

# Clubbing of Income

## Q1

## Study Mat

Mr. Vaibhav started a proprietary business on 01.04.2020 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2020-21. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2021, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2021-22. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2022-23. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

### Answer

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2021 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the AY 2022-23 is computed as under:

| Particulars  | Mr. Vaibhav's capital contribution (₹) | Capital contribution out of gift from Mrs. Vaishaly (₹) | Total (₹) |
|--|--|---|-----------|
| Capital as on 1.4.2021   | 3,00,000<br>(5,00,000 – 2,00,000)      | 5,00,000  | 8,00,000  |
| Profit for PY 2021-22 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2021 (3:5) | 1,50,000<br>(4,00,000*3/8)             | 2,50,000<br>(4,00,000*5/8)                              | 4,00,000  |

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the AY 2022-23 is ₹ 2,50,000. In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

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

## Q 2

## Study Mat

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2021. On 12-7-2021, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2021 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

### Answer

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2021 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2021. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

## Q 3

## Study Mat

During the previous year 2021-22, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2021 to 31-3-2022 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on April 1, 2021. During the previous year 2021-22, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
- Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.

- (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

## Answer

| Particulars   |        | Mr. A<br>(₹)    | Mrs. A<br>(₹)   | Minor Son<br>(₹) |
|---|--------|-----------------|-----------------|------------------|
| Income under the head "Salaries"  |        |                 |                 |                  |
| Salary income (of Mrs. A)   |        |                 | 2,40,000        |                  |
| Pension income (of Mr. A) (₹ 10,000×12)   |        | 1,20,000        |                 |                  |
| Less: Standard deduction under section 16(ia)   |        | 50,000          | 50,000          |                  |
|   |        | 70,000          | 1,90,000        |                  |
| Income from House Property [See Note (3) below]   |        | 52,000          |                 |                  |
| Income from other sources   |        |                 |                 |                  |
| Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]                               | 45,000 |                 |                 |                  |
| Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]     | 25,000 | 70,000          |                 |                  |
| Income before including income of minor son under section 64(1A)  |        | 1,92,000        | 1,90,000        |                  |
| Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below] |        | 18,500          |                 |                  |
| Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]  |        |                 |                 | 20,000           |
| <b>Total Income</b>   |        | <b>2,10,500</b> | <b>1,90,000</b> | <b>20,000</b>    |

### Notes:

- As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a

case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

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

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

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

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

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

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

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

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

## Q 4

## Study Mat

A proprietary business was started by Smt. Rani in the year 2019. As on 1.4.2020 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2020, such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2020-21, ₹ 1,50,000 and Financial year 2021-22 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2022-23 with reasons.

## Answer

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for AY 2022-23 is computed as under:

| Particulars  | Smt. Rani's<br>Capital<br>Contribution | Capital<br>Contribution<br>Out of gift from<br>husband | Total           |
|--|--|--|-----------------|
|  | ₹                                      | ₹  | ₹               |
| Capital as at 1.4.2020   | 3,00,000                               | --   | 3,00,000        |
| Investment on 10.04.2020 out of gift received from husband   |  | 2,00,000   | 2,00,000        |
|  | 3,00,000                               | 2,00,000   | 5,00,000        |
| Profit for FY 2020-21 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2020 | 1,50,000                               |  | 1,50,000        |
| <b>Capital employed as at 1.4.2021</b>   | <b>4,50,000</b>                        | <b>2,00,000</b>  | <b>6,50,000</b> |
| Profit for FY 2021-22 to be apportioned on the basis of capital employed as at 1.4.2021 (i.e., 45 : 20)                          | 2,70,000                               | 1,20,000   | 1,20,000        |

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for AY 2022-23 is ₹ 1,20,000.

## Q 5

## Study Mat

Mr. B is the Karta of a HUF, whose members derive income as given below:

|       | Particulars  | ₹        |
|-------|--|----------|
| (i)   | Income from B's profession   | 45,000   |
| (ii)  | Mrs. B's salary as fashion designer  | 76,000   |
| (iii) | Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle) |          |
| (iv)  | Minor daughter P's earnings from sports  | 95,000   |
| (v)   | D's winnings from lottery (gross)  | 1,95,000 |

Examine the tax implications in the hands of Mr. and Mrs. B.

## Answer

### Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income

of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

### Tax implications

- (i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- (ii) Salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- (iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since his income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

- (iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since his income is greater than the income of Mrs. B before including the income of minor child.

**Note :** Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

## Q 6

Nov 17 (Old)

Kamal gifted ₹ 10 lakhs to his wife, Sulochona on her birthday on, 1st January, 2021. Sulochona lent ₹ 5,00,000 out of the gifted amount to Krishna on 1st April, 2021 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2021, which were sold for ₹ 75,000 on 30th December, 2021. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Sulochona in a business. She suffered loss of ₹ 15,000 in the business in Financial Year 2021-22.

In whose hands the above income and loss shall be included in Assessment Year 2022-23? Support your answer with brief reasons.

### Answer

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Sulochana, wife of Mr. Kamal, would be includible in the total income of Mr. Kamal, since such loan was given by her out of the sum of money received by her as gift from her husband.

Assuming that the capital was invested in business by Ms. Sulochana on or before 1st April, 2021, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹15,000 from the business carried on by Ms. Sulochana would also be includible in the total income of Mr. Kamal [As per Explanation 3 to section 64(1)(iv)].

If, however, it is assumed that capital invested was partly out of the funds gifted by her husband, the loss includible in the hands of Mr. Kamal has to be determined by apportioning the loss of ₹ 15,000 incurred during the year on the basis of the capital employed on 1.4.2021.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Sulochana from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Kamal.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Sulochana. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@15% in the hands of Ms. Sulochana.

## Q7

Nov 17 (Old)

Compute the gross total income of Mr. & Mrs. A from the following information:

|     | Particulars  | ₹        |
|-----|--|----------|
| (a) | Salary income (computed) of Mrs. A   | 2,30,000 |
| (b) | Income from profession of Mr. A  | 3,90,000 |
| (c) | Income of minor son B from company deposit                                 | 15,000   |
| (d) | Income of minor daughter C from special talent                             | 32,000   |
| (e) | Interest from bank received by C on deposit made out of her special talent | 3,000    |
| (f) | Gift received by C on 30.09.2021 from friend of Mrs. A                     | 2,500    |

Brief working is sufficient. Detailed computation under various heads of income is not required.

### Answer

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent,

specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

#### Computation of gross total income of Mr. A for the AY 2022-23

| Particulars  | ₹      | ₹               |
|--|--------|-----------------|
| Income from profession   |        | 3,90,000        |
| Income of minor son B from company deposit   | 15,000 |                 |
| Less: Exemption under section 10(32)   | 1,500  | 13,500          |
| Income of minor daughter C   |        |                 |
| From special talent – not to be clubbed  | -      |                 |
| Interest from bank   | 3,000  |                 |
| Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000 | Nil    |                 |
|  | 3,000  |                 |
| Less : Exemption under section 10(32)  | 1,500  | 1,500           |
| <b>Gross Total Income</b>  |        | <b>4,05,000</b> |

## Q 8

## MTP March 18

The following are the details relating to Mr. Raju, a resident Indian, relating to the year ended 31.03.2022

| Particulars  | Amount (₹) |
|--|------------|
| Short term capital gain                              | 1,40,000   |
| Income from salaries                                 | 2,50,000   |
| Loss from house property                             | 2,20,000   |
| Loss from card games                                 | 20,000     |
| Brought forward Long term capital loss of AY 2019-20 | 86,000     |
| Dividend from Malpani Ltd.                           | 11,00,000  |
| Loss from tea business                               | 96,000     |

Mr. Raju's wife, Ishita is employed with Chander Ltd., at a monthly salary of ₹ 15,000, where Mr. Raju holds 21% of the shares of the company. Ishita is not adequately qualified for the post held by her in Chander Ltd.

You are required to compute taxable income of Mr. Raju for the AY 2022-23. Ascertain the amount of losses which can be carried forward.



## Answer

### Computation of Taxable Income of Mr. Raju for the AY 2022-23

| Particulars   | ₹        | ₹         |
|---|----------|-----------|
| Salaries  |          |           |
| Income from Salary  | 2,50,000 |           |
| Ishita's salary (₹ 15,000 x 12) [See Note 1]  | 1,80,000 |           |
|   | 4,30,000 |           |
| Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2] | 2,00,000 | 2,30,000  |
| Capital Gains   |          |           |
| Short term capital gain   | 1,40,000 |           |
| Less: Loss from tea business (₹ 96,000 x 40%) [See Note 3 & 4]                                  | 38,400   | 1,01,600  |
| Income from Other Sources   |          |           |
| Dividend income [See Note 5]  |          | 11,00,000 |
| Taxable Income  |          | 14,31,600 |

#### The following losses can be carried forward for subsequent assessment years:

- Loss from house property to be carried forward and set-off against income from house property ₹ 20,000
- Long-term capital loss of AY 2019-20 can be carried forward and set-off against long-term capital gains ₹ 86,000
- 60% of losses from tea business to be carried forward and set-off against agricultural income. The agricultural income, after set off of such losses would be considered for the purpose of applying the concept of partial integration of agricultural income with non-agricultural income → ₹ 57,600

#### Notes:

- As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Ishita is not adequately qualified for the post and Mr. Raju has substantial interest in Chander Ltd by holding 21% of the shares of the Chander Ltd., the salary income of Mrs. Ishita to be included in Mr. Raju's income.
- As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹ 2,00,000 only.
- 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.
- As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.
- Dividend received from Malpani Ltd, an Indian Company is fully taxable.
- Loss from Card games can neither be set off against any other income, nor can it be carried

forward.

- (7) As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to AY 2022-23 for set-off against long-term capital gains.

## Q 9

## RTP May 18

Compute the income to be included in the hands of Mr. Sharma for the Assessment year 2022-23 with reasons from the following information:

A proprietary business was started by Mrs. Sharma in the year 2019. As on 1.4.2020 her capital in business was ₹ 5,00,000. Her husband gifted ₹ 3,00,000 on 2.4.2020, which Mrs. Sharma invested in her business on the same date. Mrs. Sharma earned profits from her proprietary business for the financial year 2020-21, ₹ 2,00,000 and financial year 2021-22 ₹ 4,20,000.

### Answer

Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mrs. Sharma received a gift of ₹ 3,00,000 from her husband which she invested in her business. In a case where gift from spouse has been invested in business, as per Explanation 3 to section 64(1), the income or loss from such business for any previous year has to be apportioned between the spouses on the basis of the ratio of their capital employed as on 1st April of the relevant previous year. Accordingly, the income to be included in the hands of Mr. Sharma for AY 2022-23 has to be computed as under:

| Particulars  | Mrs. Sharma's Capital Contribution | Capital Contribution Out of gift from husband | Total            |
|--|------------------------------------|---|------------------|
|  | ₹                                  | ₹   | ₹                |
| Capital as on 1.4.2020   | 5,00,000                           | --  | 5,00,000         |
| Investment on 02.04.2020 out of gift received from her husband   |                                    | 3,00,000                                      | 3,00,000         |
|  | 5,00,000                           | 3,00,000                                      | 8,00,000         |
| Profit for FY 2020-21 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2020 | 2,00,000                           |   | 2,00,000         |
| Capital employed as on 1.4.2021  | <b>7,00,000</b>                    | <b>3,00,000</b>                               | <b>10,00,000</b> |
| Profit for FY 2021-22 to be apportioned on the basis of capital employed as on 1.4.2021 (i.e., 7:3)                              | 2,94,000                           | 1,26,000                                      | 4,20,000         |

Therefore, the income to be included in the hands of Mr. Sharma for AY 2022-23 is ₹ 1,26,000.

