000 | 3,00,000 |

Notes:

1. 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 percentages.

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.

2. 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.
3. As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, @ 20% of the actual cost of such machinery or plant.

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

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

PROBLEM NO. 6**Computation of depreciation 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 | 0.15 | |
| | 102.15 | |

| | | |
|---------------------------------------------------------------------------------------------|-----------------------|-------------|
| Computers acquired during the year | - | 0.40 |
| | 127.15 | 0.40 |
| Less: Asset sold during the year | 4.00 | Nil |
| Written down value before charging depreciation | 123.15 | 0.40 |
| Less: Depreciation for the P.Y.2017-18 (See Note 1 below) | 29.47 | 0.08 |
| WDV as on 1.4.2018 | 93.68 | 0.32 |
| 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 |
| 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. 7

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.

3. 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. 8

Computation of deduction allowable under section 35

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

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)(iv) 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. 9

- 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).

- b) 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.

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

PROBLEM NO. 10

Since the capital asset, in respect of which deduction of Rs. 50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2018-19, the deeming provision under section 35AD(7B) is attracted during the A.Y.2019-20.

| Particulars | Amount(Rs.) |
|---------------------------------------------------------------------------------|------------------|
| Deduction allowed under section 35AD for A.Y.2018-19 | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y.2018-19 [10% of Rs. 50 lacs] | 5,00,000 |
| Deemed income under section 35AD(7B) | 45,00,000 |

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

| Particulars | Amount(Rs.) |
|-----------------------------------------------------------------------------------|------------------|
| Actual cost to the assessee | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y.2018-19 [10% of Rs. 50 lacs] | 5,00,000 |
| Actual cost in the hands of Mr. Arnav in respect of building in its Unit B | 45,00,000 |

PROBLEM NO. 11

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) | 40 | |
| Total deduction under section 35AD for A.Y.2019-20 | | 190 |
| 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) | | 130 |
| Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A | | 20 |

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.
- 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.
- 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. 12**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) | 3 |
| Income chargeable under "Profits and gains from business or profession" | 28 |

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 |
| | <i>Less:</i> 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 | 20 | 15 | 35 |
| D. | Total capital expenditure (B + C) | 50 | 35 | 85 |
| E. | Deduction under section 35AD | | | |
| | 100% of capital expenditure (food grains, sugar) | 50 | 35 | 85 |
| | Total deduction u/s 35AD for A.Y.2019-20 | 50 | 35 | 85 |
| 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. 13

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

For the P.Y.2018-19, the turnover of Mr. Querashi 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. Querashi "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. Querashi 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> |
| | <u>7,27,000</u> |
| 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. 14

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. 15

| Particulars | Rs. in Lakhs | |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|-----------|
| Bad debts written off (for the first time) in the books of account | | 210 |
| Less: Credit balance in the "Provision for bad and doubtful debts" under section 36(1)(viiia) as on 31.3.2019 | | |
| a) Provision for bad and doubtful debts under section 36(1)(viiia) upto A.Y.2018-19 | 100 | |
| b) Current year provision for bad and doubtful debts under section 36(1)(viiia) [7.5% of Rs. 800 lakhs + 10% of Rs. 300 lakhs] | 98 | 198 |
| Deduction under section 36(1)(vii) in respect of bad debts written off for A.Y.2019-20 | | 12 |

PROBLEM NO. 16

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

| S.No. | Nature of payment | Compliance / violation | Tax consequence |
|-------|----------------------|------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) | Contract payment | Tax not deducted at source | Rs.72,000 shall be disallowed (Rs.2,40,000*30%) |
| b) | Salary to a resident | Tax not deducted at source | Rs.1,50,000 shall be disallowed (Rs.5,00,000*30%) |
| c) | Rent | TDS remitted within stipulated time limit. | The assessee has remitted the amount of TDS on 28.09.2019 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-competee fee | Tax not deducted at source | Rs.3,00,000 shall be disallowed (Rs.10,00,000*30%) |

PROBLEM NO. 17

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

- The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y. 2017-18 exceeds Rs. 100 lakhs. Thus, in present case, since the turnover of the assessee is less than Rs. 100 lakhs, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed Rs. 100 lakhs in the immediately preceding previous year.

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

- iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2017-18 exceeds Rs. 100 lakhs. Thus, in present case, since the turnover of the assessee is less than Rs. 100 lakhs, he is not liable to deduct tax at source. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PROBLEM NO. 18

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

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

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

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

- ii) **Purchase of building for setting up a warehousing facility for storage of food grains:** Mr. MN, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs. 4,50,000 invested in purchase of building for setting up a warehousing facility for storage of food grains which commences operation on or after 1st April, 2012 (P.Y.2018-19, in this case).

Therefore, the deduction under section 35AD while computing business income would be Rs. 4,50,000.

- iii) **Interest on loan paid to Mr. X (a resident) Rs. 50,000 on which tax has not been deducted:** As per section 194A, Mr. MN, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 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.

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

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

PROBLEM NO. 19

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

| Particulars | Amount |
|--------------------------------------|-------------------|
| Net Loss as per P&L A/c | (1,72,000) |
| Add: Interest to partners | 7,100 |
| Other expenses to be disallowed | 13,600 |
| Profit as per 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 which ever is lower = 68,000**

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

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

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

PROBLEM NO. 20

Case -1:

Taxable Income of the Partnership Firm

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

W.N.1:

Calculation of Book profits

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

Remuneration as per Slab system

On Rs.2,98,000 - Rs.1,50,000 (or) 90% of Book Profit 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. 21****The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be**

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

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

PROBLEM NO. 22

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

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

Accordingly, the amount of interest eligible for deduction for the A.Y.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. 23**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 | 40,000 |
| Gross total income | 2,55,000 |
| Less: Chapter VI - A Deductions (Sec.80G) | 5,000 |
| 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 | 60,000 |
| 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. 24

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 | 70,000 | 70,000 |
| Total Income | 14,42,500 | 5,15,000 |

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 | - | 3,60,000 |
| | | | Total | 13,72,500 |

PROBLEM NO. 25

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2018-19, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs.1,000 per ton of gross vehicle weight or unladen weight 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 him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

| (1) Number of Vehicles | (2) Date of purchase | (3) No. of months for which vehicle is owned | (4) No. of months × No. of vehicles [(1) × (3)] |
|---------------------------------------------------------|-------------------------|-------------------------------------------------|----------------------------------------------------|
| For Heavy goods vehicle | | | |
| 2 | 29.08.2018 | 8 | 16 |
| 1 | 23.02.2019 | 2 | 2 |
| | | | 18 |
| For goods vehicle other than heavy goods vehicle | | | |
| 2 | 10.4.2018 | 12 | 24 |
| 1 | 15.3.2019 | 1 | 1 |
| 3 | 16.7.2018 | 9 | 27 |
| 1 | 2.1.2019 | 3 | 3 |
| | | | 55 |

The presumptive income of Mr. X under section 44AE for A.Y.2019-20 would be -

Rs.6,82,500, i.e., 55 × Rs.7,500, being for other than heavy goods vehicle + 18 × Rs.1,000 × 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2018 were put to use only in July, 2018, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

PROBLEM NO. 26**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 within 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. 27

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

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

Computation of Business income of X Ltd. For the AY 2019-20

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

Notes:

- Total sales tax paid on or before the due date of ROI (i.e. 30.09.2019) = Rs.44,000 (40,000+4,000)
Sales tax paid after the due date of ROI (i.e. 30.09.2019) = Rs.3,000
Total sales tax that attracts disallowance under Sec.43B = Rs.6,000 [Rs.3,000 (not paid yet) + Rs.3,000 (paid on 01.12.2019)]
- No disallowance shall be made under Sec.43B as the expenditure not pertains to the current PY 2018-19.

