Direct Taxation

Suggested Answers

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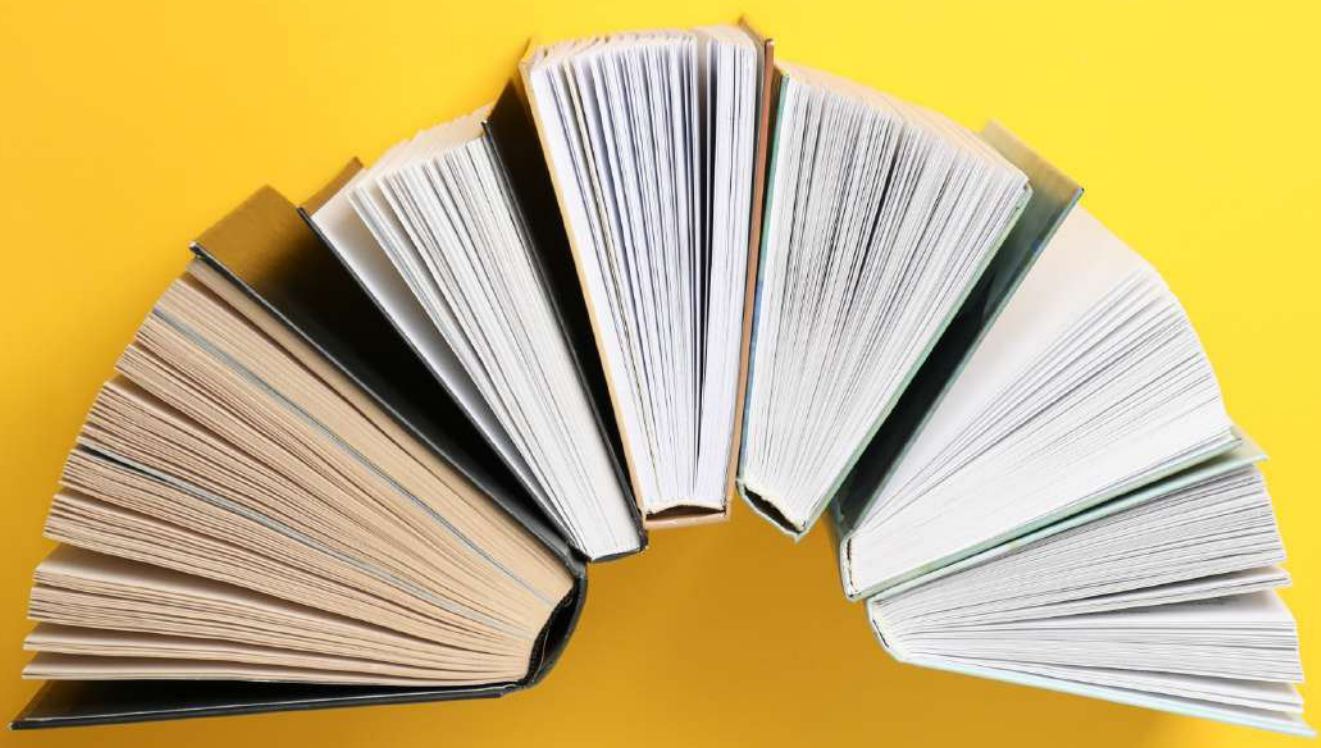

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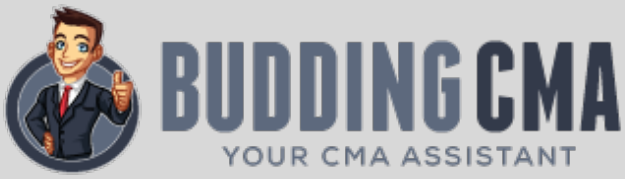

INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2017

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Wherever required, the candidate may make suitable assumption(s) and state the same clearly in the answer.
Working notes should form part of the relevant answer.
All questions relate to the Income-tax Act, 1961.
All the questions relate to Assessment Year 2017-2018, unless otherwise stated.
Answer Question No. 1, which is compulsory and any five from Question Nos. 2 to 8.

Section - A

1. (a) Find the most suitable alternative for the following: 1×10=10

(i) The number of identities included in the definition of persons is
- **(A) five**
- **(B) six**
- **(C) seven**
- **(D) eight**

(ii) A trust shall not be considered as charitable trust for according the benefits of section II, when the commercial activities in the previous year exceed ` _____.
- **(A) 10 lakhs**
- **(B) 25 lakhs**
- **(C) 15 lakhs**
- **(D) 30 lakhs**

(iii) Deduction available under section 24(a) is_____ of NAV.
- **(A) 30%**
- **(B) 50%**
- **(C) 15%**
- **(D) 70%**

(iv) Expenditure incurred by a businessman for ready to use software is entitled to benefit of
- **(A) 15% as depreciation**
- **(B) 30% as depreciation**
- **(C) 60% as depreciation**
- **(D) 100% as revenue expenditure**

(v) The basic exemption limit for a resident super senior citizen above the age of 80 is
- **(A) ` 2,00,000**
- **(B) ` 2,50,000**
- **(C) ` 5,00,000**
- **(D) None of the above**

(vi) The provisions relating to interest on delay in payment of refund are given in section

(A) 234A
(B) 234B
(C) 244A
(D) 244B

(vii) Which of the following can be corrected while processing the return of income under section 143(1)?
(A) Any arithmetical error in the return
(B) Any mistake in the return of income
(C) Any error of principle in the return of income
(D) Any claim by the taxpayer which is against law

(viii) Notice under section 156 is given for
(A) failure to submit return
(B) tax demand
(C) deferment of tax
(D) None of the above

(ix) As per section 271H, where a person fails to file the statement of tax deducted/ collected at source i.e. TDS/TCS return on or before the due dates prescribed in this regard, then he shall be liable to pay penalty under section 271H. Maximum penalty that can be levied is _____.
(A) 1,00,000, but not exceeding the amount of TDS/TCS.
(B) 2,00,000
(C) 3,00,000
(D) 3,00,000

(x) The threshold exemption limit for Equalization levy is?
(A) ` 5 lakh
(B) ` 3 lakh
(C) ` 2 lakh
(D) ` 1 lakh

(b) Match the following: 1×5=5

(i)	Section 87A	(A)	` 5000
(ii)	Section 80GG	(B)	` 5000 (or) Actual Tax (w.e.l.)
(iii)	Sukanya Samrudhi Scheme	(C)	` 1500
(iv)	Minor child exemption	(D)	30% deduction
(v)	Arrears of rent	(E)	Section 80C

(c) State whether true or false: 1×5=5
(i) An Indian company is always resident in India.
(ii) Salary received by a member of Parliament is exempt.
(iii) Income of a self-occupied property cannot be negative.
(iv) Preliminary expenditure are allowed deduction in 10 equal instalments.
(v) Capital gain arises from the transfer of any capital asset.

(d) Fill in the blanks: 1×5=5
(i) In case of an Indian citizen who leaves India during the previous year for employment outside India, the period of 60 days shall be substituted by_____ days.
(ii) Scholarship received by a student was ` 2,000 p.m. He spends ` 16,000 for meeting the cost of education. The Balance ` 8,000 is _____ _____.

(iii) Generally, income is taxable under the head, house property only when the assesse is the _____ of such house property.

(iv) Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head _____ .

(v) Period for holding bonus shares or any other financial asset without any payment shall be reckoned from the date of _____ .

Answer:

1. (a) (i) (C)
(ii) There is no option in respect of correct answer as it should be 20% of gross receipt.
(iii) (A)
(iv) (D)
(v) (C)
(vi) (C)
(vii) (A)
(viii) (B)
(ix) (A)
(x) (D)

(b)

(i)	Section 87A	(B)	` 5,000 (or) Actual Tax (w.e.l.)
(ii)	Section 80GG	(A)	` 5,000
(iii)	Sukanya Samrudhi Scheme	(E)	Section 80C
(iv)	Minor child exemption	(C)	` 1,500
(v)	Arrears of rent	(D)	30% deduction

(C) (i) True
(ii) False
(iii) False
(iv) False
(v) True

(d) (i) 182
(ii) Exempt
(iii) Owner
(iv) Profits and gains of business or profession
(v) Allotment

Section B

Answer any five questions from this section.

2. (a) Mr. Ramesh, an Indian citizen, gives you the following information for the year ended 31.03.2017. `

Business income in Mumbai	**2,50,000**
Rental income from property let out in London (Converted in Indian rupees)	**5,40,000**
Fixed deposit interest in India from LMN Bank	**60,000**
Fixed deposit interest from Bank of England (Converted in Indian rupees)	**40,000**
Business consultancy income from Essex Ltd. in Hampshire (England), being a company incorporated in Delhi having branch office in England. The business is managed from Delhi. (Converted in Indian rupees)	**75,000**
Agricultural income from land located in Malaysia (Converted in Indian rupees)	**90,000**

Income from nursery at Alwar, Rajasthan	**1,40,000**

Mr. Ramesh returned to India on 15.06.2016 after remaining in England for 10 years. During the last 4 years he was in India for 100 days only. Determine the residential status of Mr. Ramesh for the assessment year 2017-18 and compute his total income chargeable to tax in India by giving reason for treatment of each item.
Note: Ignore Double Taxation Avoidance Agreement (DTAA). 8

(b) Mr. Raghu is employed with Yes Power Co Ltd. as General Manager (Finance) at Kolkata. He furnishes you the following information for the year ended 31.03.2017. `

Basic salary (per month)	**40,000**
Dearness allowance (per month) eligible for retirement benefits	**30,000**
Rent-free accommodation is provided.	
A car was provided to him from 01.06.2016 (engine cubic capacity more than 1.6 litres). It is used both for official and personal purposes. Running expenses are fully met by employer. Mr. Raghu drives the car himself.	
Provident fund contribution of both employer and employee 12% of basic pay and dearness allowance.	
Fixed tiffin allowance (per annum)	**20,000**
Fixed medical allowance (per annum)	**30,000**
Credit card annual fee paid by employer (used for personal purposes)	**7,000**
Only son of Mr. Raghu is given free education in the school run by the employer. Cost of education is ` 1,500 per month.	
Loan taken by Mr. Raghu from provident fund during the year	**50,000**

Compute the total income of Mr. Raghu for the assessment year 2017-18. 7

Answer:

2. (a) Mr. Ramesh has remained in India for more than 182 days during the financial year 2016 - 17 and therefore, he satisfies one of the basic conditions.
He does not satisfy the other basic conditions viz. (i) stay of 365 days or more in 4 (preceding) years preceding the previous year.
As regards additional condition he has been non-resident in 9 out of 10 previous years. Also, his stay in India was less than 730 days during 7 years preceding the previous year 2016-17.

Therefore his status would be resident but not ordinarily resident.

Computation of Total Income of Mr. Ramesh for the Assessment Year 2017-18

Source of Income	Reason	`
Business income	Since the income accrues in India, it is chargeable to tax in India	2,50,000
Income property in London	It accrues outside India and it is not from a business controlled or profession set up in India. Hence not chargeable in India.	Nil
Fixed deposit interest from LMN Bank	Since the income accrues in India it is chargeable to tax in India	60,000
Fixed deposit interest from Bank of England	It accrues outside India and it is not from a business controlled or profession set up in India. Hence not chargeable.	Nil
Business consultancy income	It accrues or arises outside India and is from a business controlled from Delhi. Hence chargeable to tax.	75,000
Agri income from Malaysia	It is not chargeable to tax since it is not arising from a business controlled or set up in India.	Nil

Income from Nursery	Being agricultural income it is exempt under section 10(1)	Nil
	Total Income	3,85,000

(b) Computation of Total Income of Mr. Raghu for the Assessment Year 2017-18

Basic salary	4,80,000
Dearness allowance - eligible for retirement benefits	3,60,000
Rent-free accommodation provided @ 15% of salary	1,33,500
A car was provided to him from 01.06.2016 (engine cubic capacity more than 1.6 litres). Used both for official and personal purpose. Running expenses met by employee. (` 2400×10)	24,000
Provident fund contribution of employer up to 12% is not chargeable to tax as perquisite.	Nil
Fixed Tiffin allowance - always taxable	20,000
Fixed medical allowance – It is always taxable	30,000
Credit card annual fee paid by employer (used for personal purposes)- taxable	7,000
Only son of Mr. Raghu is given free education in the school run by the employer. Cost of education ` 1,500 per month. Since the cost of education exceeds `1,000 it is fully taxable	18,000
Loan taken by Mr. Raghu from provident fund during the year- not taxable	Nil
"Salaries" / Gross Salary Income	10,72,500
Less: Deduction U/s. 80 C	
In respect of PF contribution by the employee @ 12% of ` 8,40,000	1,00,800
Total Income	9,71,700

3. (a) Gopi Industries furnishes you the following details:

Particulars	Machinery	Computers	Furnitures
WDV as on 01.04.2016	**20,00,000**	**6,00,000**	**2,00,000**
Purchased during the year and used for more than 180 days	**4,00,000**	**1,00,000**	**40,000**
Purchased and used w.e.f. 01.01.2017	**1,00,000**	**2,00,000**	**20,000**
Sold a group of assets on 01.03.2017	**2,00,000**	**1,00,000**	**50,000**

Compute depreciation allowable for the assessment year 2017-18. Ignore additional depreciation. 6

(b) Rao and Jain is a partnership firm, consisting of 5 partners, with turnover of ` 1,20,00,000 for the year ended 31.03.2017. The partnership deed provides for interest on capital at 14% per annum on the capital contribution of ` 5 lakhs each made by all the partners. All the partners are eligible for monthly working partner salary of ` 10,000 each. The firm provides you the following additional information:

Depreciation eligible under Income-tax Rules, 1962	**` 2,00,000**
Interest paid on unsecured loans for which no tax was deducted at source during the year or before the due date for filing return of income u/s 139(1)	**` 5,00,000**
Contract payments made during the year for which tax was deducted but remitted in financial year 2017-18 and before 'due date' for filing the return of income specified in section 139(1).	**` 4,00,000**

Rent paid to a partner Mr. Jain for premises occupied by the firm ` 1,20,000 on which no tax was deducted at source. The reasonable rent for similar premises was determined at ` 1,80,000

The Net Profit of the firm before charging interest on capital and working partner salary as per books was ` 8,40,000. Depreciation notionally computed and provided in the books amounts to ` 1,60,000.

The partners of the firm want you to compute income under section 44AD and also as per regular provisions, and suggest which option would be beneficial to them. 9

Answer:

3. (a)

Gopi Industries Computation of depreciation for the Assessment Year 2017-18

Particulars	Machinery	Computers	Furnitures
WDV as on 01.4.2016	20,00,000	6,00,000	2,00,000
Purchased during the year and used for more than 180 days	4,00,000	1,00,000	40,000
Purchased and used w.e.f 01.01.2017	1,00,000	2,00,000	20,000
	25,00,000	9,00,000	2,60,000
Less: Sold on 01.3.2017	2,00,000	1,00,000	50,000
WDV before depreciation	23,00,000	8,00,000	2,10,000
Depreciation			
For assets used for more than 180 days	3,30,000 (15% of ` 22 lakhs)	3,60,000 (60% on ` 6 lakhs)	19,000 (10% on ` 1.90 lakhs)
For assets used for less than 180 days	7,500 (7.5% of ` 1 lakh)	60,000 (30% on ` 2 lakhs)	1,000 (5% on ` 20,000)
Total Depreciation	3,37,500	4,20,000	20,000

Note: It is also possible to taken the view that for computing depreciation, the position of the block, as at the year end is to be taken. Value of any asset sold can first be deducted from assets purchased during the year and used for less than 180 days and only if required, from the balance value in the block in such case, depreciation will be:

More than 180 days	(23,00,000 × 15%) = 3,45,000	(7,00,000 × 60%) = 4,20,000	(21,00,000 ×10%) = 2,10,000
Less than 180 days	Nil	30,000	Nil
Total depreciation	3,45,000	4,50,000	2,10,000

(b)

Computation of Income from Business for the Assessment Year 2017-18

Particulars	Section 44AD	Regular Provisions
Net Profit as per Profit and Loss Account		8,40,000
Net Profit as per presumptive provision @ 8%	9,60,000	
Add:		
Depreciation debited in the books	Not applicable	1,60,000
Premises rent paid to partner being a reasonable amount, not liable for any disallowance under section 40A(2)(b)	Not applicable	Nil

Interest on unsecured loan on which tax was not deducted, hence disallowed @ 30%	Not applicable	1,50,000
		11,50,000
Less: Depreciation under income-tax rules	Not applicable	2,00,000
		9,50,000
Less: Interest on capital to partners @ 12% of ` 25 lakhs	Not allowed	3,00,000
Book Profit		6,50,000
Working partner salary allowable		
On First ` 3 lakhs @ 90% = ` 2,70,000		
On balance ` 3,50,000 @ 60% = ` 2,10,000		
Or Actual salary (10,000 x 12 x 5)= ` 6,00,000 WEL	Not allowed	4,80,000
Net Income from Business	9,60,000	1,70,000
Contract payment: Since TDS is deducted before due date that is no impact	—	—
Suggestion: As the income chargeable to tax under regular provisions is less than the presumptive income, the firm is advised to opt for regular provisions for filing the return and not opt for section 44AD.		

4. (a) Xavier Ltd. gives you the following data for the assessment year 2017-18:

Net Profit as per Profit and Loss Account	**33,00,000**
Amounts debited to Profit and Loss Account:	
Depreciation (includes on revalued assets ` 5 lakhs)	**17,00,000**
Provision for bad and doubtful debts	**7,00,000**
Bank term loan interest (including unpaid amount of ` 1,00,000	**3,00,000**
Expenditure on amalgamation (carried out 4 years ago) amortised under section 35DD	**5,00,000**
Transfer to general reserve	**10,00,000**
Proposed dividend	**15,00,000**
Provision for taxation (including deferred tax liability)	**13,00,000**
Expenditures debited on which tax was not deducted at source, though deductible	**4,50,000**
Items credited to Profit and Loss Account:	
Dividend from Indian companies	**4,00,000**
Long-term capital gain on sale of listed shares	**8,00,000**
Agricultural income from lands in Karnataka	**3,50,000**

Additional Information:

(i) Brought forward depreciation as per books of account ` 6,50,000.

(ii) Brought forward business loss as per books of account ` 7,20,000.

You are requested to compute book profit of the company under section 115 JB of the Income-tax Act, 1961. 7

(b) Ms. Vidya residing in Chennai acquired a residential house for ` 15,25,000 on 28th May, 1996. It was sold for ` 100 lakhs in July 2016. The stamp duty valuation on the date of sale was ` 110 lakhs. She paid brokerage @2% of sale consideration and on which no tax was deducted at source.

She deposited ` 40 lakhs in REC Capital Gain Bonds in September, 2016 and ` 20 lakhs in NHAI Capital Gain bonds in February 2017. She acquired a residential property in Colombo

for ` 50 lakhs and left for Colombo in August 2016 and occupied the said property. She returned to India in September 2016 leaving the property vacant till the date of sale.

Her other incomes include (i) ` 1,50,000 by way of interest on capital @15% from a firm at Salem; and (ii) income from rubber estates and manufacture of rubber in Kerala amounting to ` 3 lakhs., where rubber is grown and processed by her.

She paid ` 35,000 towards health insurance of her parents who are senior citizens through credit card and paid in cash ` 8,000 towards master health checkup for herself.

Cost Inflation Index : F.Y. 1996-97 = 305; F.Y. 2016-17 = 1125

Compute the total income of Ms. Vidya for the Assessment Year 2017-18 under proper heads of income. Ignore DTAA provisions. 8

Answer:

4. (a)

Computation of Book profit under section 115 JB

Net Profit as per Profit and Loss Account		33,00,000
Add:		
Depreciation (includes on revalued assets ` 5 lakhs)		17,00,000
Provision for bad and doubtful debts		7,00,000
Bank term loan interest (including unpaid amount of ` 1,00,000) - no adjustment		Nil
Expenditure on amalgamation (carried out 4 years ago) amortised under section 35DD -no adjustment		Nil
Transfer to general reserve		10,00,000
Proposed dividend		15,00,000
Provision for taxation (including deferred tax liability)		13,00,000
Expenditures debited on which tax was not deducted at source - no adjustment		Nil
		95,00,000
Less: Depreciation excluding depreciation on revalued assets	12,00,000	
Dividend from Indian companies - section 10(34)	4,00,000	
Long-term capital gain on sale of listed shares - no adjustment	Nil	
Agricultural income from lands in Karnataka - section 10(1)	3,50,000	
		19,50,000
Less: Unabsorbed depreciation or business loss as per books of account, whichever is less, is deductible		6,50,000
Book Profit		69,00,000

(b)

Computation of Total Income of Ms. Vidya for the Assessment Year 2017-18

	`	`
Income from Business		
Interest on capital from firm @ 12%	1,20,000	
Income from rubber manufacture @ 35% (balance 65% is agricultural income). 35% of ` 3,00,000	1,05,000	
		2,25,000
Capital Gains		
Deemed sale consideration [Sec. 50c]	1,10,00,000	
Less: Brokerage @2% of `100 lakhs	2,00,000	

	1,08,00,000	
Less: Indexed cost of acquisition		
`15,25,000 × 1125/305	56,25,000	
	51,75,000	
Less: Exemption under section 54EC	40,00,000	
Long-term Capital Gain		11,75,000
Though the investment in capital gain bonds was ` 60 lakhs the deduction is limited to ` 40 lakhs for the reason that the investment in NHAI was made beyond 6 months after the date of sale of residential property.		
The investment in residential property at Colombo is not eligible for exemption under section 54.		
Gross Total Income		14,00,000
Less: Deduction under section 80D		
In respect of health insurance of parents limited to	30,000	
In respect of self preventive health checkup	5,000	
		35,000
Total Income		13,65,000

Note: The house at Colombo being Self – occupied, income charged to tax will be Nil.

5. (a) Mr. Chirag has given the following details relating to financial year 2016-17:

(i) Received ` 56,000 by way of gift from his friends on the occasion of his marriage.

(ii) Purchased a land at Kanpur for ` 12,50,000 for construction of a residential house from a friend. The stamp duty value of the land on the date of purchase was ` 15,00,000.

(iii) Interest amounting to ` 1,80,000 relating to earlier years, on enhanced compensation received during the year. Legal expenses incurred ` 25,000.

(iv) Received loan of ` 3,50,000 from CNK Private Limited in which Mr. Chirag holds 12% voting power. Accumulated profit in the hands of the company at the time receipt of loan was ` 2,90,000.

Briefly narrate the tax consequences of the aforesaid items, sharing clearly the amount to be taxed in each case. 9

(b) The following details have been furnished by Parikshit relating to previous year 2016-17:

Particulars	`
(i) Income from business (non-speculation)	**6,00,000**
(ii) Interest on fixed deposit (net of TDS)	**63,000**
(iii) Long-term capital gain on sale of a residential house	**1,00,000**
(iv) Unabsorbed short-term capital loss carried forward from Assessment Year 2016-17	**1,10,000**
(v) Loss in non-speculative business carried on by his wife, Prerana. The business was started with the amount gifted by Parikshit during the year	**45,000**

You are required to compute the total income of Parikshit for Assessment Year 2017-18. 6

Answer:

5. (a)

Computation of income of Mr. Chirag under the head "Income from other sources" for Assessment Year 2017-18

	Particulars	`	`

(i)	Gift from friend on occasion of marriage is not liable to tax under section 56(2)(vii)		Nil
(ii)	Purchase of land from friend for inadequate consideration. As per section 56(2)(vii), if an individual purchases any capital asset for a consideration, which is less than fair market value (stamp duty value) on the date of purchase by an amount exceeding ` 50,000, the excess of fair market value over the actual consideration is taxable in the hands of the buyer		2,50,000
(iii)	Interest relating to earlier years on enhanced compensation	1,80,000	
	Less: 50% of interest towards litigation expenses	90,000	
	Annual chargeable to tax		90,000
	Irrespective of the method of accounting, such interest is taxed in the year of receipt		
(iv)	Deemed dividend under section 2(22)(e)		2,90,000
	As CNK Private Ltd is a closely held company and Mr. Chirag holds 10% or more voting power, the amount of loan to the extent of accumulated profit is deemed to be dividend in the hands of Chirag under section 2(22)(e)		

(b)

Computation of total income of Parikhshit for Assessment Year 2017-18

Particulars	`	`
Profits & gains from business or profession		
Income from own business	6,00,000	
Less: Loss suffered in business of Prerana, wife set off under section 72 read with section 64(1)(iv) (Note 1)	45,000	
Income chargeable under this head		5,55,000
Capital gains		
Long-term capital gain on sale of residential house	1,00,000	
Less: Short-term capital loss carried forward from AY 2016-17 and set off under section 74 to the extent possible	1,00,000	
Income Chargeable under this head		Nil
Income from other sources		
Interest on fixed deposit (` 63,000 × 100/90) Gross		70,000
Total Income		6,25,000

Notes:

1. For the purpose of clubbing under section 64, income includes "loss". Hence, loss from business of Prerana, wife has been set off
2. Unabsorbed short-term capital loss of `10,000 (`1,10,000 - ` 1,00,00) shall be carried forward under section 74.