## Q10

## MTP August 18

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2021-22:

- (i) He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- (ii) He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2021. During the previous year 2021-22, she received a rent of ₹ 20,000 p.m. from letting out the flat.
- (iii) He gifted ₹ 10,00,000 to Mrs. Kajal on 1st April, 2021 which Mrs. Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2021-22 of ₹ 9,00,000.
- (iv) His minor son Sandeep earned income from company deposit of ₹ 1,50,000.

Mr. Shashank and Mrs. Kajal do not have any other income during the PY 2021-22. Compute the total income of Mr. Shashank and Mrs. Kajal for AY 2022-23.

### Answer

#### Computation of Total income of Mr. Shashank and Mrs. Kajal for the AY 2022-23

| Particulars   | Mr. Shashank (₹) | Mrs. Kajal (₹) |
|---|------------------|----------------|
| Salary income (₹ 30,000 x 12)   | 3,60,000         |                |
| Income from house property [₹ 2,40,000 (₹ 20,000 x 12) less standard deduction of 30%] (Note 1) | 1,68,000         |                |
| Income from other sources   |                  |                |
| Interest on fixed deposit with State bank of India (₹ 4,00,000 x 10%) (Note 2)                  | 40,000           |                |
| Profits and gains from business or profession   |                  |                |
| Profits earned by Mrs. Kajal from her business (Note 3)   | 3,00,000         | 6,00,000       |
| Income before including income of minor child u/s 64(1A)  | 8,68,000         | 6,00,000       |
| Income from other sources   |                  |                |
| Minor son Sandeep - Income from company deposit (Note 4)  | 1,48,500         |                |
| Total income  | 10,16,500        | 6,00,000       |

#### Notes:

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

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

- (2) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.
- (3) Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs. Kajal received a gift of ₹ 10,00,000 on 1.4.2021 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the AY 2022-23 is computed as under:

| Particulars  | Mrs. Kajal's capital contribution (₹) | Capital contribution out of gift from Mr. Shashank (₹) | Total (₹) |
|--|---------------------------------------|--|-----------|
| Capital as on 1.4.2021   | 20,00,000                             | 10,00,000  | 30,00,000 |
| Profit for PY 2021-22 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2021 (2:1) | 6,00,000<br>(9,00,000 x 2/3)          | 3,00,000<br>(9,00,000 x 1/3)                           | 9,00,000  |

Therefore, the income to be clubbed in the hands of Mr. Shashank for the AY 2022-23 is ₹ 3,00,000.

**Note:** The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., her husband.

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

Therefore, the income of ₹1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than Mrs. Kajal's income of ₹ 6,00,000. Therefore, ₹ 1,48,500 (i.e., ₹ 1,50,000 – ₹ 1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.

## Q 11

## MTP October 18

Mr. Raju gifted a sum of ₹10 lacs to his brother's minor daughter on 07-04-2021. On 16-04-2021, his brother gifted debentures worth ₹ 12 lacs to the wife of Mr. Raju. Daughter of Mr. Raju's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Raju received interest of ₹ 90,000 on debentures received by her.

Examine the implications under the provisions of the Income-tax Act, 1961

## Answer

In the given case, Mr. Raju gifted a sum of ₹10 lacs to his brother's minor daughter on 7.4.2021 and simultaneously, his brother gifted debentures worth ₹12 lacs to Mr. Raju's wife on 16.4.2021. Mr. Raju's brother's minor daughter invested the gifted amount of ₹10 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

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

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

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

In the hands of Mr. Raju, interest received by his spouse on debentures of ₹10 lacs alone would be included and not the entire interest income on the debentures of ₹12 lacs, since the cross transfer is only to the extent of ₹10 lacs.

Hence, only proportional interest (i.e., 10/12th of ₹ 90,000, being interest on debentures received) ₹ 75,000 would be includible in the hands of Mr. Raju.

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

## Q 12

RTP Nov 18

Saharsh gifted ₹ 12 lakhs to his wife, Sandhya on her birthday on, 1st February, 2021. Sandhya lent ₹ 6,00,000 out of the gifted amount to Karuna on 1st April, 2021 for six months on which she received interest of ₹ 60,000. The said sum of ₹ 60,000 was invested in shares of a listed company on 3rd October, 2021, which were sold for ₹ 85,000 on 30th March, 2022. Securities transactions tax was paid on such sale. The balance amount of gift was invested on 1st April 2021, as capital by Sandhya in her new business. She suffered loss of ₹ 25,000 in the business in Financial Year 2021-22.

In whose hands the above income and loss shall be included in Assessment Year 2022-23, assume that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

## Answer

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

**Interest on loan:** Accordingly, ₹ 60,000, being the amount of interest on loan received by Mrs. Sandhya, wife of Mr. Saharsh, would be includible in the total income of Mr. Saharsh, since such loan was given by her out of the sum of money received as gift from her husband.

**Loss from business:** As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 25,000 from the business carried on by Mrs. Sandhya would be includible in the total income of Mr. Saharsh, since as on 1st April 2021, the capital invested was entirely out of the funds gifted by her husband.

**Short-term capital gain:** The short-term capital gain of ₹ 25,000 (₹ 85,000, being the sale consideration less ₹ 60,000, being the cost of acquisition) arising in the hands of Mrs. Sandhya from sale of shares acquired by investing the interest income of ₹ 60,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Saharsh. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 15%

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, such income is taxable in the hands of Mrs. Sandhya.

## Q 13

## MTP March 19

Akash gifted ₹ 5 lakhs to his wife, Suman on her birthday on, 1st March, 2021. Suman lent such amount of ₹ 5,00,000 to Karuna on 1st April, 2021 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 13th October, 2021, which were sold for ₹ 70,000 on 30th March, 2022. Securities transactions tax was paid on such sale.

In whose hands the above income and loss shall be included in Assessment Year 2022-23.

## Answer

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

**Interest on loan:** Accordingly, ₹ 50,000, being the amount of interest on loan received by Mrs. Suman, wife of Mr. Akash, would be includible in the total income of Mr. Akash, since such loan was given by her out of the sum of money received by her as gift from her husband.

**Short-term capital gain:** The short-term capital gain of ₹ 20,000 (₹ 70,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Suman from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Akash. Since securities

transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@15%

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, such income is taxable in the hands of Ms. Suman.

## Q14

## MTP April 19

A proprietary business was started by Mrs. Kapoor in the year 2019. As on 1.4.2020 her capital in business was ₹ 3,00,000. Her husband gifted ₹ 2,00,000 on 10.4.2020, which amount Mrs. Kapoor invested in her business on the same date. Mrs. Kapoor earned profits from her proprietary business for the Financial year 2020-21, ₹1,50,000 and Financial year 2021-22 ₹3,90,000. Compute the income, to be clubbed in the hands of Mrs. Kapoor's husband for the Assessment year 2022-23 with reasons.

### Answer

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Mrs. Kapoor received a gift of ₹2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Mrs. Kapoor's husband for AY 2022-23 is computed as under:

| Particulars  | Mrs. Kapoor's Capital Contribution (₹) | Capital Contribution Out of gift from husband (₹) | Total (₹)       |
|--|--|---|-----------------|
| Capital as at 1.4.2020   | 3,00,000                               | --  | 3,00,000        |
| Investment on 10.04.2020 out of gift received from her husband   |  | 2,00,000  | 2,00,000        |
|  | 3,00,000                               | 2,00,000  | 5,00,000        |
| Profit for FY 2020-21 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2020 | 1,50,000                               |   | 1,50,000        |
| <b>Capital employed as at 1.4.2021</b>   | <b>4,50,000</b>                        | <b>2,00,000</b>                                   | <b>6,50,000</b> |
| Profit for FY 2021-22 to be apportioned on the basis of capital employed as at 1.4.2021 (i.e., 45 : 20)                          | 2,70,000                               | 1,20,000  | 3,90,000        |

Therefore, the income to be clubbed in the hands of Mrs. Kapoor's husband for AY 2022-23 is ₹ 1,20,000.

## Q 15

May 19 (Old)

Briefly explain with example, the meaning of Cross Transfer, the objective to make such transactions and implications thereof under the Income-tax Laws

### Answer

#### Meaning of Cross Transfer and tax implications thereof-

Cross transfer means transfer of income-yielding assets whether directly or indirectly so as to reduce the burden of taxation on the transferors.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. (It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142)

In such a case, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise.

**Example:** If Mr. A makes a gift of ₹ 5,00,000 to the wife of his brother B for the purchase of a house by her and simultaneously, Mr. B makes a gift of shares in a foreign company worth ₹ 5,00,000 owned by him to Mr. A's minor son, the income from the assets transferred would be assessed in the hands of the deemed transferor. This is because both Mr. A and Mr. B are the indirect transferors of the income to their minor son and spouse, respectively, with an intention to reduce their burden of taxation. Accordingly, dividend from shares accruing to Mr. A's minor son is taxable in the hands of Mr. A and rental income from house property accruing to Mrs. B is taxable in the hands of Mr. B.

## Q 16

RTP Nov 19

Mr. Raghav is a chartered accountant and his income from profession for the year 2020-21 is ₹ 15,00,000. He provides you with the following information for the year 2021-22.

| Particulars   | ₹         |
|---|-----------|
| Income of minor son Rahul from company deposit  | 1,75,000  |
| Income of minor daughter Riya (professional dancer) from her dance performances   | 20,00,000 |
| Interest from Canara bank received by Riya on fixed deposit made in 2017 out of income earned from her dance performances | 20,000    |
| Gift received by Riya from friends of Mr. Raghav on winning National award  | 45,000    |
| Loss from house property (computed)   | 2,50,000  |
| Short term capital loss   | 6,00,000  |
| Long term capital gain under section 112  | 4,00,000  |
| Short term capital loss under section 111A  | 10,00,000 |



Mr. Raghav income before considering clubbing provisions is higher than that of his wife.