PROBLEM NO. 28**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 (f) were satisfied (Bad debts)

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

PROBLEM NO. 29**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 | 3,25,000 |
| | | 14,75,000 |
| Less: Expense allowed | | |
| Depreciation as per Income- tax Rules, 1962 | | 40,000 |
| | | 14,35,000 |
| Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note-6) | | 25,000 |
| Business Income / Gross Total Income | | 14,60,000 |

Notes:

1. Donation to Prime Minister Relief Fund is not allowed as deduction from the business income. It is allowed as deduction under section 80G from the gross total income.
2. Provisions for bad debts is allowable as deduction under section 36(1)(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. 30

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. 31

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> | <u>(55,300)</u> |

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

PROBLEM NO. 32

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> | <u>1,58,300</u> |
| 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> | <u>11,400</u> |
| Business income before depreciation | | 1,96,900 |
| Less: Depreciation (See Note 1) | | <u>66,000</u> |
| | | 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. 33

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) | <u>(8,000)</u> |
| 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 | (2,000) |
| Net Annual Value | 58,000 |
| Less: Deductions u/s 24 | |
| Standard deduction (58,000x30%) | (17,400) |
| Interest on loan | - |
| Income from house property | 40,600 |

PROBLEM NO. 34**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 |

PROBLEM NO. 35

- i) **Allowable as deduction:** As per section 36(1)(vii)(d), deduction is allowed to a non-banking financial company on account of provision for bad and doubtful debts of an amount not exceeding 5% of total income (before making any deduction under section 36(1)(vii) and Chapter VI-A).

Accordingly, XYZ Credit Corporation, a non-banking financial company would be eligible for deduction in respect of provision for bad and doubtful debt provided such amount does not exceed 5% of total Income (before making any deduction under section 36(1)(vii) and Chapter VI-A).

- ii) **Allowable as deduction:** As per section 43B, the allowability of deduction in respect of any sum payable by an assessee to the Indian Railways for use of Railway Assets is subject to actual payment of such sum on or before the due date of filing return of income under section 139(1).

Thus, in the present case, Rs.45,000 paid by ABC Ltd. to Indian Railways for use of railway assets would be allowed as deduction while computing the business income for the previous year 2018-19, since such payment is made on or before the due date for filing return of income for the previous year 2018-19, being the year in which such liability incurred.

- iii) **Not allowable as deduction:** Income-tax paid by the employer in respect of nonmonetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

Therefore, income-tax of Rs.55,000 paid by the MNO Ltd. in respect of non-monetary perquisites provided to an employee would not be allowed as deduction while computing its business income.

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

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

- v) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even if the cash payment for the expense exceeds Rs.20,000.

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

PROBLEM NO. 36

- i) As per section 32AC(1), manufacturing companies would be entitled to deduction @ 15% of aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2017-18 and F.Y. 2018-19, if the same exceeds Rs.100 crore.

Further, sub-section (1A) to section 32AC provides that deduction @15% would be available to a manufacturing company which acquired and installed new plant and machinery for a sum exceeding Rs.25 crore in the F.Y. 2018-19.

In this case, ABC Ltd. is not entitled for deduction under section 32AC(1), since the aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2017-18 and F.Y. 2018-19 does not exceed Rs.100 crore. However, it would be entitled for deduction of Rs.4.5 crore (15% of Rs.30 crore) under section 32AC(1A), in respect of the new plant and machinery acquired and installed during the financial year 2018-19, since the amount of investment made during the previous year 2018-19 exceeds Rs.25 crore.

The deduction under section 32AC would be in addition to the deduction under section 32 in respect of depreciation and additional depreciation.

Computation of depreciation and additional depreciation under section 32

| Particulars | Rs. in crores |
|--------------------------------------------------------------------|---------------|
| Written down value as on 01.04.2018 (See Note below) | 45.50 |
| Add: Plant and Machinery acquired during the previous year 2018-19 | 30.00 |
| Written down value as on 31.03.2019 | 75.50 |
| Less: Normal Depreciation @ 15% | 11.33 |
| Less: Additional Depreciation (20% of Rs.30 crore) | 6.00 |
| WDV as on 01.04.2019 | 58.17 |
| Total deduction under section 32 (Rs.11.33 crore + Rs.6.0 crore) | 17.33 |

Notes:**1. Computation of written down value as on 1st April 2018**

| | |
|-------------------------------------------------|--------------------|
| Cost of the machinery acquired | 70.00 crore |
| Less: Normal Depreciation @ 15% | 10.50 crore |
| Less: Additional Depreciation @ 20% | 14.00 crore |
| Written Down Value as on 01st April 2018 | 45.50 crore |

2. It has been assumed that the new plant and machinery was put to use for more than 180 days during the P.Y. 2017-18 and P.Y 2018-19.
3. It is also assumed that the new plant and machinery does not include any plant or machinery which is previously used at any time within or outside India or which is installed in any office premises or residential accommodation or guest house or any office appliance or any vehicle, ship or aircraft.

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

In the present case, MNO Ltd deducted tax at source on payment made to a non-resident in the previous year 2018-19 and deposited such amount on 31.08.2019, before the due date under section 139(1) i.e., 30th September 2019. Therefore, the disallowance under section 40(a)(i) would not be attracted, in this case.

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

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

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

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

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

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

- v) As per section 35AD, investment linked deduction is available in respect of any of the specified businesses defined thereunder. 100% of the capital expenditure is available in respect specified business inter alia business of warehousing facility for storage of sugar. Therefore, in this case, Rise & Co. would be eligible for deduction of Rs.72,00,000 (100% of Rs.72 lakhs), in the P.Y. 2018-19. No other deduction is allowable in respect of the said sum under any other provision of the Income-tax Act, 1961.

No, the answer would be same, if the company has set up a warehousing facility of food grain. As per section 35AD(1A), a weighted deduction of 100% of the capital expenditure is available in respect of certain specified businesses which include inter alia business of warehousing facility for storage of agricultural produce. Therefore, Rs. 72 lakhs, being 100% of Rs.72 lakhs, would be allowable as deduction under section 35AD in the hands of Rise & Co. in the P.Y. 2018-19.

PROBLEM NO. 37

- 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%) | 60,000 | 60,000 |
| Book Profit | | 5,40,000 |

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)] | 1,44,000 |
| Maximum allowable partners' salary | 4,14,000 |

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] = Rs. 4,625

Value of rent free furnished accommodation = Rs. 10,700

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

Value of furnished accommodation given at concessional rent = Rs. 5,700

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

- e) In the case of Government employees, the excess of licence 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 (licence fees: Rs. 700 x 5) + Rs. 4,625 (Value of furniture) - Rs. 5,000 (Rs. 1,000 x 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) = | <u>Rs. 4,625</u> |
| Value of rent free furnished accommodation = | Rs. 8,125 |
| Less: Rent paid by the employee (Rs. 1,000 × 5) = | <u>Rs. 5,000</u> |
| Perquisite value of furnished accommodation given at concessional rent = | <u>Rs. 3,125</u> |

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 includable 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 × 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 × 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 | 3,600 |
| c) Treatment of X mother | 1,200 |
| d) Treatment of X's brother (non - dependent) | 400 |
| e) Treatment of grand father (not covered in family definition) | 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. Value of asset sold: | | |
| 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 |

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

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

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

PROBLEM NO. 6a) **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 × 30% × 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 x Rs. 5,000) | 25,000 |
| iii. | Actual gratuity received | 50,000 |

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

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

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

PROBLEM NO. 81. **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 URPF 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 during the relevant period (A) | 12,000 (Rs. 6,000×2) | 30,000 (Rs. 6,000×5) | 12,000 (Rs. 6,000×2) | 7,000 (Rs. 7,000×1) | 14,000 (Rs. 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

COMPREHENSIVE PROBLEMS

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% | 1,00,000 |
| WDV on 31.01.2017 | 4,00,000 |
| Less: Depreciation @ 20% | 80,000 |
| WDV on 31.01.2018 | 3,20,000 |
| Less: Depreciation @ 20% | 64,000 |
| WDV on 31.01.2019 | 2,56,000 |
| Less: Amount recovered | 2,00,000 |
| Value of perquisite | 56,000 |

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

3. Taxable gratuity:

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

4. Taxable leave encashment:

| Particulars | Rs. |
|-------------------------------------------------------------------------------------------------------------------|-----------------|
| Leave Salary received | 3,30,000 |
| Less: Exempt under section 10(10AA) - Least of the following: | |
| i. Notified limit | Rs.3,00,000 |
| ii. Actual leave salary | Rs.3,30,000 |
| iii. 10 months x Rs.20,000 (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 | Rs. 2,20,000 |
| $\left(\frac{330}{30} \times 20,000\right)$ | <u>2,00,000</u> |
| Taxable Leave encashment | 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) = $\frac{1}{2} \times 3,00,000 \times \frac{3}{2}$ | 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 | (Rs.) | (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 F.Y. 2016-17. 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 | | <u>1,23,970</u> |

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 | | 90,000 |
| 3. Taxable portion (1-2) | | <u>18,000</u> |

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.

