

CHAPTER 17

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Compute the tax liability of Mr. A (aged 42), having total income of INR 51 lakhs for the AY 2022-23. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has not opted for the provisions of section 115BAC.

Concept Problem 2

Compute the tax liability of Mr. B (aged 51), having total income of INR 1,01,00,000 for the AY 2022-23. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. B has not opted for the provisions of section 115BAC.

Concept Problem 3

Compute the tax liability of Mr. C (aged 58), having total income of INR 2,01,00,000 for the AY 2022-23. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has not opted for the provisions of section 115BAC.

Concept Problem 4

Compute the tax liability of Mr. D (aged 37), having total income of INR 5,01,00,000 for the AY 2021-22. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. D has not opted for the provisions of section 115BAC.

Solution – CP 1, 2, 3 and 4

Total income	51,00,000	1,01,00,000	2,01,00,000	5,01,00,000
First 2,50,000 @ nil	0	0	0	0
Next 2,50,000 @ 5%	12,500	12,500	12,500	12,500
Next 5,00,000 @ 20%	1,00,000	1,00,000	1,00,000	1,00,000
Bal @ 30%	12,30,000	27,30,000	57,30,000	1,47,30,000
Tax before surcharge and cess	13,42,500	28,42,500	58,42,500	1,48,42,500
Add: Surcharge	1,34,250	4,26,375	14,60,625	54,91,725
Total (Tax + Sur)	14,76,750	32,68,875	73,03,125	2,03,34,225
Less: Marginal Relief (Add Tax – Add income)	64,250	75,125	5,18,750	17,18,600
Balance	14,12,500	31,93,750	67,84,375	1,86,15,625
Add: Health and education cess @4%	56,500	1,27,750	2,71,375	7,44,625
Tax Liability	14,69,000	33,21,500	70,55,750	1,93,60,250
Less: TDS/TCS	0	0	0	0
Net Tax Payable	14,69,000	33,21,500	70,55,750	1,93,60,250

Total income	51,00,000	1,01,00,000	2,01,00,000	5,01,00,000
Tax + surcharge on Total Income	14,76,750	32,68,875	73,03,125	2,03,34,225
Tax on threshold limit	13,12,500	30,93,750	<u>66,84,375</u>	<u>1,85,15,625</u>
Increase in tax	1,64,250	1,75,125	6,18,750	18,18,600
Increase in Income	1,00,000	1,00,000	1,00,000	1,00,000
Marginal relief	64,250	75,125	5,18,750	17,18,600

Concept Problem 5

Mr. Raghav aged 26 years and a resident in India, has a total income of INR 4,40,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2022-23.

Solution**Computation of tax liability of Mr. Raghav for A.Y. 2022-23**

Particulars	Amount
First 2,50,000 @ Nil	Nil
2,50,000 to 4,40,000 @ 5%	9,500
Tax before rebate	9,500
Less: Rebate u/s 87A	(9,500)
Tax liability	Nil

Concept Problem 6

Mr. Dinesh aged 35 years and a resident in India, has a total income of INR 4,80,000, comprising of long term capital gains taxable under section 112. Compute his tax liability for A.Y.2022-23.

Solution**Computation of tax liability of Mr. Dinesh for A.Y. 2022-23**

Particulars	Amount
Tax on total income of INR 4,80,000	
Tax @ 20% of INR 2,30,000 (4,80,000 – 2,50,000, being unexhausted basic exemption limit)	46,000
Less: Rebate u/s 87A (Lower of 46,000 or 12,500)	12,500
	33,500
Add: Health and education cess @4%	1,340
Tax Liability	34,840

Concept Problem 7

Who is an “Assessee”?

Solution

As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - his income; or

- the income of any other person in respect of which he is assessable; or
 - the loss sustained by him or by such other person; or
 - the amount of refund due to him or to such other person.
- b) Every person who is deemed to be an assessee under any provision of the Act;
- c) Every person who is deemed to be an assessee in default under any provision of the Act.

Concept Problem 8

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.

Solution

General Rule: The income of an Assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interest of Revenue. The exceptions are as follows:

i) Shipping Business of a Non-Resident

A ship belonging to a non-resident is allowed to leave the Indian port only when the tax @ 7.5% of the amount of carriage charge received or receivable has been paid or satisfactory arrangement has been made for payment thereof to the Government.

ii) Person leaving India

Where it appears to the Assessing Officer that any individual may leave India during the current previous year or shortly after its expiry and he has no present intention of returning to India, the Total Income of such individual for the period from the date of commencement of previous year up to the probable date of his departure from India is chargeable to tax in the previous year itself.

Example:

Suppose Mr. X is leaving India for USA on 10.6.2020 and it appears to the Assessing Officer that he has no intention to return. Before leaving India, Mr. X may be asked to pay income-tax on the income earned during the P.Y. 2019-20 as well as on the total income earned during the period 1.4.2020 to 10.06.2020.

iii) AOP/BOI formed for a particular event or purpose

If an AOP/BOI is formed or established for a particular event or purpose and the Assessing Officer believes that the AOP/BOI is likely to be dissolved in the same year, he can make assessment of the income up to the date of dissolution as income of the relevant previous year in the same previous year.

iv) Person likely to transfer the property to avoid tax

If it appears to the Assessing Officer that a person is likely to sell, transfer or dispose of any of his assets to avoid payment of any liability under this Act, the Total Income of such person for the period from the date of commencement of previous year to the date, when the Assessing Officer commences proceedings under this section is, chargeable to tax in that previous year.

v) Discontinued Business

Where any business or profession is discontinued in any previous year, the income of the period from date of commencement of previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that previous year.

Concept Problem 9

Mr. Agarwal aged 40 years and a resident in India, has a total income of INR 4,50,00,000, comprising long term capital gain taxable under section 112 of INR 55,00,000, short term capital gain taxable under section 111A of INR 65,00,000 and other income of INR 3,30,00,000. Compute his tax liability for A.Y.2022-23. Assume that Mr. Kashyap has not opted for the provisions of section 115BAC.

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Solution**Computation of tax liability of Mr. Agarwal for the A.Y.2022-23**

Particulars		Amount
Tax on total income of 4,50,00,000		
Tax @ 20% of 55,00,000		11,00,000
Tax @ 15% of 65,00,000		9,75,000
Tax on other income of ₹ 3,30,00,000		
2,50,000 – 5,00,000 @5%	12,500	
5,00,000 – 10,00,000 @20%	1,00,000	
10,00,000 – 3,30,00,000 @30%	96,00,000	97,12,500
		1,17,87,500
Add: Surcharge @ 15% on 20,75,000	3,11,250	
Add: Surcharge @ 25% on 97,12,500	24,28,125	27,39,375
		1,45,26,875
Add: Health and education cess @4%		5,81,075
Tax Liability		1,51,07,950

Concept Problem 10

Mr. Sharma aged 62 years and a resident in India, has a total income of INR 2,30,00,000, comprising long term capital gain taxable under section 112 of INR 52,00,000, short term capital gain taxable under section 111A of INR 64,00,000 and other income of INR 1,14,00,000. Compute his tax liability for A.Y.2022-23. Assume that Mr. Sharma has not opted for the provisions of section 115BAC.

Solution**Computation of tax liability of Mr. Sharma for the A.Y.2022-23**

Particulars		Amount
Tax on total income of 2,30,00,000		
Tax @ 20% of 52,00,000		10,40,000
Tax @ 15% of 64,00,000		9,60,000
Tax on other income of 1,14,00,000		
3,00,000 – 5,00,000 @ 5%	10,000	
5,00,000 – 10,00,000 @ 20%	1,00,000	
10,00,000 – 1,14,00,000 @ 30%	31,20,000	32,30,000
		52,30,000
Add: Surcharge @15%		7,84,500
		60,14,500
Add: Health and education cess @ 4%		2,40,580
Tax Liability		62,55,080

Concept Problem 11

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2021 and came to India for the first time on 16.03.2021. She left for USA on 19.9.2021. She returned to India again on 27.03.2022. While

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in India, she had purchased a show room in Mumbai on 30.04.2021, which was leased out to a company on a rent of INR 25,000 p.m. from 1.05.2021. She had taken loan from a bank for purchase of this show room on which bank had charged interest of INR 97,500 upto 31.03.2022. She had received the following gifts from her relatives and friends during 1.4.2021 to 31.3.2022:

From parents of husband	INR 51,000
From married sister of husband	INR 11,000
From two very close friends of her husband, INR 1,51,000 and INR 21,000	INR 1,72,000

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2022-23.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is 18,00,000 and she is not liable to tax in USA?

Solution

Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non- resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y. 2022-23 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2022-23 i.e., P.Y. 2021-22 and in the preceding four assessment years.

Her stay in India during the previous year 2021-22 and in the preceding four years are as under:

P.Y. 2021-22

01.04.2021 to 19.09.2021	172 days
27.03.2022 to 31.03.2022	5 days
Total	177 days

Four preceding previous years

P.Y. 2020-21 [1.4.2020 to 31.3.2021]	16 days
P.Y. 2019-20 [1.4.2019 to 31.3.2020]	Nil
P.Y. 2018-19 [1.4.2018 to 31.3.2019]	Nil
P.Y. 2017-18 [1.4.2017 to 31.3.2018]	Nil
Total	16 days

The total stay of the Assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non- fulfillment of any of the two conditions for a resident, she would be treated as non- resident for the Assessment Year 2022-23.

Computation of total income of Miss Charlie for the A.Y. 2022-23

Particulars	Amount	Amount
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2021 to 31.03.2022 @ INR 25,000/- p.m.	2,75,000	

Particulars	Amount	Amount
Gross Annual Value [25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	1,80,000
		95,000
Income from other sources		
INR 50,000 received from parents of husband would be exempt since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
INR 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from relative is not chargeable to tax.	Nil	
Gift received from two friends of husband INR 1,51,000 and INR 21,000 aggregating to INR 1,72,000 is taxable under section 56(2)(x) since the aggregate of INR 1,72,000 exceeds INR 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax payable by Miss Charlie for the A.Y. 2022-23

Particulars	Amount
Tax on total income of INR 2,67,000	850
Add: Health and education cess @4%	34
Total tax payable	884
Total tax payable (Rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e., Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceeds INR 50,000 during the year, the entire amount received (i.e., the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of INR 1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2022-23, rebate under section 87A would not be available to her, even though her total income is not exceeding INR 5 lacs.
- The tax liability of Miss Charlie would be the same even if she opts to paytax as per section 115BAC, since she would be eligible for deduction under section 24(b), for interest on housing loan in respect of let out property under regular provisions as well as under section 115BAC of the Income-tax Act, 1961.

I. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds Rs. 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds INR 15,00,000 (INR 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y. 2021- 22 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income

from Indian sources exceeds INR 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2021-22.