6. (a) Mr. Sengupta (aged 65 years) is a retired person drawing a monthly pension of ` 6,000. His taxable long-term capital gain from sale of painting during the previous year 2016-17 is ` 2,75,000. He has no other income during the year.

Compute his tax liability for Assessment Year 2017-18 (i) if he is resident and (ii) if he is nonresident. 8

(b) (i) What is "charitable purpose" as envisaged by section 2(15)? 6

(ii) Is audit of accounts of charitable trust mandatory under the Income-tax Act, 1961? 1

Answer:

6. (a)

Tax liability if Mr. Sengupta is resident

	`	`
Total income (` 6,000 × 12 + 2,75,000)		3,47,000
Tax on income other than long-term capital gain		Nil
Tax on long-term capital gain:		
Excess of basic exemption limit on other income (`3,00,000 - ` 72,000)	2,28,000	
20% of (` 2,75,000 - ` 2,28,000)		9,400
Education cess & SHEC @ 3%		282
Tax liability		9,682

Tax liability if Mr. Sengupta is non-resident

	`
Tax on income other than long-term capital gain	Nil
Tax on long-term capital gain: 20% of ` 2,75,000 (Note)	55,000
Education cess & SHEC @ 3%	1,650
Tax liability	56,650

Note:
Where the individual assessee is non-resident, he is not entitled to deduct the excess of basic exemption limit over other income from long-term capital gain for computing tax liability (section 112).

(b) (i) As per section 2(15), "charitable purpose includes the following:
(a) Relief of the poor
(b) Education
(c) Yoga
(d) Medical relief
(e) Preservation of environment (including water sheds, forests and wild life)
(f) Preservation of monuments or places or objects of artistic or historic interest
(g) Advancement of any other object of general public utility.

The advancement of any other object of general public utility shall not be treated charitable purpose, if it involves any activity in the nature of trade, commerce or business or any activity of rendering any service in relation to any trade, commerce or business, for any consideration, irrespective of the nature of use or application or retention of the income from such activity.

However, the above restriction is not applicable if such activity is undertaken in the course of carrying out of such advancement of any other object of general public utility and the aggregate receipts from such activity or activities during the previous year, do not exceed 20% of the total receipts of the charitable trust.

(ii) Audit of accounts of charitable trust is mandatory, if the total income without considering exemption under sections 11 and 12, exceeds the basic exemption limit.

7. (a) CKS Ltd., an Indian company, intends to distribute dividend of ` 100 lakhs to its shareholders. It also received the following dividends during the year ended 31-3-2017:

(i) ` 20 lakhs from MNO Ltd., Indian subsidiary company, which paid dividend distribution tax.

(ii) ` 4,50,000 received from KKR Ltd., a foreign company in which CKS Ltd. hold 30% share.

(iii) ` 3,00,000 received from IPL Ltd., a foreign company in which CKS Ltd. holds 25% share.

Compute the dividend distribution tax (DDT) payable by CKS Ltd. if such dividends are paid during the financial year 2016-17.

Also compute the tax payable by CKS Ltd., on its total income assuming business income (computed) is ` 1,85,00,000. 9

(b) Answer the following questions in the context of the provisions relating to advance tax: 6

(i) Who is not liable to pay advance tax, in case of individual assesses?

(ii) State the due dates of installment for payment of advance tax and the amount of installment for such assessees who are not covered under the provisions of section 44AD.

Answer:

7. (a)

Computation of dividend distribution tax payable

Particulars	`	`
Dividend to be distributed by CKS Ltd.		1,00,00,000
Less: Dividend received from MNQ Ltd, Indian subsidiary company on which DDT was paid	20,00,000	
Dividend received from KKR Ltd., a foreign company in which CKS Ltd. holds 30% shares	4,50,000	
		24,50,000
Net amount on which DDT is payable		75,50,000
Net dividend to be grossed up (` 75,50,000 × 100/85)		88,82,353
DDT payable: ` 88,82,353 × 17.304% (Note: 1)		15,37,002

Computation of tax payable on total income

	`	`
Income from business		1,85,00,000
Income from other sources		
Dividend from Indian subsidiary, MNO Ltd exempted from tax under section 10(34)	---	
Dividend from KKR Ltd and IPL Ltd.	7,50,000	7,50,000
Total income		1,92,50,000
Tax on dividend received from KKR Ltd at 15% as per section 115BBD (` 4,50,000 × 15%)		67,500
Tax on other income: 30% of (` 1,92,50,000 - ` 4,50,000)		56,40,000
		57,07,500
Add: Surcharge at 7%		3,99,525
		61,07,025
Education cess @ 3%		1,83,211
Tax liability		62,90,236
Tax liability (rounded off) u/s 288B		6290,240

(Note: 1):
DDT payable:

7550000 x 15/85	= `	1332353
Add: S.C @ 12%	= `	159882
		1492235
Add: Cess @ 3%		44,767
		1,537,002

(b) (i) As per section 207(2), an individual who is resident in India is not liable to pay advance tax, if-
(a) he does not have any income chargeable under the head "profits and gains from business or profession" and
(b) he is of the age of 60 years or more at anytime during the year.

(ii)

Due date of installment	Amount payable
On or before 15th June of the previous year	Not less than 15% of such advance tax
On or before 15th September of the previous year	Not less than 45% of such advance tax, as reduced by the amount paid in the earlier installment
On or before 15th December of the previous year	Not less than 75% of such advance tax, as reduced by the amount paid in the earlier installment
On or before 15th March of the previous year	The whole amount of such advance tax, as reduced the amount or amounts paid in the earlier installment or installments

8. Write short notes on any three of the following: 5×3=15
(a) Features of ICDS
(b) Adjustments required to be made while processing the return of income, u/s 143(1).
(c) Provisions of Equalization levy as per the Finance Act, 2016.
(d) Revised return of income: Meaning and interplay of section 139(5).

Answer:

(a) Features of ICDS

1. As per section 145(2) the central Government has power to notify from time to time income computation and disclosure standards to be followed by any class of assessee or in respect of any class of income.
2. ICDS are applicable to the assessees who are following mercantile system of accounting. The same shall not apply to the assessee following cash system of accounting.
3. If there is a conflict between the provision of the Act and the provisions of ICDS, the provisions of the Act shall prevail.
4. ICDS are relevant for computation of income under the heads "profits and gains from business or profession" and "income from other sources" and not for preparation of accounts of the assessee.
5. Where the income of the assessee under the above two heads of income has not been computed in accordance with ICDS, the Assessing Officer may make an assessment in the manner provided for best judgement assessment laid down in section 144.

(b) Adjustments required to be made in processing of return under section 143(1)

Following adjustments are to be made in course of processing of return under section 143(1):

(i) any arithmetical error in the return.

(ii) an incorrect claim, if such incorrect claim is apparent from any information in the return.
(iii) disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished after the due date specified in section 139(1).
(iv) disallowance of expenses indicated in the audit report, but not considered in computation of total income in the return.
(v) disallowance of deductions claimed under sections 10AA, 80-IA, 80-IAB, 80-IB, 80-IC,Section 80ID, Section 80IE, if the return is furnished beyond the due date specified thereunder.
(vi) Addition of income appearing in Form 16, 16A or 26AS, which has not been included whole computing the income in the said return.

(c) In terms of the recommendations of the aforesaid Committee on Taxation of E-Commerce, with effect from 1.6.2016, a new Chapter VIII has been inserted to provide for as under:

1. **Charge of Equalization levy:** On and from the date of commencement of this Chapter VIII, there shall be charged an equalisation levy at the rate of six percent of the amount of consideration for any specified service received or receivable by a person, being a non-resident from:
   (i) a person resident in India and carrying on business or profession; or
   (ii) a non-resident having a permanent establishment in India.

   Meaning of specified service: Under section 165(i) of the Finance Act 2016, "specified service" means online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement and includes any other service as may be notified by the Central Government in this behalf.

2. When equalisation levy is not chargeable: Under Section 165(2), the equalisation levy shall not be charged where:
   (a) the non-resident providing the specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment;
   (b) the aggregate amount of consideration for specified service received or receivable in a previous year by the non-resident from a person resident in India and carrying on business or profession, or from a nonresident having a permanent establishment in India, does not exceed one. lakh rupees; or
   (c) where the payment for the specified service by the person resident in India, or the permanent establishment in India is not for the purposes of carrying out business or profession.

(d) **Revised return of income**

As per section 139(5), if any person having furnished his return under section 139(1) (i.e. original return filed within due date) or section 139(4) (i.e. belated return) discovers any omission or any wrong statement therein, he may furnish a revised return.

The time limit for filing revised return is before the expiry one year from the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

If an intimation under section 143(1) is received by the assessee, he can still furnish a revised return within the time limit stated above, as such intimation is not treated as an assessment order.

A return filed in response to notice under section 142(1) cannot be revised under

section 139(5) with effect from assessment year 2017-18.

A revised return can be further revised by the assessee if time limit mentioned in section 139(5) has not expired.

Once revised return is filed within the time limit, it substitutes the original return.

INTERMEDIATE EXAMINATION
GROUP - I
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER - 2017

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Wherever required, the candidate may make suitable assumption(s) and state the same clearly in the Answer.
Working Notes should form part of the relevant answer.
All questions relate to the Income-Tax Act, 1961.

All the questions relate to Assessment Year 2017-2018, unless otherwise stated.
Answer Question No. 1, which is compulsory and any five from Question No. 2 to Question No. 8.

1. (a) Choose the most appropriate alternative: 1×10=10

(i) When Mr. Balu paid royalty to Dr. Peter of Sweden for use of know-how in India, such payment is
(A) exempt from tax.
(B) accruing in India.
(C) Accrues in Sweden.
(D) received in India.

(ii) In the case of foreign company with total income of more than ₹ 1 crore but less than ₹ 10 crores the surcharge leviable is at
(A) 5%
(B) 12%
(C) 2%
(D) 1%

(iii) Mr. Hari resident in India received ₹ 11 lakhs by way of dividend from Indian companies. Such dividend is
(A) exempt from tax.
(B) taxable at regular rates.
(C) taxable at maximum marginal rate.
(D) taxable at 10%.

(iv) When an employee receives money on closure of national pension system trust it is
(A) chargeable to tax.
(B) exempt from tax.
(C) 40% is exempt from tax.
(D) 60% is exempt from tax.

(v) When employer contributes to approved superannuation fund it is chargeable to tax as perquisite when the contribution exceeds
(A) ₹ 1,50,000
(B) ₹ 1,00,000
(C) ₹ 50,000
(D) ₹ 20,000

(vi) When the shares are held in unlisted company, it is treated as long term capital asset when the holding period exceeds
(A) 36 months.
(B) 24 months.
(C) 12 months.
(D) 6 months.

(vii) Long term capital gain arising from transfer of unlisted securities in the hands of non resident/foreign company is chargeable to tax at
- **(A) 10%**
- **(B) 20%**
- **(C) 30%**
- **(D) 40%**

(viii) Interest on housing loan taken by individual being his first residential house is eligible for deduction under section 80EE up to a maximum of
- **(A) ₹ 30,000**
- **(B) ₹ 50,000**
- **(C) ₹ 1,50,000**
- **(D) ₹ 2,00,000**

(ix) A start-up can claim deduction under section 80-IAC for _____ consecutive years beginning from the year in which the eligible start-up was incorporated.
- **(A) 1**
- **(B) 2**
- **(C) 3**
- **(D) 5**

(x) When the return of income for the assessment year 2017-18 is filed under section 139(4), the assesse can revise the return on or before
- **(A) 31.03.2018**
- **(B) 31.12.2018**
- **(C) 31.03.2019**
- **(D) 31.12.2019**

(b) Match the following: 1×5=5

(i)	**Additional depreciation for plant used for more than 180 days**	**(a)**	**60%**
(ii)	**Basic exemption limit of income for resident individual being senior citizen**	**(b)**	**₹ 3,500**
(iii)	**Rate of tax for LLP**	**(c)**	**₹ 3,00,000**
(iv)	**Deprecation for computers**	**(d)**	**30%**
(v)	**Exemption in respect of Post office SB interest**	**(e)**	**20%**

(c) State whether the following are True or False: 1×5=5
- **(i) Interest on deposit certificates issued under Gold Monetization Scheme, 2015 is exempt from tax.**
- **(ii) The monetary limit of ₹ 5 lakhs in respect of gratuity received by an employee covered by Payment of Gratuity Act, 1972 is exempt from tax.**
- **(iii) Medical insurance premium paid by son for parents who are senior citizens is deductible up to a maximum of ₹ 35,000.**
- **(iv) In order to avail carry forward loss from house property, the return of income must be filed before the due date specified in section 139(3).**
- **(v) 30% of the additional employee cost incurred by the employer is deductible under section 80JJAA.**

(d) Fill in the blanks: 1×5=5
- **(i) When a director of a company received 30 lakhs by way of non-compete fee, it is taxable under the head _____ .**
- **(ii) When unrealized rent is received based on court decree but at the time of receipt the property was not owned by the assesse, it is taxable under the head _____ .**
- **(iii) When Mr. Ashwin received ₹ 20,000 as scholarship for meeting the cost of education it is _____.**
- **(iv) The Income Computation Disclosure Standards (ICDS) will apply only when the assesse adopts _____ method of accounting.**
- **(v) Speculation loss can be carried forward for a maximum period of _____ (number of) years after the year of such loss.**

Answer:

1. (a) (i) (B)
(ii) (C)
(iii) (D)
(iv) (C)
(v) (A)
(vi) (B)
(vii) (A)
(viii) (B)
(ix) (C)
(x) (C)

(b)

(i)	Additional depreciation for plant used for more than 180 days	(e)	20%
(ii)	Basic exemption limit of income for resident individual being senior citizen	(c)	₹ 3,00,000
(iii)	Rate of tax for LLP	(d)	30%
(iv)	Deprecation for computers	(a)	60%
(v)	Exemption in respect of Post office SB interest	(b)	₹ 3,500

(C) (i) True
(ii) False
(iii) False
(iv) False
(v) True

(d) (i) Profits and gains of business or profession
(ii) Income from house property
(iii) Exempt from tax (or exempt)
(iv) Mercantile (or accrual)
(v) 4

2. (a) Surbhi has two houses, both of which are self-occupied. You are required to compute Surbhi's income form house property for the Assessment Year 2017-18 and suggest which house should be opted by Surbhi to be assessed as self-occupied so that her tax liability is minimum. 6

The particulars of these are given below:

	(Value in ₹)	
Particulars	**House-I**	**House-II**
Municipal Valuation per annum	**1,30,000**	**1,15,000**
Fair Rent per annum	**1,10,000**	**1,70,000**
Standard rent per annum	**1,00,000**	**1,65,000**
Date of completion	**31-03-1999**	**31-03-2001**
Municipal taxes payable during the year (paid for House II only)	**12%**	**8%**
Interest on money borrowed for repair of property during current year	**—**	**55,000**

(b) State the implications of the following transactions carried out by Kalai & Co. a partnership firm (Whose turnover always exceeded ₹ 500 lakhs) with reverence to the provisions applicable for the assessment year 2017-18: 9

(i) Audit fees of ₹ 35,000 paid by electronic transfer but no tax was deducted at source.

(ii) Arrear salary of ₹ 60,000 paid in cash to an employee who was posted in a ship for 10 days continuously. Tax was deducted at source on the total salary paid to the employee during the year.

(iii) Lorry freight paid by cash ₹ 30,000.
(iv) ₹ 3 lakhs freight paid to Indian Railways without deduction of tax at source.
(v) Salary paid to a son of a partner ₹ 20,000 per month. The market rate of such salary for similar qualification is found to be ₹ 15,000 per month.
(vi) Income tax paid in cash ₹ 22,000.
(vii) Interest on term loan paid to Canara Bank ₹ 18,000 without deduction of tax at source.
(viii)Interest on capital paid to partners at 15% in accordance with the condition contained in the partnership deed.
(ix) Keyman insurance policy premium paid ₹ 40,000.

Answer:

2. (a) Surbhi has more than one house property for self-occupation. She can avail the benefit of self-occupation (i.e. benefit of "NIL" Annual Value) only in respect of one of the house properties, at her option. The other house property would be deemed to be let out property, in respect of which the expected rent would be the gross annual value. Surbhi should, therefore, consider the most beneficial option while deciding which house property should be treated by her as self-occupied.

Option 1 (House I opted to be self-occupied and house II deemed to be let out)

Income from house property for Assessment Year 2017-18

Particulars	₹
House I (Self-occupied) [Annual value is NIL]	Nil
House II (Deemed to be let-out) (See working note below)	54,060
Income from house property	54,060

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

Income from house property for Assessment Year 2017-18

Particulars	₹
House 1 deemed to be let out (see working below)	70,000
House II (Self-occupied) [Annual value is Nil, but deduction for interest would be available, subject to a maximum of ₹ 30,000 (loan being taken for repair of house property)	(30,000)
Income from house property	40,000

Since option 2 is more beneficial, Surbhi should opt to treat House II as self-occupied and house I is deemed to be let out, in which case her income from house property would be ₹ 40,000 for Assessment Year 2017-18.

Working note:
Computation of income from house I and house II assuming that both are deemed to be let out

Particulars	House 1 ₹	House II ₹
Gross Annual Value		
Expected rent is the gross annual value of house property.		
Expected rent = Higher of Municipal Value and Fair Rent, but restricted to Standard Rent	1,00,000	1,65,000
Less: Municipal tax (paid by the owner during the previous year)	Nil	9,200
Net Annual Value	1,00,000	1,55,800
Less: Deductions under section 24		
(a) 30% of NAV	30,000	46,740
(b)Interest on borrowed capital (allowed in full in case of	--	55,000

deemed let out property		
Income from house property deemed to be let out	70,000	54,060

(b) (i) **Audit fees of ₹ 35,000 paid by electronic transfer but no tax was deducted at source:** As the payment exceeded ₹ 30,000, tax is deductible at source under section 194J @10%. As the tax was not deducted, 30% of the expenditure is liable for disallowance as per section 40(a)(ia)

(ii) **Arrear salary of ₹ 60,000 paid in cash to an employee who was posted in a ship for 10 days continuously. Tax was deducted at source on the total salary paid to the employee during the year:** Where an employee is temporarily posted for a continuous period of 15 days or more in a place other than his normal place of duty or on a ship, payment of salary to such employee in cash is covered by rule 6DD, which provides exceptional circumstances where disallowance under section 40A(3) shall not be made. In this case, the employee was posted on a ship for 10 days continuously. Therefore, arrear salary of ₹ 60,000 shall be disallowed under section 40A(3).

(iii) **Lorry freight paid by cash ₹ 30,000:** As per proviso to section 40A(3) cash payment made for plying, hiring or leasing goods carriages exceeding ₹ 35,000 shall only be liable for disallowance. As the payment was made in cash for ₹ 30,000, the payment is eligible for deduction.

(iv) **₹ 3 lakhs paid to Indian Railways without deduction of tax at source:** As the payment was made to Indian Railways i.e. Government, tax is not deductible at source. Hence, the entire expenditure is allowable as deduction.

(v) **Salary paid to son of a partner ₹ 20,000 per month. The market rate of such salary for similar qualification is found to be ₹ 15,000:** Where payment is made to a relative of a partner and the Assessing Officer is of the opinion that such payment is excessive or unreasonable having regard to the market value of goods or services received, such excess or unreasonable amount is disallowed under section 40A(2). Hence, the excess salary of ₹ 60,000 is to be disallowed.

(vi) **Income tax paid in cash ₹ 22,000:** It is liable for disallowance regardless of mode of payment, as income tax is disallowed under section 40(a)(ii).

(vii) **Interest of term loan paid to Canara Bank ₹18,000 without deduction of tax at source:** As per section 194A, tax is not required to be deducted at source from interest paid to bank governed by Banking Regulation Act, 1949. Hence, no disallowance under section 40(a)(ia) is called for.

(viii) **Interest on capital paid to partners at 15% in accordance with the condition contained in the partnership deed:** Though the payment of interest is in accordance with partnership deed, the excess of interest over 12% is liable for disallowance, since section 40(b) prescribes the ceiling at 12%.

(ix) **Keyman insurance policy premium paid ₹ 40,000:** The payment of insurance premium under keyman insurance policy is made wholly and exclusively for the purpose of business and hence the same is eligible for deduction u/s 37(1).

3. (a) Mr. Rajiv, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.03.2017:

Sl. No.	Particulars	₹	₹
(i)	**Interest on capital received from XYZ & Co., at 15%**		**1,50,000**
(ii)	**Interest form bank on fixed deposit (Net of TDS ₹ 1,500)**		**13,500**
(iii)	**Income-tax refund received relating to assessment year 2014-15 including interest of ₹ 2,300**		**34,500**
(iv)	**Net Profit from wholesale business Amounts debited include the following:**		**5,60,000**
	Depreciation as per books	**34,000**	
	Motor car expenses	**40,000**	
	Municipal taxes for the shop (For two half years: payment for one half year made on 12.07.2017 and for the other on 31.12.2017)	**7,000**	

	Salary to manager by way of a single cash payment	**21,000**	
(v)	**The WDV of the assets (as on 01.04.2016) used in above wholesale business is as under:**		
	Computers	**1,20,000**	
	Motor Car (20% used for personal use)	**3,20,000**	
(vi)	**LIP paid for independent son**	**60,000**	
	PPF of his wife	**70,000**	

You are required to compute the total income of the Mr. Rajiv for the assessment year 2017-18 and the closing WDV of each block of assets. 9

(b) Examine the applicability of TDS provisions for the financial year 2016-17 and amount of tax, if any, to be deducted in the following cases: 6

(i) Payment of fee for technical services of ₹ 22,000 and royalty of ₹ 25,000 to Mr. Ram who is having PAN.

(ii) Payment of ₹ 2,00,000 made to Mr. X for purchase of diaries made according to specifications of M/s ABC Ltd. However, no material was supplied for such diaries to Mr. X by M/s ABC Ltd.

(iii) Rent paid for plant and machinery ₹ 1,50,000 by a partnership firm having sales turnover of ₹ 25,00,000 and net loss of ₹ 15,000.

Answer:

3. (a)

Computation of total income of Mr. Rajiv for Assessment Year 2017-18

Particulars	₹	₹
A. 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 tax for second half under section 43B, as the payment was made after the due date for filing the return of income (₹ 7,000/2)	3,500	
Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 20,000	21,000	
20% of car expenses for personal use disallowed u/s 37(1)	8,000	66,500
		6,26,500
Less: Depreciation allowable under the Income-tax Act		
On computers: ₹ 1,20,000 x 60%	72,000	
On Motor Car : ₹ 3,20,000 x 15% ₹ 48,000		
Less: Disallowance for personal use (20%) ₹ 9,600	38,400	1,10,400
		5,16,100
Income from firm: Interest from partnership firm to the extent of 12% allowed in the hands of the firm (₹ 1,50,000x12/15)		1,20,000
Business Income (A)		6,36,100
B. Income from other sources:		
Interest on bank fixed deposit	15,000	
Interest on income-tax refund	2,300	17,300
Gross total income (A + B)		6,53,400
Less: Deduction under section 80C		
LIP for independent son	60,000	
Contribution to PPF in wife's name	70,000	
Since the maximum deduction under section 80C and 80CCE is ₹ 1,50,000, the entire sum of ₹ 1,30,000 is deductible	1,30,000	1,30,000
Total income		5,23,400

Closing WDV as on 31-03-2017:

Computers (₹ 1,20,000 - ₹ 72,000)	₹ 48,000
Motor Car (₹ 3,20,000 - ₹ 38,400)	₹ 2,81,600

(b) (i) As per section 194J, liability to deduct tax is attracted only in case the amount paid or payable as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year.
In the given case, since the individual payment for fees for technical services i.e. ₹ 22,000 and that for royalty i.e. ₹ 25,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source.