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

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

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

- 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 x 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 | (18,000) | |
| Written Down Value | 42,000 | |
| Less: Amount paid by the assessee | (30,000) | 12,000 |
| Purchase through credit card - not being a privilege but covered by section 17(2)(iv) | | 10,000 |
| Perquisite on sale of car | | |
| Original cost of car | 2,50,000 | |
| Less: Depreciation from 16.07.2015 to 15.07.2016 @ 20% | (50,000) | |
| | 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 x 80,000 x 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 x 100/75) x 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. | | |

THE END

7. INCOME FROM OTHER SOURCES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

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

| In the hands of Mr. Hari | In the hands of Mr. Rajesh |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <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. In this case, since the payment on the date of agreement is made by crossed cheque, the option cannot be exercised.</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 consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh.</p> |

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. |
| (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% of 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. x 12 months + Rs.600 + Rs.900)/3} (Since 1/3 rd portion has been let out)] | 1,900 | |
| Winnings from card games | 6,500 | |
| Winning from chess | 1,000 | |
| Lottery | 6,500 | |
| Interest from Govt. of England bonds | 500 | 43,400 |
| Less: Salary to clerk | 2,400 | |
| Purchase Book | 400 | |
| Telephone Expenses | 800 | |
| Running Expenses | 8,000 | (11,600) |
| Total Income | | 1,76,800 |

PROBLEM NO. 11

Computation of net income of Mr. X for the AY 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 | 1,00,000 |
| Amount taxable under the head "Income from other sources" | 1,63,700 |
| Business income | 5,64,000 |
| Gross total income | 7,27,700 |
| Less: Deduction under section 80TTA (i.e., savings account interest) | |
| Post office: Rs.800 + SBI: Rs.9,500, subject to a maximum of Rs.10,000 | 10,000 |
| Net income | 7,17,700 |

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

PROBLEM NO. 2

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 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) | |
| | 80,000 | 2,00,000 | |
| Income from House Property [See Note (3) below] | 52,000 | - | - |
| Income from other sources | | | |
| Interest on Mr. A's fixed deposit with Bank of India (Rs. 5,00,000×9%) [See Note (1) below] | 45,000 | | |
| Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below] | 25,000 | 70,000 | - |
| Income before including income of minor son under 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:

1. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs. 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
2. As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.
In this case, the commission income of Rs. 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.
3. According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted

to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

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

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

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

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

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

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

PROBLEM NO.3

Computation of Total Income of Mr. Dhaval and Mrs. Hetal for the A.Y. 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.
- d) 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.
- Income arising out of additions made to assets given will not be subject to clubbing.
- Income of the minor child will be added to either of parents whose income is higher.
- Income on income not subject to clubbing.

PROBLEM NO. 5

- 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.
- 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.
- 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.
- Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

Income/loss to be clubbed in the hands of Mr. Janak
Long-term capital gains/loss

| S.No. | Particulars | Rs. |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| 1. | 100 shares sold on 21.05.2018 in a recognized stock exchange, STT paid. Long-term capital gains on sale of such shares is exempt under section 10(38) | Nil |
| 2. | Shares sold to a friend on 28.02.2019 Sale consideration Less: Indexed cost of acquisition of 100 shares (Rs. 2,000 x 100 x 280/272) Long term capital loss to be included in the hands of Mr. Janak | 1,70,000 <u>2,05,882</u> <u>(35,882)</u> |

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.

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

MASTER MINDS

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: Unabsorbed depreciation set-off [See Note 3] | <u>60,000</u> | Nil |
| Long Term Capital Loss on sale of Shares through recognised stock exchange (STT paid on acquisition and transfer of Shares) u/s 112A | 75,000 | - |
| Short term capital gain on sale of land [See Note 2] | 2,30,000 | |
| Less: Unabsorbed depreciation set-off [See Note 3] | <u>30,000</u> | 2,00,000 |
| Income from other sources | | |
| Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) – exempt under section 10(34) | - | Nil |
| Gross total income | | 3,83,000 |
| Less: Chapter VI-A deduction Section 80C [Principal repayment of housing loan] | | 70,000 |
| Total income | | 3,13,000 |

Notes:

- Since land is held for a period of less than 24 months, the gain of Rs.2,30,000 arising from sale of such land is a short-term capital gain.
- Brought forward unabsorbed depreciation can be adjusted against any head of income. However, it is most beneficial to set-off unabsorbed depreciation first against long-term capital gains, since it is taxable at a higher rate of 20% (the other income of the assessee falling in the 10% slab rate). Therefore, unabsorbed depreciation is first set-off against long-term capital gains to the extent of Rs. 60,000. The remaining unabsorbed depreciation is adjusted against business income to the extent of Rs. 65,000 and the balance of Rs. 30,000 is adjusted against short-term capital gains.

In the alternative, the balance of Rs. 30,000 may also be set-off against income from house property, in which case, the net income from house property would be Rs. 1,53,000 and short-term capital gains would be Rs. 2,30,000. The gross total income and total income would, however, remain unchanged.

PROBLEM NO. 2

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

| Particulars | Amount (Rs.) | Amount (Rs.) |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| 1. Income from house property | | |
| House No.1 | 72,000 | |
| House No.2 | (-) 30,000 | 42,000 |
| 2. Profits and gains of business or profession | | |
| Profit from leather business | 1,00,000 | |
| Less: Current year loss of textile business | (-) 40,000 | |
| | 60,000 | |
| Bad debts recovered taxable under section 41(4) | 35,000 | |
| | 95,000 | |
| Less: Brought forward business loss of textile business for A.Y.2014-15 set off against the business income of current year | 95,000 | Nil |
| 3. Capital Gains | | |
| Short-term capital gain | | 60,000 |
| Gross Total Income | | 1,02,000 |
| Less: Deduction under Chapter VI-A | | |
| Under section 80C – LIC premium paid | | 10,000 |
| Total Income | | 92,000 |

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) | 70,000 | Nil |
| 2. | Profits and gains of business or profession | 2,20,000 | |
| | Current year speculative business profits | 50,000 | |
| | Less: Current year Non-speculation loss set off (See Note 2) | 1,70,000 | |
| | Less: Brought forward business losses of earlier year (2016-17 Rs.90,000 and 2017 -18 Rs. 80,000) (See Note 3) | 1,70,000 | Nil |

| | | |
|---------------------------------------------------------------------------------|-----------------|---------------|
| 3. Capital gain | | |
| Short term (from sale of shares) | | 40,000 |
| Long-term (from sale of building) | 2,10,000 | |
| Less: Brought forward long term capital loss of A.Y.2017-18 (See Note 4) | <u>2,10,000</u> | Nil |
| 4. Income from other sources | | |
| Current year income (before set off) | 60,000 | |
| Less: Brought forward depreciation (See Note 1) | <u>50,000</u> | <u>10,000</u> |
| Total Income | | 50,000 |
| 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 (Rs.) | Amount (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> |
| Income from other sources: | |
| Cash gift received from friends - since the value of cash gift exceeds Rs. 50,000, the entire sum is taxable | 51,000 |
| Dividend received from a domestic company is exempt under section 10(34) | <u>Nil</u> |
| Gross Total Income | 2,51,000 |

Notes:

1. Balance brought forward business loss of assessment year 2018-19 of Rs. 5,00,000 has to be carried forward to the next year.
2. 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 |

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

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

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

| Particulars | 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.) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------|-----------|
| Profits and gains from business and profession: | | | |
| Income from chartered accountancy profession | | | 10,00,000 |
| Capital gains: | | | |
| 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 |
| Long term capital gain (other than above) | | 4,00,000 | |
| Less: Short term capital loss set off against long-term capital gain as per section 74 | | (4,00,000) | Nil |
| Income from other sources: | | | |
| 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) | 1,500 | 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 | | | 20,67,000 |

Losses to be carried forward to A.Y.2020-21

| Particulars | Amount (Rs.) |
|--------------------------------------------------------------------------|--------------|
| Short term capital loss under section 111A | 10,00,000 |
| Short term capital loss (other than above) [Rs. 6,00,000 - Rs. 4,00,000] | 2,00,000 |