Concept Problem 12

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2022 is as under:

Expenditure	Amount	Income	Amount
To Medicine consumed	35,38,400	By Consultation and Medical charges	58,85,850
Staff salary	13,80,000	By Income-tax refund (Principal INR 5,000, interest 450)	5,450
Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
Rent paid	90,000	By Winning from game show on T.V. (net of TDS of INR 15,000)	35,000
Administrative expenses	2,55,000	By Rent	27,000
Amount paid to scientific research association approved u/s 35	1,50,000		
Net profit	4,40,400		
	59,63,800		59,63,800

i) Rent paid includes INR 30,000 paid by cheque towards rent for her residential house in Surat.

ii) Clinic equipments are:

1.04.2021	Opening W.D.V.	INR 5,00,000
7.12.2021	Acquired (cost) by cheque	INR 2,00,000

iii) Rent received relates to property situated at Surat. Gross Annual Value INR 27,000. The municipal tax of INR 2,000, paid in December, 2021, has been included in “administrative expenses”.

iv) She received salary of INR 7,500 p.m. from “Full Cure Hospital” which has not been included in the “consultation and medical charges”.

v) Dr. Niranjana availed a loan of INR 5,50,000 from a bank for higher education of her daughter. She repaid principal of INR 1,00,000, and interest thereon INR 55,000 during the previous year 2021-22.

vi) She paid INR 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.

vii) An amount of INR 28,000 has also been paid by cheque on 27th March, 2022 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2022-23 under the regular provisions of the Income-tax Act, 1961, assuming that she has not opted for to pay tax under section 115BAC.

Solution

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2022-23

S. No.	Particulars	Amount	Amount	Amount
I	Income from Salary			
	Basic Salary (INR 7,500 x 12)		90,000	
	Less: Standard deduction under section 16(ia)		50,000	40,000
II	Income from house property			

S. No.	Particulars	Amount	Amount	Amount
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24 @ 30% of INR 25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	Rent received (taxable under the head "Income from house property")	27,000		
	Dividend from units of UTI (taxable under the head "Income from othersources")	10,500		
	Winning from game show on T.V. (net of TDS) – taxable under the head "Income from other sources"	35,000		
	Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on Clinic equipments			
	on INR 5,00,000 @ 15%	75,000		
	on INR 2,00,000 @ 7.5% (On equipments acquired during the year in December 2021 she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for less than 180 days during the year)	15,000		
	100% deduction is allowable in respect of the amount paid to scientific research association allowable, since whole of the amount is already debited to Income & Expenditure A/c, no further adjustment is required.		90,000	
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	3,04,450
IV	Income from other sources			
	Interest on income-tax refund		450	
	Dividend from UTI		10,500	
	Winnings from the game show on T.V. (35,000 + 15,000)		50,000	60,950
	Gross Total Income			4,22,900
	Less: Deductions under Chapter VI A:			
	Section 80C - Tuition fee paid to university for full time education of her daughter		1,00,000	
	Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)		28,000	

S. No.	Particulars	Amount	Amount	Amount
	Section 80E - Interest on loan taken for higher education		55,000	1,83,000
	Total income			2,39,900

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (INR 35,000 + INR 15,000). Thereafter, while computing tax liability, TDS of INR 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per section 115BB.
- Since Dr. Niranjana is staying in a rented premise in Surat itself, she would not be eligible for deduction u/s 80GG, as she owns a house in Surat which she has let out.

Concept Problem 13

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2022 reads as follows:

Expenditure	Amount	Income	Amount
Salary to staff	15,50,000	Fees earned:	
Stipend to articled Assistants	1,37,000	Audit	27,88,000
Incentive to articled Assistants	13,000	Taxation services	15,40,300
Office rent	12,24,000	Consultancy	12,70,000
Printing and stationery	12,22,000	Dividend received on shares of X Ltd., an Indian company (Gross)	10,524
Meeting, seminar and Conference	31,600	Income from UTI (Gross)	7,600
Purchase of car (for official use)	80,000	Honorarium received from various institutions for valuation of answer papers	15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out	85,600
Travelling expenses	5,25,000		
Municipal tax paid in respect of house property	3,000		
Net Profit	9,28,224		
	57,17,824		57,17,824

Other Information:

- Allowable rate of depreciation on motor car is 15%
- Value of benefits received from clients during the course of profession is INR 10,500.
- Incentives to articled assistants represent amount paid to two articled assistants for passing Inter Examination at first attempt.
- Repairs and maintenance of car include INR 2,000 for the period from 1-10-2021 to 30-09-2022.
- Salary include INR 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- The travelling expenses include expenditure incurred on foreign tour of INR 32,000 which was within the RBI

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norms.

7. Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to INR 5,000 and INR 10,000, respectively, paid in cash.
8. She invested an amount of INR 10,000 in National Saving Certificate.
9. She has paid INR 70,000 towards advance tax during the P.Y. 2021-22.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2022-23.

Solution

Computation of total income and tax payable of Ms. Purvi for the A.Y. 2022-23 under the regular provisions of the Act

Particulars	Amount
Income from house property (See Working Note 1)	57,820
Profit and gains of business or profession (See Working Note 2)	9,20,200
Income from other sources (See Working Note 3)	15,800
Gross Total Income	10,11,944
Less: Deductions under Chapter VI-A (See Working Note 4)	10,000
Total Income [Rounded off]	10,01,940
Tax on total income	
Upto INR 2,50,000	Nil
INR 2,50,001 – INR 5,00,000 @ 5%	12,500
INR 5,00,001 – INR 10,00,000 @ 20%	1,00,000
INR 10,00,001 – INR 10,01,940 @ 30%	582
Tax before education cess	1,13,082
Add: Health and education cess @ 4%	4,523
Total tax liability	1,17,605
Less: Advance tax paid	(70,000)
Less: Tax deducted at source on dividend income from an Indian Company u/s 194	(1,052)
Less: Tax deducted at source on income from UTI u/s 194K	(760)
Tax Payable	45,793
Tax Payable (rounded off)	45,790

Computation of tax payable in accordance with the provisions of section 115BAC

Particulars	Amount
Gross Total Income	10,11,944
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Purvi opts for special provisions under section 115BAC, since deduction claimed by her under these heads is allowable even under section 115BAC]	
Less: Deductions under Chapter VI-A [No deduction is allowable under Chapter VI-A, by virtue of section 115BAC(2)]	Nil
Total Income	10,11,944
Total Income (rounded off)	10,11,940
Tax on total income	

Upto INR 2,50,000	Nil
INR 2,50,001 – INR 5,00,000 @ 5%	12,500
INR 5,00,000 - INR 7,50,000 @ 10%	25,000
INR 7,50,000 - INR 10,00,000 @15%	37,500
INR 10,00,000 – INR 10,11,940 @ 20%	2,388
	77,388
Add: Health and Education cess @ 4%	3,096
Total tax liability	80,484
Less: Advance tax paid	70,000
Less: Tax deducted at source on dividend income from Indian Companies u/s 194	1,052
Less: Tax deducted at source on income from UTI u/s 194K	760
Tax Payable	8,672
Tax Payable (rounded off)	8,670

Since tax payable as per the provisions of section 115BAC is lower than the tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to opt for section 115BAC. She has to exercise this option on or before the due date of furnishing the return of income i.e., 31st October 2022, in her case since she is liable to get her books of account audited. Further, since she is having income from business or profession during the previous year 2021-22, if she opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.

Working Notes:

Income from House Property

Particulars	Amount
Gross Annual Value under section 23(1)	85,600
Less: Municipal taxes paid	3,000
Net Annual Value (NAV)	82,600
Less: Deduction under section 24 @ 30% of NAV	24,780
Income from House Property	57,820

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

Income under the head “Profits & Gains of Business or Profession”

Particulars	Amount	Amount
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
Salary paid to computer specialist in cash in excess of INR 10,000 disallowed under section 40A(3),	30,000	
Amount paid for purchase of car (capital expense) is not allowable u/s 37(1)	80,000	
Municipal Taxes paid in respect of residential flat let Out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724

Particulars	Amount	Amount
Less: Income credited but not taxable under this head:		
Dividend on shares of Indian companies (taxable under the head "Income from other sources")	10,524	
Income from UTI (taxable under the head "Income from other sources")	7,600	
Honorarium for valuation of answer papers	15,800	
Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @ 15% (See Note (i) below)		12,000
		9,20,200

Notes:

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

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

- ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible u/s 37(1).
- iii) Repairs and maintenance paid in advance for the period 1.4.2022 to 30.9.2022 i.e., for 6 months amounting to INR 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- iv) INR 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

Income from other sources

Particulars	Amount
Dividend on shares of Indian companies	10,524
Income from UTI	7,600
Honorarium for valuation of answer papers	15,800
	33,924

Deduction under Chapter VI-A:

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

Notes:

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

Concept Problem 14

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2022 revealed the following information:

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1. The net profit was INR 11,20,000.
2. The following incomes were credited in the profit and loss account:
 - a) Dividend from UTI INR 22,000. (Gross)
 - b) Interest on debentures INR 17,500. (Gross)
 - c) Winnings from races INR 15,000. (Gross)
3. It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock INR 8,000.

Closing stock INR 12,000.
4. INR 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
5. Salary includes INR 20,000 paid to his brother which is unreasonable to the extent of INR 2,500.
6. Advertisement expenses include 15 gift packets of dry fruits costing INR 1,000 per packet presented to important customers.
7. Total expenses on car was INR 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
8. Miscellaneous expenses included INR 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2022 for distribution of the company's product to the warehouses.
9. Depreciation debited in the books was INR 55,000. Depreciation allowed as per Income-tax Rules, 1962 was INR 50,000.
10. Drawings INR 10,000.
11. Investment in NSC INR 15,000.

Compute the total income of Mr. Y for the AY 2022-23, assuming that he has not opted to pay tax u/s 115BAC.

Solution

Computation of total income of Mr. Y for the A.Y. 2022-23

Particulars	Amount
Profits and gains of business or profession (Working Note 1)	11,21,500
Income from Other Sources (Note 2)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

Computation of profits and gains of business or profession

Particulars	Amount	Amount
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	

Particulars		Amount	Amount
	Motor car expenses attributable to personal use not allowable (INR 78,000 × ¼)	19,500	
	Depreciation debited in the books of account	55,000	
	Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
	Investment in NSC [See Note (iii)]	15,000	1,02,000
			12,22,000
Add:	Under statement of closing stock		12,000
			12,34,000
Less:	Under statement of opening stock		8,000
Less:	Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction @ 100%. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
			12,26,000
Less:	Incomes credited to profit and loss account but not taxable as business income		
	Income from UTI [taxable under the head Income from other sources]	22,000	
	Interest on debentures [taxable under the head Income from other sources]	17,500	
	Winnings from races (taxable under the head “Income from other sources”)	15,000	54,500
			11,71,500
Less:	Depreciation allowable under the Income-tax Rules, 1962		50,000
			11,21,500

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding INR 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of INR 35,000 is applicable (i.e., payment of upto INR 35,000 can be made in cash without attracting disallowance under section 40A(3))
- Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is INR 50,000. It has been assumed that, in the said figure of INR 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car

Computation of “Income from other sources”

Particulars	Amount
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Concept Problem 15

Balamurugan furnishes the following information for the year ended 31-03-2022:

Particulars	Amount
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary [computed]	60,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations. Assume he does not opt for section 115BAC.