(ii) 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 ₹ 2,00,000 to Mr. X, since the contract is a contract for sale.

(iii) As per section 194-I, tax is to be deducted at source @ 2% on payment of rent for plant and machinery, only if the payment exceeds ₹1,80,000 during the financial year.
Since rent of ₹ 1,50,000 paid by a partnership firm does not exceed ₹ 1,80,000, tax is not deductible.
Amount of turnover and the amount of profit/loss are not relevant.

4. (a) Following is the Profit and Loss Account of Mr. Abdul for the year ended 31.03.2017:

Particulars	₹	Particulars	₹
To Staff Salary	**4,85,000**	**By Gross Profit**	**14,48,800**
To Shop rent	**1,20,000**	**By Post office SB A/c interest**	**14,200**
To Admin. Expenses	**2,96,000**	**By Dividend from listed Indian Companies**	**43,000**
To Drawings	**96,000**	**By Bank SB interest**	**12,000**
To Depreciation	**2,22,000**		
To Medical Expenses	**37,000**		
To Net Profit	**2,62,000**		
	15,18,000		**15,18,000**

Additional information:

(i) Shop rent was paid to wife of Mr. Abdul and ₹ 60,000 is found to be excessive payment considering its size and location.

(ii) Depreciation allowable under the income-tax rules works out to ₹ 1,81,000.

(iii) Medical expenses include expenditure for family members of ₹ 16,000. Balance relate to staff medical expenses.

(iv) Drawings denote personal expenses of the proprietor.

(v) During the year he acquired a residential house for ₹ 20 lakhs which included stamp duty and registration fee of ₹ 1,60,000.

You are requested to compute the total income of Mr. Abdul for the assessment year 2017-18. 7

(b) Mr. Mohan is sales manager in Steel King (P) Ltd. at Chennai. During the financial year 2016-17, he gets the following emoluments from his employer:

Particulars	₹
Basic salary upto 30.09.2016	**20,000 p.m.**
From 01.10.2016	**30,000 p.m.**
Dearness allowance @ 50% basic salary [it is not eligible retirement benefits]	
Transport allowance	**2,000 p.m.**
Children education allowance (for 2 children)	**1,000 p.m.**
Tiffin allowance (actual expenses ₹ 9,000)	**15,000**
Tax paid on employment	**3,000**

Contribution to recognized provident fund by the employer @ 15% of basic salary.	
An unfurnished accommodation taken on lease by the employer was given to the employee for the whole year. Lease rent paid by the employer ₹1,80,000. Amount recovered from the employee ₹2,000 per month.	
Domestic servant salary reimbursed by the employer as per employment agreement.	**5,000 p.m.**

Compute the salary income of Mr. Mohan for the assessment year 2017-18. 8

Answer:

4. (a)

Computation of Total Income of Mr. Abdul for the Assessment Year 2017-18

Particulars	₹	₹
A. Profits and gains of business or profession		
Net profit as per Profit & Loss Account		2,62,000
Add: Depreciation debited to Profit & Loss Account	2,22,000	
Rent to wife-excess payment disallowed u/s 40A(2)	60,000	
Medical expenses for family members-disallowed u/s 37(1)	16,000	
Drawings debited to Profit & Loss Account	96,000	3,94,000
		6,56,000
Less: Depreciation as per Income-tax rules	1,81,000	
Post office SB A/c interest	14,200	
Dividend from Indian companies-exempt u/s 10(34)	43,000	
Bank SB Interest	12,000	2,50,200
Business income		4,05,800
B. Income from other sources		
Post office SB account interest ₹14,200 less exemption under section 10(15) of ₹ 3,500	10,700	
Bank SB interest	12,000	22,700
Gross Total Income		4,28,500
Less: Deduction under section 80C in respect stamp duty on residential house ₹1,60,000, but deduction is limited to ₹ 1,50,000	1,50,000	
Deduction under section 80TTA in respect of Bank SB Interest	10,000	1,60,000
Total Income		2,68,500

(b)

Computation of salary income of Mr. Mohan for the Assessment Year 2017-18

Particulars	₹	₹
Basic salary (₹ 20,000 x 6) + (₹ 30,000 x 6)		3,00,000
Dearness allowance @ 50% of basic salary		1,50,000
Transport allowance ₹ 2,000 x 12	24,000	
Less: Exemption under section 10(14): ₹ 1,600 x 12	19,200	4,800
Fixed Tiffin allowance-fully taxable		15,000
Children education allowance	12,000	
Less: Exemption under section 10(14): ₹ 100 x 2 x 12	2,400	
		9,600
Tax on employment paid by the employer-perquisite u/s 17		3,000
Contribution of employer to employees' provident fund in excess of 12% is taxable [3% of ₹ 3,00,000]		9,000
Value of rent free accommodation:		
Actual amount of lease rent ₹ 1,80,000		
15% of salary (i.e. ₹3,00,000+ ₹4,800 + ₹15,000+₹9,600) ₹ 49,410		
Lower of above	49,410	

Less: Amount recovered from the employee @ ₹ 2,000 per month	24,000	
		25,410
Reimbursement of salary of domestic servant (₹ 5,000 x 12)		60,000
Gross salary		5,76,810
Less: Deduction under section 16 in respect of professional tax paid		3,000
Taxable salary		5,73,810

5. (a) State the taxability of the following transactions for the assessment year 2017-18: **2x6=12**

(i) Mr. Ashok acquired a vacant site from Mr. Brijesh (non relative) for ₹ 6 lakhs when the stamp duty valuation of the vacant site on the date of registration of document was ₹ 10 lakhs.

(ii) Rosy & Co. a partnership firm engaged in trading of vacant lands. It sold vacant land for ₹ 40 lakhs when the stamp duty valuation of the lands was ₹ 55 lakhs.

(iii) Ms. Janaki received family pension of ₹ 84,000.

(iv) Ms. Jency got gift of 500 listed equity shares of a company from her husband when the market value of the share was ₹ 150 per share. After a month, the company issued bonus shares in 1:1 ratio. The original shares were acquired by her husband 4 months before the date of gift for ₹ 50,000. All the 1000 shares were sold for ₹ 1,50,000 through off-market transaction. How much is taxable and in whose hands it is taxable as income?

(v) Mr. Jayaram retired from a nationalized bank on 30.11.2016, sold his motor car for ₹ 5 lakhs. The Car was used by him for the last 5years and was received as gift from his brother who acquired the car for ₹ 10 lakhs on 10.01.2010.

(vi) Mr. Vasu acquired an agricultural land situated in a village (rural area) for ₹ 10 lakhs from Mr. Sundar (non relative) when the stamp duty valuation on the date of registration of document was ₹ 12 lakhs.

(b) Mr. Vidyasagar received following gifts during the financial year 2016-17:

(i) Gift on the occasion of marriage from friends ₹ 70,000.

(ii) Gift on the occasion of birthday from friends ₹ 55,000.

(iii) Gift from maternal uncle on birthday ₹ 35,000.

(iv) Gift of motor car by grandfather's younger brother. Fair market value of the car on the date of gift ₹ 3,50,000.

Compute the amount of gifts includible in the total income of Mr. Vidyasagar for the financial year 2016-17. **3**

Answer:

5. (a) (i) ₹ 4 lakhs is taxable under the head "income from other sources" in the hands of Ashok under section 56(2).
For the purpose of computing capital gain in the hands of Mr. Brijesh, the deemed sale consideration would be ₹ 10 lakhs as per section 50C.

(ii) Even where the immovable property being land or building or both is dealt with as stock-in-trade of a business, as per section 43CA the difference between stamp duty value and the actual consideration would be taxable as income from business.
Hence, ₹ 15 lakhs would be taxable as business income under section 43CA in the hands of Rosy & Co.

(iii) As per section 57(iia) on family pension a standard deduction shall be allowed to Mr. Janaki @ 33 1/3% of such pension or ₹ 15,000, whichever is less.
Therefore, the balance amount of ₹ 69,000 is taxable under the head "income from other sources in the hands of Ms. Janaki.

(iv) Short-term capital gain arising from sale of original shares gifted i.e., ₹ 25,000 (₹

75,000 - ₹ 50,000) shall be taxed in the hands of husband of Ms. Jency under section 64.

Capital gain attributable to bonus shares will not be liable for clubbing under section 64 since it is an accretion to the original shares. Therefore, ₹ 75,000 being the sale consideration from sale of bonus shares whose cost of acquisition is Nil is taxable in the hands of Ms. Jency as short-term capital gain.

(v) As per section 2(14), "capital asset" does not include personal effects (i.e. moveable property held for personal use).

Since Mr. Jayaram was an employee, the motor car constituted his personal effect. Therefore, sale of motor car shall not result in capital gain.

(vi) The term "property" as defined in section 56(2)(vii) does not include rural agricultural land which is not a "capital asset".

Regardless of whether the transaction is between relatives or not, the difference between the stamp duty value and the sale consideration is not liable to tax.

(b)

Particulars	₹
Gift on occasion of marriage from relatives and friends-fully exempt	Nil
Gift on the occasion of birth day from friends-taxable	55,000
Gift from maternal uncle who is covered by the definition of relative. Hence, it is exempt	Nil
Grandfather's younger brother is not covered by the definition of "relative". However, motor car is not covered by in the definition of the term "property" in Explanation to section 56(2)(vii)	Nil
	55,000
As the aggregate amount of gift chargeable to tax exceeds ₹ 50,000, the entire amount is includible in the total income of Mr. Vidyasagar.	

6. (a) Mr. Rahman furnishes you the following information for the financial year 2016-17:

Particulars	₹
Loss from speculation business-A	**80,000**
Profit from speculation business-B	**40,000**
Loss from self occupied house property	**1,80,000**
Income from let out house property	**4,00,000**
Income from trading and manufacturing business @ 8%	**2,00,000**
Salary income	**3,70,000**
Interest on PPF deposit	**65,000**
Long term capital gain on sale of vacant site	**1,10,000**
Short term capital loss on sale of jewellery	**50,000**
Investment in tax saver deposit on 31.03.2017	**60,000**
Brought forward loss of business of assessment year 2011-12	**1,00,000**
Donation to a charitable trust recognized under section 12AA and approved under section 80G	**1,40,000**
Enhancement compensation received from Government for compulsory acquisition of lands in the year 2004.	**3,00,000**

You are requested to compute the total income of Mr. Rahman for the financial year 2016-17 and any loss eligible for carry forward. 8

(b) Mr. Gangai Amaran (age 50) incurred following expenditures during the financial year: 2016-17:

Sl. No.	**Particulars**	₹
(i)	**Medical expenditure on the treatment of his non-dependent father (age 82)**	**30,000**
(ii)	**Medical expenditure on treatment of his non-dependent mother (age 73)**	**25,000**
(iii)	**Medical expenditure for a surgery undergone by himself**	**50,000**

(iv)	**Medical insurance premium for non-dependent mother (age 73)**	**35,000**
(v)	**Medical insurance premium for self (paid by cheque)**	**27,000**
(vi)	**Preventive medical health check-up paid in cash for himself.**	**7,000**

Compute the amount eligible for deduction under section 80-D for the financial year 2016-17. 7

Answer:

6. (a)

Computation of total income of Mr. Rahman for the Assessment Year 2017-18

Particulars	₹	₹
Salary income		3,70,000
Income from house property:		
Income from let out property	4,00,000	
Loss from self-acquired property	(1,80,000)	
		2,20,000
Profits and gains from business or profession:		
Loss from speculation business-A	(80,000)	
Profit from speculative business-B	40,000	
Loss to be carried forward	(40,000)	
Income from trading and manufacturing business	2,00,000	
Less: brought forward business loss of Assessment Year 2011-12	1,00,000	
		1,00,000
Capital Gain:		
Long-term capital gain on sale of vacant site	1,10,000	
Less: set-off of short-term capital loss on sale of jewellery	50,000	
	60,000	
Enhanced compensation received from Government for compulsory acquisition of land u/s 45(5)-Cost is deemed to be Nil	3,00,000	
		3,60,000
Income from other sources:		
Interest of PPF deposit - exempted		Nil
Gross Total Income		10,50,000
Less: Deduction u/s 80C in respect of tax saver deposit		60,000
		9,90,000
Less: Deduction under section 80G in respect of donation to approved charitable institution : Amount of donation	1,40,000	
Limited to 10% of total income before deduction under section 80G which is ₹ 99,000	99,000	
Deduction @ 50% of ₹ 99,000		49,500
Total Income		9,40,500

(b)

Computation of deduction under section 80-D for the Assessment Year 2017-18

	Particulars	Reason	₹
(i)	Medical expenditure on the treatment of his non-dependent father (age 82)	Eligible for deduction as he is a very senior citizen. Also because no amount was paid towards his health insurance.	30,000
(ii)	Medical expenditure on treatment of his non-dependent mother (age 73)	Not deductible as she is not a very senior citizen.	Nil
(iii)	Medical expenditure for a surgery undergone by himself (age 50)	Not deductible as he is not a very senior citizen	Nil
(iv)	Medical insurance premium for non-dependent mother (age 73)	It is deductible even though she is not dependent on him. But limited to ₹	Nil

		30,000 but since the limit has been exhausted in (i) above, no further deduction is allowable.	
(v)	Medical insurance premium for himself paid by cheque.	Eligible, but limited to ₹ 25,000	25,000
(vi)	Preventive medical health check up paid in cash for himself	Eligible but limited to ₹ 5,000. But as the entire amount of Rs. 25,000 has already been exhausted in (v) above, no further deduction is allowed	Nil
		Total deduction	55,000

7. (a) MSV Ltd. gives you the following information for the year ended 31.03.2017:

Particulars	₹
Net profit as per Statement of Profit and Loss	**50,00,000**
The following expenses are debited to statement of Profit and Loss:	
Capital expenditure incurred for promoting family planning among employees	**2,00,000**
Interest paid for delayed payment of consideration for purchase of machinery to the supplier being a unit under the MSMED Act, 2006. The machinery is eligible for depreciation @ 15%.	**3,00,000**
Donation to political parties (by cheque)	**1,00,000**
Expenditure incurred for issue of bonus shares	**75,000**
Cost of know-how acquired from Dr. Singhania on 01.06.2016	**4,00,000**
The following items are credited to Profit and Loss Account:	
Electricity subsidy refunded during the year	**60,000**
Bad debt written off and was allowed earlier, recovered now.	**90,000**
Dividend received from subsidiary company Vijay (P) Ltd.	**50,000**

You are requested to compute the income of the company for the Assessment Year 2017-18. 7

(b) You are requested to state whether the following will attract penalty provisions for the financial year 2016-17. 4x2=8

(i) Mr. Jayant whose turnover was ₹ 150 lakhs for the financial year 2016-17 admitted income as per books of account as ₹ 6,50,000. The return was filed without getting the books of account audited under section 44AB.

(ii) Mr. Maheswari received ₹ 5 lakhs by cash on 01.10.2016 for sale of an apartment at Thane to Mr. Mahesh. As the agreement between the parties got cancelled, Mr. Maheswari refunded the advance by account payee cheque on 01.02. 2017.

Answer:

7. (a)

Computation of total income of MSV Ltd for the Assessment Year 2017-18

Particulars	₹
Net profit as per Statement of Profit and Loss	50,00,000
Add:	
Capital expenditure incurred for promoting family planning among employees is eligible for deduction in 5 annual installments under section 36(1)(ix). Hence 4/5th disallowed	1,60,000
Interest paid for delayed payment of consideration for purchase of machinery to the supplier being MSMED Act, 2006 is not deductible	3,00,000
Donation to political parties by cheque considered separately under section 80GGB	1,00,000
Expenditure incurred for issue of bonus shares is a revenue expenditure	Nil

deductible under section 37(1) as the issue does not expand the capital base of the company through fresh inflow of funds	
Cost of know how acquired from Dr. Singhania on 01.06.2016 being a capital expenditure is not allowable under section 37(1)	4,00,000
	59,60,000
Less:	
Electricity subsidy refunded during the year being a revenue subsidy chargeable to tax. As the amount has already been credited to Statement of Profit and Loss, no adjustment is required.	Nil
Bad debts written off and allowed recovered now is chargeable to tax under section 41(4). As the amount has already been credited to the Statement of Profit and Loss, no adjustment is required	Nil
Dividend received from subsidiary company, Vijay (P) Ltd. is exempted under section 10(34) and hence the same is to be excluded.	50,000
Depreciation on know-how @25% under section 32	1,00,000
Gross Total Income	58,10,000
Less: Deduction under section 80GGB in respect of donation to political parties	1,00,000
Total Income	57,10,000

(b) (i) In the case of an assessee whose turnover exceeds ₹ 100 lakhs, the books of account have to be audited under section 44AB.
Where the assessee opts to admit income under section 44AD, then the turnover up to ₹ 200 lakhs is eligible for presumptive income determination at 8%.
In this case, Mr. Jayant's turnover is ₹ 150 lakhs and hence can offer income under section 44AD at 8% of the turnover. (The presumptive income shall be 6% of the turnover where the sale proceeds are received through banking channel)
However, without getting the books of account audited Mr. Jayant has filed the return by admitting the income at ₹ 6,50,000 which is less than 8% of ₹ 150 lakhs.
As the books of account were not audited then the penalty imposable would be 0.5% of the turnover or ₹ 1,50,000, whichever is less. (Section 271B)

(ii) When a person receives money whether as advance or otherwise, in relation to transfer of immovable property and the sum is ₹ 20,000 or more it must be by means of account payee cheque or account payee bank draft or use of electronic clearing system through a bank account (Section 269SS)
For contravention of section 269SS the penalty imposable under section 271D is equivalent to the sum so accepted.
Therefore, Mr. Maheswari who accepted ₹ 5 lakhs in cash as advance for transfer of immovable property will be liable for penalty of ₹ 5 lakhs under section 271D.
He has repaid the amount by account payee cheque and hence the repayment is not in contravention of section 269T and hence is not liable for penalty.

8. Write short notes on any three of the following: 5×3=15

(a) State the type of assesses to whom the Income Computation Disclosure Standards (ICDS) apply?

(b) Who must sign the return of income in the following cases:
(i) Hindu undivided family when karta is bedridden.
(ii) Local authority.
(iii) Political party.
(iv) Limited Liability Partnership.
(v) Association of persons

(c) Revised return.

(d) Advance tax for senior citizens being resident / non-resident.

Answer:

8. (a) Applicability of ICDS

It is applicable to persons having income under the head "profits and gains of business or profession" and / or "Income from other sources".

it is applicable only to those who follow mercantile system of accounting. It does not apply to those who follow cash system of accounting.

It is applicable for limited purpose of adjusting the income chargeable to tax and does not mandate maintenance of books of account as per ICDS,

Wherever there is conflict between the provisions of law and ICDS, the provisions of law would prevail.

Wherever there is conflict between the court decisions and ICDS, the ICDS being latest one would prevail over the court decisions. It is applicable from Assessment Year 2017-18 onwards.

(b) (i) **Hindu undivided family when Karta is bedridden:** Where the Karta is absent from India or is mentally incapacitated from attending to his affairs, any other adult member of such family must sign the return of income-section 140.

(ii) **Local authority:** Return of income is to be signed by the Principal Officer - section 140.

(iii) **Political Party:** Chief executive officer of such party (whether known as secretary or any other designation) must sign the return of income-section 140.

(iv) **Limited Liability Partnership:** Return of income is to be signed by a designated partner or where for any unavoidable reason such designated partner is not able to sign or where there is no designated partner, it can be signed by any partner thereof-section 140.

(v) **Association of persons:** Return must be signed by any member of the association or the principal Officer thereof-section 140.

(c) Revised Return [section 139(5)]

When a person has furnished a return under section 139(1) (i.e. within prescribed time limit) or a belated return under section 139(4) he can file a revised return.

The filing of revised return is to correct any omission or wrong statement therein.

The time limit is any time before expiry of one year from the end of the assessment year or before the completion of assessment, whichever is earlier.

Assessment for this purpose means regular assessment under section 143(3) or best judgment assessment under section 144. In other words the assessee can file a revised return of income after completion of summary assessment under section 143(1) but before completion of regular assessment under section 143(3) or best judgment assessment under section 144.

The assessee can revise his return for more than once within the time prescribed in section 139(5).

(d) Advance tax for senior citizen

Advance tax is payable by an assessee where the total tax liability after deduction of TDS/TCS is more than ₹ 10,000-section 208.

However, individuals, who are resident, are exempted from paying advance tax in the following cases (section 207):

(i) They do not have income chargeable under the head "profits and gains from business or profession and

(ii) They have attained the age of 60 years or more at any time during the previous year.

In the case of non-resident there is no exemption from payment of advance tax.

Whether or not such non-resident senior citizen has business or professional income has to pay advance tax, when tax liability exceeds ₹ 10,000.

INTERMEDIATE EXAMINATION
GROUP - I
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2018

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
All questions are compulsory.

In Question No. 1, all sub-questions are compulsory.

In Question Numbers 2 to 8, student may answer any 5 questions.
Wherever necessary, you may make suitable assumptions
and state them clearly in your answer.

Working notes should form part of the answer.

All questions relate to the Income-tax Act, 1961 and
pertain to the AY-2018-19, unless stated otherwise.

1. (a) Choose the most appropriate alternative: 1×10=10

(i) Which of the following is not a case of deemed ownership of house property?
(A) Transfer to spouse for inadequate consideration
(B) Transfer to minor child for inadequate consideration
(C) Co-owner of a Property
(D) None of the above

(ii) Where assessment has not been completed, belated income tax return for the A.Y. 2018-19 can be filed up to:
(A) 31.03.2019
(B) 31.02.2019
(C) 31.03.2020
(D) Cannot be filed belatedly.

(iii) An individual estimates that he is required to pay ₹ 1,00,000 as advance tax. By 15th of December, how much amount must be paid by the individual?
(A) ₹ 30,000
(B) ₹ 75,000
(C) ₹ 1,00,000
(D) Nil

(iv) Section 80 RRB the Income-tax Act, 1961 deals with deduction from gross total income in respect of income by way of
(A) Interest on debentures of a government company
(B) Royalty income on authors
(C) Royalty on patents
(D) Royalty from text-books

(v) Preliminary expenses that can be amortized under the Income-tax Act 1961 has to be restricted to _____ of the cost of the Project.
(A) 5%
(B) 15%
(C) 20%
(D) None of the above

(vi) Maximum Marginal Rate for the A.Y. 2018-19 is _____ .
(A) 34.5%
(B) 33.99%
(C) 35.535%
(D) None of the above

(vii) Rebate u/s 87A can be claimed by
(A) Any resident
(B) Resident Individual
(C) Any person
(D) Any person other than non resident

(viii) As per section 115BBDA dividend from Indian companies is taxable in the hands of certain recipients at _____ when the aggregate dividend exceeds ₹ _____.
(A) 10%, 1 lakh
(B) 15%, 10 lakhs
(C) 10%, 10 lakhs
(D) 5%, 5 lakhs

(ix) ICDS VIII deals with _____ .
(A) Government Grants
(B) Securities
(C) Revenue recognition
(D) Construction Contract

(x) Income escaping assessment is covered under section _____ .
(A) 144
(B) 156
(C) 143(3)
(D) 147

(b) Match the following: 1×5=5

(i)	Alternate minimum tax	(A)	Section 44AD
(ii)	Return by whom to be verified	(B)	Section 263
(iii)	Revision by commissioner	(C)	Section 140
(iv)	Presumptive tax	(D)	Section 80EE
(v)	₹ 50,000	(E)	Section 115JC

(c) State whether true or false: 1×5=5

(i) All incomes that accrue to a minor child will be included in the total income of that parent whose total income is greater.
(ii) Caution money forfeited by the assessee is taxable in the year of forfeiture under the head capital gains.
(iii) Paintings are not considered as personal effects in the context of "capital asset" definition.
(iv) In the hands of a manufacturer, factory building newly constructed is not eligible for additional depreciation.
(v) Income from assets acquired by spouse out of pin money or household savings is not subject to clubbing.

(d) Fill in the blanks: **1×5=5**

(i) Deduction under section 80GGB in respect of house rent paid is applicable to _____ .

(ii) Unabsorbed depreciation shall be allowed to be carried forward for any number of years and such carried forward unabsorbed depreciation may be set off against any income, other than _____.

(iii) Income referred to in sec. 68 to sec. 69D shall be taxable @ _____. (Excluding SC and Cess)

(iv) _____ received by an electoral trust shall be exempted.

(v) Income from sub-letting of a house property by a salaried employee is taxable under the head _____.