Compute the Total Income of Mr. Raghav for Assessment Year 2022-23 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

### Answer

| Particulars   | ₹        | ₹          | ₹         |
|---|----------|------------|-----------|
| <b>Profits and gains from business and profession</b>   |          |            |           |
| Income from chartered accountancy profession  |          | 15,00,000  |           |
| Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).  |          | 2,00,000   | 13,00,000 |
| <b>Capital gains</b>  |          |            |           |
| Long term capital gain under section 112  |          | 4,00,000   |           |
| Less: Short term capital loss set off against long-term capital gain as per section 74  |          | (4,00,000) | Nil       |
| <b>Income from other sources</b>  |          |            |           |
| <b>Income of minor son Rahul</b>  | 1,75,000 |            |           |
| Income from company deposit includible in the hands of Mr. Raghav as per section 64(1A)   |          |            |           |
| Less: Exemption in respect of income of minor child u/s 10(32)  | 1,500    | 1,73,500   |           |
| <b>Income of minor daughter Riya</b>  | Nil      |            |           |
| - Income of ₹ 20,00,000 of minor daughter Riya (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills  |          |            |           |
| - Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills | 20,000   |            |           |
| - Gift of ₹ 45,000 received by her from friends of Mr. Raghav is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000   | Nil      |            |           |
| Less: Exemption in respect of income of minor child u/s 10(32)  | 1,500    | 18,500     | 1,92,000  |
| <b>Total Income</b>   |          |            | 14,92,000 |

### Losses to be carried forward to AY 2022-23

| Particulars  | ₹         |
|--|-----------|
| Loss from house property [₹ 2.50,000 – ₹ 2,00,000]                   | 50,000    |
| Short term capital loss under section 111A                           | 10,00,000 |
| Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,00,000] | 2,00,000  |

**Note:** Short-term capital loss under section 111A can also be set-off against long-term capital gains under section 112. In such a case, the losses to be carried forward to AY 2022-23 would be as under –

| Particulars   | ₹        |
|---|----------|
| Loss from house property [₹ 2.50,000 – ₹ 2,00,000]                    | 50,000   |
| Short term capital loss under section 111A [₹ 10,00,000 – ₹ 4,00,000] | 6,00,000 |
| Short term capital loss (other than above)                            | 6,00,000 |

**Q 17**

**Nov 19 (New)**

Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2022-23.

|   |  | ₹        |
|---|--|----------|
| 1 | Income of Mr. Mahadev - professional bhajan singer (computed)  | 5,65,000 |
| 2 | Salary income of Mrs. Dariya (computed)  | 3,80,000 |
| 3 | Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back) | 2,50,000 |
| 4 | Income of their minor son Golu from winning singing reality show on T.V.   | 2,50,000 |
| 5 | Cash gift received by Golu from friend of Mr. Mahadev on winning the show  | 21,000   |
| 6 | Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.   | 40,000   |

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2022-23.

**Answer**

**Computation of Taxable income of Mr. Mahadev for AY 2022-23**

| Particulars   | ₹               |
|---|-----------------|
| Professional income (bhajan singer)   | 5,65,000        |
| Income of minor son – Golu  |                 |
| - Income from winning singing reality show on T.V.  |                 |
| Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent. | Nil             |
| - Cash gift received by Golu from friend of Mr. Mahadev on winning the show   |                 |
| The cash gift received by his minor son Golu (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.   | Nil             |
| Income of minor married daughter – Gudia  |                 |
| Interest income on deposit with Ramu & Jay Pvt. Ltd.  | 40,000          |
| Less: Exempt under section 10(32)   | 1,500           |
| (Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income).   | 38,500          |
| <b>Taxable Income</b>   | <b>6,03,500</b> |

### Computation of Taxable income of Mrs. Dariya for AY 2022-23

| Particulars  | ₹               |
|--|-----------------|
| Salary income (computed)   | 3,80,000        |
| Loan received from Ramu & Jay (Pvt.) Ltd.  |                 |
| [Such loan amount would not be considered as deemed dividend under section 2(22) (e), even though Mrs. Dariya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception] | Nil             |
| <b>Taxable Income</b>  | <b>3,80,000</b> |

## Q 18

## MTP May 20

Mr. Vijay gifted a sum of ₹ 4 lakhs to his brother's wife on 19-6-2021. On 21-7-2021, his brother gifted a sum of ₹ 3 lakhs to Mr. Vijay's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vijay and wife of Mr. Vijay's brother on 01-8-2021 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vijay and his brother.

### Answer

In the given case, Mr. Vijay gifted a sum of ₹ 4 lakhs to his brother's wife on 19.06.2021 and simultaneously, his brother gifted a sum of ₹ 3 lakhs to Mr. Vijay's wife on 21.07.2021. The gifted amounts were invested as fixed deposits in banks by Mrs. Vijay and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Accordingly, the interest income arising to Mrs. Vijay in the form of interest on fixed deposits would be included in the total income of Mr. Vijay and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vijay's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 3 lakhs.

This is because both Mr. Vijay and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 3 lakhs alone would be included in the hands of Mr. Vijay's brother and not the interest income on the entire fixed deposit of ₹ 4 lakhs, since the cross transfer is only to the extent of ₹ 3 lakhs.

## Q19

RTP May 20

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2021. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2021 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2021, which were sold for ₹ 96,000 on 28th March, 2022. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2021, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2021-22.

In whose hands the above income and loss shall be included in Assessment Year 2022-23, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

### Answer

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

**Interest on loan:** Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

**Loss from business:** As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1st April 2021, the capital invested was entirely out of the funds gifted by her husband.

**Short-term capital gain:** Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 16,000 (₹ 96,000, being the sale consideration less ₹ 80,000, being the cost of acquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaan. Thus, such income is taxable in the hands of Mrs. Sargam.

## Q20

RTP Nov 20

Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2021. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2021-22. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

## Answer

In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2021 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

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

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

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

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

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

## Q21

## Nov 20 (New)

Determine the Gross total income of Shri Ram Kumar and Smt Ram Kumar for the assessment year 2022-23 from the following :

- (i) Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt Ram Kumar also doing job in a company and getting salary of ₹ 2,40,000 per annum.
- (ii) Shri Ram Kumar transferred a flat to his wife Smt Ram Kumar on 1st September, 2021 for adequate consideration. The rent received from this let-out flat is ₹ 9,000 per month.
- (iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹ 36,000 and Smt. Ram Kumar received ₹ 64,000 as interest from the firm and also had a share of profit of ₹ 12,000 and ₹ 26,000 respectively.

- (iv) Smt. Ram Kumar transferred 10% debentures worth ₹ 3,00,000 to Shri Ram Kumar. The whole amount of ₹ 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹ 39,000.
- (v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2019. Master Rohit (Aged 13 years) received of ₹ 15,000 as income from this property on 20th February, 2022.

## Answer

### Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2022-23

| Particulars  | Shri Ram Kumar |          | Smt. Ram Kumar |          |
|--|----------------|----------|----------------|----------|
|  | ₹              | ₹        | ₹              | ₹        |
| Salary   | 1,80,000       |          | 2,40,000       |          |
| Less: Standard deduction   | 50,000         | 1,30,000 | 50,000         | 1,90,000 |
| <b>Income from house property</b>  |                |          |                |          |
| Rent received (taken as annual value in the absence of other information)  | 45,000         |          | 63,000         |          |
| Less: Deduction u/s 24(a)@30% of Annual Value  | 13,500         | 31,500   | 18,900         | 44,100   |
| <b>Note</b> – Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration.<br><br>Therefore, the rent for the 5 months upto the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife.   |                |          |                |          |
| <b>Profits and gains of business or profession</b>   |                |          |                |          |
| Share of profit from firm [Exempt under section 10(2A)]  | -              |          | -              |          |
| Interest from firm (assumed that the same is fully deductible in the hands of the firm)  | 36,000         | 36,000   | 64,000         | 64,000   |
| <b>Income from other sources</b>   |                |          |                |          |
| Interest on debentures (interest@10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor-spouse, Smt. Ram Kumar) = 10% of ₹ 3 lakh (See Note 1 below)  | -              |          | 30,000         |          |
| Income from investments [₹ 39,000 x 3,00,000 / 3,30,000] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from ₹ 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor-spouse, | 3,545          | 3,545    | 35,455         | 65,455   |

|   |  |          |  |          |
|---|--|----------|--|----------|
| Smt. Ram Kumar. Income from accretion to such debentures (i.e., income earned by investing debenture interest of ₹ 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., ₹ 3,545, will be taxable in the hands of the Shri Ram Kumar himself) <b>(See Note 1 below)</b>  |  |          |  |          |
| <b>Total income (before including minor's income)</b>   |  | 2,01,045 |  | 3,63,555 |
| Income of minor son Rohit to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of ₹ 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is ₹ 13,500 (₹ 15,000 – ₹ 1,500) <b>(See Note 2 below)</b> |  | -        |  | 13,500   |
| <b>Total Income</b>   |  | 2,01,045 |  | 3,77,055 |

Note –

- In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹ 30,000 as well as income from investment of ₹ 39,000 will be taxable in the hands of Shri Ram Kumar.
- In respect of property transferred to Rohit, the question simply states ₹ 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution.

However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 9,000 [₹ 15,000 – ₹ 4,500 (30% of ₹ 15,000 allowable as deduction u/s 24(a)) – ₹ 1,500 (exemption u/s 10(32)], and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,72,555.

## Q22

Jan 21 (Old)

Mr. Gupta and his wife Mrs. Gupta are partners in a partnership firm holding 25% share each. During the FY 2021-22 the firm paid ₹ 2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of FY 2021-22:

- Salary received by Mr. Gupta from his employer ₹ 12,50,000.
- Interest on fixed deposit earned by Mrs. Gupta ₹ 14,00,000. (The fixed deposit was opened by using her "Stridhan")
- Income of their three minor children Neeta, Meeta and Seeta was ₹ 15,000; ₹ 10,000 and ₹ 2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Gupta as per the provisions of Income Tax Act for the AY 2022-23.

## Answer

### Computation of Gross Total Income of Mr. Gupta and Mrs. Gupta for A.Y. 2022 -23

| Particulars  | Mr. Gupta |           | Mrs. Gupta |           |
|--|-----------|-----------|------------|-----------|
|  | ₹         | ₹         | ₹          | ₹         |
| Salary   | 12,50,000 |           | -          |           |
| Less: Standard deduction under section 16(ia)  | 50,000    |           |            |           |
|  |           | 12,00,000 |            |           |
| Interest on Fixed Deposit earned by Mrs. Gupta   | -         |           |            | 14,00,000 |
| Total income (before including remuneration from firm and minor's income)  |           | 12,00,000 |            | 14,00,000 |
| Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)  |           |           | 2,50,000   |           |
| Remuneration of ₹ 2,50,000 received by Mr. Gupta has to be included in the total income of Mrs. Gupta, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present case), and her total income of ₹14 lakh exceeds the total income of her spouse excluding this income (i.e., ₹ 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm. |           |           | 2,50,000   | 5,00,000  |
| <b>Total Income (before including minor's income)</b>  |           |           |            | 19,00,000 |
| Income of three minor children to be included in Mrs. Gupta's income <sup>1</sup> , since her total income before including minor's income is higher than that of her husband.   |           |           |            |           |
| - Neeta  |           |           | 15,000     |           |
| - Meeta  |           |           | 10,000     |           |
| - Seeta  |           |           | 2,000      |           |
|  |           |           | 27,000     |           |
| Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income each child so included.   |           |           | 4,500      | 22,500    |
| Gross Total Income   |           | 12,00,000 |            | 19,22,500 |

<sup>1</sup> It is assumed that the income of the minor children are not on account of their skills.