Note: Short-term capital loss under section 111A can be set-off against long-term capital gains of Rs. 4 lakh. In such a case, the losses to be carried forward to A.Y.2020-21 would be as under:

| Particulars | Amount (Rs.) |
|---------------------------------------------------------------------------|--------------|
| Short term capital loss under section 111A [Rs. 10,00,000 - Rs. 4,00,000] | 6,00,000 |
| Short term capital loss (other than above) | 6,00,000 |

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) | (2,00,000) | 1,00,000 |
| Profits and gains of business or profession: | | |
| Income from trading business | 45,000 | |
| Less: Brought forward loss from trading business of A.Y. 2014-15 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired. | (5,000) | 40,000 |
| Income from speculative business B | 5,000 | |
| Less: Loss from speculative business A set-off as per section 73(1) | (25,000) | |
| Loss from speculative business A to be carried forward to A.Y.2019 -20 as per section 73(2) | (20,000) | |
| Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A. | 20,000 | |
| Capital Gains: | | |
| Long term capital gain on sale of urban land. | 2,00,000 | |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)] | (75,000) | |
| (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.) | (1,02,000) | 23,000 |
| Total Income | | 1,63,000 |

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

| Particulars | Amount (Rs.) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Loss from House property: | 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. | |
| Loss from speculative business A: | 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). | |

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

MASTER MINDS

10. DEDUCTIONS UNDER CHAPTER - VI A

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 | 2,40,000 |
| Salary for the purpose of deduction under section 80CCD | 14,40,000 |
| 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) |
|--------------|-------------------------|---------------------------------------|----------------------------|---------------------------------------|-----------------------------------|-----------------------------------------|
| 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 | 2,000 |
| | ➤ Spouse | 1,500 |
| | Total | <u>3,500</u> |
| | Restricted to [Rs. 25,000-Rs. 22,000, since maximum deduction is Rs. 25,000] | 3,000 |
| Aggregate of deduction (I+II) under (1) restricted to | | 25,000 |
| 2. | i) In respect of payment towards health insurance premium for his mother | 18,000 |
| | ii) In respect of preventive health checkup of his mother | 4,000 |
| | iii) Medical expenditure for father would only be eligible for deduction [See Note below] | 15,000 |
| | Amount of deduction under (2) | <u>37,000</u> |
| | Total deduction under section 80D [(1) + (2)] | 62,000 |

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

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**

Copyrights Reserved
To **MASTER MINDS**, Guntur

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 |
| (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) | 75,000 |
| 3. 80E (Education Loan) | 25,000 |
| 4. 80G: | |
| Prime ministries drought relief fun (50%) | 500 |
| Swachh bhara kosh | 2,000 |
| Jawaharlal Nehru memorial fund (50%) | 1,000 |
| Clean Ganga Fund (100%) | 1,200 |
| * Govt. for family planning (12,200 × 100%) | 12,200 |
| *Approved Charitable Institutions | ----- |
| 5. 80C (PPF) | 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 | 1,12,000 |

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

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

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

| Taxable Income (1,35,100) | | | |
|---------------------------|------------------------------|----------------------|----------|
| Lottery Income (115BB) | LTCG (112A) | Other Income | 95,100 |
| 10,000 | 30,000 | (-) Basic Exemptions | 2,50,000 |
| 10,000 X 30% = 3000 | (30,000-30,000*) × 20% = Nil | | 1,54,900 |

(*) 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 |
| (+) Surcharge | Nil |
| (+) Health and Education Cess @ 4% | 120 |
| Total | 3,120 |

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 \times 7 \times 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 |
| Income from other sources: | | |
| Govt. Securities | | 2,000 |
| Bank Deposits | | 34,000 |
| Gross Total Income | | 2,17,000 |
| (-) Chapter VI A Deductions: | | |
| Public Provident fund U/s 80C | 10,000 | |
| Deduction U/s 80U (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 | | | 14,500 |
| 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:

- 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.

- 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.

- 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.
- 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.

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

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:

- Tax on non-monetary perquisite paid by employer is exempt in the hands of employee under section 10(10CC).
- 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 | (1,35,000) | |
| Net business loss to be set-off against long-term capital gain | (35,000) | |
| Capital Gains | | |
| Long term capital gain | 70,000 | |
| Less: Business loss set-off | (35,000) | |
| Long term capital gain after set off of business loss | | 35,000 |
| Income from other sources | | |
| Lottery winnings (Gross) | | 5,00,000 |
| Total Income | | 5,80,000 |

Computation of tax liability

| Particulars | 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 (01.04.2018 - 30.09.2018) | Period (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 x 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 x 12) Rs.1,80,000 | | |
| (ii) 15% of salary (15% of Rs. 7,20,000) Rs.1,08,000 (assuming that dearness allowance does not form part of pay for retirement benefits) | 1,08,000 | |
| Less: Rent recovered (Rs. 2,000x12) | 24,000 | 84,000 |
| Perquisite value of concessional loan [Rule 3(7)(i)] [Rs. 20,000 (10% of Rs. 2,00,000) – Rs. 10,000] | | 10,000 |
| Gross Salary | | 11,02,000 |
| Less: 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.

| | Rs. |
|----------------------------------------------|---------------|
| Tax on Rs. 9,07,000 | |
| 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 x 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 x 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: Health and Education Cess @ 4% | | 73,966 |
| Total Tax Liability | | 19,23,116 |
| Total tax liability (rounded off) | | 19,23,120 |

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 |

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 × 9% × 9/12] | 10,125 | | | |
| Less: Exempt under section 10(32) | 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 × $\frac{3}{4}$) | | | 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 80TTA | | | | |
| Interest on deposit in a saving account of bank | | 1,000 | 33,000 | |
| Total deduction | | | | 69,000 |
| Total income | | | | 5,56,875 |
| Total Income (Rounded - off) | | | | 5,56,880 |

Notes:

- Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to Rs. 30,000.
- Since $\frac{1}{4}$ th portion of house is used for business purposes, therefore, $\frac{1}{4}$ th share of interest paid is deductible while computing business income.

- Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
- 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 (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be Rs. 36,000 (i.e. 3/4th of Rs. 48,000).
- 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) (Rs. 4,253 - Rs. 2,250) | | 2,003 |
| 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 x 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. $(Rs. 100 \times 2 \times 12) + (Rs. 300 \times 2 \times 12)$
 $= Rs. 2,400 + Rs. 7,200 = Rs. 9,600$

Therefore, taxable education allowance would be $Rs. 16,000 - Rs. 9,600 = Rs. 6,400$.

5. Investments/payments deductible under section 80C

| Particulars | Rs. |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Investment in notified mutual fund | 25,000 |
| Investment in PPF | 15,000 |
| Investment in 5 year Time Deposit in Post Office | 10,000 |
| Tuition fees of children (assumed to be paid to an eligible educational institution – hence qualifies for deduction under section 80C) | 60,000 |
| | 1,10,000 |

The total deduction under section 80C cannot exceed Rs. 1,50,000. This restriction is contained in section 80CCE.

Therefore, the permissible deduction under section 80C would be Rs. 1,10,000

6. **Taxability of gift received from grandfather:** Gift from a relative is not taxable under section 56(2)(x). Grandfather is a relative as per the definition of "relative" given in the Explanation to section 56(2)(x) and hence Rs. 25,000, being gift received from grandfather, is not taxable.