Answer:

1. (a)

(i)	(C)	Co-owner of a property
(ii)	(A)	31-03-2019
(iii)	(B)	Rs. 75,000
(iv)	(C)	Royalty on patents
(v)	(A)	5%
(vi)	(C)	35.535%
(vii)	(B)	Resident individual
(viii)	(C)	10%, 10 lakhs
(ix)	(B)	Securities
(x)	(D)	147

(b)

(i)	Alternate minimum tax	(E)	Section 115JC
(ii)	Return by whom to be verified	(C)	Section 140
(iii)	Revision by commissioner	(B)	Section 263
(iv)	Presumptive tax	(A)	Section 44AD
(v)	₹ 50,000	(D)	Section 80EE

(C)

(i)	False
(ii)	False
(iii)	True
(iv)	True
(v)	True

(d)

(i)	Individual (Section is wrongly quoted in the question paper)
(ii)	Income under the head "Salaries", Winning from lotteries, cross word puzzles, etc.
(iii)	60%
(iv)	Any voluntary contributions
(v)	Income from Other Sources

2. (a) (i) Compute the tax liability of Sri A. Harichandraprakash whose total income is **5**
(A) ₹ 49,62,500
(B) ₹ 51,00,000
Note : (Source of income is Salary only)

(ii) Explain the following concepts **3**

- **Tax Planning**
- **Tax Avoidance**
- **Tax Evasion**

(b) Two brothers Rama and Shankar are co-owners of a house property with equal shares. The property was constructed during the Financial Year 1998-1999. The property consists of 8 identical units and is situated at Salem. During the Financial Year 2017-2018 each owner occupied 1 unit for residence and balance 6 units were let out at a rent of ₹ 14,000 per unit per month. The municipal value of property is ₹ 9,00,000 and municipal tax are 10% of municipal value, paid during the year. The other expenses are as follows:

(i) Repairs ₹ 90,000
(ii) Insurance premium paid ₹ 15,000
(iii) Interest payable on loan taken ₹ 3,50,000

One of the let out remained vacant for 4 months during the year. Rama could not occupy his unit for 6 months as he was transferred to Bangalore. He does not own any other house. The other income of Rama and Shankar are ₹ 3,50,000 and ₹ 1,80,000 respectively for the Financial Year 2017-2018.
The co-owners received during the year ₹ 1,40,000 as unrealized rent for 2014-2015 and ₹ 50,000 as arrears of rent.
Compute the income under the head "Income from House Property" and total income of the two brothers for the Assessment Year 2018-2019.

Answer:

2. (a) (i)

Particulars	Case A	Case B
Tax liability before rebate	13,01,250	13,42,500
Less : Rebate u/s 87A	-	-
Add: Surcharge	-	1,34,250
Tax and surcharge payable	13,01,250	14,76,750
Less: Marginal Relief	-	64,250
Tax after marginal relief	13,01,250	14,12,500
Add : Education & Secondary Education Cess	39,038	42,375
Total Tax Payable	13,40,288	14,54,875

(ii) Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

Tax avoidance is an exercise by which the assessee legally takes advantages of loopholes in the Act. Tax avoidance is a practice of bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. Most of the amendments are aimed to curb such loopholes.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.

(b)

Computation of Income from let out portion of House Property

Particulars	Amount (₹)	Amount (₹)
Let out portion (75%)	6,75,000	
Gross Annual Value		
(a) Municipal value (9,00,000*75/100)		
(b) Actual Rent (14,000*6*12)-(14,000*1*4)	9,52,000	9,52,000

= ₹10,08,000 - ₹ 56,000 **Whichever is higher**		
Less : Municipal tax 75% of ₹ 90,000		67,500
Net annual value		8,84,500
Less : Deduction u/s 24		
(a) 30% of NAV	2,65,350	
(b) Interest on loan taken for the house (75% of ₹ 3,50,000)	2,62,500	5,27,850
		3,56,650
Add: Unrealised rent	1,40,000	
Arrears of rent	50,000	1,90,000
		5,46,650
Less : 30% standard deduction		57,000
Income from House property		4,89,650
50% share of each co-owner		2,44,825

Calculation of total income for the Assessment Year 2018-2019

Particulars	Rama (₹)	Shankar (₹)
(I) Self-Occupied House Property (Annual Value)	Nil	Nil
Less : Deduction u/s 24(b)	Nil	Nil
Interest on loan taken for construction ₹43,750 per person, restricted to ₹30,000, construction completed before 01.04.1999	30,000	30,000
Loss from house property	(30,000)	(30,000)
(II) Let our portion (75%) - see working note below	2,44,825	2,44,825
Income from house property	2,14,825	2,14,825
Other income	3,50,000	1,80,000
Total income	5,64,825	3,94,825

3. (a) Mr. Ashwin of Chennai sold a vacant site for ₹ 30 lakhs to Mr. Raina on 01.05.2017. The value of land for stamp duty purposes was ₹ 25 lakhs. The vacant site was acquired in April, 2000 for ₹ 3 lakhs. The fair market value of the vacant site on 01.04.2001 was ₹ 4 lakhs. The entire sale consideration plus a housing loan of ₹ 38 lakhs from a nationalized bank was availed for acquiring a residential building for ₹ 68 lakhs in Pune on 01.07.2017. The stamp duty paid for the purpose of acquisition was ₹ 2,90,000. The property was let out for a monthly rent of ₹ 10,000 from 01.07.2017. Interest on housing loan during the year till its closure, amounted to ₹ 2,80,000.

Mr. Ashwin sold yet another vacant site for ₹ 28 lakhs on 21.01.2018. This vacant site was acquired in October, 2015 for ₹ 20 lakhs. He utilized the entire sale proceeds realized in January 2018 for repaying the housing loan.

His other incomes are (i) Income from business (computed) ₹ 3,90,000 and (ii) Bank interest of ₹ 60,000 from term deposits and ₹ 15,000 from SB account.

Compute the total income of Mr Ashwin for the assessment year 2018-19.

Cost inflation index : F. Y. 2001-02 = 100; F.Y. 2015-16 = 254; F.Y. 2017-18 = 272. 7

(b) State whether the following transactions attract tax deduction at source (TDS) provisions and the rate of tax & the amount of tax deductible in applicable cases:

(i) Interest on recurring deposit of ₹ 12,000 paid by a nationalized bank to Mr. Dhoni.
(ii) Prize amount of ₹ 8,000 paid by Excellence Ltd. to Mr. Saha a winner of crossword puzzle contest conducted by the company.
(iii) Commission of ₹ 21,000 paid to Kumble & Co. by Dravid Co. Ltd for purchase of raw materials.
(iv) Chandra Ltd. paid ₹ 40,000 per month as generator rent from 1st August, 2017 and up to 31st March, 2018 to Mr. Shastri. 8

Answer:

3. (a)

Computation of Total Income Mr. Ashwin for Assessment Year 2018-19

		₹	₹
Income from House Property:			
Rent for 9 months (₹10,000 × 9)		90,000	
Less: Deduction U/s. 24 @ 30%	27,000		
Interest on moneys borrowed	2,80,000		
		3,07,000	
		2,17,000	
Loss from House Property- but limited to			(2,00,000)
Income from Business: Computed			3,90,000
Capital Gain:			
Sale of vacant site -1		30,00,000	
Less: Indexed cost of acquisition (₹ 4,00,000 × 272 /100)		10,88,000	
Long term capital gain - (A)		19,12,000	
Sale of vacant site - 2		28,00,000	
Less: Indexed cost of acquisition (₹ 20,00,000 × 272 /254)		21,41,732	
Long term capital gain - (B)		6,58,268	
Total Capital Gain (A) + (B) =		25,70,268	
As the new residential house was acquired for ₹ 58 lakhs and the entire sale consideration is also ₹ 58 lakhs, the entire capital gain is exempt U/s.54 F		NIL	
Other Sources:			
Bank interest (Term Deposits)		60,000	
Bank SB interest		15,000	
			75,000
Gross Total Income			2,65,000
Deduction Chapter VI-A			
(i) Section 80 C in respect of stamp duty limited to ₹		1,50,000	
(ii) Section 80TTA for Bank SB interest		10,000	
			1,60,000
Total Income			1,05,000

(b) (i) Section 194 A is applicable for recurring deposit interest paid by bank when it exceeds ₹ 10,000.
The tax deductible at source at 10% being ₹1,200.

(ii) As per Section 194B winning by way of crossword puzzle is liable for tax deduction when the amount of winning exceeds ₹10,000
As the amount of winning is only ₹ 8,000, no tax is deductible at source

(iii) Section 194H will apply when commission/brokerage exceeds ₹ 15,000
The taxis deductible at 5% on ₹ 21,000 being ₹1,050

(iv) Section 194-1 will apply when the rent paid during the year exceeds ₹ 1,80,000.
The tax is deductible at 2% being ₹ 6,400 (2% of ₹ 3,20,000)

4. (a) Mr. Kamal employed in Rajini Mfg. Co. Ltd., Mumbai as General Manager furnishes the following information for the year ended 31.03.2018:

Particulars	Amount (₹)
Basic salary (per month)	50,000
Dearness Allowance (eligible for retirement benefits)	80% of basic salary
House Rent Allowance (per month)	10,000
Rent paid by him ₹ 15,000 per month for 6 months and ₹ 20,000 per month for balance 6 months (at Mumbai)	
City Compensatory Allowance (per month)	2,500
Medical reimbursements (annual)	13,000
Gymkhana club annual membership fee reimbursed by employer	20,000
Mobile phone bill reimbursed by the employer (Used for both official and personal use)	37,500
Motor car (cubic capacity of engine 2.2 litres) owned by the employee but the maintenance expenses fully met by the employer (Motor car was used both for personal and official use)	85,800
Cash gift paid by the employer in appreciation of performance on 01.012018	30,000
Contribution to recognized provident fund :	
Employee	1,20,000
Employer	90,000
Contribution to National Pension Trust:	
Employee	60,000
Employer	55,000
Medical insurance premium paid by means of uncrossed cheque	18,000

You are requested compute the total income of Mr. Kamal for the assessment year 2018-19. 10

(b) State with brief reasons whether the following are agricultural income either in whole or in part: 1x5=5

(i) Purchase of standing sugarcane crop by Mr. Amin for ₹ 2 lakhs and after cutting the canes, selling them for ₹ 2,50,000.

(ii) Income from milk dairy run by Mr. Raj in his agricultural lands ₹ 50,000.

(iii) Income from sale of plants ₹ 1,00,000 earned by Mr. Jain who maintains a nursery by name Soundarya Nursery.

(iv) Income from sale of rubber ₹ 3,20,000 realised by Mr Ram Nair who owns rubber estate and cultivates rubber.

(v) Income from gracing of catties allowed in the land owned by Mr. Richard ₹ 60,000.

Answer:

4. (a)

Computation of Total Income of Mr. Kamal for the Assessment Year 20018-19

		₹	₹
Basic salary			6,00,000
Dearness allowance @ 80% of basic pay			4,80,000
City Compensatory Allowance			30,000
House rent allowance:			
Allowance received		1,20,000	
Less: Exemption U/s.10(13A)			
50% of salary + DA	5,40,000		
Actual HRA	1,20,000		
Excess rent paid over 10% of salary (₹ 2,10,000 = ₹1,08,000) (Lower of the following)	1,02,000	1,02,000	
			18,000

Medical reimbursement - below ₹15,000 hence not taxable			Nil
Gymkhana club membership fee taxable			20,000
Mobile phone bill reimbursed by employer			37,500
Cash gift for employer taxable as 'salary'			30,000
Motor car perquisite: Actual expenses		85,800	
Less: Tax free @ ₹ 2,400 per month (assuming chauffeur is not provided)		28,800	
			57,000
Employer's contribution to NPS			55,000
Employer's contribution to RPF less than 12% of Basic + DA, hence not taxable			Nil
			13,27,500
Less: Deduction U/s. 80 C in respect of RPF		1,20,000	
Deduction U/s. 80 CCD:			
Employer's contribution ₹ 55000		Nil	
Employee's below 10%, hence allowed		50,000	
Deduction U/s. 80 D: Paid by cheque		18,000	
			1,88,000
Total Income			11,39,500

(b)

(i)	To term an income as agricultural income, both basic operations and subsequent operations must be present. A standing crop purchase will not lead to agricultural activity and hence the profit earned cannot be termed as agricultural income.
(ii)	Income from dairy means income generated by maintaining catties. Therefore there is no activity connected to land. Hence it is not an agricultural income.
(iii)	Running a nursery with plants seeks both basic operations and subsequent operations; furthers, as per definition, it is deemed to be agricultural income and therefore the entire income would be agricultural income.
(iv)	Income from rubber cultivation is partly agricultural income and partly non-agricultural income. 65% of the income is agricultural income and 35% of the income is non-agricultural income which is chargeable to income-tax.
(v)	Permitting gracing of catties in vacant land does not involve any basic or subsequent operations and the grass so grown spontaneously is not income from agriculture.

5. (a) Ahuja Industries Ltd. engaged in manufacturing activity and generation of power, gives you the following information for the year ended 31st March, 2018:

Description	Op. WDV (01.04.2017)	Acquisition/ Date	New acquisition used from	Sold during the year
Plant	**₹ 5,00,000**	**₹ 60,000 (01.05.2017)**	**01.11.2017**	**₹ 80,000 (01.01.2018)**
Windmill	**—**	**₹ 60,00,000 (01.06.2017)**	**01.09.2017**	**—**
Computer	**₹ 3,00,000**	**₹ 90,000 (01.10.2017)**	**01.11.2017 (Office use)**	**₹ 40,000 (01.03.2018)**
Patent	**—**	**₹ 4,00,000 (01.12.2017)**	**01.12.2017**	**—**

Compute the depreciation and additional depreciation for the assessment year 2018-19. The computation must be such that the same is most beneficial to the assessee. 9

(b) State with one line reason, the due date for filing the return of income in the following cases:

(i) Mr. Solkar, engaged in trade, has total turnover of ₹ 220 lakhs for the year ended

31.03.2018.

(ii) Krish Srikanth, an advocate, has aggregate professional receipts of 12,40,000 opting to admit income under section 44ADA.

(iii) Mr. Abid Ali, having 5 heavy goods transport vehicles which are run on hire, opting to admit income under section 44AE.

(iv) M/s. Jayantilal & Mankad, a firm engaged in hotel business with annual turnover of ₹130 lakhs preferring to offer income based on applicable presumptive provisions.

(v) Vaman Kumar Charitable Trust registered under section 12AA having total income of ₹12 lakhs. (before giving effect to the provisions of section 11 and 12, and before seeking accumulation of income for application in the future years.) 6

Answer:

5. (a)

Computation of Depreciation and Additional Depreciation
Ahuja Industries Ltd. for the Assessment Year 2018-19

Description	Closing WDV before depreciation ₹	Depreciation / Addl. Depreciation	Depreciation ₹	Addtl. Depreciation ₹
Plant	4,80,000 (i.e. 5,00,000 + 60,000 – 80,000)	@ 15% on ₹ 4,20,000 @ 7.5% on ₹ 60,000	63,000 4,500	
		@ 10% on ₹ 60,000		6,000
Windmill	60,00,000	@ 40% on ₹ 60,00,000	24,00,000	
		@ 20% on ₹ 60,00,000		12,00,000
Computer	3,50,000(i.e. 3,00,000 + 90,000 – 40,000)	@ 40% on ₹ 2,60,000 @20% on ₹90,000	1,22,000	
		Additional depreciation		Nil
Patent	4,00,000	Depreciation @ 25% on ₹ 4,00,000 (1/2 thereon)	50,000	
		Additional depreciation		Nil
		Total claim	26,39,500	12,06,000

(b)

(i)	As the turnover has exceeded ₹100 lakhs, the books of have to be audited under section 44AB and the due date is 30.09.2018.
(ii)	In the case of professionals, who opt for section 44ADA, the due date for filing the return is 31.07.2018.
(iii)	In the case of persons engaged in plying of goods vehicle for hire, the due date for filing the return is 31.07.2018.
(iv)	Where a firm desires to offer income as per presumptive provisions contained in section 44AD, the due date for filing the return is 31.07.2018.
(v)	In the case of charitable trust where the total income before giving effect to provision of section 11 & 12 exceeds the maximum amount not chargeable to tax, it has to be audited as mentioned in section 12A(l)(b) and the return has to be furnished on or before 30.09.2018

6. (a) The Profit & Loss Account of ABC & Associates, a partnership firm for the previous year 2017-18 is given below:

Particulars	**₹**	**₹**	**Particulars**	**₹**
Establishment and other expenses		**96,00,000**	**Gross Profit**	**1,56,40,000**

Interest to partners @ 15%			**Profit on sale of equity shares (Sold after 2 years through recognized stock exchange)**	**2,80,000**
A	**1,80,000**			
B	**2,40,000**			
C	**1,20,000**	**5,40,000**		
Salary to working partners		**8,40,000**	**Rent from house property**	**1,20,000**
A	**4,80,000**			
B	**3,60,000**			
			Interest on bank deposit	**20,000**
			Profit on sale of equity shares (after 10 months through recognized stock exchange)	**2,40,000**
Net Profit		**53,20,000**		
		1,63,00,000		**1,63,00,000**

Additional information:

(i) Establishment expenses include bonus ₹ 2,40,000 which was paid on 30-12-2018.

(ii) The firm is eligible for deduction under section 80-IC.

(iii) Establishment expenses also included securities transaction tax of ₹ 2,000.

Compute the tax liability of the firm for the assessment year 2018-19. Assume that no extension of time has been granted u/s 139(1) for filing the return of income. 10

(b) Aswini's accounts are not required to be audited under section 44AB. He furnished his return of income for Assessment Year 2018-19 on 1st August, 2018. He has the following losses during the previous year 2017-18:
Loss from house property let out: ₹ 12,000
Loss from business: ₹ 60,000
Unabsorbed depreciation: ₹ 15,000
Short-term capital loss from sale of shares: ₹ 8,000
State, with reason, whether Aswini is entitled to carry forward above losses and unabsorbed depreciation. 5

Answer:

6. (a)

Computation of total income of ABC & Associates for the Assessment Year 2018-19

Particulars	₹	₹
Income from house property:		
Actual rent	1,20,000	
Less: Deduction under section 24 @ 30%	36,000	84,000
Profits and gains from business or profession:		
Net profit as per Profit & Loss Account		
Add: Expenses disallowed		53,20,000
Bonus as per section 43B	2,40,000	
Securities Transaction Tax	2,000	
Interest to partner in excess of 12%	1,08,000	
Salary to partners	8,40,000	11,90,000
		65,10,000
Less: Rent	1,20,000	
Profit on sale of shares sold after 2 years	2,80,000	
Interest on bank deposit	20,000	
Profit on sale of shares sold after 10 moths	2,40,000	6,60,000
Book Profit		58,50,000
Less Partners' Remuneration		
90% of first ₹ 3,00,000	2,70,000	
60% of balance 55,50,000	33,30,000	

Restricted to remuneration as per partnership deed	36,00,000	8,40,000
		50,10,000
Capital gain-short-term capital gain		2,40,000
Income from other sources		20,000
Gross Total Income		53,54,000
Less: Deduction under section 80-IC		50,10,000
Total Income		3,44,000

Computation of adjusted total income

Total Income	3,44,000
Add: Deduction under section 80-IC	50,10,000
Adjusted total income	53,54,000

Computation of tax payable

Regular income tax:	
On short-term capital gain of ₹ 2,40,000 @15%	36,000
On balance income of ₹ 1,04,000 @ 30%	31,200
	67,200
Alternate minimum tax @ 18.5% on ₹ 53,54,000	9,90,490
As AMT is higher than regular tax payable, adjusted total income is deemed to be the total income. Thus tax payable = ₹ 9,90,490 + ₹ 29715(education cess) = ₹10,20,205	

(b) As per section 139(1), due date for filing return of income in case of individual having income exceeding basic exemption limit but not liable to tax audit under section 44AB is 31st July of the assessment year.

Section 139(3) provides that return showing loss is to be filed in the same manner as in the case of a return of income within the time allowed under section 139(1). Hence, even though Aswini has loss, he is required to file loss return before the due date i.e. 31st July, 2018

As he has filed the return after the due date, his return is a belated return under section 139(4).

As per section 80 filing of return of loss or before the due date specified in section 139(1) is mandatory for carry forward of business loss under section 72(10, speculation business loss under section 73(2), loss from specified business under section 74(1) , loss under the head "capital gains" and loss from the activity of owning and maintaining race horses under section 74A(3).

In view of above provisions, Aswini will be not be entitled to carry forward loss from business ₹ 60,000 and short-term capital loss ₹ 8,000.

Section 80 does not prohibit carry forward of loss under the head "income from house property" under section 71B and unabsorbed depreciation under section 32(2) in case of belated return.

Therefore, Aswini is entitled to carry forward loss from house property ₹ 12,000 and unabsorbed depreciation ₹15,000, even though return was filed beyond due date.

7. (a) Discuss the taxability or otherwise in the hands of the recipients: 2x5=10

(i) PQR Private Limited issued 15,000 shares at ₹ 150 per share (face value ₹ 100 per share). The fair market value of the share is ₹ 130 per share.

(ii) Mr. Sakshitha received a sum of ₹ 92,000 being proceeds at the time of maturity of a life insurance policy (taken 5 years back) and ₹ 1,10,000 being proceeds of maturity value of a Key-man insurance policy.

(iv) Nilay, a member of his father's HUF, gifted a house property to the HUF. The stamp duty value of the house is ₹ 8 lakhs.

(iv) Rashmi received a cell phone worth ₹ 60,000 as gift from her friend on the occasion of her birth day.

(v) On the occasion of her marriage Tripti received cash gifts of ₹ 1,30,000, which includes ₹ 60,000 from her friends.

(b) ABC & Co., a partnership firm, consisted of 4 equal partners up to 31.03.2017. It had accumulated business losses of ₹ 8 lakhs and unabsorbed depreciation of ₹ 6 lakhs relating to assessment year 2016-17. On 01.04.2017 one partner retired. The firm, for the previous year ended 31st March, 2018, made a turnover of ₹ 150 lakhs. The firm wishes to opt for presumptive taxation.

The entire sale proceeds were realized through banking channel.

Compute the total income of the firm for the assessment year 2018-19. 5

Answer:

7. (a) (i) As per section 56(2)(viib) where a closely held company issues shares at a premium, the excess of the issue price of the shares over the fair market value is taxable in its hands under the head "Income from other sources.

Therefore, ₹ 3,00,000 [i.e. 15,000 x (₹150 - ₹ 130)] shall be taxable as income in the hands of PQR Private Ltd under the head "Income from other sources".

(ii) Any amount received at the time of maturity of a life Insurance Policy (not being key-man insurance policy) will be exempt u/s 10(10D).

Hence ₹ 92,000 will be exempt and there being no exemption for the latter, ₹ 1,10,000 will be taxed as income from other sources.

(iii) As per section 56(2)(vii), immovable property received without consideration by a 1 HUF from its relative is not taxable.

In the instant case, since Nilay is a member of his father's HUF, he is a relative of the HUF. Hence, ₹ 8 lakhs, being the stamp duty value of the house property received by HUF, without consideration, will not be taxable in the hands of the HUF.

(iv) Cell phone is not included in the definition of property as per Explanation to section 56(2)(vii).

Therefore, the value of cell phone received by Rashmi is not taxable as income in 1 her hands.

(v) As per section 56(2(vii) gifts received on the occasion of marriage are not taxable. Therefore, cash gifts received by Tripti are not taxable in her hands, whether the same are received from relatives or non-relatives.

(b)

Computation of Total Income of ABC & Co U/s.44 AD

	₹
Presumptive income @ 6% of the turnover of ₹150 lakhs	9,00,000
Less:	
Unabsorbed depreciation of ₹ 6 lakhs deemed to have been allowed and hence is not deductible. [unabsorbed depreciation is deemed to be part of current depreciation as per section 32(2)]	

Unabsorbed business loss brought forward ₹ 8 lakhs. Since one partner retired from the firm, 25% being his share in the firm is not eligible for set off.	
The amount eligible for set off ₹ 8 lakhs × 3/4	6,00,000
Total income of the firm	3,00,000

8. Write short notes on any three of the following: 5×3=15

(a) Fee for delay in furnishing the return of income;

(b) Scrutiny assessment

(c) ICDS : Accounting policies

(d) Adjustments during the course of processing of return of income u/s 139(1).