## Q23

May 21 (New)

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

| S. No. | Particulars  | Amount (₹) |
|--------|--|------------|
| (i)    | Salary income (computed) of Mrs. Anandi  | 9,60,000   |
| (ii)   | Income of minor son "A" who suffers from disability specified in section 80U   | 3,08,000   |
| (iii)  | Income of minor daughter "C" from script writing for Television Serials  | 1,86,000   |
| (iv)   | Income from garment trading business of Mr. Dharmesh   | 17,50,000  |
| (v)    | Cash gift received by minor daughter "C" on 02-10-2021 from friend of Mrs. Anandi, on winning of a story writing competition | 45,000     |
| (vi)   | Income of minor son "B" form scholarship received from his school  | 1,00,000   |
| (vii)  | Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship             | 5,000      |

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2022-23 assuming that they have not opted to be taxed under section 115BAC

### Answer

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2022-23

| Particulars   | Mr. Dharmesh | Mrs. Anandi |
|---|--------------|-------------|
|   | Amount (₹)   | Amount (₹)  |
| Salary income (computed)  |              | 9,60,000    |
| Income from garment trading business  | 17,50,000    |             |
| Total Income before including income of minor children  | 17,50,000    | 9,60,000    |
| Income of minor son "A"   |              |             |
| Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child] |              |             |
| Income of minor son "B"   |              |             |
| Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]   |              | -           |
| Income from fixed deposit with PNB  | 5,000        |             |
| [Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship] |              |             |

|   |       |           |          |
|---|-------|-----------|----------|
| Less: Exemption under section 10(32)  | 1,500 | 3,500     |          |
| Income of minor daughter "C"  |       |           |          |
| Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent] |       | Nil       |          |
| Hence, clubbing provisions will not apply in this case/no adjustment is required.   |       |           |          |
| Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]   |       |           |          |
| Hence, clubbing provisions will not apply in this case / no adjustment is required.   |       | Nil       |          |
| Gross Total Income/ Total Income  |       | 17,53,500 | 9,60,000 |

**Note** - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16).

**Alternate view** - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

## Q 24

May 21 (Old)

During the previous year 2021-22, Mr. B's HUF comprising of Mr. B, Mrs. B, his minor son and his major daughter, sold listed equity shares thrown by Mr. B, in the common stock of the family. The said shares were equally divided among the members of the family and subsequently sold, earning an aggregate LTCG of ₹ 3,00,000.

Compute the amount of income to be included in the hands of Mr. B. Mr. B is the sole earning member in the family. What would your answer be if the said shares were inherited by the HUF of Mr. B?

### Answer

- (i) Mr. B, who is a member of the HUF, throws his individual property (i.e., listed equity shares) into the common stock of the family. It is presumed that the same is otherwise than for adequate consideration. In such a case, the income from such property shall continue to be included in the total income of Mr. B. Accordingly, the long-term capital gains of ₹ 3 lakh arising on sale of shares is includible in the total income of Mr. B and not Mr. B's HUF.
- (ii) If the said shares were inherited by B's HUF, then the long-term capital gains of ₹ 3 lakh arising on sale of shares would be included in the total income of Mr. B's HUF and not Mr. B.

**Note** – The first sentence in the question states that during the P.Y.2021-22, Mr. B's HUF sold listed equity shares thrown by Mr. B in the common stock of the family. However, the second sentence states that the said shares were equally divided among the members of the family and subsequently sold. Two alternatives are possible on account of these two sentences. The above answer is based on the facts as contained in the first sentence.

Considering the facts contained in the second sentence and assume that there has been a partial partition, then, it may be possible to answer the question on the following lines -

### ALTERNATIVE SOLUTION

- (i) Where the converted property has been partitioned, either by way of total or partial partition, the income derived from such converted property as is received by Mrs. B (i.e., ₹ 75,000, being 1/4th of ₹ 3 lakh) will be deemed to arise from assets transferred indirectly by Mr. B to Mrs. B and consequently, included in the total income of Mr. B. Further, minor son's share of ₹ 75,000 less ₹ 1,500 deduction u/s 10(32) will also be included in the total income of Mr. B as per section 64(1A), since the total income of Mr. B, being the sole earning member, would naturally be higher than that of Mrs. B. Therefore, ₹ 2,23,500, being LTCG arising to self, spouse and minor son would be included in the total income of Mr. B.
- (ii) If the said shares were inherited by B's HUF, equally divided amongst the members and then sold, then, the share of long-term capital gains of ₹ 75,000 [less ₹ 1,500 deduction u/s 10(32)] arising to minor son alone would be included in the total income of Mr. B by virtue of section 64(1A), in addition to B's own share of ₹ 75,000.

## Q 25

Nov 21 (New)

Details of Income of Mr. R and his wife Mrs. R for the previous year 2021-22 are as under :

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2021-22 the HUF earned an income of ₹ 50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2007 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2021-22, she earned interest @11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2021-22 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.
- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2014 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2017. On 04.03.2022, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000.

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2022-23.

## Answer

### Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2021-22

|      | Particulars  | Mr. R      | Mrs. R   |
|------|--|------------|----------|
|      |  | Amount (₹) |          |
| I.   | <b>Income from house property</b>  |            |          |
|      | <b>Income from property transferred to HUF without consideration</b>   |            |          |
|      | Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 <sup>1</sup> from such property would be included in the total income of Mr. R as per section 64(2).   | 50,000     |          |
| II.  | <b>Capital Gains</b>   |            |          |
|      | <b>Income from equity shares transferred by Mrs. R to Mr. R without consideration</b>  |            |          |
|      | Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 x 5,000/8,000]  |            | 3,25,000 |
|      | Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 x 3,000/8,000] <sup>2</sup> | 1,95,000   |          |
| III. | <b>Income from Other Sources</b>   |            |          |
|      | Income from commission   | 4,00,000   |          |
|      | Interest income  |            | 3,30,000 |
|      | <b>Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration</b>  |            |          |
|      | Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R  | 44,000     |          |
|      | Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.                           |            | 38,500   |
|      | Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]  | 6,89,000   | 6,93,500 |
| IV.  | <b>Salary income from a company in which both Mr. R and Mrs. R have substantial interest</b>   |            |          |

1 Assumed as computed figure.

2 In the absence of any other information, the capital gains has been apportioned on the basis of number of original shares to number of bonus shares.

|   |          |           |
|---|----------|-----------|
| Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R. |          |           |
| Salary income of Mr. R = ₹ 3,20,000 – ₹ 50,000 (standard deduction)   |          | 2,70,000  |
| Salary income of Mrs. R = ₹ 2,70,000 – ₹ 50,000 (standard deduction)  |          | 2,20,000  |
| <b>Gross Total Income</b>   | 6,89,000 | 11,83,500 |

## Q 26

MTP Oct 21

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2021. Shagun lent such amount to Kinjal on 1st April, 2021 for six months on which she received interest of ₹75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2021, which were sold for ₹ 90,000 on 30th March, 2022. Securities transactions tax was paid on purchase and sale of such shares.

In whose hands the above income shall be included in A.Y.2022-23. Support your answer with brief reasons.

### Answer

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by Mrs. Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 15,000 (₹ 90,000, being the sale consideration less ₹ 75,000, being the cost of acquisition) arising in the hands of Mrs. Shagun from sale of shares acquired by investing the interest income of ₹ 75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.

## Q 27

## MTP Nov 21

Mr. Vikas holds shares carrying 33% voting power in Kaya Ltd. Mrs. Rinky is working as accountant in Kaya Ltd. getting income from salary (computed) of ₹ 4,60,000 without any qualification in accountancy. Mr. Vikas also receives ₹ 35,000 as interest on securities. Mrs. Rinky owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. Vikas and Mrs. Rinky for the A.Y. 2022-23

### Answer

Since Mrs. Rinky is not professionally qualified for the job, the clubbing provisions shall be applicable.

#### Computation of Gross total income of Mr. Vikas

| Particulars                                 | ₹        |
|---|----------|
| Income from Salary of Mrs. Rinky (Computed) | 4,60,000 |
| Income from other sources                   |          |
| - Interest on securities                    | 35,000   |
|   | 4,95,000 |

#### Computation of gross total income of Mrs. Rinky

| Particulars  | ₹      | ₹      |
|--|--------|--------|
| <b>Income from Salary</b><br>[clubbed in the hands of Mr. Vikas] |        | Nil    |
| <b>Income from house property</b>                                |        |        |
| Gross Annual Value [₹ 6,000 × 12]                                | 72,000 |        |
| Less: Municipal taxes paid                                       | -      |        |
| <b>Net Annual Value (NAV)</b>                                    | 72,000 |        |
| Less: <b>Deductions under section 24</b>                         |        |        |
| - 30% of NAV i.e., 30% of ₹ 72,000                               | 21,600 |        |
| - Interest on loan   | -      | 50,400 |
| <b>Gross total income</b>  |        | 50,400 |

# Set-Off & c/f of Losses

Q1

Study Mat

Mr. D has the following income for the PY 2021-22:

| Particulars   | ₹      |
|---|--------|
| Income from the activity of owning and maintaining the race horses  | 75,000 |
| Income from textile business  | 85,000 |
| Brought forward textile business loss (relating to AY 2021-22)  | 50,000 |
| Brought forward loss from the activity of owning and maintaining the race horses (relating to AY 2019-20) | 96,000 |

What is the total income in the hands of Mr. D for the AY 2022-23?

Answer

### Total income of Mr. D for the AY 2022-23

| Particulars  | ₹        | ₹             |
|--|----------|---------------|
| Income from the activity of owning and maintaining race horses                                   | 75,000   |               |
| Less: Brought forward loss from the activity of owning and maintaining race horses               | 96,000   |               |
| Loss from the activity of owning and maintaining race horses to be carried forward to AY 2023-24 | (21,000) |               |
| Income from textile business   | 85,000   |               |
| Less: Brought forward business loss from textile business.                                       | 50,000   | 35,000        |
| <b>Total income</b>  |          | <b>35,000</b> |

**Note :** Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

## Q2

## Study Mat

Mr. E has furnished his details for the AY 2022-23 as under:

| Particulars                          | ₹        |
|--------------------------------------|----------|
| Income from salaries (computed)      | 1,50,000 |
| Income from speculation business     | 60,000   |
| Loss from non-speculation business   | (40,000) |
| Short term capital gain              | 80,000   |
| Long term capital loss of AY 2020-21 | (30,000) |
| Winning from lotteries (Gross)       | 20,000   |

What is the taxable income of Mr. E for the AY 2022-23?

### Answer

#### Computation of taxable income of Mr. E for the AY 2022-23

| Particulars                               | ₹        | ₹               |
|---|----------|-----------------|
| Income from salaries                      |          | 1,50,000        |
| Income from speculation business          | 60,000   |                 |
| Less : Loss from non-speculation business | (40,000) | 20,000          |
| Short-term capital gain                   |          | 80,000          |
| Winnings from lotteries                   |          | 20,000          |
| <b>Taxable Income</b>                     |          | <b>2,70,000</b> |

**Note :** Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

## Q3

## Study Mat

Mr. Soohan submits the following details of his income for the assessment year 2022-23:

| Particulars  | ₹            |
|--|--------------|
| Income from salary   | 3,00,000     |
| Loss from let out house property                             | (-) 40,000   |
| Income from sugar business                                   | 50,000       |
| Loss from iron ore business b/f (discontinued in PY 2016-17) | (-) 1,20,000 |
| Short term capital loss                                      | (-) 60,000   |
| Long term capital gain                                       | 40,000       |
| Dividend   | 5,000        |
| Income received from lottery winning (Gross)                 | 50,000       |
| Winnings from card games (Gross)                             | 6,000        |



|  |            |
|--|------------|
| Agricultural income                        | 20,000     |
| Short-term capital loss under section 111A | (-) 10,000 |
| Bank interest on Fixed deposit             | 5,000      |

Calculate gross total income and losses to be carried forward.