PROBLEM NO.8

Computation of total income of Kamal for the A.Y. 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) $(Rs. 5,500 \times 12)$ | 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 | Rs. 24,000 | 42,450 | 19,050 |
| Profits and gains of business or profession | | | |
| Income from share speculation business | | 15,000 | |
| Less: Loss from cotton speculation business | | 20,200 | |
| Net loss from speculation business to be carried forward [As per section 73, any loss from speculation business can be setoff only against income from another speculation business. Hence, the net loss from speculation business in the current year has to be carried forward to the next year for set-off against speculative business income for that year. Such loss can be carried forward for a maximum of four succeeding assessment years] | | (5,200) | |
| Income from Other Sources | | | |
| i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal, since as per section 64(1A) all income of a minor child is includible in the hands of the parent (Rs. 30,000 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. Pankaj 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 | 6,82,700 |
| 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) | | 83,500 |

Investment in approved modes

Section 54F (by constructing a new house)

In order to avail exemption under section 54F by constructing a new residential house, the assessee should construct a residential house within three years from the date of transfer of house plot. To avail the maximum exemption, the entire net consideration received from sale of house plot should be invested. If only part of the net consideration is invested, then proportionate exemption of long term capital gains would be available i.e

$$\text{Long term capital gain} \times \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

Section 54EC: In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. Rs. 5,58,000, 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(ja) | | 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 x Rs. 24,500 /30 = 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% - on Rs. 1,00,000 @ 7.5% (i.e.50% of 15%) | 67,500 7,500 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) | 27,000 | Nil | |
| | Winnings from lottery (See Note 1) | | 50,000 | 51,500 |
| | Gross Total Income | | | 1,63,000 |
| | Less: Deductions under Chapter VI A: | | | |
| | - Under section 80C Tuition fee paid to university for full time education of his son | | 60,000 | |
| | - Under section 80E Interest on loan taken for higher education of daughter | | 65,000 | |
| | but restricted to (See Note 2) | | 1,25,000 | 1,13,000 |
| Total income | | | 50,000 | |

Notes:

- Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be Rs. $35,000/70\% = \text{Rs. } 50,000$
- 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 | <u>50,000</u> |
| Maximum deduction under Chapter VI-A | <u>1,13,000</u> |

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.
- 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 | 26,300 |
| Gross Total Income | | 10,59,790 |

| | | |
|----------------------------------------------------------|---|-----------------|
| Less: Deduction under Chapter VI-A | 5 | 65,000 |
| Total Income | | 9,94,790 |
| Tax on total income | | |
| Total Income | | 9,94,790 |
| Less: Short-term capital gains (See Note 9 below) | | 25,200 |
| Normal Income | | 9,69,590 |
| Tax on normal income | | 1,06,418 |
| Tax on short-term capital gains @15% | | 3,780 |
| Tax on Total Income | | 1,10,198 |
| Add: Health and Education cess @ 4% | | 4,408 |
| Total tax liability | | 1,14,606 |
| 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 | 1,800 | |
| | Net Annual Value (NAV) | 1,02,200 | |
| | Less: Deduction under section 24 @ 30% of NAV | 30,660 | 71,540 |
| | Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent. | | |
| 2. | Income under the head "Profits & Gains of Business or Profession" | | |
| | Net profit as per Profit & Loss Account | | 10,78,055 |
| | Add: Expenses debited to the Profit & Loss Account but not allowable | | |
| | (i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000 | 33,000 | |
| | (ii) Municipal Taxes paid in respect of residential flat let out | 1,800 | 34,800 |
| | | | 11,12,855 |
| | Less: Expenses allowable but not debited to profit and loss account | | |
| | Interest paid on loan taken from LIC used for repair of computer | | 2,050 |
| | | | 11,10,805 |
| | Less: Income credited to Profit & Loss Account but not taxable under this head: | | |
| | (i) Dividend on shares of Indian companies | 10,155 | |
| | (ii) Income from UTI | 8,400 | |
| | (iii) Profit on sale of shares | 25,200 | |
| | (iv) Honorarium for valuation of answer papers | 26,300 | |
| | (v) Rent received from letting out of residential flat | 1,04,000 | 1,74,055 |
| | | | 9,36,750 |
| 3. | Capital gains: | | |
| | Short term capital gain on sale of shares | | 25,200 |
| 4. | Income from other sources: | | |
| | Dividend on shares of Indian companies | 10,155 | |
| | Less: Exempt under section 10(34) | 10,155 | Nil |
| | Income from UTI | 8,400 | |
| | Less: Exempt under section 10(35) | 8,400 | Nil |
| | Honorarium for valuation of answer papers | 26,300 | 26,300 |
| 5. | Deductions under Chapter VI-A : | | |
| | Deduction under section 80D (Medical Insurance Premium) | | |
| | | 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) | 8,000 | Nil |
| | | | 15,000 |
| | Deduction under section 80D (Medical Expenditure) | | |
| | Medical expenditure incurred on the health of Father is allowed as deduction to the maximum of Rs. 50,000, since he is a very senior citizen. | | 50,000 |

| | | |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| | It is assumed that father is resident in India and no payment has been made to keep in force an insurance on his health. | |
| | Total deduction under Chapter VI-A | 65,000 |
| | Note: Premium paid to insure the health of brother is not eligible for deduction under section 80D, since brother is not included in the definition of family. Premium paid to insure the health of wife is not eligible for deduction since payment is made in cash. Premium paid to insure the health of married daughter is not eligible for deduction as she is not dependent on Mr. Suraj. | |

6. Rs. 25,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment, since the same has already been debited to Income & Expenditure A/c.
7. Incentive to articled assistants passing IPCC examination in their first attempt is deductible under section 37(1).
8. Repairs and maintenance paid in advance for the period 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:

1. The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
2. 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) | 30,000 | |
| Section 80E: | | |
| Interest paid towards education loan taken for studies of his daughter (Refer Note 7) | 15,000 | 65,000 |
| Total Income | | 5,10,000 |

Working Notes:**1. Computation of income from business of plying goods vehicles under section 44AE**

| Particulars | Rs. |
|-----------------------------------------------------------------|-----------------|
| 6 heavy goods vehicle held throughout the year (Rs. 7,500×6×12) | 5,40,000 |
| 2 heavy goods vehicle – held for 9 months (Rs. 7,500×2×9) | 1,35,000 |
| Income under section 44AE | 6,75,000 |

2. 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.
3. 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).
4. Fixed deposit in the name of married son does not qualify for deduction under section 80C.

5. 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.
6. Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of Rs. 30,000. Hence, deduction of Rs. 30,000 is provided to Mr. Chandran, as his parents are senior citizens.
7. 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 (49,000- 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 | 32,000 | |
| Maximum amount allowable | | | 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 | 10,000 | 5,05,000 |
| | | 8,08,000 |
| Less: Depreciation (See Working Note below) | | 2,74,750 |
| Income from own business | | 5,33,250 |

Working Note:**Computation of depreciation allowable under the Income-tax Act, 1961**

| Particulars | Rs. | Rs. |
|---------------------------------------------------------|----------|----------|
| On Car: | | |
| 15% on 3,00,000 | 45,000 | |
| Less: 1/5th for personal use | 9,000 | 36,000 |
| On Machinery: | | |
| Opening WDV | 6,50,000 | |
| Additions during the year (Used for more than 180 days) | 3,25,000 | |
| Depreciation at 15% on | 9,75,000 | 1,46,250 |

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------------|
| Additions during the year (used for less than 180 days) Hence, depreciation at 7.5% on | 3,00,000 | 22,500 |
| Total normal depreciation (A) | | 2,04,750 |
| Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year. Additional depreciation New machinery Used for more than 180 days at 20% Rs. 2,00,000 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) Expected Rent | 3,00,000 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 | |

| | | |
|-----------------------------------|-------|---------------|
| Less: Exempt under section 10(32) | 1,500 | 8,500 |
| Income from other sources | | 11,500 |

Note: Income received by Aditya's minor daughter from stage acting is not includible in the income of Mr. Aditya, since the income has been earned by her on account of her special talent. However, interest on company deposits is includible in Mr. Aditya's income as per section 64(1A), even though the deposit was made out of income derived from special talent.

4. Computation of deduction under Chapter VI-A:

| Section | Particulars | Rs. |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 80DD | Medical treatment of dependent disabled [flat deduction of Rs. 1,00,000 in case of severe disability (80% or more) irrespective of the amount incurred] | 1,25,000 |
| 80E | Interest on loan for higher education of son, being a relative | 10,000 |
| Total deduction under Chapter VI-A | | 1,35,000 |

PROBLEM NO.18

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

| Particulars | Amount | Amount |
|---------------------------------------------------|--------|------------------|
| Income from salaries (W.N -1) | | 10,06,000 |
| Income from H.P (W.N – 2) | | 1,00,000 |
| Income from C.G (W.N – 3) | | 2,115 |
| Income from other sources (W.N – 4) | | 750 |
| Gross Total Income | | 11,08,865 |
| (-) Chapter VI A Deduction | | |
| Sec.80C - Housing Loan Repayment (Principal only) | | 65,000 |
| Taxable Income | | 10,43,865 |
| Taxable Income (rounded off u/s 288A) | | 10,43,870 |

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 |

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 is exempted u/s.112A
- Sale of shares of B Ltd. Sec.111A

| Particulars | Amount |
|---------------------------------------------|--------------|
| Consideration (82 x 125) | 10,250 |
| Less: Brokerage (0.1%) | 10 |
| Net Consideration | 10,240 |
| Less: Cost of acquisition (65 X 125) | 8,125 |
| Taxable Capital Gain | 2,115 |

- **Income from Other Sources:** As income Tax paid will not be allowed as deduction Income Tax refundable will not be Taxable. Interest on Income Tax refundable 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 |
| Winnings 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.