Answer:

8. (a)

Particulars	
Where a person required to furnish a return of income u/s 139, fails to do so within the due date, he shall pay fee of	
Case	Fee
Total income does not exceed ₹ 5 lakhs	₹ 1,000
Total income exceeds ₹ 5 lakhs	
- if the return is furnished on or before 31st December of the assessment year	₹ 5,000
- In any other case	₹ 10,000

Note:
If the return is filed within due date Section 234F is not applicable.

(b)

Particulars
Where the Assessing Officer or the prescribed income-tax authority (here-in-after collectively referred to as 'Assessing Officer') considers it necessary to ensure that the assessee has not - ➢ understated his income; or ➢ declared excessive loss; or ➢ under paid the tax.
He can make a scrutiny in this regards and gather such information and evidence as he deems fit and on the basis of such information and evidence so collected, he shall pass an assessment order. Such order shall be treated as regular assessment order.
Conditions for Scrutiny Assessment ➢ A return has been furnished u/s 139 or in response to a notice u/s 142(1); and ➢ Assessing Officer considers it necessary or expedient to ensure that the assessee has not understated his income, declared excessive loss or under-paid the tax.

(c) ICDS I: Accounting Policies

Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business or profession or vocation.

The treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form.

Marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standards.

The fundamental accounting assumptions i.e., going concern. Consistency and accrual are assumed as followed. However, if any such assumption is not followed, the fact shall be disclosed.

An accounting policy shall not be changed without reasonable cause.

All significant accounting policies adopted by a person shall be disclosed.

Any change in accounting policy which has a material effect shall be disclosed with monetary impact. If such impact is not ascertainable, the fact must be disclosed.

(d) Adjustments in course of processing of return under section 143(1) (wrongly stated as 139(1) in the question paper)

In course of processing the return of income the Assessing Officer shall make the following adjustments:

(a) any arithmetical error in the return.
(b) an incorrect claim, if such incorrect claim is apparent from any information in the return.
(c) disallowance of loss claimed, if the return of the previous year for which set off of loss is claimed was furnished after due date.
(d) disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return.
(e) Disallowance of deduction claimed under sections 10AA, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID or 80-IE, if the return is furnished after the due date.
(f) addition of income appearing in Form 26AS or Form 16A or Form 16 which had not been included in computing the total income in the return.

Such adjustments shall not be made unless an intimation is given to the assessee of such adjustments either in writing or in electronic mode. The response received from the assessee, if any shall be considered before making any adjustment and in a case where no response is received within 30 days of the issue of such intimation, such adjustments shall be made.

Suggested Answer_Syl16_Dec2018_Paper_7

INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2018

Paper-7: DIRECT TAXATION

Time Allowed: 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Wherever required, the candidate may make suitable assumption(s) and State the same clearly in the answer.
Working Notes should form part of the relevant answer.
All sub- division of the same question are to be answered serially and not at different places.
All the questions relate to income –tax assessment year 2018 – 19 and the provisions stated relate to the Income tax Act, 1961, unless otherwise stated in the question.

Answer *Question No. 1*, which is compulsory and *any five* from *Question Nos. 2 to 8*.

1. (a) Choose the most appropriate alternative for the following (Option to be given only in capital letters A, B, C or D; entire answer need NOT be reproduced): 1×10=10

(i) Short-term capital gain on sale of listed shares (STT paid) in a recognized stock exchange is chargeable to income-tax @ _____ %.

(A) 10

(B) 15

(C) 20

(D) 30

(ii) When the total income of an individual exceeds Rs.50 lakhs, the surcharge is payable @

(A) 5%

(B) 7%

(C) 10%

(D) 12%

(iii) When the amount is withdrawn from National Pension System Trust, it is chargeable to tax to the extent the withdrawal exceeds _____ % of the contribution of the assessee.

(A) 10

(B) 25

(C) 15

(D) 20

(iv) Ms. Jothi (aged 23) got married and left India to join her husband in the United Kingdom on 10.06.2017. She had never left India earlier. Her residential status for the assessment year 2018-19 is:

(A) Resident and ordinarily resident

(B) Resident but not ordinarily resident

(C) Non-resident

(D) None of the above

(v) While computing TDS on salary paid to employees, the losses given below to the applicable extent would be considered by the employer:

(A) Loss from business

(B) Loss from house property

(C) Long-term capital loss

(D) Short-term capital loss

(vi) When tax is not deducted at source on annual rent of Rs.2 lakhs paid to landlord by a company, the amount liable for disallowance under section 40(a) (ia) is

(A) Nil

(B) Rs.2,00,000

(C) Rs.20,000

(D) Rs.60,000

(vii) When the assessee has loss from house property, the maximum amount of such loss eligible for set of against other permissible incomes would be

(A) Rs.30,000

(B) Rs.1,50,000

(C) Rs.2,00,000

(D) No Limit

(viii) When a capital asset was acquired on 01.04.1980 and sold in June, 2017, the cost of acquisition or the fair market value of the asset as on ------, at the option of the assessee is to be adopted for indexation purpose:

(A) 01.04.2011

(B) 01.04.2001

(C) 01.04.1991

(D) 01.04.1981

(ix) When a motor car is sold for Rs.12 lakhs by a dealer to a buyer holding PAN, the amount of tax collectible as source shall be _____ .

(A) Rs.12,000 (1%)

(B) Rs. 24,000 (2%)

(C) Rs. 1,20,000(10%)

(D) NIL

Suggested Answer_Syl16_Dec2018_Paper_7

(x) Cash donation given to a charitable trust (approved under section 80G) is eligible for deduction under that section, when the amount of donation does not exceed Rs.----------.

(A) 2,000

(B) 5,000

(C) 7,000

(D) 10,000

(b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1×5=5

1	2	3	4
(i)	Depreciation on patents	(A)	40%
(ii)	Amount received by an individual as a loan in a reverse mortgage	(B)	Valuation of inventories
(iii)	Interest partner on capital	(C)	25%
(iv)	Depreciation on solar power generating system	(D)	Exempted, since there is no transfer
(v)	ICDS II	(E)	Allowed up to 12% p.a.

(c) State whether the following statements ate True or False: 1×5=5

(i) Cost of self-generated goodwill of business is deemed to be Nil.

(ii) Reimbursement of ordinary medical expenses by the employer is fully exempted.

(iii) Where capital gain arises to an individual from the transfer of a capital asset, being immovable property under a joint development agreement, the capital gain is chargeable to tax in the previous year in which the certificate of completion for whole or part of the project is issued by the competent authority.

(iv) In order to avail carry forward of unabsorbed depreciation, the assessee must furnish the return of income within the due date specified in section 139(1).

(v) In order to claim exemption under section 54B, the agricultural land, which is transferred, must have been used by the assessee or his parents for at least 3 years prior to the date of transfer

(d) Fill in the blanks: 1×5=5

(i) The total income computed will have to be rounded off to the nearest multiple of Rs. _____.

(ii) Domestic company means a/an _____company.

(iii) Additional depreciation on factory building for Rs.30 lakhs, acquired by a manufacturer on 1st Dec, 2017 is_____.

(iv) Unabsorbed depreciation can be carried forward for _____ years.

(v) An assessee, who receives leave encashment during continuation of his service, can also claim _____.

Answer: 1 (a)

(i) (B) 15

(ii) (C) 10%

(iii) (B) 25

(iv) (A) Resident and ordinarily resident

Suggested Answer_Syl16_Dec2018_Paper_7

(v) (B) Loss from house property

(vi) (D) Rs.60,000

(vii) (C) 2,00,000

(viii) (B) 01.04.2001

(ix) (A) Rs.12,000 (1%)

(x) (A) Rs.2,000

Answer: 1 (b)

1	2	3	4
(i)	Depreciation on patents	(C)	25%
(ii)	Amount received by an individual as a loan in a reverse mortgage	(D)	Exempted, since there is no transfer
(iii)	Interest partner on capital	(E)	Allowed up to 12% p.a.
(iv)	Depreciation on solar power generating system	(A)	40%
(v)	ICDS II	(B)	Valuation of inventories

Answer: 1 (c)

(i) True

(ii) False

(iii) True

(iv) False

(v) False

Answer: 1 (d)

(i) 10

(ii) Indian

(iii) Nil

(iv) Any number of

(v) Relief under section 89

2. (a) Mr. Barun furnishes you the following information for the year ended 31st March, 2018:

Sl. No	Particulars	Rs.
(i)	Pension received in India from a former employer in United Kingdom (UK)	1,80,000
(ii)	Income from business in Singapore (Controlled from India)	1,00,000
(iii)	Interest on company deposit in Singapore (credited in bank account held there)	80,000
(iv)	Profit from business in Kolkata controlled from UK	2,00,000
(v)	Income from tea cultivation in Sri Lanka	3,00,000
(vi)	Income from property in Singapore but received in Malaysia	2,50,000

Compute the total income of Mr. Barun, where he is (i) an ordinarily resident in India; (ii) a resident but not ordinarily resident in India, and (iii) a non-resident. 9

(b) Mr. Chaturvedi, Delhi has 3 house properties in various parts of India. The details are given below:

Suggested Answer_Syl16_Dec2018_Paper_7

Location of property	Delhi	Chandigarh	Kolkata
Usage	Self occupied	Let out	Let out
	Amount Rs.	Amount Rs.	Amount Rs.
Rent received	NIL	3,60,000	1,80,000
Fair rent	2,40,000	3,00,000^	1,50,000
Municipal value	2,10,000	2,40,000	1,20,000
Standard rent	1,80,000	2,10,000	90,000
Municipal tax-Due	20,000	40,000	30,000
Municipal tax- paid by the assessee	NIL	NIL	20,000
Interest on moneys borrowed	2,80,000	1,40,000	1,50,000

Note : All the properties were acquired/ constructed after 01.04.2010.
You are required to compute the income of Mr. Chaturvedi chargeable under the head "Income from house property" for the assessment year 2018-19. 6

Answer: 2 (a)

Computation of total income of Mr. Barun for the Asst. Year 2018 – 19

S. No	Particulars	ROR	RNOR	NR
(i)	Pension received in India from a former employer in UK	1,80,000	1,80,000	1,80,000
(ii)	Income from business in Singapore (controlled from India)	1,00,000	1,00,000	Nil
(iii)	Interest on company deposit in Singapore (credited in bank account held there)	80,000	Nil	Nil
(iv)	Profit from business in Kolkata controlled from UK	2,00,000	2,00,000	2,00,000
(v)	Income from tea cultivation in Sri Lanka	3,00,000	Nil	Nil
(vi)	Income from property in Singapore but received in Malaysia	2,50,000	Nil	Nil
	Total Income	11,10,000	4,80,000	3,80,000

Answer: 2 (b)

Computation of Income from House Property of Mr. Chaturvedi for the Asst. Year 2018 - 19

Location of property	Delhi	Chandigarh	Kolkata
Usage	Self occupied	Let out	Let out
Annual value	Nil	3,60,000	1,80,000
Less: Municipal tax paid	Nil	Nil	20,000
NAV	Nil	3,60,000	1,60,000
Less: Deductions u/s.24			
Standard deduction @ 30%	Nil	(1,08,000)	(48,000)
Interest on moneys borrowed		(1,40,000)	(1,50,000)
Interest on moneys borrowed limited to	(2,00,000)		
Income from House Property	(2,00,000)	1,12,000	(38,000)
Chargeable Income from House Property (1,26,000)			

3. (a) Mr. Subramani is Senior Manager (Finance) of VKS Steel Ltd. The particulars of his emoluments for the year ended 31.03.2018 are given below:

Basic Salary Rs. 60,000 per month
Dearness Allowance Rs. 40,000 per month (30% is for retirement benefit)
Annual performance Incentive Rs.1,80,000

Suggested Answer_Syl16_Dec2018_Paper_7

House Rent Allowance Rs. 10,000 per month

Mr. Subramani pays rent of Rs.20,000 per month for a flat occupied from 1st November, 2017 at Erode, Tamil Nadu.
He received gift voucher of Rs.6,000 from the employer on the occasion of his marriage anniversary.
The employer provided him a motor car (cubic capacity of the engine exceeds 1.6 liters) without chauffeur with effect from 1st December, 2017. Running and maintenance expences of Rs. 30,000 were fully borne by the employer. The car is used by Mr. Subramani both for official and private purposes.
The employer paid the following premiums for Mr. Subramani:

(i) Medical insurance premium Rs.12,000

(ii) Life insurance premium Rs. 15,000

(iii) Accident insurance premium Rs.10,000

Tax on employment paid to Erode Municipal Corporation by Mr. Subramani Rs. 5,000.
Compute the income chargeable to tax under the head "Salaries" in the hands of Mr. Subramani for Assessment Year 2018-19. 9

(b) Mr. Manish, a resident in India, has the following incomes for the year ended 31st March, 2018:

	Rs.
Income from sale of tea grown and manufactured in India	**4,00,000**
Income from growing and manufacturing rubber in India	**5,00,000**
Income from agricultural operations in Sri Lanka (cultivated paddy	**1,00,000**
Income derived from sale of coffee grown, cured, roasted and grinded in India	**2,00,000**

Determine the quantum of income which is regarded as agricultural income and non-agricultural income in the hands of Mr. Manish for the assessment year 2018-19. 6

Answer: 3 (a)

Computation of income chargeable under the head "Salaries" in the hands of Mr. Subramani for the Assessment year 2018 – 2019

Particulars		Rs.	Rs.
Basic salary (Rs. 60,000 × 12)			7,20,000
Dearness Allowance (Rs. 40,000 × 12)			4,80,000
Annual Performance Incentive			1,80,000
House Rent Allowance (Rsl0,000 × 12)		1,20,000	
Less: Exemption under section 10(13A), being lower of the following three amounts:			
(i) Actual allowance received (Rs.10,000 × 5)	50,000		
(ii) Rent paid in excess of 10% salary (Rs. 20,000 × 5) -10% [(Rs. 60,000 × 5) + (Rs. 12,000 × 5)]	64,000		
(iii) 40% of salary (40 % of [(Rs. 60,000 × 5) + (12,000 × 5)]	1,44,000		
Salary includes basic salary and DA forming part of retirement benefit		50,000	
Taxable portion of HRA			70,000
Gift voucher from the employer			6,000

Suggested Answer_Syl16_Dec2018_Paper_7

Perquisite value of motor car provided (Rs. 2,400 × 4			9,600
Medical insurance premium paid by the employer is not taxable under section 17(2)			Nil
Life insurance premium paid by the employer is taxable perquisite under section 17(1)			15,000
Accident insurance premium paid by the employer is not taxable, as no immediate benefit would become payable and benefit will accrue at a subsequent date depending upon occurrence of certain event. Moreover, the employer has taken the policy in its own business interest so as to indemnify itself from payment of compensation.			Nil
			14,80,600
Less: Deduction under section 16 for professional tax paid			5,000
Taxable salary			14,75,600

Alternative view in respect of gift voucher, :
It is possible to take a view only the sum excess of Rs.5,000 is taxable im view of the

Lagngtage of CBDT circlar4 no 15/2001 dated 12.12.2001t such gifts up to R.s,000 in aggregate per annuum exempt is exempt , beyond which it to which it is to be taxed

Answer: 3 (b)

Computation of Agricultural and Non- Agricultural Income of Mr. Manish

Type of operations/income	Rule no	Agri income	Business income
Income from sale of tea grown and manufactured in India.	8	2,40,000 (60%)	1,60,000 (40%)
Income from growing and manufacturing rubber in India.	7A	3,25,000 (65%)	1,75,000 (35%)
Income from cultivation in Sri Lanka (paddy) Not regarded as agricultural income, since the lands are outside India.		Nil	1,00,000
Income derived from sale of coffee grown, cured, roasted and grounded in India.	7B(1A)	1,20,000 (60%)	80,000 40%)
Aggregate Income		6,85,000	5,15,000

4. (a) The summarised financial position of Purva India (P) Ltd. of Cs on 31/12/2017 is as under:

Liabilities	Amount Rs.	Assets	Amount Rs.
Equity share capital of Rs.10 each	**8,00,000**	**Land**	**6,00,000**

Suggested Answer_Syl16_Dec2018_Paper_7

Preference share capital	**1,00,000**	**Building (WDV as per Income tax Act)**	**3,00,000**
Reserves	**2,00,000**	**Machinery (WDV as per Income tax Act)**	**4,00,000**
Loan Creditors	**6,00,000**	**Current Assets**	**10,40,715**
Creditors	**6,00,000**		
Provision of Dividend Distribution Tax	**40,715**		
	23,40,715		**23,40,715**

Additional Information: The Company went into liquidation on the balance sheet date; all current assets and building realized at book value. The realized money was applied towards payment of outside liabilities including Dividend Distribution Tax, and there after the preference shareholders.

Mr. Utkarsh is a holder of 10% equity shares and 20% preference shares of the company. Equity shares were originally acquired by him 16.08.2002 at face value. However, he had subscribed to preference shares on 01.04.2017, which were issued at par. He received a part of land (MV Rs.5,00,000) and cash (for preference share) Rs. 20,000.

Compute the capital gain in hands of the company and Mr. Utkarsh. 8

(b) Ms. Pinky submits the following particulars for the year ended 31st March, 2018:

Sl. No.	Particulars	Rs.
(i)	Loss from let out residential building—computed	3,00,000
(ii)	Arrear rent from a commercial building received during the year (commercial property had been sold in June, 2015)	40,000
(iii)	Textile business discontinued from 31st October 2016— Brought forward business loss of Asst. Year 2014-15	60,000
(iv)	Profit from chemical business of current year (computed)	5,50,000
(v)	Bad debt written off in the Assessment Year 2013-14 relating to textile business recovered during the year consequent to Court decree	1,00,000
(vi)	Long-term capital gain on sale of shares (STT paid) in recognized stock exchange on 23.05.2017	90,000
(vii)	Speculation business in oil seeds— profit	3,00,000
(viii)	Winning from lottery (Gross)	11,00,000
(ix)	Loss from the activity of owning and maintaining race horses	2,10,000

You are required to compute the total income of Ms. Pinky and also ascertain the amount of losses that can be carried forward. 7

Answer: 4 (a)

Computation of capital gain for the A. Y. 2016- 17 in the hands or Purva India (P) Ltd.

Suggested Answer_Syl16_Dec2018_Paper_7

Particulars
As per Sec.46(I), at the time of liquidation of company, any transfer by way of distribution of assets to its shareholders is not treated as transfer for the purpose of capital gain. However, if any asset is sold in the market the same shall be liable to capital gain
In the given case, only one capital asset is sold i.e. building and the same being sold at book value; hence no capital gain arises in the hands of the company.

Computation of capital gain for the A. Y 2018 – 19 in the hands of Utkarsh

Particulars	Working	Details	Amount (Rs.)
In case of equity share			
Sale consideration	See Note below		4,80,000
Less: Expenses on transfer			Nil
Net sale consideration			4,80,000
Less: (i)Indexed cost of acquisition	(10% of Rs.8,00,000) 272/105	2,07,238	
(ii) Indexed cost of improvement		Nil	2,07,238
Long-term Capital Gain			**2,72,762**
In case of Preference share			
Sale consideration			20,000
Less: Expenses on transfer			Nil
Net sale consideration			20,000
Less: (i) Cost of acquisition	20% of Rs.1,00,000	20,000	
(ii) Cost of improvement		Nil	20,000
Short Term Capital Gain			**Nil**

Market value of land received	Rs.5,00,000
Less: Dividend u/s 2(22) (c) being 10% of accumulated profit	Rs.20,000
Sale consideration	Rs.4,80,000

Answer: 4 (b)

Computation of total income of Ms. Pinky for the Assessment year 2018 – 2019

Particulars		Rs.	Rs.
Income from house property			
Loss from let out property		3,00,000	
Arrear rent received	40,000		
Less : Deduction U/s.24 @ 30%	12,000		
		28,000	
Loss from house property		2,72,000	
Amount of loss eligible for set off: Ceiling		(2,00,000)	
Amount eligible for carry forward **Rs.72,000**			
Income from business:			
Bad debt of discontinued business recovered		1,00,000	
Less: Loss brought forward relating to discontinued business		60,000	
Income from discontinued business		40,000	

Suggested Answer_Syl16_Dec2018_Paper_7

Profit from chemical business of current year	5,50,000	
Income from Business	5,90,000	
Profit from speculation business	3,00,000	
Income from Business	8,90,000	
Less: Loss under the head 'house property' set off	2,00,000	
Income from business after set off		6,90,000
Capital gain:		
Long term capital gain (STT paid) - exempt U/s.10(38)		Nil
Income from other sources		
Winning from lottery-taxable @ 30% under section 115BB		11,00,000
• Loss from the activity of owning and maintaining horse races not eligible for set off against any other income, and • to be carried forward and set off only against the same source.		Nil
Total Income		17,90,000

5. (a) Mr. Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2018 as under:

Particulars	Rs.	Particulars	Rs.
To Opening stock	**3,40,000**	**By Sales**	**1,14,00,000**
To Purchases	**1,00,20,000**	**By Closing stock**	**19,00,000**
To Manufacturing Expenses	**10,40,000**		
To Gross Profit	**19,00,000**		
	1,33,00,000		**1,33,00,000**
To Salary	**4,30,000**	**By Gross Profit**	**19,00,000**
To Bonus	**80,000**	**By Discount**	**25,000**
To Bank term loan interest	**90,000**	**By Agricultural Income**	**1,50,000**
To Factory rent	**1,20,000**	**By Dividend from Indian Companies**	**75,000**
To Office rent	**2,10,000**		
To Administration Expenses	**3,30,000**		
To Net Profit	**8,90,000**		
	21,50,000		**21,50,000**

Additional Information:

(i) The total turnover of Mr. Bhushan for the Financial Year 2016-17 was Rs.132 lakhs.

(ii) Salary includes Rs.1,80,000 paid to his daughter. The excess payment considering her qualification and experience is ascertained as Rs.40,000.

(iii) Factory rent was paid to his brother. Similar portions are let out to others by him for a rent of Rs.96,000 per annum.

(iv) No tax was deducted at source from the office rent paid during the year.

(v) Purchases include Rs.70,000 paid by cash to an agriculturist for purchase of grains (being raw material).

(vi) Depreciation allowable under section 32 of the Income-tax Act, 1961 amounts to Rs.45,000 for assets held as on 01.04.2017. During the year, a machinery costing Rs.5,00,000 was acquired on 01.07.2017 and was put to use from 15.10.2017.

Suggested Answer_Syl16_Dec2018_Paper_7

(vii) Administration expenses include commission paid to a purchase agent of Rs.12,000 for which no tax was deducted at source.

(viii) The following expenses debited above were not paid till 31.03.2018 and up to the 'due date' for filling the return specified in section 139(1):

(I) Term loan interest of Rs.35,000;

(II) Demurrages to Indian Railways for using their clearing yard beyond stipulated hours (disputed by the assessee), forming part of manufacturing expenses Rs.30,000.

Compute the income of Mr. Bhushan chargeable under the head "Profits and gains of business or profession" for the Assessment Year 2018-19. 10

(b) Mr. Raghavan, aged 57, is a person with disability. He furnishes you the following information for the year ended 31.03.2018.