## Answer

### Computation of Gross Total Income of Mr. Soohan for the AY 2022-23

| Particulars   | ₹        | ₹               |
|---|----------|-----------------|
| <b>Salaries</b>   |          |                 |
| Income from salary  | 3,00,000 |                 |
| Less: Loss from house property set-off against salary income as per section 71      | (40,000) | 2,60,000        |
| <b>Profits and gains of business or profession</b>                                  |          |                 |
| Income from sugar business  | 50,000   |                 |
| Less: Brought forward loss from iron-ore business set-off as per section 72(1)      | (50,000) | Nil             |
| Balance business loss of ₹ 70,000 of PY 2016-17 to be carried forward to AY 2023-24 |          |                 |
| <b>Capital gains</b>  |          |                 |
| Long term capital gain  | 40,000   |                 |
| Less: Short term capital loss set-off   | (40,000) | Nil             |
| Balance short-term capital loss of ₹ 20,000 to be carried forward                   |          |                 |
| Short-term capital loss of ₹ 10,000 under section 111A also to be carried forward   |          |                 |
| <b>Income from other sources</b>  |          |                 |
| Dividend  | 5000     |                 |
| Winnings from lottery   | 50,000   |                 |
| Winnings from card games  | 6,000    |                 |
| Bank interest   | 5,000    | 66,000          |
| <b>Gross Total Income</b>   |          | <b>3,26,000</b> |
| <b>Losses to be carried forward to AY 2023-24</b>                                   |          |                 |
| Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)                                   | 70,000   |                 |
| Short term capital loss (₹ 20,000 + ₹ 10,000)                                       | 30,000   |                 |

#### Notes :

1. Agricultural income is exempt under section 10(1).
2. It is presumed that loss from iron-ore business relates to PY 2016-17, the year in which the business was discontinued.

## Q4

## Study Mat

Mr. Batra furnishes the following details for year ended 31.03.2022 :

| Particulars  | ₹        |
|--|----------|
| Short term capital gain  | 1,40,000 |
| Loss from speculative business   | 60,000   |
| Long term capital gain on sale of land                                     | 30,000   |
| Long term capital loss on sale of unlisted shares                          | 1,00,000 |
| Income from business of textile (after allowing current year depreciation) | 50,000   |
| Income from activity of owning and maintaining race horses                 | 15,000   |
| Income from salary (computed)  | 1,00,000 |
| Loss from house property   | 40,000   |

Following are the brought forward losses :

- Losses from activity of owning and maintaining race horses-pertaining to AY 2019-20 ₹ 25,000.
- Brought forward loss from business of textile ₹ 60,000 - Loss pertains to AY 2014-15.

Compute gross total income of Mr. Batra for the Assessment Year 2022-23. Also determine the losses eligible for carry forward to the Assessment Year 2023-24.

### Answer

#### Computation of Gross Total Income of Mr. Batra for the AY 2022-23

| Particulars  | ₹          | ₹               |
|--|------------|-----------------|
| Salaries   | 1,00,000   |                 |
| Less: Current year loss from house property  | (40,000)   | 60,000          |
| <b>Profit and gains of business or profession</b>  |            |                 |
| Income from textile business   | 50,000     |                 |
| Less: Loss from textile business brought forward from AY 2014-15                               | (60,000)   |                 |
| Balance business loss of AY 2014-15 [See Note 1]   | (10,000)   | NIL             |
| Income from the activity of owning and maintaining race horses                                 | 15,000     |                 |
| Less: Loss from activity of owning and maintaining race horses brought forward from AY 2019-20 | (25,000)   |                 |
| Loss to be carried forward to AY 2023-24 [See Note 2]  | (10,000)   | NIL             |
| <b>Capital Gain</b>  |            |                 |
| Short term capital gain  |            | 1,40,000        |
| Long term capital gain on sale of land   | 30,000     |                 |
| Less: Long term capital loss on sale of unlisted shares  | (1,00,000) |                 |
| Loss to be carried forward to AY 2023-24 [See Note 3]  | (70,000)   | NIL             |
| <b>Gross Total Income</b>  |            | <b>2,00,000</b> |

### Losses to be carried forward to AY 2023-24

| Particulars   | ₹      |
|---|--------|
| Current year loss from speculative business [See Note-4]                            | 60,000 |
| Current year long term capital loss on sale of unlisted shares                      | 70,000 |
| Loss from activity of owning and maintaining of race horse pertaining to AY 2018-19 | 10,000 |

#### Notes :

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of AY 2014-15 expired in the AY 2022-23, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to AY 2023-24.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

## Q5

## Study Mat

Mr. A furnishes you the following information for the year ended 31.03.2022:

|   | (₹)      |
|---|----------|
| (i) Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year) | 3,20,000 |
| (ii) Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,21,70,000)                |          |
| Mr. A had declared income on presumptive basis under section 44AD for the first time in AY 2021-22.             | 7,50,000 |
| (iii) He has brought forward depreciation relating to AY 2020-21  | 1,00,000 |

Compute taxable income of Mr. A and his tax liability for the assessment year 2022-23 with reasons for your computation.

## Answer

### Computation of total income and tax liability of Mr. A for the AY 2022-23

| Particulars   | ₹               |
|---|-----------------|
| Income from retail trade – as per books ( <b>See Note 1 below</b> )       | 7,50,000        |
| Income from plying of vehicles – as per books ( <b>See Note 2 below</b> ) | 3,20,000        |
|   | 10,70,000       |
| Less : Set off of brought forward depreciation relating to AY 2020-21     | 1,00,000        |
| <b>Total income</b>   | <b>9,70,000</b> |
| Tax liability   | 1,06,500        |
| Add: Health and Education cess @4%  | 4,260           |
| <b>Total tax liability</b>  | <b>1,10,760</b> |

#### Note :

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

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

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

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

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

| Particulars   | ₹                |
|---|------------------|
| Income from retail trade under section 44AD [₹ 1,21,70,000 @ 8%]  | 9,73,600         |
| Income from plying of light goods vehicles under section 44AE [₹ 7,500 x 12 x 5]                                  | 4,50,000         |
|   | 14,23,600        |
| Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off | Nil              |
| <b>Total income</b>   | <b>14,23,600</b> |
| <b>Tax thereon</b>  | <b>2,39,580</b>  |

|  |                 |
|--|-----------------|
| Add : Health and Education cess @4%      | 9,583           |
| <b>Total tax liability</b>               | <b>2,49,163</b> |
| <b>Total tax liability (rounded off)</b> | <b>2,49,160</b> |

## Q6

## Study Mat

Mr. Aditya furnishes the following details for the year ended 31-03-2022 :

| Particulars   | Amount (₹) |
|---|------------|
| Loss from speculative business A  | 25,000     |
| Income from speculative business B  | 5,000      |
| Loss from specified business covered under section 35AD   | 20,000     |
| Income from salary (computed)   | 3,00,000   |
| Loss from house property  | 2,50,000   |
| Income from trading business  | 45,000     |
| Long-term capital gain from sale of urban land  | 2,00,000   |
| Long-term capital loss on sale of shares (STT not paid)   | 75,000     |
| Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares) | 1,02,000   |

**Following are the brought forward losses :**

- (1) Losses from owning and maintaining of race horses pertaining to AY 2020-21 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to AY 2017-18.

Compute the total income of Mr. Aditya and show the items eligible for carry forward.

## Answer

### Computation of total income of Mr. Aditya for the AY 2022-23

| Particulars   | ₹        | ₹        |
|---|----------|----------|
| <b>Salaries</b>   |          |          |
| Income from Salary  | 3,00,000 |          |
| Less: Loss from house property set-off against salary income as per section 71(3A)  | 2,00,000 | 1,00,000 |
| <b>Profits and gains of business or profession</b>  |          |          |
| Income from trading business  | 45,000   |          |
| <b>Less :</b> Brought forward loss from trading business of AY 2017-18 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired. | 5,000    | 40,000   |
| Income from speculative business B  | 5,000    |          |

|   |          |                 |
|---|----------|-----------------|
| <b>Less : Loss from speculative business A set-off as per section 73(1)</b>   | 25,000   |                 |
| Loss from speculative business A to be carried forward to AY 2023-24 as per section 73(2)   | 20,000   |                 |
| Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.  | 20,000   |                 |
| <b>Capital Gains</b>  |          |                 |
| Long term capital gain on sale of urban land  | 2,00,000 |                 |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]   | 75,000   |                 |
| Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A | 1,02,000 | 23,000          |
| <b>Total Income</b>   |          | <b>1,63,000</b> |

#### Items eligible for carried forward to AY 2023-24

| Particulars  | ₹             |
|--|---------------|
| <b>Loss from House property</b>  | <b>50,000</b> |
| As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.  |               |
| As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto AY 2030-31, in this case.   |               |
| <b>Loss from speculative business A</b>  | <b>20,000</b> |
| Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto AY 2025-26, in this case, as specified under section 73(4).  |               |
| <b>Loss from specified business</b>  | <b>20,000</b> |
| Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .  |               |
| <b>Loss from the activity of owning and maintaining race horses</b>  | <b>2,000</b>  |
| Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto AY 2024-25, in this case, as specified under section 74A(3). |               |

## Q7

## Study Mat

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2022:

| Particulars  | ₹        |
|--|----------|
| Income from salaries (computed)                              | 2,20,000 |
| Loss from house property                                     | 1,90,000 |
| Loss from cloth business                                     | 2,40,000 |
| Income from speculation business                             | 30,000   |
| Loss from specified business covered by section 35AD         | 20,000   |
| Long-term capital gains from sale of urban land              | 2,50,000 |
| Loss from card games   | 32,000   |
| Income from betting (Gross)                                  | 45,000   |
| Life Insurance Premium paid (10% of the capital sum assured) | 45,000   |

Compute the total income and show the items eligible for carry forward.