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 | 12,000 |
| 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 | 15,600 |
| 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> |
| | | 23,54,000 |
| Less: Standard Deduction U/s 16 (ia) | | (40,000) |
| Net Salary Income | | 23,14,000 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C | | |
| Contribution to recognized provident fund | 1,50,000 | |
| Section 80D: Health insurance premium | | |
| Wife Rs.30,000 restricted to | 25,000 | |
| Parents (Senior Citizens) | <u>33,000</u> | 58,000 |
| Section 80DD | | |
| Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred) | 1,25,000 | |
| Section 80E: Interest on loan taken for full-time education of | | |
| - his son studying B.Com. | 24,000 | |
| - a student studying B.Sc. for whom he is the legal Guardian | <u>20,000</u> | 44,000 |
| | | <u>3,77,000</u> |
| Total income | | <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) | | | 33,200 |
| 4. | Income from other sources (Note 4) | | | <u>26,470</u> |
| | Gross Total income | | | 3,64,370 |
| | Less: Deductions under Chapter VIA | | | |
| | i. Deduction under section 80C (Note 5) | | 35,000 | |
| | ii. Deduction under section 80DDB in respect of expenditure on medical treatment incurred on treatment of his father | 40,000 | | |

| | | | |
|------------------------------------------------------------------------------------------------|-------|------------------------|------------------------|
| Less: Expenditure reimbursed by insurance Company | 7,500 | 32,500 | |
| iii. Deduction under section 80GGC in respect of contribution to the Political Party (Note 11) | | <u>1,000</u> | <u>68,500</u> |
| Total income | | | <u>2,95,870</u> |
| Components of total income | | | |
| Short-term capital gains from sale of shares (chargeable at a special rate of 15% u/s 111A) | | 4,200 | |
| Normal income | | <u>2,91,670</u> | |
| | | <u>2,95,870</u> | |

Computation of tax payable by Mr. X for the A.Y. 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 (2,91,670 +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 | | |
| or | | |
| 2,500 which ever is lower | | <u>2,500</u> |
| | | 214 |
| Add: Health and Education cess @ 4% | | 9 |
| Total tax | | <u>223</u> |
| Total Tax Liability (Rounded off) | | 220 |
| Less: Tax deducted at source | | 2,500 |
| Less: Advance tax paid | | <u>17,000</u> |
| Tax refundable | | <u>19,280</u> |

Notes:

1. Computation of Income from House Property

| Particulars | Rs. |
|-----------------------------------------------------------------------|----------------------|
| Gross Annual Value (GAV) | 37,500 |
| Rent received is taken as the GAV in the absence of other information | |
| Less: Municipal taxes paid | Nil |
| Net Annual Value (NAV) | 37,500 |
| Less: Deduction under section 24 @ 30% of NAV | 11,250 |
| | <u>26,250</u> |

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> |

| | | |
|--------------------------------------------------|--|-----------------|
| Less: Depreciation as per Income-tax Rules, 1962 | | 3,53,450 |
| | | <u>75,000</u> |
| | | 2,78,450 |

3. Computation of Capital Gains

| Particulars | Rs. | Rs. |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| Short term capital gains on sale of investment | | 29,000 |
| Short term capital gains on sale of shares | | |
| Shares of AB Co. Ltd. | | |
| Sale consideration 150 shares @ Rs.98 each | Rs.14,700 | |
| Less: Cost of 150 shares @ Rs.60 each | <u>Rs.9,000</u> | 5,700 |
| Shares of PQ Co. Ltd.: | | |
| Sale consideration 150 shares @ Rs.102 each | Rs.15,300 | |
| Less: Cost of 150 shares @ Rs.112 each | <u>Rs.16,800</u> | (1500) |
| | | <u>4,200</u> |
| | | 33,200 |
| Long term capital gains on sale of shares | | |
| Since the holding period of 200 shares of AB Co. Ltd. is more than 12 months, the capital gain on sale of such shares is a long term capital gain and hence, exempt from income-tax under section 112A | | Nil |
| Capital Gains | | <u>33,200</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 |

- Five year time deposit in an account under Post Office Time Deposit Rules, 1981, is eligible for deduction under section 80C.
- The maturity proceeds of the life insurance policy are exempt under section 10(10D) assuming that the policy does not fall under the exceptions stated under that section.
- Refund of income tax is not taxable. However, interest on such refund is chargeable to tax under the head "Income from other sources".
- 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.
- Advance tax is not allowable as deduction.
- Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).
- Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80G/GC

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 | | <u>12,000</u> | |
| Net annual value (NAV) | | 1,68,000 | |
| Less: Deductions under section 24 | | | |
| a. 30% of NAV | 50,400 | | |
| b. Interest on bank loan @ 10% on Rs.5,00,000 | <u>50,000</u> | <u>1,00,400</u> | 67,600 |
| Profits and gains of business or profession [See Note 2] | | | |
| Income prior to adjustment for depreciation | | 2,20,000 | |
| Less: Depreciation on equipments used for Business | 30,000 | | |
| Depreciation on building Rs.5,00,000 @ 10% | <u>50,000</u> | <u>80,000</u> | |
| | | 1,40,000 | |
| Less: Set off of brought forward business loss relating to discontinued business [See Note 3] | | <u>80,000</u> | 60,000 |

| | | | |
|----------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------|-----------------|
| Capital Gains [See Note 4] | | | |
| Short term capital gains from sale of listed shares | | | |
| Full value of consideration | | 2,30,000 | |
| Less: Cost of acquisition | | <u>1,80,000</u> | <u>50,000</u> |
| Gross Total Income | | | 1,77,600 |
| Less: Deduction under section 80C in respect of LIP Rs.32,000 and housing loan repayment in respect of II block Rs.23,000 | 55,000 | | |
| Deduction under section 80D (for self) | <u>6,000</u> | | <u>61,000</u> |
| Total income | | | 1,16,600 |
| Tax on total income | | | Nil |

Notes:**1. 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).

2. On computation of Profits and gains of business or profession: Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is Rs.50,000 (being 10% of Rs.5,00,000) and depreciation on equipments used for business is Rs.30,000. Hence the depreciation allowable during the year is Rs.80,000.

3. On set off of business loss: As per section 72, business loss relating to discontinued business is eligible for set off.

4. On treatment of short-term capital gains (STCG): The listed shares have been sold and securities transaction tax is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.

5. On computation of deductions under sections 80C and 80D: Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed Block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.

However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of Rs.6,000 is eligible for deduction.

PROBLEM NO.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 |
| Less: Depreciation allowable (Note 1) | | <u>86,400</u> |
| | | 5,40,100 |
| Income from firm | | |
| Interest on capital from partnership firm (Note 2) | | 1,20,000 |
| | | 6,60,100 |

| | | |
|---------------------------------------------------|--------|-----------------|
| Income from other sources | | |
| Interest on bank fixed deposit (Gross) | 15,000 | |
| Interest on income-tax refund | 2,300 | 17,300 |
| Gross total income | | 6,77,400 |
| Less: Deduction under Chapter VIA (Note 3) | | 1,30,000 |
| Total Income | | 5,47,400 |

Notes:

1. Depreciation allowable under the Income-tax Rules, 1962

| | Opening WDV | | Rate | Depreciation | | Closing WDV |
|------------------------------------------------|-------------|----------|------|--------------|---------------|-------------|
| Block 1 | Computers | 1,20,000 | 40% | | 48,000 | 72,000 |
| Block 2 | Motor Car | 3,20,000 | 15% | 48,000 | | |
| Less: 20% disallowance for personal use | | | | 9,600 | 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. |
|---------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------|
| Under section 80C | | |
| LIP for major son | 60,000 | |
| PPF paid in wife's name | 70,000 | |
| | 1,30,000 | |
| Since the maximum deduction under section 80C and 80CCE is Rs. 1,50,000, the entire sum of Rs. 1,30,000 would be allowed as deduction | | 1,30,000 |
| Total deduction | | 1,30,000 |