Solution**Computation of total income of Balamurugan for the year ended 31.03.2022**

Particulars	Amount	Amount
Salaries	60,000	
Less: Loss from house property	(15,000)	
Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off of 1,35,000 set-off to the extent of 1,00,000	(1,00,000)	Nil
Balance current year business loss of 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

Computation of tax liability for AY 2022-23

Particulars	Amount
On total income of 45,000 (excluding lottery winning and LTCG)	Nil
On LTCG of 35,000 (unexhausted basic exemption limit can be adjusted against LTCG taxable u/s 112)	Nil
On lottery winnings of INR 5,00,000 @ 30%	1,50,000
	1,50,000
Add: Health and education cess @ 4%	6,000
Total tax liability	1,56,000

The Assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under

section 194B. Since the remaining tax liability of INR 6,000 (INR 1,56,000–INR 1,50,000) is less than INR 10,000, advance tax liability is not attracted.

Notes:

- The basic exemption limit of INR 2,50,000 has to be first exhausted against salary income of INR 45,000. The un exhausted basic exemption limit of INR 2,05,000 can be adjusted against long-term capital gains of INR 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% u/s 115BB.
- The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2022. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax has been deducted at source from lottery income.

Since the remaining tax liability of INR 6,000 (1,56,000 –1,50,000) is less than 10,000, advance tax liability is not attracted

Concept Problem 16

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2021-22.

Receipts and Payments Account

Receipts	Amount	Payments	Amount
Opening balance (1.4.2021) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to artiled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of INR 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2022 by account payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 01.07.2021 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2021 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2022) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

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1. He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of INR 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
2. Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
3. The written down value of assets as on 1-4-2021 are given below:

Furniture & Fittings	INR 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	INR 80,000
Computers	INR 50,000

Note: Mr. Rajiv follows cash system of accounting.

Compute the total income of Mr. Rajiv for AY 2021-22 assuming that he has not opted to pay tax u/s 115BAC.

Solution

Computation of total income of Mr. Rajiv for the assessment year 2022-23

Particulars	Amount	Amount	Amount
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b) Interest on housing loan 50% of INR 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions under section 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of INR 88,000)	44,000	62,000	(2,000)
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the Assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car INR 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications @ 40%	8,000		
Furniture and fittings @ 10% of INR 60,000	6,000		

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Particulars	Amount	Amount	Amount
Plant and machinery @ 15% of INR 80,000	12,000		
Computer @ 40% of INR 50,000	20,000		
Computer (New) INR 30,000 @ 40% x 1/2 thereon	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of INR 1,44,000 is allowed as deduction since it is within the limit of INR 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid INR 18,000		18,000	1,62,000
Total income			23,30,500

Concept Problem 17

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income-tax Act, 1961 and as per section 115BAC for the A.Y.2022-23. Advise Mr. Siddhant whether he would opt for section 115BAC:

Particulars	Amount
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for INR 4,75,000 in April, 2015, which was financed by a loan from Life Insurance Corporation of India of INR 1,60,000 @ 15% interest, his own savings of INR 65,000 and a deposit from a nationalized bank for INR 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was INR 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant - INR 4,300 (per annum)
- House Insurance - INR 860
- He earned INR 2,700 in share speculation business and lost INR 4,200 in cotton speculation business.
- In the year 2016-17, he had gifted INR 30,000 to his wife and INR 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
- Siddhant received a gift of INR 30,000 each from four friends.
- He contributed INR 50,000 to Public Provident Fund.

Solution**Computation of total income and tax liability of Siddhant for the A.Y. 2022-23**

Particulars	Amount	Amount
Salary Income		

Particulars	Amount	Amount
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
a) Salary of servant	12,000	
b) Free gas, electricity and water	11,000	23,000
		3,69,000
Less: Standard deduction u/s 16(ia)		50,000
		3,19,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (INR 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
30% of NAV	11,310	
Interest on loan from LIC @ 15% of INR 1,60,000 [See Note 2]	24,000	35,310
		2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of 4,200 from cotton speculation business set-off to the extent of 2,700	2,700	Nil
Balance loss of 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)	3,800	
Less: Exempt under section 10(32)	1,500	
		2,300
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the Assessee as per section 64(1)	5,700	
Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds INR 50,000)	1,20,000	1,28,000
Gross Total Income		4,49,390
Less: Deduction under section 80C		
Contribution to Public Provident Fund		50,000
Total Income		3,99,390

Particulars	Amount
Tax on total income of 3,99,390 [3,99,390 – 2,50,000 = 1,49,390@5%]	7,470
Less: Rebate u/s 87A, since total income does not exceed 5,00,000	7,470
Tax liability	Nil

Computation of total income and tax liability of Siddhant in accordance with the provisions of section 115BAC for the A.Y. 2022-23

Particulars	Amount	Amount
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
Less: Standard deduction under section 16(ia) [not allowable as per section 115BAC(2)]		Nil
		3,69,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (INR 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
a) 30% of NAV	11,310	
b) Interest on loan from LIC @ 15% of INR 1,60,000 [See Note 2]	24,000	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business	2,700	Nil
Balance loss of INR 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
a) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
b) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
c) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds INR 50,000)	1,20,000	1,29,500
Gross Total Income		5,00,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,00,890

Particulars	Amount
Tax on total income [5% of INR 2,50,000 + 10% of INR 890]	12,589
Add: Health and education cess @4%	504

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Particulars	Amount
Tax liability	13,093
Tax liability (rounded off)	13,090

Since Mr. Siddhant is not liable to pay any tax as per the regular provisions of the Income-tax Act, 1961, it would be beneficial for him to not opt for section 115BAC for A.Y.2022-23.

Notes:

- It is assumed that the entire loan of INR 1,60,000 is outstanding as on 31.3.2022;
- Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.
- Alternatively, computation total income as per the special provisions of section 115BAC can also be presented as follows:

Particulars	Amount	Amount
Total Income as per regular provisions of the Income-tax Act		3,99,390
Add: (i) Standard deduction u/s 16(ia) as it would not be allowable under the special provisions	50,000	
(ii) Exemption u/s 10(32) as it would not be available under the special provisions	1,500	
(iii) Deduction u/s 80C as no deduction under Chapter VI-A would be allowed under the special provisions	50,000	1,01,500
Total Income		5,00,890

Concept Problem 18

Ramdin, aged 33, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2022:

Basic Salary	INR 15,000 p.m.
DA (50% of it is meant for retirement benefits)	INR 12,000 p.m.
Commission as a percentage of turnover of the Company	0.5 %
Turnover of the Company	INR 50 lacs
Bonus	INR 50,000
Gratuity	INR 30,000
Own Contribution to R.P.F.	INR 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. account @ 15% p.a.	INR 15,000
Gold Ring worth INR 10,000 was given by employer on his 25 th wedding anniversary.	
Music System purchased on 01.04.2021 by the company for INR 85,000 and was given to him for personal use.	
Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of INR 6,500 p.m. Books of account are not maintained.	
Received interest of INR 5,860 on bank FDRs on 24.04.2021 and interest of INR 6,786 (Net) from the debentures of Indian Companies on 05.05.2021.	

Made payment by cheques of INR 15,370 towards premium of Life Insurance policies and INR 22,500 for Medclaim Insurance policy for self and spouse.

Invested in NSC INR 30,000 and in FDR of SBI for 5 years INR 50,000.

Donations of INR 11,000 to an institution approved u/s 80G and of INR 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2022-23. Assume Ramdin does not opt for section 115BAC.

Solution

Computation of Total Income for the A.Y.2022-23

Particulars	Amount	Amount
Income from Salaries		
Basic Salary (INR 15,000 x 12)		1,80,000
Dearness Allowance (INR 12,000 x 12)		1,44,000
Commission on Turnover (0.5% of INR 50 lacs)		25,000
Bonus		50,000
Gratuity (Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of INR 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth INR 10,000 on 25 th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of INR 85,000		8,500
		4,55,760
Less: Standard deduction u/s 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 trucks on contract basis against fixed charges of INR 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. INR 7,500 p.m. for each of the two trucks (INR 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	

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Particulars	Amount	Amount
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D - Mediciclaim Insurance		22,500
Section 80G (Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of 1,90,690 (i.e., 4,40,690 – 2,50,000)]		9,535
Less: Rebate u/s 87A		9,535
Tax Liability		Nil
Less: Tax deducted at source (INR 7,540 - INR 6,786)		754
Net Tax refundable		754
Tax refundable (rounded off)		750

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (1,80,000 + (50\% \text{ of } 1,44,000) + 25,000)$
 $= 12\% \text{ of } 2,77,000 = 33,240$
- An alternate view possible is that only the sum in excess of INR 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2001 that such gifts upto INR 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be INR 5,000. In such a case the Income from Salaries would be INR 4,00,760.
- Deduction under section 80G is computed as under:**

Particulars	Amount
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved u/s 80G (50% of INR 11,000) (amount contributed INR 11,000 or 10% of Adjusted Gross Total Income i.e., INR 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D
 $= \text{INR } 5,99,160 - \text{INR } 1,47,870 = \text{INR } 4,51,290.$

Concept Problem 19

From the following particulars furnished by Mr. X for the year ended 31.3.2022, you are requested to compute his total income and tax payable for the assessment year 2022-23, assuming that he does not opt for paying tax under section 115BAC.

- Mr. X retired on 31.12.2021 at the age of 58, after putting in 26 years and 1 months of service, from a private company at Mumbai.
- He was paid a salary of INR 25,000 p.m. and house rent allowance of INR 6,000 p.m. He paid rent of INR 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of INR 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at

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the time of his retirement. A sum of INR 3,15,000 was received by him in this regard. His average salary may be taken as INR 24,500. Employer allowed 30 days leave per annum.

- e. After retirement, he ventured into textile business and incurred a loss of INR 80,000 for the period upto 31.3.2022.
- f. Mr. X has invested INR 1,00,000 in public provident fund.