### Answer

#### Computation of total income of Mr. Srivatsan for the AY 2022-23

| Particulars  | ₹        | ₹             |
|--|----------|---------------|
| Salaries   |          |               |
| Income from salaries   | 2,20,000 |               |
| Less: Loss from house property                                 | 1,90,000 | 30,000        |
| <b>Profits and gains of business or profession</b>             |          |               |
| Income from speculation business                               | 30,000   |               |
| Less: Loss from cloth business set off                         | 30,000   | Nil           |
| <b>Capital gains</b>   |          |               |
| Long-term capital gains from sale of urban land                | 2,50,000 |               |
| Less: Loss from cloth business set off                         | 2,10,000 | 40,000        |
| <b>Income from other sources</b>                               |          |               |
| Income from betting  |          | 45,000        |
| <b>Gross Total Income</b>                                      |          | 1,15,000      |
| Less: Deduction under section 80C(life insurance premium paid) |          | 30,000        |
| <b>Total Income</b>  |          | <b>85,000</b> |

#### Losses to be carried forward

| Particulars   | ₹      |
|---|--------|
| (1) Loss from cloth business (₹ 2,40,000 - ₹ 30,000 - ₹ 2,10,000) | Nil    |
| (2) Loss from specified business covered by section 35AD          | 20,000 |

### Notes :

- (i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.
- (ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)].
- (v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

## Q8

## Study Mat

Mr. Rajat submits the following information for the financial year ending 31st March, 2022. He desires that you should:

- (a) Compute the total income and
- (b) Ascertain the amount of losses that can be carried forward.

|              | Particulars  | ₹        |
|--------------|--|----------|
| <b>(i)</b>   | <b>He has two houses :</b>   |          |
|              | (a) House No. I – Income after all statutory deductions                | 72,000   |
|              | (b) House No. II – Current year loss                                   | (30,000) |
| <b>(ii)</b>  | <b>He has three proprietary businesses :</b>                           |          |
|              | <b>(a) Textile Business :</b>  |          |
|              | (i) Discontinued from 31st October, 2021 – Current year loss           | 40,000   |
|              | (ii) Brought forward business loss of AY 2017-18                       | 95,000   |
|              | <b>(b) Chemical Business :</b>   |          |
|              | (i) Discontinued from 1st March, 2019 – hence no profit/loss           | Nil      |
|              | (ii) Bad debts allowed in earlier years recovered during this year     | 35,000   |
|              | (iii) Brought forward business loss of AY 2019-20                      | 50,000   |
|              | <b>(c) Leather Business: Profit for the current year</b>               | 1,00,000 |
|              | <b>(d) Share of profit in a firm in which he is partner since 2008</b> | 16,550   |
| <b>(iii)</b> | (a) Short-term capital gain  | 60,000   |
|              | (b) Long-term capital loss   | 35,000   |
| <b>(iv)</b>  | Contribution to LIC towards premium                                    | 10,000   |



## Answer

### Computation of total income of Mr. Rajat for the AY 2022-23

| Particulars  | ₹          | ₹             |
|--|------------|---------------|
| <b>1. Income from house property</b>   |            |               |
| House No.1   | 72,000     |               |
| House No.2   | (-) 30,000 | 42,000        |
| <b>2. Profits and gains of business or profession</b>  |            |               |
| Profit from leather business   | 1,00,000   |               |
| Bad debts recovered taxable under section 41(4)  | 35,000     |               |
|  | 1,35,000   |               |
| Less: Current year loss of textile business  | (-) 40,000 |               |
|  | 95,000     |               |
| Less: Brought forward business loss of textile business for AY 2017-18 set off against the business income of current year | 95,000     | Nil           |
| <b>3. Capital Gains</b>  |            |               |
| Short-term capital gain  |            | 60,000        |
| <b>Gross Total Income</b>  |            | 1,02,000      |
| Less: Deduction under Chapter VIA  |            |               |
| Under section 80C – LIC premium paid   |            | 10,000        |
| <b>Total Income</b>  |            | <b>92,000</b> |

### Statement of losses to be carried forward to AY 2023-24

| Particulars   | ₹      |
|---|--------|
| Business loss of AY 2019-20 to be carried forward under section 72          | 50,000 |
| Long term capital loss of AY 2022-23 to be carried forward under section 74 | 35,000 |

#### Notes :

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

## Q9

## Study Mat

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2022:

- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.

- (iv) ₹ 51,000 received in cash from friends in party.  
(v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.  
(vi) Brought forward business loss of assessment year 2020-21 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2022-23 and as certain the amount of loss that can be carried forward.

## Answer

### Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2022-23

| Particulars   | ₹               |
|---|-----------------|
| <b>Profits and gains of business and profession</b>   |                 |
| Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession" | 7,50,000        |
| Less: Brought forward business loss of Assessment Year 2020-21 to be set-off against business income                          | 7,50,000        |
|   | Nil             |
| <b>Capital Gains</b>  |                 |
| Long term capital gain on sale of land  | 5,00,000        |
| Less: Long-term capital loss on shares on STT paid (See Note 2)   | <u>3,00,000</u> |
|   | 2,00,000        |
| <b>Income from other sources</b>  |                 |
| Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable                    | 51,000          |
| Dividend received from a domestic company is fully taxable  | 55,000          |
| <b>Gross Total Income</b>   | <b>3,06,000</b> |

#### Notes :

- Balance brought forward business loss of assessment year 2020-21 of ₹ 5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

## Q10

May 17

Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2021-22:

| Particulars                      | ₹        |
|----------------------------------|----------|
| Income from textile business     | 4,60,000 |
| Income from speculation business | 25,000   |
| Loss from gambling               | 12,000   |

|  |        |
|--|--------|
| Loss on maintenance of race horse  | 15,000 |
| Eligible current year depreciation of textile business not adjusted in the income given above. | 5,000  |
| Unabsorbed depreciation of assessment year 2021-22 brought forward                             | 10,000 |
| Speculation business loss of assessment year 2021-22   | 30,000 |

Compute the Gross Total Income of Mr. Shyam for the Assessment year 2022-23 and any other item of expense or loss eligible for carry forward.

## Answer

### Computation of Gross Total Income of Mr. Shyam for AY 2022-23

| Particulars   | ₹        | ₹               |
|---|----------|-----------------|
| <b>Profits and gains of business or profession</b>  |          |                 |
| Income from Textile business  | 4,60,000 |                 |
| Less: Current year depreciation allowable under section 32(1)                                 | 5,000    |                 |
|   | 4,55,000 |                 |
| Less: Unabsorbed depreciation brought forward from AY 2021-22 as per section 32(2)            | 10,000   | 4,45,000        |
| Income from speculation business  |          |                 |
| Current year income from speculation business   | 25,000   |                 |
| Less: Speculation business loss for AY 2021-22 set-off as per the provisions of section 73(2) | 30,000   |                 |
| Speculation business loss to be carried forward   | (5,000)  | Nil             |
| <b>Gross Total Income</b>   |          | <b>4,45,000</b> |

### Losses eligible for carry forward to AY 2023-24

|     | Particulars   | ₹      |
|-----|---|--------|
| (1) | <b>Loss from speculation business to be carried forward as per section 73</b><br>[can be set off only against income from another speculation business. Therefore, the remaining loss from speculation business has to be carried forward to AY 2023-24]. | 5,000  |
| (2) | <b>Loss on maintenance of race horses to be carried forward as per section 74A(3)</b><br>[can be set-off only against income from the activity of owning and maintaining race horses. Therefore, it has to be carried forward to AY 2023-24]              | 15,000 |
| (3) | <b>Loss from gambling can neither be set-off nor be carried forward</b>   |        |

## Q11

Nov 17

Mr. Prakash furnishes you the following details in respect of the Financial year 2021-22.

- (i) Loss from the business carried on by him as a proprietor: ₹ 11,20,000(\*)
- (ii) Deduction u/s 80-IB : ₹ 5,50,000 (\*)
- (iii) Unabsorbed Depreciation: ₹ 4,80,000 (\*)
- (iv) Loss from House property: ₹ 2,50,000 (\*)
- (\*) Computed as per the Income-tax Act, 1961

The due date for filing the return for Mr. Prakash was 31st July, 2022 under section 139(1). However, he filed the return on 29.9.2022. Discuss with reference to the relevant provisions of Income-tax Act, 1961 if the losses and deductions could be carried forward/claimed by Mr. Prakash.

### Answer

Mr. Prakash has furnished his return of income for AY 2022-23 on 29.9.2022, i.e., after the due date specified under section 139(1), 31st July 2022. Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss under section 139(3) filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, inter alia, business loss to be carried forward under section 72 but does not include loss from house property and unabsorbed depreciation to be carried forward under section 71B and section 32(2), respectively.

Accordingly, business loss of ₹ 11,20,000 of Mr. Prakash for AY 2022-23, not determined in pursuance of a return of loss for that year, filed within the time specified in section 139(1), cannot be carried forward to AY 2023-24.

However, the loss of ₹ 2,50,000 from house property and unabsorbed depreciation of ₹ 4,80,000 pertaining to AY 2022-23, can be carried forward to AY 2023-24 for set-off, even though Mr. Prakash has filed the return of loss for AY 2022-23 belatedly.

Further, as per section 80AC, furnishing of return of income on or before the due date specified under section 139(1) is mandatory for claiming deduction under, inter alia, section 80-IB.

Hence, Mr. Prakash cannot claim deduction of ₹ 5,50,000 under section 80-IB for AY 2022-23, since he has not furnished his return of income on or before the due date specified under section 139(1) for that year.

## Q12

RTP May 18

The following are the details relating to Mr. Gupta, a resident Indian, relating to the year ended 31.3.2022:

| Particulars   | ₹        |
|---|----------|
| Income from salaries  | 2,20,000 |
| Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of sale and acquisition of shares) | 1,50,000 |
| Loss from cloth business  | 2,40,000 |
| Income from speculation business  | 30,000   |
| Loss from specified business covered by section 35AD  | 45,000   |
| Long-term capital gains from sale of urban land   | 2,50,000 |
| Loss from house property  | 2,50,000 |
| Loss from card games  | 40,000   |
| Income from betting (Gross)   | 35,000   |
| Life Insurance Premium paid (Sum assured ₹ 5,00,000)  | 25,000   |

Compute his total income for AY 2022-23 and show the items eligible for carry forward.