(i) Income from business (computed) Rs.7,00,000

(ii) Dividend from an Indian company Rs.10,50,000

(iii) Interest on Savings bank account with a nationalized bank Rs.17,000

(iv) Medical insurance premium paid by account payee cheque

For self Rs. 20,000

For brother, wholly dependent on him Rs.15,000

Compute his total income for the Assessment Year 2018-19. 5

Answer: 5 (a)

Computation of income from business of Mr. Bhushan for the Assessment year 2018 – 19

	Rs.	Rs.
Net profit as per Profit & Loss Account		8,90,000
Add:		
Salary paid in excess to daughter -disallowed		40,000
Factory rent paid excessively to brother-disallowed		24,000
Office rent paid exceeding Rs.1,80,000 without deduction of tax at source. 30% is disallowed. 30% of Rs.2,10,000		63,000
Assessee is required to deduct tax at source. Provisions of section 40(a)(ia) will apply as the total turnover of Bharat exceeded Rs.100 lacs during the immediately preceding financial year i.e.2016-17.		
Purchase of grains from agriculturist by paying cash is one of the exceptions given in rule 6DD.		
Commission paid to agent Rs. 12,000 without tax deduction at source. As the commission payment is less than Rs.15,000 the tax deduction under section 194H is not attracted. Hence the disallowance under section 40(a)(ia) is also not attracted,		
Demurrages to Railways paid beyond the due date specified in section 139(1) is not allowable under section 43B.		30,000
Term loan interest paid beyond the due date specified in section 139(1) is not allowable under section 43B.		35,000
		10,82,000
Less:		
Depreciation allowable under section 32	45,000	
On new machinery Rs.5 lakhs × 15% × ½ thereon (as it was put to use for less than 180 days)	37,500	

Suggested Answer_Syl16_Dec2018_Paper_7

Additional depreciation on new machinery: Rs.5 lakhs × 20% × ½ thereon (as it was put to use for less than 180 days)	50,000	
Agricultural income credited to I & E Account	1,50,000	
Dividend from Indian companies credited to I & E Account	75,000	
		3,57,500
Income chargeable under the head "Profits and gains of business or profession"		7,24,500

Answer: 5 (b)

Particulars	Rs.	Rs.
Income from Business (computed)		7,00,000
Income from other sources:		
Dividend from Indian companies, when it exceeds Rs.10 lakhs, is exempt only up to Rs. 10 lakhs u/s 10(34) read with s. 115BBDA, balance is taxable		50,000
Savings bank interest		17,000
Gross Total Income		7,67,000
Less: Deduction under Chapter VI-A		
Under section 80D In respect of medical insurance for self Paid for his brother, is not eligible	 20,000 Nil	
Under section 80TTA in respect of SB interest	10,000	
Under section 80U in respect of disability	75,000	
Total deduction under Chapter VI-A		1,05,000
Total Income		6,62,000

6. (a) CMA Anup Banerjee is in practice as Cost Accountant. He follows mercantile basis of accounting. His income & expenditure account for the year ended 31st March, 2018 is given below:

Expenditure	Rs.	Receipts	Rs.
Salary and stipends	**10,50,000**	**Professional fees**	**45,00,000**
Bonus to staff	**1,00,000**	**Share of profit from a partnership firm**	**2,00,000**
Meeting, Conference and Seminars	**2,50,000**	**Interest on fixed deposit in a bank (Net of TDS)**	**27,000**
Fees to consultants	**1,50,000**	**Honorarium for valuation of answer papers of various institutes (Net of TDS)**	**54,000**
Travelling and conveyance	**4,60,000**		
Rent for office premises	**6,00,000**		
Provision for bad debts	**40,000**		
Depreciation	**1,45,000**		
Provision for income tax	**7,02,000**		
Excess of income over expenditure	**12,84,000**		
	47,79,000		**47,79,000**

Other information:

(i) Depreciation as per the Income-tax Act Rs.2,00,000.

Suggested Answer_Syl16_Dec2018_Paper_7

(ii) Salary and stipends include Rs.40,000 paid to one trainee for passing CMA final examination with rank.

(iii) Bonus to staff was paid in November, 2018.

(iv) In the financial year 2016-17, a sum of Rs.15,000 was due to a consultant, which was allowed. The said amount was paid on 14th May, 2017 in cash.

Compute the total income of CMA Anup Banerjee for the Assessment Year 2018-19. He has not opted for presumptive taxation scheme under section 44ADA. The due date for furnishing the return of income under section 139(1) may be taken as 31st Oct, 2018. 15

Answer: 6 (a)

Particulars	Rs.	Rs.
Profits & gains of business or profession Net surplus as per Income & Expenditure A/c		12,84,000
Add: Payment to a trainee for passing CMA Final examination with rank is in the nature of incentive to boost the morale of the staff. The expenditure is wholly and exclusively for the purpose of profession of the assessee and allowable u/s 37(1). As the amount has already been debited to income & expenditure account, no adjustment is necessary		
Bonus to staff not paid before the due date of filing return of income disallowed u/s 43B	1,00,000	
Under section 36(1)(vii), bad debt does not include provision for bad debts. Hence, provision for bad debts is disallowed	40,000	
Depreciation debited to profit & loss account	1,45,000	
Provision for income-tax disallowed u/s 40(a)	7,02,000	
Amount of consultancy fee due in the financial year 2016-17 paid in cash for sum exceeding Rs. 10,000 added back u/s 40A(3)	15,000	
		10,02,000
		22,86,000
Less: Share of profit from a firm exempted under section 10(1A).	2,00,000	
Interest on bank FD account considered under the head "income from other sources"	27,000	
Honorarium for valuation of answer papers considered under the head "income from other sources"	54,000	
Depreciation as per Income-tax Act	2,00,000	
		4,81,000
Taxable income from profession (A)		18,05,000
Income from other sources Interest on bank FD (Gross) 27,000 × 100/90	30,000	
Honorarium for valuation of answer papers (Gross) Rs.54,000 × 100/90 Tax is deducted under section 194J @ 10%	60,000	
Taxable income from other sources		90,000

Suggested Answer_Syl16_Dec2018_Paper_7

Gross total income (A) + (B)		18,95,000
Deduction under Chapter VIA		Nil
Total income		18,95,000

7. (a) Explain with reasons, the taxability of the following transactions under the head "Income from other sources":

(i) Veena received interest of Rs.5,00,000 on additional compensation on account of compulsory acquisition of land acquired few years back. Year-wise break up of interest received:
Rs. 1,20,000 for the Financial Year 2015-16, Rs. 2,40,000 for the Financial Year 2016-17 and Rs. 1,40,000 for the Financial Year 2017-18.
3

(ii) Gopal has shareholding (with voting rights) of 12% in Krishna Pvt. Ltd., a closely held company. He received loan of Rs. 2,50,000 from the company on 1st May, 2017, for which he furnished adequate security to the company. The accumulated profit of the company at that time was Rs. 1,75,000. Gopal repaid the loan on 30th Sept., 2017. 3

(iii) Family pension of Rs.60,000 received by Sreelekha, widow of Late Vikram. 1

(iv) Vasant, whose salary income is Rs.4,00,000 has received a cash gift of Rs.60,000 from a charitable trust registered under section 12AA for meeting his medical expenses.
1

(b) State the due dates for payments of advance tax, along with the quantum of amount payable in each installment. Present your answer in the form of a table. 7

Answer: 7 (a)

(i) As per section 145A(b), interest received by an assessee on compensation or on enhanced compensation shall be deemed to be the income of the year in which it is received. Therefore, entire interest received i.e. **Rs.** 5,00,000 shall be taxed in the assessment year 2018-19.

Under section 56(2)(viii), interest received on compensation or additional compensation is to be taxed under the head "income from other sources".
As per section 57(iv), 50% of such interest received shall be allowed as deduction.
Therefore, amount taxable in Assessment Year 2018-19 = **Rs.** 5,00,000 - 50% of **Rs.** 5,00,000 = **Rs.** 2,50,000

(ii) As per section 2(22)(e), where a person holding 10% or more shareholding in a closely held company obtains loan or advance from the company, the amount of such loan or advance to the extent of accumulated profits of the company shall be deemed to be dividend in the hands of such shareholder. It is immaterial whether the shareholder repays the loan in the same previous year.
Therefore, out of loan of **Rs.** 2,50,000, the sum of **Rs.** 1,75,000 shall be treated as dividend in the hands of Gopal.
Exemption under section 10(34) is not available in respect of such deemed dividend.
It is immaterial that adequate security was provided or that the loan was repaid during the same year.

(iii) As per section 56, family pension is assessable as income from other sources.
Deduction is allowed under section 57 @ 33 1/3 % of such pension or **Rs.** 15,000, whichever is less. So, taxable family pension = **Rs.** 60,000 - 15,000 = **Rs.**45,000.

(iv) As per section 56(2)(vii), any sum of money or property received without consideration is income under the head "income from other sources".
However, this provision is not applicable if money or property is received from a charitable trust registered under section 12AA.
Therefore, cash gift of Rs. 60,000 received by Vasant from the charitable trust is not taxable.

Answer: 7 (b)

Due date for payment of advance tax [Sec. 211]		
Assessee	**Due date of installment (of previous year)**	**Minimum amount payable**
An eligible assessee in respect of an eligible business referred to in Sec. 44AD or 44ADA.	On or before March 15	100% of advance tax liability
Other assesses	On or before June 15	Upto 15% of advance tax liability
	On or before September 15	Upto 45% of advance tax liability less amount paid in earlier installment
	On or before December 15	Upto 75% of advance tax liability less amount paid in earlier installment(s)
	On or before March 15	Upto 100% of advance tax liability less amount paid in earlier installment(s)

Notes:

a) Any amount paid u/s 211 on or before 31st March of the previous year, shall be treated as advance tax paid during the financial year.
b) Where an assessee is a senior citizen (or super senior citizen) and does not have any income chargeable under the head "Profits and gains of business or profession", provision of advance tax is not applicable. In other words, senior citizen not having business income is not liable to pay advance tax.

8. Write short notes on any three of the following: 5×3=15

(a) Verification of return of income in the case of an individual, HUF and political party

(b) Any five transactions where quoting PAN is mandatory

(c) ICDS-I on "Accounting Policies"

(d) Best judgment assessment under section 144

Answer: 8 (a)

Verification of return of income

The return under Section 139 shall be verified:

In the case of an individual –

(i) By the individual himself; or

(ii) Where he is absent from India, by the individual himself or by some person duly authorized by him on his behalf; or

(iii) Where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf and

(iv) Where, for any other reason it is not possible for the individual to verify the return, by any person duly authorized by him this behalf.

In case of (ii) and (iv) above, the person verifying the return should hold a valid power of attorney from the individual to do so, which shall be attached to the return.

In case of (ii) and (iv) above, the person verifying the return should hold a valid power of attorney from the individual to do so, which shall be attached to the return.

in the case of a Hindu Undivided Family — only by the Karta.

However, in the following two cases it can be verified by **any other adult member of the family:**

Where the karta is absent from India; or where the Karta is mentally incapacitated from attending to his affairs.

in the case of a political party — by the **chief executive officer** of such party (whether such Chief Executive Officer is known as Secretary or by any other designation).

Answer: 8 (b)

Every person shall quote its PAN in all documents pertaining to following transactions entered into by him:

(i) Transactions related to sale or purchase of motor vehicles (other than two wheeled vehicles), which requires registration.

(ii) Opening an account (other than a time deposit and a basic savings bank deposit account) with a banking company or a co-operative bank.

(iii) Making application for issue of credit card or debit card.

(iv) Opening of a demat account.

(v) Payment in cash exceeding Rs.50,000 to a hotel or restaurant against a bill or bills at any one time.

(vi) Payment in cash exceeding Rs.50,000 in connection with travel to any foreing country or payment for purchase of any foreign currency at any one time.

(vii) Payment exceeding Rs.50,000 to any mutual fund or purchase of its units.

(viii) Payment exceeding Rs.50,000 to a company or an institution for acquiring debentures or bonds issued by it.

(ix) Payment exceeding Rs.50,000 to RBI for acquiring bonds issued by it.

(x) Deposit in cash exceeding Rs.50,000 during any one day with a banking company or a cooperative bank.

Answer: 8 (c)

- Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation.
- The treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form.
- Marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

Fundamental Accounting Assumptions

The fundamental accounting assumptions i.e., Going Concern, Consistency and Accrual are assumed as followed. No specific disclosure is required, if these assumptions are

followed. However, if such assumption are not followed, the fact shall be disclosed.

Change in Accounting Policies

An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies

- All significant accounting policies adopted by a person shall be disclosed.
- Any change in an accounting policy which has a material effect shall be disclosed (with quantum of the effect, if ascertainable). Where such amount is not ascertainable, the fact shall be indicated.
- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

Answer: 8 (d)

(i) When the assessment is made by the Assessing Officer to the best of his judgment after considering all relevant materials it is called best judgment assessment.

(ii) Assessing officer cannot reduce the tax liability of the assessee by assessment under this section. A refund cannot be granted under section 144.

In the following situations assessment shall be made under section 144:

(iii) If the person fails to file the return under section 139(1), 139(4) or 139(5); or

(iv) If the person fails to comply with the terms of notice under section 142(1); or

(v) If the person fails to comply with the directions under section 142(2A) requiring him to get his accounts audited ; or

(vi) If the person fails to comply with the terms of notice under section 13(2), requiring his presence or production of evidence and documents.

In any of the given situation, the Assessing Officer is empowered to make an assessment under section 144, to the best of his judgment.

INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS
JUNE 2019

Paper- 7: DIRECT TAXATION

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate the full marks.
Question No. 1 is compulsory. Answer any five from the rest.

Wherever necessary, you may make suitable assumptions and state them clearly in your of the answer.
Working notes should from part of the answer.
All questions relate to the Income-tax Act, 1961 and pertain to the AY-2019-20, unless stated otherwise.

1. (a) Choose the most appropriate alternative for the following (option to be given only in capital letter A, B, C or D; entire answer need not be reproduced): 1x10=10

(i) In the case of a domestic company (turnover/gross receipts ₹ 70 crores), the basic rate of income-tax applicable for computing as per normal provisions would be _____, when the turnover of the company has been ₹ 45 crores in the previous year relevant to the assessment year 2017-18. (Note: *Ignore surcharge, education cess, etc.)*

(A) 30%
(B) 29%
(C) 25%
(D) 35%

(ii) The maximum marginal rate of tax applicable for individual taxpayer having total income of ₹ 1.5 crore (including surcharge and health & education cess) is _____.

(A) 34.32%
(B) 35.88%
(C) 34.944%
(D) 29.12%

(iii) When a charitable trust registered u/s 12AA pays ₹ 50,000 towards rent to a resident for the premises occupied by it without deduction of tax at source for the entire previous year 2018-19, the amount of rental expenditure liable for disallowance would be _____.

(A) Nil
(B) ₹ 6,00,000
(C) ₹ 4,20,000
(D) ₹ 1,80,000

(iv) The lock-in-period for capital gain bonds issued by National Highway Authority of India for the purpose of deduction under section 54EC is _____.

(A) 5 years
(B) 3 years
(C) 7 years
(D) 1 year

(v) The TDS rate for payments made to a non-resident sportsman is _____ %.

(A) 20
(B) 20.8
(C) 30
(D) Nil

(vi) Where a partner of a firm transfers any capital asset to the firm by way of capital contribution, for the purpose of computing capital gain in the hands of the partner, the amount of deemed consideration is

(A) cost to the partner.
(B) fair market value of the asset on the date of transfer.
(C) the amount recorded in the books of the firm.
(D) value as determined by the Stamp valuation authority.

(vii) When the gross receipts from profession exceed ₹ _____ lakhs, it is liable for audit under section 44AB and the provisions of section 44ADA will not apply.

(A) 50
(B) 25
(C) 100
(D) 20

(viii) Medical insurance premium incurred for senior citizen is eligible for deduction up to ₹ _____ under section 80D.

(A) 30,000
(B) 50,000
(C) 1,00,000
(D) 60,000

(ix) When a resident senior citizen having gross total income of ₹ 5,56,000, has derived interest from savings account in a nationalized bank of ₹ 8,200 and fixed deposit interest of ₹ 47,000 from such bank, he is eligible for deduction of ₹ _____ from the gross total income.

(A) 55,200
(B) 8,200
(C) 47,000
(D) 50,000

(x) Seshan, a retired civil servant received monthly pension of ₹ 60,000 during the previous year 2018-19. The amount of pension liable to tax after standard deduction would be ₹ _____.

(A) 7,10,000
(B) 7,00,000

(C) 6,80,000

(D) 6,30,000

(b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1x5=5

1	2	3	4
(i)	ICDS IX	A	Quoting of Aadhaar number
(ii)	Section 139AA	B	₹ 1500 per child u/s 10(32)
(iii)	Minor son/daughter clubbing	C	Borrowing cost
(iv)	Sec 45(2)	D	Exempted from tax u/s 10(17)
(v)	Any allowance received by MP/MLA	E	Conversion of Capital asset into Stock in trade

(c) State whether the following are True or False: 1x5=5

(i) In applicable situations of TDS, such TDS is to be deducted on amount including GST component.

(ii) Contribution made to political party by way of cash to the extent of ₹ 10,000 is allowed as business expenditure.

(iii) Unabsorbed depreciation can be carried forward for any number of years.

(iv) Interest on normal compensation/enhanced compensation is fully chargeable to tax in the year of receipt.

(v) Long-term capital gain arising from sale of listed shares (STT paid) is not fully exempted from tax.

(d) Fill up the blanks: 1x5=5

(i) Payment of royalty to a person resident in India requires deduction of tax at source at the rate of _____.

(ii) The amount of wages paid to eligible new workmen by an assessee engaged in non-seasonal manufacturing activity is deductible u/s 80JJAA @ _____ % of the wages so paid.

(iii) An expenditure, for which cash payment is made for a sum exceeding ₹ _____ on a single day is disallowed.

(iv) If a return of income is not furnished within the due date prescribed in section 139(1), such return can be filed on or before _____, provided the assessment is not completed.

(v) Maximum amount of exemption under section 10(10C) in respect of compensation received for voluntary retirement is ₹ _____ .

Answer:

1. (a)

(i) (C) 25%

(ii) (B) 35.88%

(iii) (D) ₹ 1,80,000

(iv) (A) 5 years

(v) (B) 20.8
(vi) (C) The amount recorded in the books of the firm
(vii) (A) 50
(viii) (B) 50,000
(ix) (D) 50,000
(x) (C) 6,80,000

1. (b)

(i)	ICDS IX	C	Borrowing cost
(ii)	Section 139AA	A	Quoting of Aadhar number
(iii)	Minor son/daughter clubbing	B	₹ 1500 per child u/s 10(32)
(iv)	Sec 45(2)	E	Conversion of Capital asset into Stock in trade
(v)	Any allowance received by MP/MLA	D	Exempted from tax u/s 10(17)

1. (c)

(i) False
(ii) False
(iii) True
(iv) False
(v) True

1. (d)

(i) 10%
(ii) 30
(iii) 10,000
(iv) 31st March, 2020/ end of relevant assessment year
(v) ₹ 5,00,000

2. (a) Mohit left India on 07.04.2018 to United Kingdom for employment. He returned to India on 07.11.2018, after resigning his job. 9

He commenced a business on 01.12.2018 and his turnover was ₹ 32 lakhs up to 31.03.2019. All payments for the sales were received through crossed account payee cheques. He wants to declare income under section 44AD.

His salary income in the United Kingdom was ₹ 6,56,000. When he remained outside India, he invested in equity shares of Vodafone UK Inc. He earned dividend from Vodafone UK Inc. (foreign company) ₹ 60,000 during the previous year 2018-19. He borrowed ₹ 2,00,000 from Mr. Narain of Chennai to invest in the shares of the foreign company and paid interest of ₹ 20,000 for the year ended 31.03.2019.

Determine his residential status for the assessment year 2019-20 and compute his total income.

(b) Tarun, employed in a private company, commenced construction of a commercial complex in July, 2017. He borrowed ₹ 50 lakhs from a bank @ 9% per annum. Interest

up to 31.03.2018 was ₹ 2,20,000 and for the period from 01.04.2018 to 31.12.2018 ₹ 2,30,000. ₹ 1,40,000 towards interest for the balance three months remained unpaid. 6
The construction of the building was completed on 31st December, 2018. The building was let out w.e.f. 01.01.2019 for a monthly rent of ₹ 90,000. Municipal tax of ₹ 1,20,000 was paid by cash on 10.01.2019. He repaid ₹ 1,90,000 towards principal during the previous year 2018-19, of which he paid ₹ 1,20,000 up to 31.12.2018.
The municipal value of the property is ₹ 9,00,000.
Compute the income from house property of Tarun for the assessment year 2019-20.

Answer:

2. (a) Determination of residential status:

An individual is said to be resident in India in any previous year if he is in India for a period or periods amounting in all to 182 days or more; or
Was in India for 60 days or more during the previous year and has remained in India in 4 previous years preceding the previous years in aggregate for 365 days or more.
Extended time in the case of citizens of India, who leaves India for the purpose of employment outside India, the time limit is 182 days instead of 60 days given above.
When a person satisfies both the conditions, he is a resident. If he does not satisfy any of the conditions given above, he is non-resident.
In this case, Mohit remained in India for 151 days (6+24+31+31+28+31)
He has not stayed in India for 182 days or more and hence does not satisfy both the basic conditions.
His status is non-resident.

Computation of Total Income of Mohit for the assessment year 2019-20:

	Reason	₹
Income from Salary		
Earned outside India	Does not accrue in India and hence not taxable since he is a non resident	Nil
Income from business		
On ₹ 32 lakhs @ 6%	Accrued in India hence taxable	1,92,000
Income from Other Sources		
Income from dividend	Accrued outside India and hence not taxable since he is a non-resident	Nil
Interest on moneys borrowed	Being not a taxable income in India, it is not deductible.	Nil
	Total Income	1,92,000

2. (b) Computation of Income from House Property of Mr. Tarun for the Asst. Year 2019-20:

Particulars	₹	₹
Rent received ₹ 90,000 X 3		2,70,000
Municipal value ₹ 9,00,000 × 3 /12 months		2,25,000
Since the rent received is more than proportionate municipal value, the rent received is taken as annual value		2,70,000
Less: Municipal tax (though paid in cash, it is eligible for deduction)		1,20,000
Net Annual Value		1,50,000
Less: Interest on moneys borrowed for construction		
Up to 31.03.2018 ₹2,20,000. It is deductible in 5 equal annual installments ₹ 2,20,000 × 1/5	44,000	
Interest from 01.04.2018 to 31.03.2019 [Interest paid for whole year is deductible]	3,70,000	
		4,14,000
Income from house property		(2,64,000)

3. (a) Ms. Poorvisha is the HR Manager in Poorni Textiles Ltd. She gives you the following particulars for the year ended 31-03-2019: 10

- **Basic Salary ₹ 1,00,000 p.m.**
- **Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits).**
- **Bonus ₹ 21,000p.m.**
- **Her employer-company has provided her with an accommodation on 1st April, 2018 at a concessional rent. The house was taken on lease by the company for ₹12,000 p.m. Ms. Poorvisha occupied the house from 1st November 2018, ₹ 4,800 p.m is recovered from the salary of Ms. Poorvisha.**
- **The employer gave her a gift voucher of ₹ 10,000 on her birthday.**
- **She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.**
- **Uniform allowance ₹ 24,000.**

The company pays medical insurance premium to effect insurance on the health of Ms. Poorvisha ₹ 20,000.

Motor car owned by the employer (Cubic capacity of engine exceeds 1.6 liters) provided to Ms. Poorvisha from 1st November, 2018 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Poorvisha. Brief note on treatment of each item is required.

(b) Ashok, Surat furnishes you the following information for the previous year 2018-19: 5

		₹
(i)	**Income from coffee grown and cured in Coorg, Karnataka**	**3,00,000**
(ii)	**Income from tea grown and manufactured in Jorhat, Assam**	**2,50,000**
(iii)	**Income from Rubber estates in Kerala by sale of field latex obtained from rubber plants grown there.**	**4,00,000**
(iv)	**Income from nursery by name 'Soundarya Nursery', Chennai**	**2,00,000**
(v)	**Rent from a dwelling house in agricultural land in Coorg, Karnataka (It is occupied by the coffee estate labourers).**	**90,000**

Compute the agricultural income of Ashok.

Answer:

3. (a)

Computation of Income chargeable to tax under the head "Salaries" in the hands of Ms. Poorvisha for A.Y 2019-20

Particulars	₹
Basic Salary [₹ 1,00,000 × 12]	12,00,000
Dearness allowance [₹ 24,000 ×12]	2,88,000
Bonus [₹ 21000 ×12]	2,52,000
Perquisite value in respect of concessional rate [See working note below]	36,000
Gift voucher given by employer on Ms. Poorvisha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [see note for Alternative view]	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary 18% × (₹ 1,00,000 + ₹ 24,000) × 12] - 12% × {[₹ 1,00,000 + ₹ 7,200 (being 30% of 24000)×12%} = ₹ 2,67,840 - ₹ 1,54,368 [Salary = Basic salary + Dearness allowance, to extent it forms part of pay for retirement benefits	1,13,472
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on health of an employee is an exempt perquisite	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹ 2,400/- p.m. [₹ 2,400 × 5 months]	12,000
Gross Salary	19,11,472
Less: Standard deduction under section 16(ia)	40,000
Salary Chargeable to tax	18,71,472

Working Note:

1. Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer of 15% of salary whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of perquisite.