Solution

Computation of total income of Mr. X for A.Y. 2022-23

Particulars	Amount	Amount
Income from Salaries		
Basic salary (INR 25,000 x 9 months)		2,25,000
House rent allowance		
Actual amount received (INR 6,000 x 9 months)	54,000	
Less: Exemption under section 10(13A) (Note 1)	36,000	18,000
Gratuity		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(iii) (Note 2)	3,50,000	-
Leave encashment		
Actual amount received	3,15,000	
Less: Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of INR 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less: Deduction under section 80C		
Deposit in public provident fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of 2,50,000)		NIL

Notes:

1. As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

Particulars	Amount
a) HRA actually received (INR 6,000 x 9)	54,000
b) Rent paid in excess of months 10 % of salary (INR 6,500 – INR 2,500) x 9 months	36,000
c) 50% of salary	1,12,500

2. Gratuity of INR 3,50,000 is exempt under section 10(10)(iii), being the minimum of the following amounts

Particulars	Amount
-------------	--------

a) Actual amount received	3,50,000
b) Half month salary for each year of completed services $25,000 \times 15/26 \times 26$ years]	3,75,000
c) Statutory limit	20,00,000

3. Leave encashment is exempt upto the least of the following:

Particulars	Amount
a) Actual amount received	3,15,000
b) 10 months average salary (INR 24,500 x 10)	2,45,000
c) Cash equivalent of un availed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,06,250
d) Statutory limit	3,00,000

4. Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 26 = 390 days
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 x INR 24,500 /30 = 3,18,500

Concept Problem 20

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2022:

S. No.	Particulars	Rosy	Mary
1.	Pension received from State Government	-	60,000
2.	Pension received from Canadian Government	20,000	-
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	-	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	-
7.	Mediclaim policy premium paid	-	25,000
8.	Investment in PPF	-	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the AY 2022-23 and tax thereon. Ignore the provisions of section 115BAC.

Solution

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y. 2022-23

S. No.	Particulars	Mrs. Rosy	Mrs. Mary
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S. No.	Particulars	Mrs. Rosy	Mrs. Mary
(I)	Salaries		
	Pension received from State Government INR 60,000		
	Less: Standard deduction under section 16(ia) INR 50,000		10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a) @ 30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	LIC Premium paid	-	10,000
	Premium paid to Canadian Life Insurance Corporation	40,000	
	Investment in PPF	-	20,000
		40,000	30,000
2.	Deduction under section 80D – Medclaim premium paid (assuming that the same is paid by cheque)		25,000
		40,000	55,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y. 2022-23		
	Tax on long-term capital gains @ 20%	20,000	
	Tax on short-term capital gains @ 15%	3,000	
	Tax on balance income of INR 2000	NIL	
		23,000	
	Tax liability of Mrs. Mary for A.Y. 2022-23		
	Tax on short-term capital gains @ 15% of INR 1,00,000 [i.e. INR 2,50,000 less INR 2,00,000, being the unexhausted basic exemption limit as per proviso to section 111A]		15,000
	Less: Rebate under section 87A would be lower of INR 12,500 or tax liability, since total income does not exceed INR 5,00,000		12,500

S. No.	Particulars	Mrs. Rosy	Mrs. Mary
			2,500
	Add: Health and education cess @ 4%	920	100
	Total tax payable	23,920	2,600

Notes:

1. Long-term capital gain is chargeable to tax @ 20% as per section 112.
2. Short-term capital gain on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
3. In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust their unexhausted basic exemption limit against long-term capital gains u/s 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
4. Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of INR 2,50,000 against long-term capital gains of INR 1,00,000 and the balance limit of INR 1,50,000 (i.e., INR 2,50,000 – INR 1,00,000) against short-term capital gains.
5. Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed Rs. 5,00,000, since she is non-resident for the A.Y. 2022-23.

Concept Problem 21

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2017-18 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2020-21, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to INR 75 lakhs (including cost of land INR 10 lakhs). The warehouse became operational with effect from 1st April, 2021 and the expenditure of INR 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2021-22 are as follows:

Particulars	Amount
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35 AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for Assessment Year 2022-23 both as per regular provisions of the Income-tax Act and as per section 115BAC for Assessment Year 2022-23. Advise Mr. X whether he should opt for section 115BAC.

Solution

Computation of total income and tax liability of Mr. X for A.Y. 2022-23 (under the regular provisions of the Income-tax Act, 1961)

Particulars	Amount	Amount
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction under section 10AA [See Note (1) below]	32,00,000	

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Particulars	Amount	Amount
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		48,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on INR 48,00,000		12,52,500
Add: Health and Education cess @ 4%		50,100
Total tax liability		13,02,600

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	Amount	Amount
Total Income (as computed above)		48,00,000
Add: Deduction under section 10AA		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @ 10% of INR 65 lakhs	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax @ 18.5%		25,62,250
Add: Surcharge @ 15% (since adjusted total income > INR 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess @ 4%		1,17,863
		30,64,451
Tax liability under section 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus surcharge @ 15% and cess @ 4%. Therefore, the tax liability is INR 30,64,450.

Computation of total income and tax liability of Mr. X for A.Y.2022-23 (under the provisions of section 115BAC of the Income-tax Act, 1961)

Particulars	Amount	Amount
Total Income (as computed above as per regular provisions of income tax)		48,00,000
Add: Deduction under section 10AA (not allowable)		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	

Less: Depreciation under section 32 On building @ 10% of INR 65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	58,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on INR 1,38,50,000		38,92,500
Add: Surcharge @ 15%		5,83,875
		44,76,375
Add: Health and Education cess @ 4%		1,79,055
Total tax liability		46,55,430

Notes:

- Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- Individuals or HUFs exercising option u/s 115BAC are not liable to alternate minimum tax u/s 115JC.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt for section 115BAC for A.Y. 2022-23. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	Amount
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income- tax Act, 1961	13,02,600
	17,61,850

Notes:**1) Deduction under section 10AA in respect of Unit in SEZ =**

$$\frac{\text{Profit of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}} \times \text{Export turnover of the Unit in SEZ}$$

Total turnover of the Unit in SEZ

$$\frac{\text{INR 40,000}}{\text{INR 1,00,00,000}} \times \text{INR 80,00,000} = 32,00,000$$

INR 1,00,00,000

- Deduction @ 100% of the capital expenditure is available under section 35AD for A.Y. 2022-23 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the Assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of INR 65 lakhs (i.e., INR 75 lakhs – INR 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2020-21 and capitalized in the books of account on 1.4.2021, being the date when the warehouse became operational, INR 65,00,000, being 100% of INR 65 lakhs would qualify for deduction under section 35AD.

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 22

You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the AY 2022-23. She furnishes the following particulars relating to the year ended 31-3-2022:

(i)	Winnings from a TV Game show (Net)	77,000
(ii)	Gift received from Father's brother	85,000
(iii)	Gift received from Archita, her close friend	80,000
(iv)	Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@ 15% p.a.)	4,50,000
(v)	Rent received for a vacant plot of land after deduction of 10% TDS	3,03,300
(vi)	Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2021.	2,85,000
(vii)	Amount received under Keyman Insurance Policy	4,35,000
(viii)	Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000
(ix)	Donation given in cash to a charitable trust registered u/s 12AA	22,000
(x)	She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom	5,20,000
(xi)	Public Provident Fund paid in the name of her minor daughter	1,25,000
(xii)	Interest credited in the said PPF account during the year	50,900
(xiii)	Share of profits received from TVA & Co., a partnership firm	1,50,000

Computation should be made under proper heads of income.

Solution

Computation of total income of Ms. Radhika for A.Y. 2022-23

Particulars	Amount	Amount
Income from house property		
Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]	2,85,000	
Less: 30% of arrears of rent	85,500	1,99,500
Profits and gains of business or profession		
Interest on capital @ 12%, being the maximum allowable interest [INR 4,50,000/15% x 12%] assuming interest @ 12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	3,60,000	
Share of profit from TVA & Co., a firm [Exempt]	-	
Amount received under Keyman Insurance Policy	4,35,000	7,95,000
Income from other sources		
Winning from a TV Game show (Gross) [INR 77,000 x 100/ (100-30)]	1,10,000	
Gift received from father's brother would be exempt, since father's brother falls within the definition of relative	-	

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Particulars	Amount	Amount
Gift received from her close friend would be taxable, since it exceeds INR 50,000	80,000	
Rent received for a vacant plot of land [INR 3,03,300/90 x 100]	3,37,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India]	5,20,000	
Interest credited in PPF account [Exempt]	-	13,57,000
Gross Total Income		23,51,500
Less: Deductions under Chapter VI-A		
Section 80C		
PPF subscription in the name of minor daughter	1,25,000	
Section 80G		
Donation of INR 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of INR 2,000	-	
Total Income		22,26,500

Computation of tax liability of Ms. Radhika for A.Y. 2022-23

Particulars	Amount	Amount
Tax on winnings of INR 1,10,000 from TV game show @ 30%		33,000
Tax on balance income of INR 21,16,500		
Upto INR 2,50,000	Nil	
INR 2,50,001 – INR 5,00,000 @ 5%	12,500	
INR 5,00,001 - INR 10,00,000 @ 20%	1,00,000	
INR 10,00,001 - INR 21,16,500 @ 30%	3,34,950	4,47,450
		4,80,450
Add: Health and Education cess @ 4%		19,218
Tax liability		4,99,668
Less: TDS		
Under section 194-I	33,700	
Under section 194B	33,000	66,700
Tax payable		4,32,968
Tax payable (rounded off)		4,32,970

Concept Problem 23

Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2022. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2021-22 as under:

- Retail Toy business, whose turnover is INR 185 lakhs [received INR 90 lakhs by Account payee cheque, INR 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.
- Income from other sources INR 3,05,000.
- Tax deducted at source INR 55,000.
- Advance tax paid INR 1,45,000 on 14-3-2022.

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Calculate the interest payable under section 234B of the Income-tax Act, 1961.

Solution

Computation of interest payable under section 234B by Mr. Chandra Prakash

Particulars	Amount
Tax on total income of INR 15,05,000 [Business income of INR 12,00,000 (See Note below) + Income from other sources of INR 3,05,000]	2,64,000
Add: Health and Education cess @ 4%	10,560
Tax on total income	2,74,560
Less: Tax deducted at source	55,000
Assessed Tax	2,19,560
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2022	1,45,000
Interest under section 234B is leviable since advance tax of INR 1,45,000 paid is less than INR 1,97,604, being 90% of assessed tax	
Number of months from 1 st April, 2022 to 15 th December, 2022, being the date of payment of self-assessment tax	9
Interest under section 234B @ 1% per month or part of a month for 9 months on INR 74,500 [i.e., difference between assessed tax of INR 2,19,560 and advance tax of INR 1,45,000 paid being INR 74,560 which is rounded off to INR 74,5004]	6,705
Interest under section 234B rounded off	6,710

Note: The presumptive income computed under section 44AD would be INR 12 lakhs, being 8% of INR 45 lakhs and 6% of INR 140 lakhs.

Concept Problem 24

From the following information provided by Mr. Raj, aged 42 years working as a manager in XYZ Limited, for the year ended 31.3.2022, you are required to compute his total income for the A.Y. 2022-23.

Basic salary	INR 25,000 p.m.
DA (50% of it is meant for retirement benefits)	50% Basic Pay
Own contribution to Recognized Provident Fund (R.P.F.)	INR 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F account @ 15% p.a.,	INR 15,000
Arrears of rent received from XYZ Limited	INR 75,000
Received interest INR 10,000 from Axis Bank Savings account during the year, and interest of INR 12,040 (gross) from the debentures of M/s. Coal India Ltd.	