### Answer

#### Computation of total income of Mr. Gupta for the AY 2022-23

| Particulars  | ₹        | ₹             |
|--|----------|---------------|
| <b>Salaries</b>  |          |               |
| Income from salaries   | 2,20,000 |               |
| Less: Loss from house property [See Note (i)]                                    | 2,00,000 | 20,000        |
| <b>Profits and gains of business or profession</b>                               |          |               |
| Income from speculation business   | 30,000   |               |
| Less: Loss from cloth business set off [See Note (iv)]                           | 30,000   | Nil           |
| <b>Capital gains</b>   |          |               |
| Long-term capital gains from sale of urban land                                  | 2,50,000 |               |
| Less: Long term capital loss on transfer of listed equity shares [See Note (ii)] | 1,50,000 |               |
| Less: Loss from cloth business set off [See Note (iv)]                           | 1,00,000 | Nil           |
| <b>Income from other sources</b>   |          |               |
| Income from betting  |          | 35,000        |
| <b>Gross Total Income</b>  |          | <b>55,000</b> |
| Less: Deduction under section 80C (life insurance premium paid) [See Note (vi)]  |          | 20,000        |
| <b>Total income</b>  |          | <b>75,000</b> |

### Losses to be carried forward

| Particulars   | ₹        |
|---|----------|
| (1) Loss from house property (₹ 2,50,000 - ₹ 2,00,000)            | 50,000   |
| (2) Loss from cloth business (₹ 2,40,000 - ₹ 30,000 - ₹ 1,00,000) | 1,10,000 |
| (3) Loss from specified business covered by section 35AD          | 45,000   |

#### Notes :

- As per section 71(3A), loss from house property can be set-off against income under any other head to the extent of ₹ 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.
- Long-term capital gains from sale of listed shares in a recognized stock exchange on which STT is paid at the time of acquisition and sale is taxable u/s 112A. Loss from a taxable source can be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares on which STT is paid can be set-off against long-term capital gains from sale of urban land.
- Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year(s).
- Since inter-source set-off of losses is permissible as per section 70(1), loss from cloth business to the extent of ₹ 30,000 can be set-off against income from speculation business. The remaining business loss cannot be set off against salary income due to restriction contained in section 71(2A). However, the remaining business loss of ₹ 1,10,000 (₹ 2,40,000 - ₹ 30,000 - ₹ 1,00,000) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ Nil
- Loss from card games can neither be set off against any other income, nor can it be carried forward.
- For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹ 55,000 - ₹ 35,000 (Casual income)].
- Income from betting is chargeable to tax at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

## Q13

May 18

Mr. Jaji is a chartered accountant and his income from profession for the year 2021-22 is ₹ 10,00,000. He provides you with the following information for the year 2021-22.

| Particulars  | ₹         |
|--|-----------|
| Income of minor son Biju from company deposit  | 1,50,000  |
| Income of minor daughter Chitra (professional dancer)                                  | 20,00,000 |
| Interest from SBI received by Chitra on deposit made in 2019 out of her special talent | 20,000    |

|  |           |
|--|-----------|
| Gift received by Chitra on 30-09-2021 from friends of Mr. Jaji on winning National award | 45,000    |
| Short term capital loss of Mr. Jaji  | 6,00,000  |
| Long term capital gain of Mr. Jaji   | 4,00,000  |
| Long term capital gains from shares (STT paid) of Mr. Jaji                               | 10,00,000 |
| Short term capital loss under section 111A of Mr. Jaji                                   | 10,00,000 |

Compute the Total Income of Mr. Jaji for AY 2022-23 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

## Answer

### Computation of Total Income of Mr. Jaji for AY 2022-23

| Particulars   | ₹        | ₹           | ₹                |
|---|----------|-------------|------------------|
| <b>Profits and gains from business and profession</b>   |          |             |                  |
| Income from chartered accountancy profession  |          |             | 10,00,000        |
| <b>Capital gains</b>  |          |             |                  |
| Long term capital gains of ₹ 10,00,000 from shares is taxable   |          | 10,00,000   |                  |
| Less: Short term capital loss under section 111A  |          | (10,00,000) |                  |
| Long term capital gain (other than above)   |          | 4,00,000    |                  |
| Less: Short term capital loss set off against long-term capital gain as per section 74  |          | (4,00,000)  | Nil              |
| <b>Income from other sources</b>  |          |             |                  |
| <b>Income of minor son Biju</b>   |          |             |                  |
| Income from company deposit includible in the hands of Mr. Jaji as per section 64(1A)   | 1,50,000 |             |                  |
| Less: Exemption in respect of income of minor child u/s 10(32)  | 1,500    |             |                  |
| Income of minor daughter Chitra   |          | 1,48,500    |                  |
| - Income of ₹ 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills  | Nil      |             |                  |
| - Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills | 20,000   |             |                  |
| Less: Exemption in respect of income of minor child u/s 10(32)  | 1,500    | 18,500      |                  |
| <b>Other incomes:</b>   |          |             |                  |
| - Gift of ₹ 45,000 received by her from friends of Mr. Jaji is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000   |          | Nil         | 1,67,000         |
| <b>Total Income</b>   |          |             | <b>11,67,000</b> |

### Losses to be carried forward to AY 2023-24

| Particulars  | ₹        |
|--|----------|
| Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,00,000] | 2,00,000 |

## Q14

## MTP Oct 18

Compute the total income of Mr. Prince (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2022. Also, show the items eligible for carry forward to the AY 2023-24.

| Particulars   | ₹        |
|---|----------|
| Income from salaries  | 2,20,000 |
| Loss from house property  | 1,90,000 |
| Loss from toy business  | 2,40,000 |
| Income from speculation business  | 30,000   |
| Loss from specified business covered under section 35AD   | 20,000   |
| Long-term capital gains from sale of urban land   | 2,50,000 |
| Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale ) | 1,10,000 |
| Income from betting (Gross)   | 45,000   |

## Answer

### Computation of Total Income of Mr. Prince for the AY 2022-23

| Particulars   | ₹        | ₹             |
|---|----------|---------------|
| <b>Salaries</b>   |          |               |
| Income from salaries                                    | 2,20,000 |               |
| Less: Loss from house property                          | 1,90,000 | 30,000        |
| <b>Profits and gains of business or profession</b>      |          |               |
| Income from speculation business                        | 30,000   |               |
| Less: Loss from toy business set off                    | 30,000   | Nil           |
| <b>Capital gains</b>                                    |          |               |
| Long-term capital gains from sale of urban land         | 2,50,000 |               |
| Less: Long-term capital loss from sale of listed shares | 1,10,000 |               |
| Less: Loss from toy business set off                    | 1,40,000 | Nil           |
| <b>Income from other sources</b>                        |          |               |
| Income from betting                                     |          | 45,000        |
| <b>Gross total income/ Total Income</b>                 |          | <b>75,000</b> |



### Losses to be carried forward :

| Particulars   | ₹      |
|---|--------|
| (1) Loss from toy business (₹ 2,40,000 – ₹ 30,000 – ₹ 1,40,000) | 70,000 |
| (2) Loss from specified business covered by section 35AD        | 20,000 |

### Notes :

- Long-term capital gains from sale of listed shares in a recognized stock exchange is not exempt under section 10(38). Loss from a taxable source can be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares can be set -off against long-term capital gains from sale of urban land. Balance can be c/f.
- Loss from specified business covered by section 35AD can be set -off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set -off against profits and gains of any specified business in the following year.
- Business loss cannot be set off against salary income. However, business loss can be set-off against income from speculative business and long term capital gains.
- Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

## Q15

RTP Nov 18

From following information furnished for the year ended 31-03-2022, compute the total income of Mr. Arihant for AY 2022-23 and show the items eligible for carry forward and upto which assessment year:

| Particulars  | Amount (₹) |
|--|------------|
| Long-term capital gain from sale of urban land   | 2,30,000   |
| Long-term capital loss on sale of shares (STT not paid)  | 85,000     |
| Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale) | 1,02,000   |
| Loss from speculative business X   | 25,000     |
| Income from speculative business Y   | 15,000     |
| Loss from specified business covered under section 35AD  | 40,000     |
| Income from salary   | 3,50,000   |
| Loss from house property   | 2,20,000   |
| Income from trading business   | 75,000     |

Following are details of unabsorbed depreciation and the brought forward losses:

- Unabsorbed depreciation of ₹ 11,000 pertaining to AY 2021-22.
- Losses from owning and maintaining of race horses pertaining to AY 2021-22 ₹ 5,000.
- Brought forward loss from trading business ₹ 8,000 relating to AY 2018-19.

## Answer

### Computation of total income of Mr. Arihant for the AY 2022-23

| Particulars  | ₹        | ₹               |
|--|----------|-----------------|
| <b>Salaries</b>  |          |                 |
| Income from Salary   | 3,50,000 |                 |
| <b>Less :</b> Loss from house property set-off against salary income as per section 71(3A), restricted to  | 2,00,000 | 1,50,000        |
| <b>Profits and gains of business or profession</b>   |          |                 |
| Income from trading business   | 75,000   |                 |
| <b>Less :</b> Brought forward loss from trading business of AY 2016-17 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set - off is permitted has not expired.  | 8,000    |                 |
|  | 67,000   |                 |
| Less: Unabsorbed depreciation  | 11,000   | 56,000          |
| Income from speculative business Y   | 15,000   |                 |
| Less: Loss from speculative business X to be set-off as per section 73(1)  | 15,000   |                 |
| Loss from speculative business X to be carried forward to AY 2023-24 as per section 73(2)  | 10,000   |                 |
| <b>Capital Gains</b>   |          |                 |
| Long term capital gain on sale of urban land   | 2,30,000 |                 |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]  | 85,000   |                 |
| Long-term capital loss of ₹ 1,02,000 on sale of listed shares on which STT is paid both at the time of acquisition and sale can be set-off against long-term capital gain on sale of urban land since loss from a taxable source can be set- off against profit from a taxable source. | 1,02,000 | 43,000          |
| <b>Total Income</b>  |          | <b>2,49,000</b> |

### Items eligible for carried forward to AY 2023-24

| Particulars  | ₹      |
|--|--------|
| <b>Loss from House Property</b>  | 20,000 |
| As per section 71(3A), Loss from house property can be set -off against any other head of income to the extent of ₹ 2,00,000 only.   |        |
| As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto AY 2030-31, in this case. |        |

|  |        |
|--|--------|
| <p><b>Loss from speculative business X</b></p> <p>Loss from speculative business can be set -off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set -off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto AY 2026-27, in this case, as specified under section 73(4).</p>  | 10,000 |
| <p><b>Loss from specified business under section 35AD</b></p> <p>Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .</p>   | 40,000 |
| <p><b>Loss from the activity of owning and maintaining race horses</b></p> <p>Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set -off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto AY 2025-26, in this case as specified under section 74A(3).</p> | 5,000  |

## Q16

Nov 18

Mr. Rajeev submits the following information for the previous year 2021-22:

|        |   | (Amount in ₹) |
|--------|---|---------------|
| (i)    | Income from salary  | 6,50,000      |
| (ii)   | Income from House-I   | 55,000        |
| (iii)  | Loss from House-II (self-occupied property)   | 1,25,000      |
| (iv)   | Loss from House-III   | 190,000       |
| (v)    | Loss from leather business  | 68,000        |
| (vi)   | Profit from cloth business  | 1,70,000      |
| (vii)  | Business loss of chemical business acquired by inheritance                                  | 45,000        |
| (viii) | Brought forward loss of discontinued business of textile relating to financial year 2016-17 | 50,000        |
| (ix)   | Long term capital gain on transfer of listed equity shares on which STT was paid            | 75,000        |
| (x)    | Short term capital loss in equity oriented funds on which STT was paid                      | 35,000        |
| (xi)   | Income from crossword puzzles   | 12,000        |
| (xii)  | Dividend from foreign company   | 8,500         |
| (xiii) | Loss on owning and maintenance of race horses   | 7,500         |
| (xiv)  | Income from owning and maintenance of race bulls  | 9,000         |

|      |  |  |
|------|--|--|
| (xv) | Mr. Rajeev had taken an education loan from XYZ Bank for his niece who is dependent on him for pursuing full time MBA course on 2nd April, 2021. During the year, interest on loan was due for ₹ 55,000. However, he paid towards principal and interest ₹ 55,000. However, he paid towards principal and interest ₹ 90,000 and ₹ 30,000 respectively. |  |
|------|--|--|

Compute the gross total income and losses to be carried forward of Mr. Rajeev for assessment year 2022-23.