Actual rent paid by the employer from 01.11.2018 to 31.03.2019 = ₹60,000 [₹12,000×5 months]

15% of salary = ₹ 96,150 [15% × (₹ 100000 + ₹ 7200 + ₹ 21000) × 5 months]

Salary = Basic salary + Dearness allowance, to extent it forms part of pay for retirement benefits + Bonus

Lower of the above is ₹ 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 60,000 - ₹ 24,000 [₹ 4,800 × 5 months]

= ₹ 36,000

2. As per Rule 3(7) (iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasion or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

   In this case, the gift voucher of ₹ 10,000 was received by Ms. Poorvisha from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹5,000, the entire amount of ₹10,000 is liable to tax as perquisites

3. In case of uniform allowance, it is assumed here that total amount of allowance is incurred for that purpose and hence it is fully exempted from tax.

3. (b)

Computation of agricultural Income of Ashok for the Asst. Year 2019-20

Particulars	Agricultural Income	Non-agricultural income
Coffee grown and cured in Coorg, Karnataka [75% agri income and 25% of non-agri income]	2,25,000	75,000
Income from tea grown and manufactured in Jorhat, Assam [60% agri income and 40% non-agri income]	1,50,000	1,00,000
Income from Rubber estates in Kerala [65% agri income and 35% non agri income]	2,60,000	1,40,000
Income from nursery at Chennai is fully agricultural income	2,00,000	Nil
Rent from dwelling house in agricultural land in Coorg, Karnataka	90,000	Nil
Total	9,25,000	3,15,000

4. (a) Vipul held a plot of land in Haryana as capital asset till 31st March, 2017. The land was acquired by him in the previous year 2013-14 for ₹ 20,00,000. It was converted

into stock-in-trade on 1st April, 2017 of real estate business carried on by him. The fair market value of the land on the said date was ₹ 35,00,000. 10

Vipul sold the land to Vinod for ₹ 45,00,000 on 31st January, 2019. The stamp duty assessed on the said date in respect of the land amounted to ₹ 50,00,000.

Vipul purchased a flat for ₹ 15,00,000 on 31st March, 2019 for his residential purpose. He has no other residential property.

(i) Compute the income arising from the above transactions under appropriate heads of income in the hands of Vipul.

(ii) What is the effect on assessment of Vinod, if Vinod had bought the land for constructing a residential property?

Additional Information:

Financial Year	**Cost Inflation Index**
2013-14	**200**
2017-18	**254**
2018-19	**264**

(b) Krishna is employed in XYZ Limited. He gets a basic salary of ₹ 80,000 per month and dearness allowance equal to 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Krishna and XYZ Limited contribute 12% of basic salary to new pension scheme referred to in section 80CCD. 5

Examine the tax treatment of employer's contribution and own contribution in the hands of Krishna.

Answer:

4. (a)

(i) In the hands of Vipul:

Computation of capital gain for Assessment Year 2019-20

Particulars	₹
Consideration, being fair market value of land on the date of conversion into stock-in-trade	35,00,000
Less: indexed cost of acquisition (₹ 20,00,000 × 254/200)	25,40,000
Long-term capital gain	9,60,000
Less: exemption u/s 54F for investment in residential flat (₹ 9,60,000 × ₹ 15,00,000 / ₹ 35,00,000)	4,11,429
Taxable long-term capital gain	5,48,571

Computation of business income for Assessment Year 2019-20

Particulars	₹
Consideration, being stamp duty value on the date of sale [Under section 43C, actual consideration or stamp duty value, whichever is more is to be taken as consideration]	50,00,000
Less: Cost of acquisition, being fair market value on the date of conversion	35,00,000

Business income	15,00,000

(ii) Effect on assessment of Vinod for Assessment Year 2019-20:

As per section 56(2)(x), where immovable property in the nature of capital asset is received for a consideration less than the stamp duty value, the difference between the stamp duty value and actual consideration shall be taxed as income from other sources, if such difference exceeds ₹ 50,000.

In the instant case, Vinod purchased the land for constructing residential property meaning thereby that the land is his capital asset. So, the difference between the stamp duty value and actual purchase price i.e. ₹ 5,00,000 is taxable in his hands under the head "income from other sources''.

4. (b)

Tax treatment of employer's contribution in the hands of Krishna

Employer's contribution to pension scheme referred to in section 80CCD would be treated as salary because it is specifically included in the definition of "salary" under section 17(1)(viii). Accordingly, ₹ 1,15,200, being 12% of basic salary of ₹ 9,60,000 is to be included in the salary of Krishna.

Tax treatment of Krishna's own contribution in the hands of Krishna:

(i) Krishna's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, deduction is restricted to 10% of salary. Salary for this purpose - basic salary plus DA, if it forms part of pay for retirement benefit.
So, salary for this purpose = ₹ 9,60,000 + (50% of 40% of ₹ 9,60,000) = ₹ 11,52,000.
Deduction under section 80CCD(1) restricted to 10% of salary = ₹ 1,15,200

(ii) As per section 80CCD(!B), no deduction is permissible as the whole amount of contribution (i.e. ₹ 1,15,200) is exhausted under section 80CCD(1)
Above deduction of ₹ 1,15,200 will be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE.

(iii) Employer's contribution would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Hence, deduction under section 80CCD(2) would be ₹ 1,15,200.
This deduction of employer's contribution of ₹ 1,15,200 is outside the overall limit of ₹ 1,50,000 under section 80CCE.

5. (a) Explain with brief reasons, the allowability or taxability of the following expenditure/income in computation of income under the head "Profits and gains of business or profession": 2x5=10

(i) Compensation of ₹ 30 lakhs received by Mr. Jain, a businessman, under an agreement for not carrying on business of software development.

(ii) Vikram Ltd., engaged in growing and manufacturing tea in India, deposits ₹ 10 lakhs in NABARD. Profit before considering such deposit is ₹ 15 lakhs.

(iii) Construction of toilets in a rural area by Sigma Ltd. for ₹ 10 lakhs in compliance with Corporate Social Responsibility (CSR) under the Companies Act, 2013.

(iv) Plot purchased for ₹ 20 lakhs and construction of a building for ₹ 82 lakhs by Mr. Madhusudan for storing sugar, in the course of business of warehousing of sugar. Expenditure has been capitalized in the books.

(v) Depreciation on a machine acquired for business purpose by Mr. Anand for ₹2,50,000, out of which an amount of ₹ 50,000 was paid in cash.

(b) Shri Mayur has two minor children named Lakshmi (age 10) and Sarath (age 14). Following details pertain to the minor children for the year ended 31.03.2019: 1x5=5

(i) Minor Lakshmi won Carnatic music competition in TV channel and was awarded cash prize of ₹ 2,00,000.

(ii) Minor Lakshmi received cash gifts from friends of Mayur ₹ 43,000. No single gift exceeded ₹ 10,000.

(iii) Minor Sarath received gift of gold chain whose fair market value was ₹ 80,000 from his maternal uncle on the occasion of his 14th birthday. He also received cash gift of ₹12,000 from friends of Mayur on his birthday.

(iv) Out of accumulated savings of daughter Lakshmi, one vacant land was acquired. The stamp duty value of the land ₹ 3,60,000. The documented value of the land ₹3,20,000.

Compute the income of minor children of Mayur which is liable for clubbing.

Answer:

5. (a)

Sl. No.	Particulars
(i)	As per section 28, any sum whether received or receivable , under an agreement for not carrying out any activity in relation to any business or profession is chargeable to tax under the head "Profits and gains from business or profession". Therefore, compensation of ₹ 30 lakhs received by Mr. Jain under an agreement for not carrying out software development business is taxable as business income.
(ii)	As per section 33AB, in case of assessee engaged in growing and manufacturing tea in India, deduction allowed in respect of deposit in NABARD is lower of the amount of such deposit or 40% of profit of such business computed under the head "Profits and gains of business or profession" (before this deduction and before adjusting brought forward business loss). Therefore, ₹ 6 lakhs, being 40% of profit (lower than actual deposit) is allowable as deduction.
(iii)	Under section 37(1), 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. In view of above, expenditure of ₹ 10 lakhs on construction of toilets in rural area shall not be allowed as deduction.
(iv)	Business of warehousing of sugar is a specified business under section 35AD. As per section 35AD, in case of specified business capital expenditure incurred for

	construction of building for storage of sugar is allowable as deduction, provided such expenditure is capitalized in the books. Land cost is not allowable as deduction. Therefore, the whole amount of ₹ 82 lakhs spent on building shall be allowed as deduction.
(v)	As per section 43(1), any payment exceeding ₹ 10,000 on a single day otherwise by account payee cheque or draft or by electronic mode towards acquisition of asset shall not form part of the actual cost. Therefore, depreciation shall be allowed on ₹ 2,00,000 (i.e. ₹ 2,50,000 - ₹ 50,000)

5. (b)

Particulars	Reason	₹
Income of Minor Lakshmi		
Winning from Carnatic music competition in TV channel, not liable for clubbing	It is earned out of personal skill of minor child	Nil
Cash gifts from friends of Mayur	Liable for clubbing	43,000
Purchase of vacant land ₹ 3,20,000 and the stamp duty value is ₹ 3,60,000.	Since the difference is less than ₹ 50,000 it is not liable to tax. (Item (B) of sub-clause (b) of section 56(2)(x))	Nil
		43,000
Less: Exemption U/s 10(32)		1,500
	Income liable for clubbing	41,500
Income of minor Sarath		
Gift from maternal uncle on the occasion of 14th birthday	Not liable for clubbing since it is an exempted income	Nil
Cash gift from friends of Mayur	Liable for clubbing	12,000
Less: Exemption U/s.10(32)		1,500
	Income liable for clubbing	10,500

6. (a) Compute the total income of Mr. Jagan, a resident, from the following details: 9

	Particulars	**Amount (₹)**
(i)	**Income under head 'Salaries'**	**3,50,000**
(ii)	**Income from owning and maintaining race horses**	**(3,00,000)**

(iii)	**Long-term capital gain from sale of house plot**	**(90,000)**
(iv)	**Income from house property-X**	**50,000**
(v)	**Business Income- Medicines**	**(5,00,000)**
(vi)	**Speculative business-A**	**2,00,000**
(vii)	**Business Income-Textile**	**3,50,000**
(viii)	**Speculative business-B**	**(1,00,000)**
(ix)	**Income from horse races**	**1,50,000**
(x)	**Income from house property-Y**	**(3,10,000)**
(xi)	**Short-term capital gain from sale of immovable property**	**1,00,000**

(b) Brindavan & Co. is a partnership firm consisting of 4 partners viz., Ram, Rahim, Robert and Rakesh. The firm made turnover exceeding ₹ 100 lakhs and the net profit of firm was ₹ 9,50,000 before considering the following items: 6

(i) Shop rent paid for premises to partner Ram ₹ 17,500 per month. No tax was deducted at source.

(ii) Depreciation as per Income-tax Rules ₹ 1,50,000.

(iii) Interest on capital to partners @15% ₹1,50,000, as authorized by the deed of partnership.

(iv) Working partner salary to each partner ₹ 15,000 per month, as per partnership deed.

You are required to compute the income of the firm for the assessment year 2019-20.

Answer:

6. (a)

Computation of Total Income of Jagan for the Asst. Year 2019-20:

	₹	₹
Income by way of Salaries		3,50,000
Income from house property:		
Property - X	50,000	
Property - Y	(3,10,000)	
Loss from Property	(2,60,000)	
But set off under the head house property limited to		(2,00,000)
Balance of property loss eligible for carry forward	(60,000)	
		1,50,000
Income from Business:		

Textiles	3,50,000	
Medicines	(5,00,000)	
	(1,50,000)	
Less: Set off against speculation business income	1,00,000	
	(50,000)	
Less: Set off against capital gain	10,000	
To be carried forward for set off in subsequent 8 assessment years	(40,000)	
		Nil
Speculation Business:		
Business-A	2,00,000	
Business- B	(1,00,000)	
	1,00,000	
Business loss set off against this income	(1,00,000)	
Capital Gain:		
Short-term capital gain	1,00,000	
Long-term capital loss from sale of house plot	(90,000)	
	10,000	
Less: Business loss set off	10,000	
		Nil
Income from Other Sources:		
Income from horse race		1,50,000
Loss from owning and maintaining race horses ₹ 3 lakhs to be carried forward to subsequent years for set off.		
Total Income		3,00,000

6. (b)

Computation of Total income of Brindavan & Co for the Asst. Year 2019-20:

	₹
Net profit before adjustments	9,50,000
Add: Rent paid to partner ₹ 2,10,000. Since no tax was deducted at source,	63,000

30% of the expenditure is disallowed under section 40(a)(ia)			
			10,13,000
Less: Depreciation as per Income-tax Rules		₹ 1,50,000	
Interest on capital @ 12% is allowed [₹ 1,50,000 × 12/15]		₹ 1,20,000	
			2,70,000
		Book Profit	7,43,000
Working partner salary			
(1) Actually paid ₹ 15,000 × 4 × 12		₹ 7,20,000	
(2) On first ₹ 3 lakhs @ 90% =	₹ 2,70,000		
On the balance ₹ 4,43,000 @ 60%	₹ 2,65,800		
		₹ 5,35,800	
Least of the above is deductible			5,35,800
Income of the firm			2,07,200

7. (a) Ms. Renu has received the following gifts during the previous year 2018-19: 8

(i) On the occasion of her marriage on 17th January, 2019, she has received ₹1,00,000 as gift, out of which ₹ 50,000 are from relatives and balance from friends.

(ii) On 31st January, 2019, she has received gift of ₹ 55,000 from cousin of her mother.

(iii) She has received a mobile phone worth ₹ 22,000 from her friend on 16th August, 2018.

(iv) On 1st December, 2018, she acquired a vacant land from her friend for ₹ 1,50,000. Stamp duty value on that date ₹ 2,10,000.

Compute the taxable income from the aforesaid gifts.

(b) (i) State the provisions relating to deduction of tax at source from premature withdrawal from Employees Provident Fund. 4

(ii) State the time of tax deduction at source and the threshold limits of such deduction in case of payment to contractors. 3

Answer:

7. (a)

	Taxable Amount	Reasons
(i)	Nil	Gifts received on the on the occasion of marriage are not taxable, whether they are received from relatives or friends
(ii)	55,000	Cousin of Ms. Renu's mother is not a relative. Hence, the gift is taxable.

(iii)	Nil	Mobile phone is not included in the definition of "property" as per Explanation to section 56(2)(vii)
(iv)	60,000	Purchase of land for inadequate consideration on 1st December 2018 would attract the provision of section 56(2)(vii). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of individual. Hence, ₹ 60,000 is taxable in the hands of Ms. Renu.

7. (b)

(i) If the employee makes withdrawal before continuous service of five years, the withdrawal would be subject to tax.

Section 192A provides for deduction of tax @ 10% on premature withdrawal from employees provident fund scheme.

Tax is to be deducted at the time of payment of accumulated balance due to the employee.

Tax deduction is not to be made if the amount of such payment or aggregate amount of such payment to the payee is less than ₹ 50,000.

(ii) As per section 194C, in case of payment to contractors, tax is to be deducted at source at the time of crediting the account of the payee or at the time of payment, whichever is earlier.

No deduction is required to be made if the consideration for the contract does not exceed ₹ 30,000.

However, it is provided that tax will be required to be deducted at source where the amount credited or paid or likely to be credited or paid to a contractor or sub-contractor exceeds ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year.

8. Write short notes on any three out of the following: 5x3=15

(a) Losses which cannot be carried forward for set off when the return of income is not filed within the 'due date' specified under section 139(1).

(b) Items to be excluded in determining the cost of inventories under ICDS-II.

(c) Verification of return of income for company assessee under section 140.

(d) Scrutiny assessment under section 143(3)

Answer:

(a) Losses which cannot be carried forward where ROI is filed belatedly:

Section 80 says that certain losses cannot be carried forward when the return is not filed within the 'due date' specified under section 139(1) of the Act. They are as under:

(i) Business Loss

(ii) Speculation Business Loss

(iii) Loss from Business specified in section 35AD

(iv) Loss assessable under the head "Capital gain".

(v) Loss from owning and maintaining race horses.

(b) Items to be excluded in determining the cost of inventories under ICDS-II:

The cost of inventories is governed by ICDS-II not only for the purpose of valuation on the closing date but also when the inventories are purchased for the purpose of manufacture or trade.

The following costs shall be excluded in determining the cost of inventories:

- Abnormal amounts of wasted materials, labour or other production costs.
- Storage costs, unless those costs are necessary in the production process prior to a further production stage.
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition.
- Selling costs.

(c) Verification of ROI for corporate assessee:

In general	Managing Director
If due to any reason it is not possible for MD to verify or where there is no MD	Any director
Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under Insolvency and Bankruptcy Code, 2016	Insolvency professional appointed by such Adjudicating Authority
Non-resident company	A person holding a valid power of attorney. Copy of such power of attorney must be attached with the return.
Company in the process of winding up	Liquidator of the company
Where the management of the company has been taken over by the Central or State Government.	Principal officer

(d) Where the Assessing Officer or the prescribed income-tax authority (here-in-after collectively referred to as 'Assessing Officer') considers it necessary to ensure that the assessee has not -

- understated his income; or
- declared excessive loss; or
- under paid the tax

he can make a scrutiny in this regard and gather such information and evidence as he deems fit. And on the basis of such information and evidence so collected, he shall pass an assessment order. Such order shall be treated as regular assessment order.

Conditions for scrutiny assessment:

- A return has been furnished u/s 139 or in response to a notice u/s 142(1); and
- Assessing Officer considers it necessary or expedient to ensure that the assessee has not understated his income, declared excessive loss or under-paid the tax.

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2019

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Question No. 1 is compulsory. Answer any five from the rest.
Wherever necessary, the candidate may make suitable assumptions and state them clearly in the answer.
Working notes should form part of the answer.
All questions relate to the Income-tax Act, 1961 and pertain to the AY-2019-20, unless stated otherwise in the question.

1. (a) Choose the most appropriate alternative for the following (Option to be given only in capital letter A, B, C or D; entire answer need NOT be reproduced): 1x10=10

(i) Mr. Atul (aged 63), a resident Indian, paid for himself through account payee cheque, health insurance premium of ₹ 2,10,000 for 5 years in one lump sum on 28.03.2019. The eligible amount of deduction under section 80-D for the assessment year 2019-20 would be ₹ _____ .

(A) 50,000

(B) 30,000

(C) Nil

(D) 42,000

(ii) Ramesh Tea Ltd., acquired a motor car for ₹6,20,000 on 30.08.2018. The company is engaged in manufacture of tea in India. The amount of depreciation allowable on such motor car would be ₹_____.

(A) 93,000

(B) 37,200

(C) 46,500

(D) Nil

(iii) When an individual non-resident has total income exceeding ₹ 50 lakhs, the amount of surcharge payable on income-tax would be _____.

(A) 17%

(B) 15%

(C) 12%

(D) 10%

(iv) When a charitable trust registered under section 12AA paid rent of ₹ 50,000 per month throughout the previous year 2018-19 and no tax was deducted at source, the amount of expenditure to be considered for computing the application of income by the trust would be ₹ _____ .

(A) 6,00,000

(B) Nil

(C) 3,00,000

(D) 4,20,000

(v) Manoj, a resident, employed in ABC Ltd., an Indian company, has gross annual salary income of ₹ 20,60,000. The standard deduction available under section 16(1) would be ₹_____.

(A) Nil

(B) 30,000

(C) 40,000

(D) 50,000

(vi) Shares in unlisted companies, in order to be treated as long-term capital asset, should be held for a minimum period of _____ immediately prior to the date of transfer.

(A) 365 days

(B) 12 months

(C) 24 months

(D) None of the above

(vii) Padmaja Power Co. (P) Ltd. is engaged in generation and distribution of electrical power. It avails deduction under section 80-IA. The gross receipts of the company is ₹ 89 lakhs. The last date for filing the return of income in order to be eligible to avail deduction under section 80-IA is _____ .

(Note: Assume there is no extension of time for filling the return of income)

(A) 30.09.2019

(B) 31.07.2019

(C) 30.11.2019

(D) 31.03.2020

(viii) Mr. Harivallabh incurred medical expenditure of ₹1,20,000 in respect of the disease specified in rule 11DD for his father (aged 66) who is wholly dependent on him. The amount eligible for deduction from his gross total income would be ₹ ____.

(A) 40,000

(B) 60,000

(C) 80,000

(D) 1,00,000

(ix) When Mr. Avinash earned long-term capital gain of ₹ 1,80,000 on sale of listed shares, his total income being ₹ 10 lakhs, the amount of income-tax (including cess) on the said long-term capital gain would be ₹ _____ .

(A) Nil

(B) 18,720

(C) 8,320

(D) 10,400

(x) Mr. Seshan received a loan of ₹2 lakhs from Seshan Trading (P) Ltd. in which he has 35% equity shareholding (with voting power). The accumulated profits of the company on the date of loan was ₹10 lakhs. The amount of tax (ignore cess) payable on such loan would be

(A) @ 10% by Mr. Seshan

(B) @ 20% by the company

(C) @ 30% by the company

(D) depended upon other income earned by Mr. Seshan.

(b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1x5=5

1	2	3	4
(i)	Threshold limit for TDS deduction on commission/brokerage under section 194H.	(A)	₹ 18,000
(ii)	Rate of tax on royalty from registered patent in India.	(B)	₹ 2,000
(iii)	Rate of tax deduction at source for participating in a Television channel game show in case of residents.	(C)	10%
(iv)	Cash donation exceeding this amount is not admissible under section 80G.	(D)	30%
(v)	Taxable amount where enhanced compensation of ₹36,000 has been received.	(E)	₹ 15,000

(c) State whether the following statements are True or False: 1x5=5

(i) Income from sale of seeds derived from a nursery adjacent to agricultural lands is an agricultural income.

(ii) Unabsorbed depreciation can be carried forward for a maximum period of eight assessment years.

(iii) Cash gift of ₹1,00,000 received from uncle's son by a resident individual is taxable as income from other sources.

(iv) A firm, resident in India, having total income of ₹1,46,000 is eligible to claim deduction u/s 80D.

(v) For adjusting brought forward business loss with current year business income, one of the conditions is that such business must be continued during the current year.

(d) Fill in the blanks: 1x5=5

(i) A resident Indian aged 62, who has received interest of ₹12,000 from savings bank account and ₹43,000 as interest on bank fixed deposits, is eligible to a deduction of ₹_____from his gross total income.

(ii) Daily allowance received by a member of parliament is _____ .

(iii) An expenditure, for which cash payment is made for a sum exceeding ₹_____ on a single day is disallowed u/s 40A(3).

(iv) If a return of income for the AY 2019-20 is not filed within the due date prescribed in section 139(1), such return can be filed on or before _____ , provided assessment is not completed.

(v) Maximum amount of exemption under section 10(10C) in respect of compensation received for voluntary retirement is ₹ _____.

Answer:

1. (a)

(i)	(D)	42,000
(ii)	(A)	93,000
(iii)	(D)	10%
(iv)	(D)	4,20,000
(v)	(C)	40,000
(vi)	(C)	24 months
(vii)	(A)	30.09.2019
(viii)	(D)	1,00,000
(ix)	(C)	8,320
(x)	(C)	@ 30% by the company

(b)

1	2	3	4
(i)	Threshold limit for TDS deduction on commission/brokerage under section 194H.	(E)	₹ 15,000
(ii)	Rate of tax on royalty from registered patent in India.	(C)	10%
(iii)	Rate of tax deduction at source for participating in a Television channel game show in case of residents.	(D)	30%
(iv)	Cash donation exceeding this amount is not admissible under section 80G.	(B)	₹ 2,000
(v)	Taxable amount where enhanced compensation of ₹36,000 has been received.	(A)	₹ 18,000

(c) (i) True

(ii) False

(iii) True

(iv) False

(v) False

(d) (i) 50,000

(ii) Exempt

(iii) 10,000

(iv) 31-03-2020

(v) 5,00,000

2. (a) Mr. Arun furnishes the following details relating to three house properties at Erode, Tamil Nadu, let out by him during the previous year 2018-19:

Particulars	House-1	House-2	House-3
Gross municipal value	**2,10,000**	**3,30,000**	**2,40,000**
Fair rent (₹)	**2,40,000**	**3,60,000**	**3,00,000**
Standard rent (₹)	**2,20,000**	**—**	**—**
Let out period (months)	**9**	**12**	**11**
Vacant during the year for (Months)	**3**	**—**	**1**
Actual rent received (₹)	**1,60,000**	**2,40,000**	**3,30,000**
Interest on moneys borrowed (₹)	**1,05,000**	**—**	**2,10,000**
Land lease rent (₹)	**—**	**—**	**24,000**
Municipal tax paid being 2 months municipal value			

Compute the chargeable income from house property for the assessment year 2019-20. 9

(b) With brief reasons, state whether the following constitute capital or revenue expenditure/ receipt: 6

(i) Compensation paid to customer for defect in goods supplied.