He made payment through cheque INR 15,370 towards premium on Life insurance policies and INR 22,500 for Mediclaim Insurance Policy for his major dependent daughter.

He had contributed INR 1,196 pm towards Atal Pension Yojana and INR 5,000 pm towards Sukanya Samridhi account.

XYZ Limited has taken residential house of Mr. Raj as Company's guest house and later purchased from him in the year 2020 at market value for INR 75 lakhs. Purchase cost was only INR 10 lakhs in April, 2005.

During August, 2020, Mr. Raj had sold his gold chain and a diamond ring for INR 3,40,000 which he had purchased in April, 2005 for INR 1,13,000.

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Donation of INR 11,000 to Prime Minister's National Relief Fund were given during the year by way of cheque.

(CII for 2004-05: 117, 2020-21: 301, and 2021-22: 317)

Solution

Computation of Total Income and tax payable by Mr. Raj for the A.Y.2022-23

Particulars	Amount	Amount
Income from Salaries		
Basic Salary (INR 25,000 x 12)		3,00,000
Dearness Allowance (INR 3,00,000 x 50%)		1,50,000
Employer's contribution to recognized provident fund:		
Actual contribution [20% of INR 3,00,000]	60,000	
Less: Exempt [12% of INR 3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)]	<u>45,000</u>	15,000
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt up to 9.5% p.a.	<u>9,500</u>	<u>5,500</u>
Gross Salary		4,70,500
Less: Standard deduction u/s 16(ia)		<u>50,000</u>
Net Salary		4,20,500
Income from house property		
Arrears of rent [Taxable under section 25A, even if Mr. Raj is no longer the owner of house property]	75,000	
Less: 30% of arrears of rent	<u>22,500</u>	52,500
Capital gain on sale of guest house:		
As the sale was made in the year 2020, the capital gain does not relate to assessment year 2021-22.		Nil
Capital Gain on jewellery [Long term, since the capital assets are held for more than 36 months]		
Full value of consideration	3,40,000	
Less: Indexed cost of acquisition [INR 1,13,000 x 317/117]	<u>3,06,162</u>	33,838
Income from Other Sources		
Interest from savings bank account	<u>10,000</u>	
Interest on debentures	<u>12,040</u>	22,040
Gross total Income		5,28,878
Less: Deductions under Chapter VI-A		
Section 80C		
Own contribution to RPF	30,000	
LIC premium [It is assumed that premium does not exceed 10%/20% of sum assured, as the case may be]	15,370	
Deposit in Sukanya Samridhi Scheme [INR 5,000 x 12]	60,000	<u>1,05,370</u>
Section 80CCD(1B)		
Contribution to Atal Pension Yojana, a notified pension scheme	<u>14,352</u>	
Section 80D - Mediclaim Insurance for major dependent daughter	<u>22,500</u>	

Particulars	Amount	Amount
Section 80G – Donation to PM National Relief Fund [100%]	<u>11,000</u>	
Section 80TTA – Interest on savings bank account (allowed in full upto INR 10,000)	<u>10,000</u>	1,63,222
Total Income		3,65,656
Total Income (rounded off)		3,65,660

Concept Problem 25

Compute total income of Mr. Mathur for AY 2022-23 from following information furnished by him for FY 2021-22.

Particulars	Amount
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business - X	80,000
Profit from speculation business - Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewelry	1,50,000
Investment in tax saver deposit on 31-03-2022	60,000
Brought forward loss of business of assessment year 2016-17	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2006	3,00,000

Solution

Particulars	Amount	Amount
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of INR 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of INR 40,000 from speculation business X to be carried forward to A.Y. 2023-24 for set-off against profits from speculation business.		
Income from trading and manufacturing business @ 8%	3,50,000	
Less: Brought forward business loss of A.Y. 2016-17 set- off since a period of eight assessment years has not expired.		
Balance loss of INR 2,00,000 to be carried forward to A.Y. 2023-24	(3,50,000)	Nil
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2021-22 since enhanced compensation is taxable	3,00,000	

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Particulars	Amount	Amount
on receipt basis]		
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of INR 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @ 20%, it would be beneficial to set-off the loss from house property against LTCG].	(2,00,000)	1,60,000
Balance loss of INR 60,000 to be carried forward to A.Y. 2023-24.		
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		6,30,000
Less: Deductions under chapter VI-A		
Deductions under section 80C - Investment in tax saver deposit on 31.3.2022	60,000	
Deductions under section 80 G		
Donation to recognized and approved charitable trust [Donation of 1,10,000 to be first restricted to 41,000, being 10 % of adjusted total income of 4,10,000 i.e. [6,30,000 - 1,60,000 - 60,000]. Thereafter, deductions would be computed at 50 % of 41,000	20,500	80,500
Total Income		5,49,500

Concept Problem 26

From the following particulars of Shri Jagdish (aged 59 years) for the Assessment Year 2022-23, you are required to find out his taxable income and net tax liability:

- Basic Salary @ INR 51,000 per month, Dearness allowance @ INR 10,000 per month (Part of salary for retirement benefits), House rent allowance INR 4,000 per month and rent paid for house in Mumbai is INR 7,000 per month
- He owns a commercial building at New Delhi, which is let out on 1/7/2021 at a monthly rent of INR 46,000. He paid municipal taxes of INR 27,000 and INR 25,000 for the financial year 2020-21 and 2021-22 on 31-3-2022 and 20-4-2022, respectively.
- He deals in shares. During financial year 2021-22, he earned INR 1,70,000 from his share business and paid INR 30,000 as securities transaction tax.
- He purchased 4000 unlisted shares of Shyam Limited on 16-1-2008 for INR 80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2008. Shri Jagdish sold 3000 Bonus Shares on 28/12/2021 for INR 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (CII: 2007-08: 129, 2021-22: 317)
- He received dividend of INR 13,00,000 as dividend income from listed domestic company; Interest from saving bank account deposits with IDBI Bank INR 15,000 and lottery winnings (Net of TDS @ 30%) is INR 21,000.

He paid the following amount out of his taxable income:

- Deposits in Public Provident Fund INR 2,00,000.

- b. Medical insurance 'premium paid for health of his wife INR 19,000 and for health of dependent son INR 12,000 through cheque.

Solution**Computation of Taxable Income of Mr. Jagdish for the A.Y.2022-23**

Particulars	Amount	Amount
Salaries		
Basic salary = 51,000 x12	6,12,000	
Dearness Allowance (DA) = 10,000 x12	1,20,000	
House Rent Allowance (HRA) = 4,000 x12	48,000	
Less: Least of the following exempt u/s 10 (13A)	10,800	37,200
a) HRA actually received = 4,000 x 12 = 48,000		
b) Rent Paid (-) 10% of salary [84,000 (i.e., 7,000 x 12) (-) 73,200 (10% of 7,32,000 (Basic salary + DA)) = 10,800		
c) 50% of salary [50% of 7,32,000 (Basic Salary + DA)] = 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	7,19,200
Income from house property		
Gross Annual Value [46,000 x 9]	4,14,000	
Less: Municipal tax paid during the P.Y. 2021-22	27,000	
Net Annual Value	387,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	2,70,900
Profits and gains of business or profession		
Profits from share business	1,70,000	
Less: Securities transaction tax paid deductible u/s 36 (1) (xv)	30,000	1,40,000
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of Acquisition of bonus shares allotted on or after 1.4.2001	Nil	
Long term capital gains (since bonus shares are held for a period of more than 24 hours)		2,00,000
Income from Other Sources		
Dividend received from domestic company	13,00,000	
Interest from saving bank account deposits with IDBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	30,000	13,45,000
Gross Total Income		26,85,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF INR 2,00,000		
Restricted to INR 1,50,000, being the maximum allowable deduction	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son INR 31,000, restricted to	25,000	

Section 80TTA		
Interest on saving bank account deposit	10,000	1,85,000
Total Income		25,00,100

Computation of tax liability of Mr. Jagdish for A.Y. 2022-23

Particulars	Amount	Amount
Tax on total income of INR 25,00,100		
Tax on long-term capital gains of INR 2,00,000 @ 20% u/s 112	40,000	
Tax on lottery income of INR 30,000 @ 30% u/s 115BB	9,000	
Tax on other income of 22,70,100 [25,00,100 - 2,00,000 - 30,000]		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 [i.e., 2,50,000 @ 5%]	12,500	
5,00,001 – 10,00,000 [i.e., 5,00,000 @ 20%]	1,00,000	
10,00,001 – 22,70,100 [i.e., 12,70,100 @ 30%]	3,81,030	
		5,42,530
Add: Health and education cess @ 4%		21,701
Tax liability		5,64,231
Less: Tax deducted at source		
TDS on lottery income		9000
TDS on dividend		1,30,000
Tax payable		4,25,231
Tax payable (rounded off)		4,25,230

Concept Problem 27

Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended 31.03.2022:

	Particulars	Amount
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai, which is self- occupied. Loan was taken from PNB on 01.01.1999 for purchase of this property.	1,57,000
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01.04.20 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long-term capital gains on sale of equity shares computed in accordance with section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000

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	Particulars	Amount
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the AY 2022-23 and the amount of loss that can be carried forward.

For the above solution, you may assume principal repayment of loan as under:

(1) Loan taken for purchase of house property in Delhi	-	2,50,000
(2) Loan taken for purchase of house property in Mumbai	-	50,000
(3) Loan taken for repair of house properties in Delhi and Mumbai	-	75,000

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

Solution

Computation of total income of Ms. Geeta for the A.Y.2022-23

Particulars	Amount	Amount	Amount
Income from salary (computed)			41,20,000
Income from house property			
(i) House property at Delhi (Let out)			
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)	5,00,000		
Less: Deduction u/s 24			
(a) 30% of Annual Value [30% of 5 lakh]	1,50,000		
(b) Interest on loan for purchase of property	7,50,000		
Interest on loan for repairs [1,50,000/2]	75,000	(9,75,000)	(4,75,000)
(ii) House property at Jaipur (Let out)			
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)	3,20,000		
Less: Deduction u/s 24			
30% of Annual Value = 30% of INR 3,20,000	96,000	2,24,000	
(iii) House property at Mumbai (Self-occupied)			
Annual value of self-occupied property	Nil		
Less: Deduction u/s 24(b)			
Interest on loan for purchase and repairs (to be restricted to INR 30,000, since loan for purchase was taken prior to 1.4.1999)	30,000	(30,000)	
Loss from house property [(i) + (ii) + (iii)]		(2,81,000)	
As per section 71(3A), loss from house property to be set-off against salary income to the extent of			(2,00,000)

Particulars	Amount	Amount	Amount
			39,20,000
Profits and gains of business or profession			
Speculation profit (assumed as business income)		2,30,000	
Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm		50,000	
		2,80,000	
Set-off of loss from textile business to the extent of		(2,80,000)	Nil
Note – Share of loss of INR 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.			
Income from other sources			
Interest on fixed deposit	73000		
Less: set off balance loss of textile business to the extent of	(73,000)	Nil	
Lottery income (assumed as gross income)	75,000		75,000
Capital Gains			
Long-term capital gains on sale of equity shares computed in accordance with section 112A		8,95,000	
Less: Set-off of brought forward short-term capital loss u/s 74			
B/f Short-term capital loss on sale of gold	2,75,000		
B/f Short-term capital loss u/s 111A	25,000	(3,00,000)	
Less: Set-off of balance loss of textile business [INR 7,50,000 – INR 2,80,000 – INR 73000]		(3,97,000)	
			1,98,000
Gross Total Income			41,93,000
Less: Deduction under chapter VI-A			
Under section 80 C			
Life Insurance Premium paid			
Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her		15,000	
Repayment of housing loan			
2,50,000, for house property in Delhi, not allowable since loan is taken from a friend		-	
50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property		50,000	
75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties		-	65,000
Total Income			41,28,000

Loss to be carried forward to A.Y. 2023-24:

Particulars	Amount
Loss from house property (INR 2,81,000 - INR 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of INR 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years.	81,000

Concept Problem 28

Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is 6,00,000). The annual value of house in Thailand is INR 50,00,000 i.e. converted value in INR.