PROBLEM NO.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 | Nil | | |
| Less: Deduction under section 24(b) | | | |
| Interest on housing loan | | | |
| 50% of Rs. 88,000 = 44,000 but limited to | 30,000 | | |
| Loss from self occupied property | | (30,000) | |
| Let out property | 60,000 | | |
| Annual value (Rent receivable has been taken as the annual value in the absence of other information) | | | |
| Less: Deductions under section 24 | | | |
| a) 30% of Net Annual Value | 18,000 | | |
| b) Interest on housing loan (50% of Rs. 88,000) | 44,000 | | |
| | 62,000 | (2,000) | |
| Loss from house property | | | (32,000) |
| Profits and gains of business or profession | | | |
| Fees from professional services | | 59,38,000 | |
| Less: Expenses allowable as deduction | | | |
| Staff salary, bonus and stipend | 21,50,000 | | |
| Other administrative expenses | 11,48,000 | | |
| Office rent | 30,000 | | |
| Motor car maintenance (10,000 x 4/5) | 8,000 | | |
| Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting) | Nil | 33,36,000 | |
| | | 26,02,000 | |
| Less: Depreciation | | | |
| Motor car Rs. 4,25,000 x 7.5% x 4/5 | 25,500 | | |

| | | | |
|---------------------------------------------------------------------------------------------------|----------|----------|------------------|
| Books being annual publications @ 40% | 8,000 | | |
| Furniture and fittings @ 10% of Rs. 60,000 | 6,000 | | |
| Plant and machinery @ 15% of Rs. 80,000 | 12,000 | | |
| Computer @ 40% of Rs. 50,000 | 20,000 | | |
| Computer (New) Rs. 30,000 @ 40% x ½ thereon | 6,000 | 77,500 | 25,24,500 |
| Gross Total income | | | 24,92,500 |
| Less: Deduction under Chapter VI-A | | | |
| Deduction under section 80C | | | |
| Housing loan principal repayment | 1,00,000 | | |
| PPF subscription | 20,000 | | |
| Life insurance premium | 24,000 | | |
| Total amount of Rs. 1,44,000 is allowed as deduction since it is within the limit of Rs. 1,50,000 | | 1,44,000 | |
| Deduction under section 80D | | | |
| Medical insurance premium paid Rs. 18,000 | | 18,000 | 1,62,000 |
| Total income | | | 23,30,500 |

PROBLEM NO.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 |
| Long term capital gains | 3 | 2,20,000 |
| Income from other sources | 4 | 1,81,000 |
| Gross Total Income | | 5,66,500 |
| Less: Deduction under Chapter VI-A | 5 | 45,000 |
| Total Income | | 5,21,500 |
| Tax on total income | | |
| Tax on Long term capital gain @20% (Rs. 2,20,000 x 20%) | 44,000 | |
| Tax on balance total income of Rs. 3,01,500 | 2,575 | 46,575 |
| Add: Health and Education cess @ 4% | | 1,863 |
| Total tax liability | | 48,438 |
| Less: Tax deducted at source on interest on debentures [Rs. 5,400 x 10/90] | | (600) |
| Net Tax liability | | 47,838 |
| Net Tax liability (Rounded off) | | 47,840 |

Working Notes:

| | Particulars | (Rs.) | (Rs.) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------|-----------------|
| 1. Income from House Property | | | |
| (i) Self-occupied portion (25%): As per section 23(2), income from self-occupied portion is Nil. | | | Nil |
| (ii) Let-out portion - 50% | | | |
| Gross Annual Value | | | 1,65,000 |
| (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent) | | | |
| Less: Municipal taxes paid in respect of let out portion (50% of Rs.36,000) | | | 18,000 |
| Net Annual Value (NAV) | | | 1,47,000 |
| Less: Deduction under section 24@30% of NAV | | | 44,100 |
| | | | 1,02,900 |
| 2 Profits & Gains of Business or Profession | | | |
| Net profit as per profit and loss account | | | 1,34,000 |
| Add: Expenses debited to profit and loss account but not allowable | | | |
| i) Fire Insurance [relating to let-out and self-occupied house property] (75% of Rs.10,000) | 7,500 | | |
| ii) Income-tax [disallowed as per section 40(a)(ii)/(iia)] | 27,000 | | |
| iii) Household expenses (Under section 37, personal expenses are disallowed) | 42,500 | | |
| iv) Contribution to university approved under sec. 35(1)(ii), considered separately | 1,00,000 | | |
| v) Municipal Taxes paid in respect of let-out and self-occupied portions [75% of Rs.36,000] | 27,000 | | 2,04,000 |
| | | | 3,38,000 |

| | | | |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------|
| | Less: Weighted deduction @ 150% for contribution to university approved and notified under section 35(1)(ii) [1,00,000 × 150%] | | 1,50,000 |
| | | | 1,88,000 |
| | Less: Income credited to Profit & Loss Account but not taxable under this head: | | |
| | (i) Cash gift | 1,20,000 | |
| | (ii) Interest on debentures | 5,400 | 1,25,400 |
| | | | 62,600 |
| 3. | Capital gains | | |
| | Sale consideration of bonus shares | | 2,20,000 |
| | Less: Cost of acquisition [Nil, for bonus shares] | | Nil |
| | Long term capital gain [Since unlisted shares are held by Mr. Devansh for more than 24 months] | | 2,20,000 |
| 4. | Income from Other Sources | | |
| | Cash gift on the occasion of marriage is exempt, even if the same is received from a non-relative | | Nil |
| | In case of vacant site received for inadequate consideration, difference between stamp duty value (Rs.2,80,000) and actual consideration (Rs.1,05,000) is taxable under section 56(2)(vii), since such difference exceeds Rs.50,000. | | 1,75,000 |
| | Interest of Rs.500 on post-office savings bank account [In case of individual account, a sum upto Rs.3,500 is exempt under section 10(15)] | | Nil |
| | Interest on debentures (gross) [Rs. 5,400 × 100/90] (The rate of TDS under section 194A is 10%) | | 6,000 |
| | Income chargeable under this head | | 1,81,000 |
| 5. | Deduction under Chapter VI-A: | | |
| | Deduction under section 80C | | |
| | LIC Premium paid Rs.60,000 [Since the policy was taken after 31.03.2013 to insure the life of disabled son, the premium is restricted to 15% of sum assured] [15% of Rs. 3,00,000] | | 45,000 |

PROBLEM NO.28**Computation of total income of Mr. Vinod Kumar for the Assessment Year 2019-20**

| Particulars | Amount | Amount | Amount |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|------------------|
| Income from Salary: | | | |
| Pension received (net of TDS) | | 6,27,000 | |
| Add: Tax deducted at source | | 25,000 | |
| Less: Standard Deduction u/s 16(ia) | | (40,000) | 6,12,000 |
| Profits and gains from business or profession | | | |
| Gross Receipts | | 51,60,000 | |
| Less: Expenses | | | |
| Rent for premises allowable under section 30(a) | 5,44,000 | | |
| Salaries | 11,20,000 | | |
| Miscellaneous expenditure | 3,91,000 | | |
| Conveyance for official use [3/4 th of 3,00,000] | 2,25,000 | 22,80,000 | 28,80,000 |
| Capital Gains | | | |
| Long-term capital gains on sale of listed shares u/s 112A (assuming that shares are acquired after 01.02.2018) | | 1,24,000 | |
| 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 | | 65,000 | 1,89,000 |
| Income from Other Sources | | | |
| Interest on fixed deposit from bank | | 1,60,000 | |
| Interest on Post Office Savings Account | 18,000 | | |
| Less: Exempt under section 10(15) | 3,500 | 14,500 | 1,74,500 |
| Gross Total Income | | | 38,55,500 |
| Less: Deductions under Chapter VI-A | | | |
| Under section 80C | | | |
| Contribution to PPF | 1,10,000 | | |
| Life insurance premium paid Rs. 60,000 (restricted to 10% of sum assured, since the policy was taken after 31.03.2012) | 50,000 | | |
| | 1,60,000 | | |

| | | | |
|-----------------------------------------------------------------------------------------------------------------------|--------------|----------|-------------------------|
| Restricted to | | 1,50,000 | |
| Under section 80D: | | | |
| Medical insurance premium (paid otherwise than by cash) | 27,000 | | |
| Preventive health check-up (allowed even if paid by cash), 6,000, restricted to | <u>5,000</u> | 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