(ii) Outright purchase of patent by paying ₹ 25 lakhs.

(iii) Construction of building on land taken on lease basis.

(iv) Arrear wages to employees for earlier years after entering into agreement with Labour Union.

(v) Painting expenditure for company's registered office building.

(vi) Liquidated damages received from supplier for delay in supply of machinery.

Answer:

2. (a)

Computation of income from house property

Particulars	**House -1**	**House - 2**	**House - 3**
Gross municipal value or fair rent whichever is higher but limited to standard rent (A)	2,20,000	3,60,000	3,00,000
Figure after adjustment of above for vacant period	1,65,000	3,60,000	2,75,000
Actual rent received (B)	1,60,000	2,40,000	3,30,000
Annual value whichever is more	1,65,000	3,60,000	3,30,000
less: Municipal tax paid	35,000	55,000	40,000
	1,30,000	3,05,000	2,90,000
less: Deduction U/s.24@ 30%	39,000	91,500	87,000
	91,000	2,13,500	2,03,000
Less : Interest on moneys borrowed	1,05,000	—	2,10,000
land lease rent (Not deductible)	—	—	Nil
Chargeable Income from house property	(14,000)	2,13,5 00	(7,000)
Chargeable income from house property (Total)			**1,92,500**

(b) Capital or revenue expenditure / receipt

(i)	Revenue expenditure. As the compensation was paid to customer for defect in goods supplied is incidental to the regular business activities.
(ii)	Capital expenditure. Outright purchase of patent by paying ₹25 lakhs is capital expenditure.
(iii)	Capital expenditure. In view of Explanation to section 32 construction of building on land taken on lease basis would be deemed that the assessee is the owner of the building and is eligible for depreciation thereon.
(iv)	Revenue expenditure. Arrear wages to employees for earlier years after entering into agreement with Labour Union is a normal business expenditure which crystallizes upon entering into the agreement.
(v)	Revenue expenditure. As painting expenditure for company's registered office building would provide better business image to the business entity.
(vi)	Capital receipt. Liquidated damages received from supplier for delay in supply of machinery would go to reduce the cost of asset.

3. (a) Mr. Subramani is the Chief Finance Manager of M/S LHW Ltd. based at Chennai. He has given the following particulars relating to salary:

(i)	**Basic Salary (₹ 60,000 x 12) = 7,20,000**
(ii)	**D.A. (₹ 25,000 x 12) = ₹ 3,00,000 (forms part of pay for retirement benefits)**
(iii)	**Bonus - 2 months of basic pay.**
(iv)	**Commission – 0.1% of the turnover of the company. The turnover of the company for previous year 2018-19 is ₹ 20 crores.**
(v)	**Contribution of the employer and employee to the recognized provident fund ₹3,50,000 each.**
(vi)	**Interest credited to Recognized Provident Fund Account at 9.5% ₹ 65,000.**
(vii)	**Rent-free unfurnished accommodation provided by the company for which the company has paid annual rent of ₹ 80,000.**
(viii)	**Entertainment Allowance ₹ 30,000.**
(ix)	**Hostel allowance for three children ₹ 5,000 each.**

Compute the income chargeable under the head "Salaries" in the hands of Mr. Subramani for the Assessment Year 2019-20. 9

(b) Parikshit (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2018-19 amounts to ₹10,00,000 which includes profit of ₹2,00,000 from sale of green leaves plucked in his own garden.

He has no other income during the year.

Compute the total income and total tax payable by Parikshit. 6

Answer:

3. (a)

Computation of income under the head "salaries" of Mr. Subramani for the Assessment Year 2019-20

Particulars	₹	₹
Basic salary		7,20,000
Dearness Allowance		3,00,000
Bonus		1,20,000
Commission (₹ 2,00,00,000 x 0.1%)		2,00,000
Employer's contribution in excess of 12% Employer's contribution ₹ 3,50,000 Less:12% of basic salary, dearness allowance and commission ₹ 1,46,400		2,03,600
Interest credited to Recognised Provident Fund (Exempt)		Nil
Value of rent-free unfurnished accommodation As per working note		80,000
Entertainment Allowance		30,000
Hostel allowance for three children Less Exemption (₹ 300 x 12 x 2)	15,000 7,200	7,800
Gross Salary		16,61,400
Less: Standard Deduction under section 16		40,000
Taxable Salary		16,21,400

Working Note for value of unfurnished accommodation

Basic salary	₹ 7,20,000
Dearness Allowance	₹ 3,00,000
Bonus	₹ 1,20,000
Commission @ 0.1% of turnover	₹ 2,00,000
Children Hostel Allowance	₹ 7,800
Entertainment allowance	₹ 30,000
Salary for valuation of rent-free accommodation	₹ 13,77,800
15% of salary	₹ 2,06,670
Actual rent paid by the employer	₹ 80,000
The least of the above is taxable perquisite	

(b) If the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 40% of profit on sale of tea is taxable as business income under the head "profits and gains from business or profession" and the balance 60% is agricultural income, which is exempt from income-tax under section 10(1).

Computation of tax payable by Parikshit for the Assessment Year 2019-20

Particulars	₹
Profit	10,00,000
Less: profit on sale of green leaves being 100% agricultural income, exempted fully under section 10(1)	2,00,000
Composite business income	8,00,000
Less: 60% deemed to be agricultural income	4,80,000
Total income	3,20,000
The tax liability is to be computed applying the concept of partial integration since total income comprises of both agricultural income and non-agricultural income and agricultural income exceeds ₹ 5,000 and non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000	
Tax on aggregate of agricultural income and non-agricultural income (₹ 2,00,000 + ₹ 4,80,000 + ₹ 3,20,000)	1,12,500
Less: Tax on agricultural income and basic exemption limit (₹ 6,80,000 + ₹ 2,50,000) i.e. ₹ 9,30,000	98,500
	14,000
Health and education cess (4%)	560
Total tax liability (₹ 2,00,000 + ₹ 4,80,000 + ₹ 3,20,000)	14,560

4. (a) Mr. Sarath commenced business of operating goods vehicles on 01.04.2018. He purchased the following vehicles during the P.Y. 2018-19.

	Gross Vehicle Weight (in kilograms)	Number of vehicles	Date of purchase
1	**7500**	**2**	**10.04.2018**
2	**5500**	**1**	**15.03.2019**
3	**10500**	**3**	**16.07.2018**
4	**11500**	**1**	**02.01.2019**
5	**15000**	**2**	**29.08.2018**
6	**17000**	**1**	**23.02.2019**

Compute his income under section 44AE.
Would your answer change, if the goods vehicles purchased in April, 2018 were put to use only in September, 2018? 7

(b) State with brief reason, the taxability or otherwise of the following in the hands of the recipients [except for (i), for which issue may be seen from the hands of the company], as per the provisions of the Income-tax Act, 1961:

(i) Unicorn Capital Private Limited, a closely held company, issued 14,000 shares at ₹ 135 per share. (The face value of the share is ₹ 10 per share and the fair market value of the share is ₹ 120 per share).

(ii) Mr. Srinivsan received an advance of ₹ 96,000 on 19.09.2018 against the sale of his house. However, due to non-payment of balance amount in time, the contract was cancelled and the amount of ₹ 96,000 was forfeited.

(iii) Mr. Dhandapani, transferred a house property to his son Mr. Vignesh Karthik without consideration. The value of the house is ₹ 12 lakhs as per the stamp valuation authority.

(iv) Mr. Shankar gifted a LED 4th Generation TV to his sister's daughter Manasa on 12.3.2019. The fair market value of the LED 4th generation TV on this date is ₹ 1,08,000. 8

Answer:

4. (a) Since Mr. Sarath 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. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 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	2	3	4
Number of vehicles	Date of purchase	No. of months for which vehicle is owned	No. of month × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2018	8	16
1	23.02.2018	2	2
			18
For goods vehicle other than heavy good vehicle			
2	10.04.2018	12	24
1	15.03.2019	1	1
3	16.07.2018	9	27
1	02.01.2019	3	3
			55

The presumptive income of Mr. Sarath under section 44AE for A.Y. 2019-20 would be ₹6,86,500 i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + [16 ×1000×15] [2×1000×17] 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 September 2018, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by the assessee. So there will be no change.

(b) (i) Taxable.

Since Unicorn Private Limited, a closely held company, issued 14,000 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, ₹ 2,10,000 [14,000 x ₹15 (₹ 135 - ₹ 120)] shall be taxable as income in the hands of Unicorn Capital 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 ₹ 96,000 received as advance would be chargeable to tax in the hands of Mr. Srinivasan 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 any person from his relative is not taxable.

In the present case, since Mr. Dhadapani is the father of Mr. Vignesh Karthik, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Vignesh Karthik.

(iv) Not taxable.

LED 4th generation TV 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".

5. (a) Madhav is a sole proprietor of Hari Silks. He reports turnover of ₹ 240 lakhs for the previous year 2018-19 and a net profit of ₹ 8,10,000 as per books of account. The following items are debited and credited to Profit and Loss Account. 9

(i) Bonus to employees ₹ 60,000. Provision made on 31.03.2019 and was paid on 30.11.2019 after the due date for filing the return.

(ii) Interest on private loan ₹ 12,000 was paid by account payee crossed cheque on 10.08.2018. No tax was deducted at source. Turnover of Raghav for the previous year 2017-18 also exceeded ₹ 200 lakhs.

(iii) Dividend from Indian Companies (listed in recognized stock exchange) received during the year ₹ 21,000.

(iv) PPF interest credited ₹ 27,000 and savings bank interest ₹ 13,500 from UCO Bank.

(v) One Generator was purchased for ₹ 90,000 on 10.01.2019. Subsidy received from Government @ 20%. The subsidy is credited to P&L Account. No depreciation is charged in the books for generator.

(vi) Rent received from let out property ₹ 1,65,000 credited to profit and loss account. Municipal tax to the said property ₹ 15,000 was paid on 10.03.2019 which is debited to profit and loss account.

(vii) Salary paid to wife ₹ 30,000 per month during the year 2018-19. (Reasonable monthly salary considering her qualification and experience is ₹ 20,000 per month.)

You are requested to compute the income from business of Madhav taking note to the above adjustments. Brief reason is to be given for treatment of each item given above.

(b) With brief reasons compute the quantum of eligible deduction in the following independent cases: 2x3=6

(i) Ranjit made tax saver deposit in SBI of ₹ 80,000 in his wife's name and paid life insurance premium of ₹ 25,000 on a sum assured policy of ₹ 2,00,000 taken on 01.06.2016.

(ii) Vikas having basic pay and DA (forming part of retirement benefits) of ₹ 4,50,000 contributed ₹ 50,000 to a pension scheme notified under section 80CCD and repaid education loan of SBI of ₹ 60,000 for son's education outside India. The education loan was taken in the financial year 2013-14.

(iii) Ms. Madhuri engaged in manufacturing activity paid ₹ 30,000 to National Urban Poverty Eradication Fund on 31.12.2018. She also paid rent for residential premises @ ₹ 25,000 per month. She does not own any house property. Her gross total income (computer) is ₹ 6,50,000. She has not claimed any other deduction under Chapter VI-A.

Answer:

5. (a) Computation of Income from Business of Madhav for Asst. Year 2019-20

	Add	Less	₹
Net Profit as per Profit and Loss Account			8,10,000
Bonus paid to employees on 30.11.2019 being after the "due date" for filing the return of income hence not allowable U/s. 43B.	60,000		
Interest on private loan ₹12,000 paid without deduction of tax at source. Hence 30% is disallowed under section 40(a)(ia).	3,600		
Dividend from Indian companies credited to profit and loss account, being exempt income to be excluded		21,000	
PPF interest credited to P&L account being exempt income, hence excluded		27,000	

Savings bank account interest credited to P&L account, to be considered under the head 'other sources', hence excluded		13,500	
Subsidy received from Government for generator, credited to P&L account to be adjusted against actual cost, hence excluded		18,000	
Depreciation on generator cost ₹72,000 @ 15% × ½ thereon =		5,400	
Rent from let out property ₹1,50,000 to be considered under the head 'income from house property' hence excluded		1,50,000	
Salary to wife in excess of the fair market value considering her qualification and experience to be disallowed ₹10,000 × 12	1,20,000		
	1,83,600	2,34,900	(51,300)
Income from Business			7,58,700

(b) Quantum of eligible deduction under Chapter VI-A

(i)	Tax Saver Deposit in the name of wife is not eligible for deduction under section 80C.
	Premium paid on insurance policy taken on or after 01.04.2013 is deductible up to 10% of the capital sum assured. Therefore the deduction under section 80C is limited to ₹ 20,000. The balance premium of ₹ 5,000 is not deductible.
(ii)	Amount contributed to pension scheme of section 80CCD is deductible up to a maximum of 10% of basic pay plus DA (eligible for retirement benefits). Though the amount contributed is ₹ 50,000, the claim is limited to ₹ 45,000 under section 80CCD.
	From Assessment Year 2006-07, no deduction will be available u/s 80E in respect of repayment of educational loan. Hence, total deduction for Mr. Vikash would be ₹ 45,000 under chapter VI-A
(iii)	When a person is engaged in business, the amount of donation given for National Urban Poverty Eradiction Fund is not deductible under section 80GGA.
	As per sec. 80GG, deduction will be least of the following: (A) ₹ 5,000 × 12 = ₹ 60,000 (B) 25% of total income = ₹ 1,62,500 (C) Excess rent paid over 10% of total income= ₹ 3,00,000 – ₹ 65,000 = ₹ 2,35,000. Hence, deduction allowable u/s 80GG is ₹ 60,000.

6. (a) Ram Balaji is engaged in manufacture of electronic spares which are used in computers. His aggregate turnover for the year ended 31.03.2019 was ₹ 1,71,00,000. His profit as per profit and loss account extracted from the books is ₹ 12,45,000. His sale proceeds were realized as under:

	Up to the end of previous year	From 01.04.2019 and up to the 'due date' for filing return under section 139(1)
Sales realized in cash	**40,00,000**	**73,00,000**
Sale realized through banking channel	**11,00,000**	**26,00,000**

(i) Current year depreciation under section 32 allowable ₹ 2,75,000.

(ii) Cash payment made exceeding ₹ 10,000 per day and the aggregate payment for the year in such manner ₹ 4,11,000.

(iii) Interest on term loan debited in profit and loss account of the assessee for the year ended 31.03.2019 ₹ 1,05,000. Amount actually up to 31.03.2019 ₹ 15,000 and amount paid from 01.04.2019 and up to the 'due date' for filing the return under section 139(1) ₹ 40,000.

(iv) He has brought forward business loss of the assessment year 2015-16 of ₹1,40,000 and unabsorbed depreciation of ₹ 50,000 of the assessment year 2018-19.

Compute his income from business for the assessment year 2019-20 under section 44AD and as per regular provisions. 10

(b) Mr. Bhat acquired a generator for ₹ 3 lakhs on 30.11.2018 by taking a bank loan of ₹ 2 lakhs. Interest on bank loan payable for the year ₹ 7,500 and it was not paid up to the 'due date' for filing the return specified in section 139(1). He paid salary to operator @ ₹ 12,000 per month in cash for 4 months. Hire charges received up to 31.03.2019 was ₹2,25,000. Compute income of Mr. Bhat from the generator for the year ended 31.03.2019. 5

Answer:

6. (a)

Computation of Income of Ram Balaji business income under section 44AD

	₹	₹
Sales realized in cash up to 31.03.2019 ₹40,00,000 X 8%	3,20,000	
Sales realized in cash up to the due date for filing the return under section 139(1). ₹73,00,000 @ 8%	5,84,000	
Sales realized through banking channel up to 31.03.2019 ₹ 11,00,000 X 6%	66,000	
Sales realized through banking channel from 01.04.2019 to the due date for filing the return ₹26,00,000 X 6%	1,56,000	
Balance sales ₹ 21,00,000 not realized up to the due date for filing the return @ 8%.	1,68,000	
		12,94,000
Less: Brought forward business loss		1,40,000
Brought forward unabsorbed depreciation deemed to		Nil

have been allowed		
Current year depreciation deemed to have been allowed		Nil
Income from business		11,54,000
Note:		
Expenditure incurred in contravention of section 40A(3), is not liable for disallowance while computing the income under section 44AD.		
Also interest on term loan deductible under section 43B on actual payment basis will not impact computation of income under section 44AD.		

Computation of Business income of Ram Balaji as per regular provisions

	₹	₹
Net Profit as per Profit and loss account		12,45,000
Add: Expenditure incurred in contravention of section 40A(3)-disallowed		4,11,000
Interest on term loan debited in the books ₹ 1,05,000. Amount actually paid up to the end of the previous year and up to the due date for filing the return is deductible. The unpaid amount is liable for disallowance u/s 43B		50,000
		17,06,000
Less: Current year depreciation under section 32	2,75,000	
Unabsorbed depreciation	50,000	
		3,25,000
		13,81,000
Less: Brought forward business loss		1,40,000
Income from Business		12,41,000

(b) Computation of Income of Bhat for the Asst. Year 2019-20

When treated as income from other sources:

		₹
Generator hire charges		2,25,000
Less:		
Interest on bank loan is eligible for deduction even though it is not paid. Provisions of section 43B will not apply, where the income is assessed as income from other sources.	7,500	
Salary to operator ₹12000 per month paid for 4 months by cash ₹48,000. Since it is paid in contravention of section 40A(3) it is not deductible.	Nil	
Depreciation on generator ₹3,00,000 X 15% X 1/2	22,500	
		30,000
Income from generator		1,95,000

When assessed as business income:

The answer will change. When assessed as business income, section 43B will come into play. ₹ 7,500 being interest on bank loan remaining unpaid will be disallowed. Hence the income will be ₹ 1,95,000 + ₹ 7,500 = ₹ 2,02,500.

7. (a) Mr. Jayabrata gifted ₹ 10,00,000 to his wife, Mrs. Sangeeta on 1st January, 2018. Out of the same, Sangeeta lent ₹ 4,00,000 for 6 months to her friend, Bedabati on 1st April, 2018 bearing interest @ 20% p.a.

Sangeeta received half-yearly interest of ₹ 40,000 on such loan on 1st October, 2018.

The aforesaid interest was immediately invested in debentures of a company. These debentures were sold by Sangeeta for ₹ 70,000 on 31st January, 2019.

The balance amount of gift received from Mr. Jayabrata was invested as her capital in a sole proprietary business, which resulted in a loss of ₹ 50,000 for the previous year 2018-19.

Mr. Jayabrata's own income (computed) consisted of salary of ₹ 30,00,000 and income from other sources of ₹ 80,000.

The return of income is being filed on 21.12.2019.

Compute the total income of Mr. Jayabrata under suitable heads of income, indicating
brief reason for treatment of all the important items. 9

(b) Examine the applicability of tax deduction at source provisions, rate of TDS and the amount of tax deduction (if any) in the following cases for the financial year 2018-19:

(i) Payment of ₹ 50,000 made to Mr. Peter, an England cricketer, by an Indian newspaper agency on 3rd August, 2018, for contribution of articles in relation to the sport of cricket.

(ii) Payment made on 1.02.2019 by a company to resident sub-contractor (individual) ₹ 4,00,000 with outstanding balance of ₹ 1,20,000 shown in the books of account, as on 31.03.2019.

(iii) Wining from horse race ₹ 1,00,000.

(iv) ₹ 2,00,000 paid to Mr. X, a resident individual on 20.02.2019 by the State of Karnataka on compulsory acquisition of his urban land (vacant site). 6

Answer:

7. (a)

Computation of total income of Mr. Jayabrata for Assessment Year 2019-20

Particulars	₹	₹
Salary (computed)		30,00,000
Income from other sources:		
Own (computed)	80,000	
Interest earned by wife, Sangeeta includible under section 64(1)(iv) [see Note 1]	40,000	
Less: Business loss of Sangeeta set off under section 71 (Note 2)	(50,000)	
Income chargeable under this head		70,000
Total income		30,70,000

Notes:

1. As per section 64(1)(iv), where an individual transfers any asset to his spouse otherwise than for adequate consideration, not being in connection with an agreement to live apart, then income arising from such asset is to be included in the total income of the individual. Therefore, interest income of Sangeeta amounting to ₹ 40,000 is included in Jayabrata's total income.

2. For the purpose of section 64, income includes loss as per the Explanation 2 to section 64. Therefore, loss incurred by Sangeeta in her business (in which balance of gifted amount was invested) can be set off against interest income of Jayabrata under section 71.
   Such loss cannot be set off against salary income of Jatabrata because of restriction in section 71(2A).

3. Income arising from transferred asset alone is to be clubbed. Income earned by investing such income (arising from transferred asset) is not to be clubbed. Accordingly, short-term capital gain of ₹ 30,000 (i.e. ₹ 70,000 - ₹ 40,000) is not includible in the total income of Jayabrata.

(b)

(i)	As per section 194E 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 @ 20.8% (being non-resident) Hence, tax to be deducted = ₹ 50,000 x 20.80% = ₹ 10,400
(ii)	Provision of TDS under section 194C is attracted in respect of payment by a company to a sub-contractor. As per section 194C tax is deductible, where inter alia, the total payments exceeds ₹ 1 lakh at the time of credit or payment, whichever is earlier @ 1% if the payment is made to individual or HUF and 2% for others. As aggregate amount credited during the year is ₹5,20,000, tax to be deducted = ₹ 5,20,000 x 1% = ₹ 5,200
(iii)	As per section 194BB, tax is to be deducted at source, if the winnings from horse race exceed ₹ 10,000. The rate of deduction of TDS is 30% Tax to be deducted at source = ₹1,00,000 x 30% = ₹30,000
(iv)	As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10% if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the instant case, there is no liability to deduct tax at source as the payment made to X does not exceed ₹ 2,50,000

8. Write short notes on any three out of the following questions: 5×3=15

(a) Difference between TDS and TCS

(b) Belated return under section 139(4)

(c) Quoting of Aadhar number under section 139AA

(d) Best Judgement Assessment under section 144

Answer:

8. (a) Difference between TDS and TCS:

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person making the payment is generally required to deduct tax at source at the prescribed rate.	Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier.
	However, in case of payment of salary, payment in respect of life insurance policy etc. tax is required to be deducted at the time of payment.	However, in case of sale of motor vehicle of the value exceeding ₹10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

(b) Belated return under section 139(4):

If an assessee fails to file return of income • within the time limit allowed u/s 139(1) or • within the time allowed under a notice issued u/s 142(1), he can file a belated return.
Time limit: Assessee may file such return - • before the end of the relevant assessment year; or • before the completion of assessment (u/s 144), - whichever is earlier.
However, if an assessee files a belated return, he would be liable to pay late fee u/s 234F and interest u/s 234A.

(c) Quoting of Aadhar number under section 139AA

Every person who is eligible to obtain Aadhaar number shall quote Aadhaar number: a. in the application form for allotment of permanent account number; b. in the return of income:
Note: ➢ Where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted. ➢ Every person who has been allotted PAN before 01-07-2017 and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority on or before specified date. In case of failure to intimate the Aadhaar number, the PAN allotted to the person shall be deemed to be invalid. ➢ The provisions of section 139AA shall not apply to notified persons or State.

(d) Best judgment assessment

Under section 144, assessment shall be made by the Assessing Officer to the best of his judgment, after considering all relevant materials which he has gathered. Assessing Officer cannot reduce the tax liability of the assessee by assessment under this section.
A refund cannot be granted u/s 144.
Situation in which it is applicable: In the following situations assessment shall be made under this section - a. If the person fails to file the return u/s 139(1), 139(4) or 139(5); or b. If the person fails to comply with the terms of notice u/s 142(1); or c. If the person fails to comply with the directions u/s 142(2A) requiring him to get his accounts audited; or d. If the person fails to comply with the terms of notice u/s 143(2), requiring his presence or production of evidence and documents. Note: In any of the given situation, the Assessing Officer is under an obligation to make an assessment under this section. In other words, Best judgment assessment is not the discretionary power of the Assessing Officer but mandatory in nature.
Opportunity of being heard The assessment u/s 144 can only be made after giving the assessee a reasonable opportunity of being heard. Such opportunity shall be given by serving a "Show cause notice" calling upon the assessee to show cause(s), on a date and time specified in the notice, why the assessment should not be completed to the best of judgment of the Assessing Officer. **Exception:** Such opportunity need not be given, where notice u/s 142(1) has already been issued.

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