He purchased a flat in Pune during F.Y. 2015-16, which has been given on monthly rent of INR 27,500 since 01.07.2018. The annual property tax of Pune flat is INR 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2020. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to INR 15,00,000. The interest on such loan for the F.Y. 2021-22 was INR 84,000. However, interest for March 2022 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2015. In respect of this house, he received arrears of rent of INR 96,000 in Feb. 2022 (not taxed earlier).

He also derived some other incomes during F.Y. 2021-22 which are as follows:

- Profit from business in Thailand INR 2,75,000
- Interest on bonds of a Japanese Co. INR 45,000 out of which 50% was received in India.
- Income from Apple Orchid in Nepal given on contract and the yearly contract fee of 5,00,000, for F.Y. 2021-22 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for Assessment Year 2022-23 chargeable to income tax in India.

Solution

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y.2021-22, he would be a non-resident for that year.

Computation of Total Income of Mr. Jagdish, a non-resident, for the A.Y. 2022-23:

	Particulars	Amount	Amount
(i)	Income from house property		NIL
	Income from house property at Bangkok [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]		
	Income from house property in Pune (taxable in India since it accrues and arises in India)		
	Gross Annual Value of Pune flat (INR 27,500 x 12)	3,30,000	
	Less: Municipal taxes (Deduction is not allowable, since no amount has been paid during the previous year 2021-22)	Nil	
	Net Annual Value (NAV)	3,30,000	

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Particulars	Amount	Amount
Less: Deductions u/s 24		
(a) 30% of NAV	99,000	
(b) Interest due on housing loan (allowable even if not paid) 84,000	84,000	
	1,47,000	
Arrears of rent received in respect of Jaipur house (taxable u/s 25A, even if he is not the owner of the house property in the P.Y.2021-22) 96,000		
Less: Deduction @ 30% 28,800	67,200	2,14,200
Profits and gains of business or profession		
Profit from business in Thailand (not taxable in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India; and it is also not stated to be received in India)		Nil
Income from Other Sources		
Interest on bonds of a Japanese company [Only 22,500, being 50% of INR 45,000 is taxable in India, since it is stated to be received in India]	22,500	
Income from Apple Orchid in Nepal [Contract fee directly credited to bank account in India is taxable in India, since it is received in India]	5,00,000	5,22,500
Profits and gains of business or profession		7,36,700

Note: Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor in the Kathmandu branch of UBI in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by the contractor directly in UBI's Pune branch, the income is received in India and hence, would be taxable in the hands of Mr. Jagdish. The above solution has been worked out accordingly.

However, due to the use of the word "in the Kathmandu branch", a view is taken that such receipt is actually received in Kathmandu and subsequently it is remitted to Indian branch, the amount of INR 5 lakh would not be taxable in India and hence, the total income would be INR 2,36,700.

Concept Problem 29

From the following information furnished by Mr. Raj aged 50 years, a resident individual and practicing chartered accountant, you are required to compute his total and tax liability for the A.Y. 2021-22.

Receipts and payments account for F.Y. 2020-21.

Receipts	Amount	Payments	Amount
Opening Balance (01.04.2021) Cash & Bank	50,000	Staff salary, bonus and stipend to article clerks	25,13,500
Fee from professional service	51,36,000	Other general & admin. expenses	13,00,000
Motor car loan from BOB @ 10% interest per annum	1,00,000	Office rent	45,000
Interest on Saving bank account maintained with SBI	15,000	Life Insurance Premium	25,000
		Motor Car (Acquired in January, 2020) paid by way of account payee cheque on 10.12.2020)	8,00,000
		Books (annual publication bought by way of account payee draft)	20,000
		Computer acquired on 1.12.2021 for	30,000

Receipts	Amount	Payments	Amount
		professional use by way of crossed cheque	
		Drawings	2,75,000
		Motor car maintenance	15,000
		Public Provident Fund subscription	1,40,000
		Closing balance (31.03.2022) Cash & Bank	1,37,500
	53,01,000		53,01,000

Other Information:

- i) Motor car was put to use for both official and personal purposes. 1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the year.
- ii) Mr. Raj purchased a flat in Gwalior for Rs. 20,00,000 in July, 2016 cost of which was partly financed by a loan from State Bank of India of Rs.15,00,000 @ 10% interest, his own savings Rs.1,00,000 and a deposit from Bank of Baroda for Rs. 4,00,000. The flat was given to SBI on lease for 10 years @ Rs.42,000 per month. The following particulars are relevant:
- (a) Municipal taxes paid by Mr. Raj = Rs. 5,500 per annum
- (b) House Insurance = Rs. 2,000
- The loan is still unpaid till 31.3.2022.
- iii) He earned Rs. 1,00,000 in share speculation business and lost Rs.1,50,000 in commodity speculation business.
- iv) Mr. Raj received a gift of Rs. 30,000 each from four of his family friends.
- v) He contributed Rs. 1,10,000 to Prime Minister's Draught Relief Fund by way of bank draft.
- vi) He donated to a registered political party Rs. 3,00,000 by way of cheque.

Computation of total income and tax liability of Mr. Raj for A.Y. 2022-23.

Solution

Particulars	Amount	Amount	Amount
Income from house property			
Gross annual value (Rs. 42,000 x 12)		5,04,000	
Less: Municipal taxes paid by Mr. Raj		5,500	
Net Annual Value		4,98,500	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,49,500	
(b) Interest on house borrowing (Rs. 15,00,000 x 10%)		1,50,000	
			1,98,950
Profits and gains of business or profession			
Income from profession			
Fees from professional services		51,36,000	
Less: Expenses allowable as deduction			
- Staff salary, bonus and stipend	25,13,500		

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Particulars	Amount	Amount	Amount
- Other general and administrative expenses	13,00,000		
- Office rent	45,000		
- Motor car maintenance (Rs. 15,000 x 2/3)	10,000		
- Car loan interest – not allowable (since the same has not been paid during the year) [Refer Note 1]		38,68,500	
		12,67,500	
Less: Depreciation u/s 32			
- Motor car Rs. 8,00,000 x 30% x 50% x 2/3, being put to use for less than 180 days [Motor car eligible for higher depreciation @ 30% since it is acquired during the period between 23.8.2019 to 31.03.2020 and for his professional purposes]	80,000		
- Books being annual publications [Rs 20,000 x 40%]	8,000		
- Computer [refer note 2]	Nil	88,000	
		11,79,500	
Income from share speculation business	1,00,000		
Less: Loss from commodity speculation business set off against income from share speculation business.	1,00,000	NIL	11,79,500
Balance loss of Rs. 50,000 from commodity speculation business to be carried forward to A.Y. 2023-24.			
Income from other sources			
Cash Gift of Rs. 1,20,000 i.e., Rs. 30,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gift exceeds Rs.50,000 during the previous year 2021-22.		1,20,000	
- Interest on Saving bank account		15,000	1,35,000
Gross Total Income			15,13,450
- Less: Deductions under Chapter VI-A			
- Section 80C			
- Life insurance premium	25,000		
- PPF subscription	1,40,000		
	1,65,000		
Restricted to Rs. 1,50,000		1,50,000	
Section 80G			
Contribution to Prime Minister's Drought Relief Fund (50% of Rs. 1,10,000) by way of bank draft		55,000	
Section 80GGC			
Donation to registered political party made by way of cheque		3,00,000	
Section 80TTA			
Interest on saving bank account upto Rs.10,000		10,000	5,15,000
Total Income			9,98,450

Particulars	Amount	Amount	Amount
Tax liability			
@ 5% on Rs. 2,50,000 [Rs. 2,50,000 – Rs. 5,00,000]		12,500	
@ 20% on Rs. 4,98,450 [Rs. 5,00,000 – Rs. 9,98,450]		99,690	
			1,12,190
Add: Health and education cess @ 4%			4,488
Tax liability			1,16,678
Tax liability (Rounded off)			1,16,680

Notes:

- (1) It is assumed that the interest on car loan has also not been paid on or before the due date under section 139(1), hence disallowance under section 43B is attracted, if he is following mercantile basis of accounting. If it is assumed that the payment has been made on or before due date under section 139(1), disallowance under this section would not be attracted and the same [i.e., Rs.1,00,000 x 10% x 3/12 x 2/3 i.e., Rs.1,667] would be allowed as deduction. If it is assumed that he is following cash basis of accounting, it would, in any case, not be allowed.
- (2) As per second proviso to section 43(1), in computing actual cost, the expenditure for acquisition of asset, for which payment is made to a person in a day exceeds Rs.10,000 has to be ignored, if such payment is made otherwise than by way of A/c payee cheque/ bank draft, ECS or other specified modes of payment. In this case, since computer is purchased by way of crossed cheque, it will not form part of actual cost and no depreciation would be allowed on this cost.

Concept Problem 30

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2022 is as follows:

Expenditure	Amount	Income	Amount
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2020-21:

- (1) Salary includes a payment of INR 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month
- (2) Written down value of the assets as on 1st April, 2021 are as follows:

Motor car (25 % used for personal use)	INR 3,50,000
Furniture & Fittings	INR 80,000

(3) Medical expenses include:

- Family planning expenditure INR 15,000 incurred for the employees which was revenue in nature
- Medical expenses for his father INR 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). INR 2,500 incurred in cash and remaining by credit card.

(4) The computer was purchased on 5th June, 2021 on credit. The total invoice was paid in the following manner:

- INR 18,000 paid in cash as down payment on the date of purchase
- Remaining amount was paid through account payee cheque on 10th August, 2021.