| | (Rs.) | (Rs.) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------|
| Income from Salary | | |
| Basic Salary (Rs. 60,000 × 12) | | 7,20,000 |
| HRA (Rs. 15,000 × 12) | 1,80,000 | |
| Less: Exempt under section 10(13A) [See Note 1 below] | <u>1,44,000</u> | 36,000 |
| Education Allowance (Rs. 1,500×12) | 18,000 | |
| Less: Exempt under section 10(14) @ Rs. 100 per month per child and maximum for 2 child (100 × 12 × 2) | <u>2,400</u> | 15,600 |
| Less: Standard Deduction u/s 16(ia) | | 40,000 |
| | | 7,31,600 |
| Profits and gains from business or profession | | |
| Income from the business of letting on hire a truck under sec. 44AE [See Note 2 below] | | 88,000 |
| Income from Other Sources | | |
| Interest on Post Office Savings Bank Account | 8,500 | |
| Less: Exempt under section 10(15) | <u>(3,500)</u> | 5,000 |
| Interest from company deposits | 25,000 | |
| Less: Deduction u/s 57 in respect of interest on loan paid for investing in company deposits | <u>5,000</u> | 20,000 |
| Interest on National Savings Scheme, 1992 | <u>35,000</u> | <u>60,000</u> |
| Gross Total Income | | 8,79,600 |
| Less: Deductions under Chapter VI-A | | |
| Under section 80C [Tuition fees paid for two children – most favorable to Mrs. Ann being Rs. 50,000 + Rs. 30,000] | 80,000 | |
| Deposit in 5 year Post Office Recurring Deposit Scheme does not qualify for deduction under section 80C. | NIL | |
| Under section 80D [Medical Insurance Premium paid by cheque for insurance of self and spouse together would qualify for deduction upto a maximum of Rs. 25,000] | 25,000 | |
| Under sec. 80TTA [Interest from Post Office Saving Bank Account: See Note 3 below] | <u>5,000</u> | <u>1,10,000</u> |
| Total Income | | <u>7,69,600</u> |

Computation of tax payable for the A.Y.2019-20

| Particulars | Amount (Rs.) |
|--------------------------------------------|---------------|
| 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) × 12 = Rs. 1,44,000
 - Actual HRA received = Rs. 15,000 × 12 = 1,80,000 Least of the above i.e., 1,44,000 is exempt under section 10(13A)

2. 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 $11,000 \times 8 = \text{Rs.}88,000$

3. 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.

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

MASTER MINDS

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.

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 one year from the end of the relevant assessment year has not elapsed.

PROBLEM NO. 5

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A, exceeds the maximum amount not chargeable to tax i.e., Rs.2,50,000 (for A.Y. 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:

| | Circumstance | Return of income, to be verified by |
|------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| i) | Where he is absent from India | - the individual himself; or - any person duly authorised by him in this behalf holding a valid power of attorney from the individual. (Such power of attorney should be attached to the return of income) |
| ii) | Where he is mentally incapacitated from attending to his affairs | - his guardian; or - any other person competent to act on his behalf. |
| iii) | Where, for any other reason, it is not possible for the individual to verify the return | any person duly authorised by him in this behalf holding a valid power of attorney from the individual (Such power of attorney should be attached to the return of income) |
| iv) | In circumstances not covered under (i), (ii) & (iii) above | - the individual himself |

THE END

13. ADVANCE TAX AND INTEREST

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

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 | 7,49,800 | 11,84,510 | 10,87,000 | 7,65,500 |
| Tax (see note) | 62,460 | 1,65,353 | 3,26,100 | 65,600 |
| Add: Surcharge | Nil | Nil | Nil | Nil |
| Tax and surcharge | 62,460 | 1,65,353 | 3,26,100 | 65,600 |
| Add: Health and Education cess (4% of tax and surcharge) | 2,498 | 6,614 | 13,044 | 2,624 |
| Tax payable on assessed income | 64,958 | 1,71,967 | 3,39,144 | 68,224 |
| Less: Advance tax paid and tax deducted at source | 43,600 | 1,23,300 | 1,66,100 | 57,160 |
| Shortfall | 21,358 | 48,667 | 1,73,044 | 11,064 |
| Shortfall (rounded off) (c) | 21,400 | 48,700 | 1,73,000 | 11,100 |
| Interest on (c) at the rate of 1% per month (c x 1% x No. of months) | 1,498 | 487 | 6,920 | 222 |

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 | 3,00,000 - 5,00,000 | | 2,50,000 - 5,00,000 |
| (2,50,000 x 5%) - 12,500 | (2,00,000 x 5%) - 10,000 | | (2,50,000 x 5%) - 12,500 |
| 7,49,800 - 5,00,000 | 5,00,000 - 10,00,000 | | 7,65,500 - 5,00,000 |
| (2,49,800 x 20%) – 49,960 | (5,00,000 x 20%) - 1,00,000 | | (2,65,500 x 20%) - 53,100 |
| | 11,84,510 - 10,00,000 | | |
| | (1,84,510 x 30%) - 55,353 | | |
| Tax <u>62,460</u> | Tax <u>1,65,353</u> | Tax - 3,26,100 | Tax <u>65,600</u> |

PROBLEM NO. 2

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 | 2,800 |
| 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 | 19,90,000 |
| 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) | 2,800 |
| 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 | - | - | - | (79,080 x 1% x 1 month) | |
| | - | - | 99 | 791 | 890 |

Interest payable u/s. 234C = 99 + 791 = **Rs.890.**

Note1: 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.

Note2: 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.

Note3: As per 119A, Shortfall should be rounded off to nearest 100 but not 10.

MASTER MINDS

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

14. EXEMPTED INCOMES

SOLUTIONS TO CLASSROOM PROBLEMS

PROBLEM NO. 1

| S.No. | Taxable/Not Taxable | Amount liable to tax (Rs.) | Reason |
|-------|---------------------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i) | Not Taxable | - | Share received by member out of the income of the HUF is exempt under section 10(2). |
| (ii) | Not Taxable | - | Pension received by Mr. Xavier, who is a 'Param Vir Chakra' awardee, is exempt under section 10(18). |
| (iii) | Not Taxable | - | Any income of a political party registered under section 29A of the Representation of the People Act, 1951 which is chargeable, <i>inter alia</i> , under the head "Income from house property" is exempt under section 13A provided the political party maintains such books of account as would enable the Assessing Officer to properly deduce its income therefrom and the accounts are audited by a chartered accountant. |
| (iv) | Taxable | - | Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income. |
| (v) | Partly Taxable | 36,000 | Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt, provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., Rs. 7,000 per month, being 70% of Rs. 10,000) or Rs. 10,000 per month, whichever is less. Hence, Rs. 84,000 (i.e., Rs. 7,000 × 12) is allowable as deduction under section 10(14). Balance Rs. 36,000 (Rs. 1,20,000 - Rs. 84,000) shall be taxable. |
| (vi) | Not taxable | - | Any amount withdrawn from public provident fund as per relevant rules is not 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". |

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 Rupa 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.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = 22.50 \text{ lakhs}$$

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.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = 45 \text{ lakhs}$$

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 |

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

MASTER MINDS

16. TAX DEDUCTED AT SOURCE**SOLUTIONS TO CLASSROOM PROBLEMS****PROBLEM NO. 1**

In this case, the individual contract payments made to Mr. X does not exceed Rs. 30,000. However, since the aggregate amount paid to Mr. X during the P.Y.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 x 30% = **Rs. 54,000.**

- d) Advertising is included in the definition of "work" under section 194C. Under section 194C, the provisions for tax deduction at source would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year.

Therefore, provisions for deduction of tax at source under section 194C are not attracted in respect of payment of Rs. 28,000 on 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 x 2% = **Rs. 740**

- e) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.

Assuming that sub-contractor to whom payment has been made is an individual and the aggregate amount credited during the year is Rs. 4,20,000, tax is deductible @ 1% on Rs. 4,20,000.

Tax to be deducted = Rs. 4,20,000 x 1% = **Rs. 4,200**

PROBLEM NO. 10

- i) Theta Co-operative Bank has to deduct tax at source @ 10% on the interest of Rs. 48,000 (8% x Rs. 12 lakh x ½) 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:

= Rs. 20,000 x 10% x [(12 + 11 + 10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1) / 12]

= Rs. 2,000 x (78/12) = 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 |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | 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. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X. |

| | |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (ii) | Tax implications in the hands of Mr. Y |
| | <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. 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> |

Copyrights Reserved
To **MASTER MINDS**, Guntur

THE END

MASTER MINDS