(5) Bonus was paid on 30th September, 2022.

(6) General expenses include commission payment of INR 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2021 without deduction of tax at source.

(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2021. The market value of the coins on the said date was INR 85,000

The consultancy fees for the previous year 2020-21 was INR 52,50,300. Compute the total income and the tax liability of Mr. Manohar for the assessment year 2022-23.

Solution

Computation of Total Income of Mr. Manohar for the A.Y.2022-23

Particulars	Amount	Amount
Profits and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of INR 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
-Motor car expenses attributable to personal use not allowable (INR 88,000 x 25%)	22,000	
-Depreciation as per books of account	87,500	
- Medical expenses of INR 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of INR 55,000 incurred for his father, not allowable, since it is personal in nature]	.55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
-Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 31.10.2022) [For the P.Y.2021-22, the gross receipts i.e., fees of Mr. Manohar from consultancy services is exceeding INR 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 31.10.2022]		
Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2021-22, since his gross receipts from profession during the P.Y.2020-21 exceeded the monetary limit of INR 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission.	12,600	2,82,100

		52,07,600
Less: Income credited but not taxable or taxable under any other head		
- Share of profit from HUF (Exempt)	55,000	
- Interest on bank fixed deposit	25,000	
- Interest on income tax refund	26,000	
-		1,06,000
		51,01,600
Less: Depreciation allowable under the Income- tax Act, 1961 [See Working Notes]		76,175
		50,25,425
Income from other sources		
- Interest on bank fixed deposits	25,000	
- Interest on income- tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2) (x), as the fair market value of such coins exceeds 50,000)	85,000	1,36,000
Gross Total Income		51,61,425
Less: Deductions under chapter VI-A		
Section 80 D Medical expenses for father (Deduction allowable to the extent of INR 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		50,000
Total Income		51,11,425
Total Income (Rounded off)		51,11,425

Computation of tax liability of Mr. Manohar for A.Y. 2022-23

Particulars	Amount	Amount
Tax on total income of INR 51,11,430		
Upto INR 2,50,000	Nil	
INR 2,50,001 – INR 5,00,000 @ 5%	12,500	
INR 5,00,001 – INR 10,00,000 @ 20%	1,00,000	
Above INR 10,00,001 i.e. 41,11,430 @ 30%	12,33,429	13,45,929
Add: Surcharge @ 10% [Since his total income exceed INR 50,00,000]		1,34,593
Less: Marginal Relief:		14,80,522
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of INR 50 lakhs]	1,68,022	
Amount of income in excess of INR 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess @ 4%		56,957
Tax liability		14,80,887
Tax liability (rounded off)		14,80,890

Working note:

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Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	Amount
On Motor Car [INR 3,50,000 x 15% x 75%]	39,375
On Furniture and fittings [INR 80,000 x 10%]	8,000
On Computer INR 72,000 x 40% [Actual cost of the computer is INR 72,000 (i.e., INR 90,000 – INR 18,000). INR 18,000 paid otherwise than by way of account payee cheque/bank draft, ECS or other specified method is not includible in actual cost.]	28,800
	76,175

Concept Problem 31

Mr. A's GST liability for half year ended on September 30, 2020 is INR 50,000. However, Mr. A has suffered unexpected loss in his business and is short of cash. Therefore, he decides not to pay GST. Examine whether Mr. A's contention is valid.

Solution

No, Mr. A's contention is not valid.

Tax is not a voluntary payment or donation, but compulsory payment charged pursuant to legislative authority. Thus, Mr. A will have to compulsorily pay GST of 50,000 for half year ended on September 30, 2020 in accordance with the applicable provisions of GST law irrespective of his financial position.

Concept Problem 32

List the situations under which the substantial interest assumes importance.

Solution

Following are the situations under which the substantial interest assumes importance:

- Taxability of deemed dividend under section 2(22)(e);
- Disallowance of excessive or unreasonable expenditure under section 40A(2) to an individual who has a substantial interest in the business or profession of the Assessee; and
- Clubbing of salary income of spouse, under section 64(1)(ii) in respect of remuneration received by the spouse from a concern in which the individual has a substantial interest.

Concept Problem 33

Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.

Solution

As per section 2(10), Average Rate of tax means the rate arrived at by dividing the amount of income-tax calculated on the Total Income by such Total Income.

Section 2(29C) defines Maximum marginal rate to mean the rate of income-tax (including surcharge on the income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

Concept Problem 34

Write short note on "Income accruing" and "Income due". Can an income which has been taxed on accrual basis be assessed again on receipt basis?

Solution

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“Accrue” refers to the right to receive income, whereas “Due” refers to the right to enforce payment of the same.

Example

Salary for work done in December will accrue throughout the month, day to day, but will become due on 31st December or 1st January, as per the employment agreement. Similarly, on Government securities, interest payable on specified dates arise/accrues during the period of holding, day to day, but will become due for payment only on the specified dates.

Income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation. For example, when interest on bank deposit is offered on accrual basis, amounts received on maturity of such deposit including interest thereon cannot be treated as income again.

Concept Problem - 35

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2022:

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of 3,34,000. He has paid municipal taxes of 30,000 for the current financial year. Both these floors are of equal size.
- As per interest certificate from ICICI bank, he paid 1,80,000 as interest and 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2014.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was 400 lakhs, which includes 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is 45 lakhs.
- He employed 20 new employees for the said industrial undertaking during the previous year 2021-22. Out of 20 employees, 12 were employed on 1st May 2021 on monthly emoluments of 18,000 and remaining were employed on 1st August 2021 on monthly emoluments of 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- He earned 30,000 and 45,000 as interest on saving bank deposits and fixed deposits respectively.
- He also sold his vacant land on 01.12.2021 for 13 lakhs. The stamp duty value of land at the time of transfer was 14 lakhs. The FMV of the land as on 1st April, 2001 was 4.8 lakhs and Stamp duty value on the said date was 4 lakhs. This land was acquired by him on 15.9.1997 for 2.80 lakhs. He had incurred registration expenses of 12,000 at that time.

The cost of inflation index for the financial year 2021-22 and 2001-02 are 317 and 100 respectively.

- He paid insurance premium of 49,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2022-23, in the manner so that he can make maximum tax savings.

Solution

Computation of total income of Mr. Dheeraj for A.Y. 2022-23.

S No	Particulars	Amount	Amount	Amount
I.	Income from house property			
	Let out portion [First Floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		3,34,000	
	Less: Municipal taxes paid by him in the P.Y. 2021-22		15,000	

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	pertaining to let out portion [30,000/2]			
	Net Annual Value (NAV)		3,19,000	
	Less: Deduction u/s 24			
	a. 30% of 3,19,000	95,7000		
	b. Interest on housing loan [1,80,000/2]	90,000	1,85,700	
			1,33,300	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan		90,000	
			(90,000)	
	Income from house property [1,33,300 – 90,000]			43,300
II.	Profits and gains of business or profession			
	Income from SEZ unit			45,00,000
	Capital Gains			
	Long – term capital gains on sale of land (since held for more than 24 months)			
	Full value of Consideration [Actual consideration of 13 lakhs, since stamp duty value of 14 lakhs does not exceed actual consideration by more than 10%]		13,00,000	
	Less: Indexed Cost of acquisition [4,00,000 x 301/100]	12,68,000		32,000
	Cost of acquisition			
	Higher of –			
	a. Actual cost 2.80 lakhs + 0.12 lakhs = 2.92 lakhs and			
	b. Fair market value (FMV) as on 1.4.2001 = 4.8 lakhs but cannot exceed stamp duty value of 4 lakhs			
IV.	Income from Other Sources			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		45,000	75,000
	Gross Total Income			46,50,300
	Less: Deduction u/s 10AA			13,50,000
	[Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y. 2020-21 of export profits, since P.Y. 2020-21 being the 3 rd year of operations] [Profits of the SEZ x Export Turnover/ Total Turnover] x 100% [45 lakhs x 120 lakhs / 400 lakhs x 100%]			
	Less: Deduction under Chapter VI-A			
	Deduction under Section 80C			

	Repayment of principal amount of housing loan	95,000		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj	49,000	1,44,000	
	Deduction under section 80JJAA		9,43,200	
	30% of the employee cost of the new employees employed during the P.Y. 2020- 21 allowable as deduction [30% of 31,44,000 [23,76,000 (12 x 18,000 x 11) + 7,68,000 (8 x 12,000 x 8)]			
	Deduction under section 80TTA			
	Interest on savings bank account, restricted to 10,000		10,000	
				10,97,200
	Total Income			22,03,100

Computation of tax liability of Mr. Dheeraj for A.Y.2022-23 under the normal provisions of the Act

Particulars	Amount	Amount
Tax on Total Income of 22,03,100		
Tax on LTCG of 32,000 @ 20 %		6,400
Tax on remaining total income of 21,71,100		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 [@5% of 2.50 lakh]	12,500	
5,00,001 – 10,00,000 [@20% of 5,00,000]	1,00,000	
10,00,001 – 21,71,100 [@30% of 11,71,700]	3,51,330	4,63,830
		4,70,230
Add : Health and education cess@4%		18,809
Total Tax Liability		4,89,039
Tax Liability (rounded off)		4,89,040

Computation of tax liability of Mr. Dheeraj for A.Y. 2022- 23 under the special provisions of the Act (Alternate Minimum Tax)

Particulars	Amount
Computation of adjusted total income	
Total income as per the normal provisions of the Act	22,03,100
Add: deduction u/s 10AA	13,50,000
Deduction u/s 80JJAA	9,43,200
Adjusted total income	44,96,300
AMT @ 18.5%	8,31,816
Add: HEC@4%	33,273
AMT Liability	8,65,089

Particulars	Amount
AMT Liability (rounded off)	8,65,090

Since the regular income tax payable is less than the AMT, the adjusted total income of **44,96,300** would be deemed to be the total income and tax would be payable @18.5% plus HEC @4%. The total tax liability would be **8,65,090**. In this case, AMT credit can be carried forward.

Mr. Dheeraj also can opt to pay tax as per the provisions of section 115BAC is tax liability thereunder is lower. In such case, the AMT provisions would not apply on him. The computation of total income and tax liability as per the provisions of the section 115BAC would be as follows:

Computation of total income of Mr. Dheeraj as per section 115BAC for A.Y. 2021-22.

Particulars	Amount	Amount
Gross Total Income as per regular provisions of the Income –Tax Act		46,50,300
Add: Interest on borrowing in respect of self – occupied house property not allowable as deduction as per section 115BAC		90,000
Gross Total Income as per section 115BAC		47,40,300
Less: Deduction under section 80JJAA		
30% of the employee cost of the new employees employed during the P.Y. 2021-22 allowable as deduction [30% of 31,44,000 [23,76,000 (12 x 18,000 x 11) + 7,68,000 (8 x 12,000 x 8)	9,43,200	
No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA		
		9,43,200
Total Income		37,97,100

Computation of tax liability as per section 115BAC.

Particulars	Amount	Amount
Tax on total income of 37,97,100		
Tax on LTCG 32,000 @20%		6,400
Tax on remaining total income of 37,65,100		
Upto 2,50,000	Nil	
2,50,001 – 5,00,000 [@5% of 2.50 lakh]	12,500	
5,00,001 – 7,50,000 [@10% of 2.50 lakh]	25,000	
7,50,001 - 10,00,000 [@15% of 2.5 lakh]	37,500	
10,00,001 – 12,50,000 [@20% of 2.5 lakh]	50,000	
12,50,001 – 15,00,000 [@25% of 2.5 lakh]	62,500	
15,00,001 – 37,65,100 [@30% of 22,65,100]	6,79,530	8,67,030
		8,73,430
Add: Health and education cess@4%		34,937
Total tax liability		9,08,367

Particulars	Amount	Amount
Tax liability (rounded off)		9,08,370

Since tax liability as per section 115BAC is higher than the tax liability of **8,65,090** being higher of AMT liability and tax liability computed as per normal provisions of the Income tax Act, 1961, it is beneficial for Mr. Dheeraj not to exercise option under section 115BAC. In such case, his tax liability, therefore, would be **8,65,090**. Moreover, Mr. Dheeraj would also be eligible to claim carry forward of AMT credit.

Concept Problem 36

During the previous year 2021-22, following transactions took place in respect of Mr. Raghav who is 56 years old.

i. Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under-

	House 1 Self – occupied	House 2 Let – out
Rent received per month	Not applicable	60,000
Municipal taxes paid	7,500	Nil
Interest on loan (taken for purchase of property)	3,50,000	5,00,000
Principal repayment of loan (taken from HDFC Bank)	2,00,000	3,00,000

ii. Mr. Raghav had a house in Delhi. During financial year 2012-13, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2021-22 from such house property is 5,50,000.

iii. Mr. Raghav receives following income from M/s M Pvt Ltd. during P.Y. 2021-22.

- Interest on Debentures of 7,50,000 ; and
- Salary of 3,75,000 . He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s Pvt Ltd. as on 31.03.2022 is as under –

	Equity Shares	Preference Shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (Brother of Mrs. Raghav)	98%	75%

- iv. Mr. and Mrs. Raghav forms a partnership firm will equal share in profits. Mr. Raghav transferred a fixed deposit of 1 crore to such firm. Firm had no income or expense other than the interest of 9,00,000 received from such fixed deposit firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.
- v. Mr. Raghav holds preference shares in M/s K Pvt Ltd. He instructed the company to pay dividends to Ms. Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2021-22 is 13,00,000.
- vi. Other income of Mr. Raghav includes
- Interest from saving bank account of 2,00,000
 - Cash gift of 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2022-23.

Solution

Particulars	Amount	Amount
Salary		Nil
[Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s Pvt Ltd., they have a substantial interest in the company without any professional qualifications commensurate with his salary, the salary of 3,75,000 received by him would be included in the hands of Mrs. Raghav]		
Income from house property		
House 1 [Self – occupied]		
Net Annual value	-	
Less: Interest on loan [upto 2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value [60,000 x2]	7,20,000	
Less: Municipal taxes	-	
Net Annual Value	7,20,000	
Less: Deductions from Net Annual Value		
a. 30% of Net Annual Value	2,16,000	4,000
b. Interest on loan	5,00,000	
House in Delhi [Since Mr. Raghav receives direct or indirect benefits from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
a. 30% of Net Annual Value	1,65,000	
b. Interest on loan	-	3,85,000
		1,89,000
Profit and gain from business or profession		
Share of profit from Firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
Dividend on preference shares	13,00,000	
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable, since sum of money exceeding 50,000 is received from his niece, who is not a relative as per section 56(2)]	75,000	23,25,000
Gross Total Income		25,14,000
Less: Deduction under chapter VI-A		

Particulars	Amount	Amount
Deduction under section 80C [Principal repayment of loan 5, lakh , restricted to 1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		13,54,000

Concept Problem 37

Mr. Krishna (aged 65 years) , a furniture manufacturer, reported a profit of 5,64,44,00 for the previous year 2021-22 after debiting/ crediting the following items:

Debits:

- 20,000 paid to a Gurudwara registered u/s 80G of the Income-Tax Act, in cash where no cheques are accepted.
- 48,000 contributed to a university approved and notified u/s 35(1) (ii) to be used for scientific research.
- Interest paid 1,67,000 on loan taken for purchase of E- Vehicle on 15-05-2019 from a bank. The E- vehicle was purchased for the personal use of his wife.
- His firm has purchased timber under a forest lease of 20,00,000 for the purpose of business.

Credits:

- Income of 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
- He received 3,00,000 from a debtor which was written off as bad in the year 2017-18. Amount due from the debtor (which was written off as bad) was 5,00,000, out of which tax officer had only allowed 3,00,000 as deduction in computing the total income for assessment year 2018-19.
- He sold some furniture to his brother for 7,00,000. The fair market value of such furniture was 9,00,000.

Other information:

- Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
- Mr. Krishna purchased a new car 12,00,000 on 1st September, 2019 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account in PY 2021-22.
- Mr. Krishna had sold a house on 30th March, 2019 and deposited the long term capital gains of 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March , 2022, he sold another house property in which he resided for 1 crore. He earned a long term capital gain of 50,00,000 on sale of this property. On 25th March, 2022 , he withdraw money out of his capital gain account and invested 1 crore on construction of one house.
- Mr. Krishna also made the following payments during the previous year 2021-22.
 - Lump sum premium of 30000 paid on 30th March, 2022 for the medial policy taken for self and spouse. The policy shall be effective for five years i.e., from 30th March, 2022 to 29th March, 2027.
 - 8,000 paid in cash for preventive health check –up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2022-23.

Solution**Computation of total income of Mr. Krishna for A.Y. 2022-23**

Particulars	Amount	Amount	Amount
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I. Income from business or profession			
	Net profit as per profit and loss account		5,64,44,700
	Add: Items of expenditure debited but not allowable while computing business income		
	1. Donation to Gurudwara in cash [Not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	20,000	
	2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e- vehicle for personal is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000	
	3. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of 2 lakh]		<u>1,87,0000</u>
			5,66,31,700
	Less: Items of income credited but not taxable or taxable under any other head of income		
	4. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	4,00,000	
	5. Bad debt recovered [Actual bad debt is 2 lakhs, i.e., 5 lakhs less 3 lakh, being the amount of bad debt recovered. Bad debt written off is 3 lakhs. Bad debt recovered to the extent of 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire 3 lakhs is credited to the profit and loss account, 2 lakhs has to be reduced]	<u>2,00,000</u>	<u>6,00,000</u>
			5,60,31,700
	Less: Allowable expenditure		
	6. Contribution to a university approved and notified u/s 35 (1) (ii) for scientific research [Eligible for deduction @150%. Since 100% of the expenditure is already debited to profit and loss account, balance 50% is allowed from business income]		24,000
	7. Depreciation on car [12 lakh x 30% since car is purchased between 23.8.2019 and 31.3.2020]		<u>3,60,000</u>
			5,56,47,700

II.	Capital Gain			
	Long term capital gain on sale of house property		50,00,000	
	Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit].		<u>50,00,000</u>	
	[Capital gain of 25 lakhs in capital gain account scheme is not taxable in P.Y. 2021-22, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of 75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of 50 lakhs being long – term capital gain on sale of house property during the P.Y. 2021-22]			
III.	Income from Other Sources			
	Royalty on patent [Taxable as “income from other sources” , since he is engaged in business of manufacturing furniture]			4,00,000
	Gross Total Income			5,60,47,700
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D			
	- Medclaim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [30,000/6 years, being relevant previous years in which the insurance is in force]	5,000		
	- Preventive health checkup of self and spouse [Preventive health checkup paid in cash allowed to the extent of 5,000]	<u>5,000</u>	10,000	
	Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2019-20, interest on loan taken for purchase of e- vehicle is allowed to the extent of 1,50,000]		1,50,000	
	Deduction under section 80G [Donation of 20,000 to Gurudwara not allowable as deduction since amount exceeding 2000 paid in cash]			
	Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the patent Act subject to a maximum of 3 lakh]		3,00,000	4,60,000
	Total Income			5,55,87,700

Computation of tax liability of Mr. Krishna for A.Y. 2022-23.

Particulars	Amount	Amount
Tax on total income of 5,55,87,700		
Upto 3,00,000	Nil	

Particulars	Amount	Amount
3,00,0001 – 5,00,000 [@ 5% of 2 lakh]	10,000	
5,00,001 – 10,00,000 [@ 20% of 5,00,000]	1,00,000	
10,00,001 – 5,55,87,700 [@ 30% of 5,54,87,700]	1,63,76,310	1,64,86,310
Add: Surcharge @ 37% , since total income exceeds 5,00,000		60,99,935
		2,25,86,245
Add: Health and education cess @ 4%		9,03,450
Total Tax Liability		2,34,89,695
Less: TCS u/s 206C(1) @ 2.5% on 20 lakh i.e., timber	50,000	
TCS u/s 206C(1F) @ 1% of 12 lakh i.e., sale of motor car where consideration exceeds 10 lakh	12,000	
TDS u/s 194 – IA @ 1% of 1 crore i.e., sale of immovable property where consideration is 50 lakh or more	1,00,000	1,62,000
Tax Payable		2,33,27,695
Tax Payable (rounded off)		2,33,27,700

Concept Problem 38

Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for previous year ended 31.03.2022:

S.No.	Particulars	Amount
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (Computed)	3,00,000
3.	Short- term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (Computed)	60,000
4.	Premium paid to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment year 2022-23.

Solution

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y. 2021-22 and her income other than from foreign sources does not exceed 15,00,000. She is non-resident for the A.Y. 2022-23.

A non- resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises to her in India.

Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for A.Y. 2022-23.

Particulars	Amount
Salaries	
Pension received from Russian Government [Not taxable, since it neither accrues in India nor is it received in India]	Nil
Income from House Property	
Annual value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues, or arises from a property situated in India]	90,000
Less: Deduction u/s 24 (a) @30%	<u>27,000</u>
Capital Gains	
Long- term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]	3,00,000
Short –term capital Gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]	60,000
Gross Total Income	4,23,000
Less: Deduction under Chapter VI-A	
Deduction under section 80C - Life insurance premium of 75,000 [Premium paid to Russian, Life Insurance corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG , as chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]	63,000
Total Income	3,60,000
Computation of Total Income	
Long – term capital gains taxable @ 20% u/s 112 [3,00,000x 20%]	60,000
Short –term capital gains taxable @ 15% u/s 111A [60,000 x 15%]	<u>9,000</u>
	69,000
Add: Health and education cess @ 4%	<u>2,760</u>
Tax Liability	71,760

Note – The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short –term capital gains taxable u/s 111A is not available in case of non –resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed 5 lakh.