## Answer

### Gross Total Income of Mr. Rajeev for AY 2022-23

| Particulars  | ₹          | ₹        |
|--|------------|----------|
| <b>Salaries</b>  |            |          |
| Income from salary   | 6,50,000   |          |
| Less: Loss from house property of ₹ 2,60,000, restricted to  | 2,00,000   | 4,50,000 |
|  |            |          |
| <b>Income from house property</b>  |            |          |
| Income from House I  | 55,000     |          |
| Less: Loss from House II (self-occupied) 1,25,000  |            |          |
| Loss from House III <u>1,90,000</u>  | 3,15,000   |          |
|  | (2,60,000) |          |
| Set-off of loss from house property against salary income, restricted to   | (2,00,000) |          |
| Loss to be carried forward to AY 2023-24   | (60,000)   |          |
| <b>Profits and gains of business or profession</b>   |            |          |
| Profit from cloth business   | 1,70,000   |          |
| Less: Loss from leather business   | 68,000     |          |
|  | 1,02,000   |          |
| Less: Business loss of chemical business acquired by inheritance   | 45,000     |          |
|  | 57,000     |          |
| Less: B/f loss of discontinued textile business relating to FY 2016-17 (allowed to be set-off since the 8 years time limit has not expired)                                | 50,000     | 7,000    |
| <b>Capital gains</b>   |            |          |
| Long term capital gains of ₹ 75,000 on transfer of listed equity shares on which STT has been paid is taxable u/s 112A on gains exceeding ₹ 1 lakhs                        | 75,000     |          |
| Less: Short term capital loss in equity-oriented funds on which STT is paid ₹ 35,000 can be set-off only against capital gains and not against income under any other head | (35,000)   | 40,000   |
| <b>Income from other sources</b>   |            |          |

|  |        |                 |
|--|--------|-----------------|
| Income from owning and maintenance of race bulls   | 9,000  |                 |
| Loss of ₹ 7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to AY 2023-24. | Nil    |                 |
| Income from crossword puzzles  | 12,000 |                 |
| Dividend from foreign company  | 8,500  | 29,500          |
| <b>Gross Total Income</b>  |        | <b>5,26,500</b> |

#### Losses to be carried forward to AY 2023-24

| Particulars   | ₹      |
|---|--------|
| Loss from house property [to be carried forward for set-off against income from house property]   | 60,000 |
| Loss from owning and maintaining race horses [to be carried forward for set-off against income from the activity of owning and maintaining race horses] | 7,500  |

Note – It is assumed that Mr. Rajeev has filed his return on or before the due date under section 139(1). Hence, he is eligible to carry forward short-term capital loss and loss on owning and maintaining race horses.

## Q17

## MTP March 19

Compute the total income of Mr. Sahil for the assessment year 2022-23 from the following particulars:

| Particulars   | Amount (₹) |
|---|------------|
| Income from business before adjusting the following items:  | 2,50,000   |
| (a) Business loss brought forward from assessment year 2018 -19   | 85,000     |
| (b) Current year depreciation   | 30,000     |
| (c) Unabsorbed depreciation of earlier year   | 2,00,000   |
| Income from house property (Gross Annual Value)   | 5,10,000   |
| Municipal taxes paid  | 50,000     |
| Mr. Sahil sold a plot at Noida on 12th September, 2021 for a consideration of ₹7,90,000, which had been purchased by him on 20th December, 2019 at a cost of ₹ 6,10,000 |            |
| Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid at acquisition and sale)  | 90,000     |
| Long-term capital gain on sale of debentures  | 1,35,000   |
| Dividend on shares held as stock in trade   | 25,000     |
| Dividend from a company carrying on agricultural business   | 15,000     |

## Answer

### Computation of total income of Mr. Sahil for the AY 2022-23

| Particulars   | ₹        | ₹               |
|---|----------|-----------------|
| <b>I. Income from house property</b>  |          |                 |
| Gross Annual Value  | 5,10,000 |                 |
| Less: Municipal taxes paid  | 50,000   |                 |
| Net Annual Value (NAV)  | 4,60,000 |                 |
| Less: Deductions under section 24   |          |                 |
| 30% of NAV  | 1,38,000 |                 |
| Interest on housing loan  | -        | 3,22,000        |
| <b>II. Income from business</b>   |          |                 |
| Income from business  | 2,50,000 |                 |
| Less : Current year depreciation under section 32(1)  | 30,000   |                 |
|   | 2,20,000 |                 |
| Less: Set-off of brought forward business loss of AY 2018-19 under section 72                             | 85,000   |                 |
|   | 1,35,000 |                 |
| Less: Unabsorbed depreciation set-off [See Note 3]  | 1,35,000 | NIL             |
| <b>III. Capital Gains</b>   |          |                 |
| Long-term capital gain on sale of debentures  | 1,35,000 |                 |
| Less: Long-term capital loss on sale of shares (STT is paid at acquisition and sale) [See Note 1]         | 90,000   |                 |
|   | 45,000   | Nil             |
| Less: Unabsorbed depreciation set-off [See Note 3]  | 45,000   |                 |
| Short term capital gain on sale of land [See Note 2]  | 1,80,000 |                 |
| Less: Unabsorbed depreciation set-off [See Note 3]  | 20,000   | 1,60,000        |
| <b>IV. Income from other sources</b>  |          |                 |
| Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) | -        | 40,000          |
|   |          | <b>5,12,000</b> |

#### Notes :

- (1) Long-term capital loss on sale of listed equity shares through a recognized stock exchange on which STT is paid at the time of acquisition and sale of such shares can be set-off against long-term capital gains on sale of debentures applying the provisions of section 70(3).
- (2) Since land is held for a period of less than 24 months, the gain of ₹1,80,000 arising from sale of such land is a short-term capital gain.
- (3) Brought forward unabsorbed depreciation can be adjusted against any head of income.

However, it is more beneficial to set-off unabsorbed depreciation first against long-term capital gains, since it is taxable at a higher rate of 20% (the other income of the assessee falling in the 5% slab rate). Therefore, unabsorbed depreciation is first set-off against long-term capital gains

to the extent of ₹45,000. The remaining unabsorbed depreciation is adjusted against business income to the extent of ₹1,35,000 and the balance of ₹20,000 is adjusted against short-term capital gains.

In the alternative, the balance of ₹20,000 may also be set-off against income from house property, in which case, the net income from house property would be ₹3,02,000 and short-term capital gains would be ₹1,80,000. The gross total income and total income would, however, remain unchanged.

## Q18

## MTP Apr 19

Compute the total income of Mr. Pratap (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2022. Also, show the items eligible for carry forward.

| Particulars   | ₹        |
|---|----------|
| Income from salaries  | 2,20,000 |
| Loss from house property  | 2,50,000 |
| Loss from toy business  | 1,30,000 |
| Income from speculation business  | 40,000   |
| Loss from specified business covered by section 35AD  | 20,000   |
| Long-term capital gains from sale of urban land   | 2,50,000 |
| Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares) | 1,10,000 |
| Loss from card games  | 32,000   |
| Income from betting (Gross)   | 45,000   |
| Life Insurance Premium paid (10% of the capital sum assured)  | 50,000   |

### Answer

#### Computation of total income of Mr. Pratap for the AY 2022-23

| Particulars   | ₹        | ₹      |
|---|----------|--------|
| Salaries  |          |        |
| <b>Income from salaries</b>   | 2,20,000 |        |
| Less: Loss from house property set-off against salary as per section 71(1) & 71(3A) | 2,00,000 | 20,000 |
| <b>Profits and gains of business or profession</b>                                  |          |        |
| Income from speculation business  | 40,000   |        |
| Less: Loss from toy business set off  | 40,000   | Nil    |
| <b>Capital gains</b>  |          |        |
| Long-term capital gains from sale of urban land                                     | 2,50,000 |        |

|   |          |                 |
|---|----------|-----------------|
| Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A | 1,10,000 |                 |
| Less: Loss from toy business set off  | 90,000   | 50,000          |
| <b>Income from other sources</b>  |          |                 |
| Income from betting   |          | 45,000          |
| <b>Gross total income</b>   |          | <b>1,15,000</b> |
| Less: Deduction under section 80C(life insurance premium paid)  |          | 20,000          |
| <b>Total Income</b>   |          | <b>95,000</b>   |

**Losses to be carried forward:**

| Particulars  | ₹      |
|--|--------|
| (1) Loss from House property (₹ 2,50,000 – ₹ 2,00,000)       | 50,000 |
| (2) Loss from toy business(₹ 1,30,000 - ₹ 40,000 - ₹ 90,000) | Nil    |
| (3) Loss from specified business covered by section 35AD     | 20,000 |

**Notes :**

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto AY 2030-31, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹ 1,30,000 – ₹ 40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.

**Q19**

**May 19**

Mr. Rahman furnishes the following information for the financial year 2021-22.

| Particulars   | ₹        |
|---|----------|
| Loss from speculation business-A                    | 70,000   |
| Profit from speculation business-B                  | 30,000   |
| Loss from self-occupied house property              | 2,20,000 |
| Income from let out house property                  | 4,20,000 |
| Income from trading and manufacturing business @ 8% | 2,00,000 |
| Salary income                                       | 3,70,000 |
| Interest on PPF deposit                             | 65,000   |



|  |          |
|--|----------|
| Long term capital gain on sale of Vacant site  | 1,10,000 |
| Short term capital loss on sale of Jewellery   | 50,000   |
| Investment in tax saver deposit on 31-03-22  | 60,000   |
| Brought forward loss of business of assessment year 2016-17  | 1,00,000 |
| Donation to a charitable trust recognized under section 12AA and approved under section 80G        | 1,40,000 |
| Enhanced compensation received from government for compulsory acquisition of land in the year 2009 | 3,00,000 |

Compute total income of Mr. Rahman for the assessment year 2022-23 and loss he is eligible to carry forward .

## Answer

### Computation of total income of Mr. Rahman for AY 2022-23

| Particulars   | ₹          | ₹         |
|---|------------|-----------|
| <b>Salaries</b>   |            | 3,70,000  |
| <b>Income from house property</b>   |            |           |
| Income from let out house property  | 4,20,000   |           |
| Less: Loss from self-occupied house property cannot exceed ₹ 2 lakhs. Hence, the set-off is limited to ₹ 2 lakhs.   | 2,00,000   | 2,20,000  |
| <b>Profits and gains from business or profession</b>  |            |           |
| Profit from speculation business B  | 30,000     |           |
| Less: Loss of ₹ 70,000 from speculation business A set-off against profit from speculation business B to the extent of such profit                        | (30,000)   | Nil       |
| Income from trading and manufacturing business @ 8%   | 2,00,000   |           |
| Less: Brought forward business loss of AY 2016-17 set-off since a period of eight assessment years has not expired  | (1,00,000) | 1,00,000  |
| <b>Capital Gains</b>  |            |           |
| Enhanced compensation received from government for compulsory acquisition [Taxable in PY 2021-22 since enhanced compensation is taxable on receipt basis] | 3,00,000   |           |
| Long term capital gain on sale of vacant site   | 1,10,000   |           |
| Less: Short term capital loss on sale of jewellery  | 50,000     | 3,60,000  |
| <b>Income from Other Sources</b>  |            |           |
| Interest on PPF deposit   | 65,000     |           |
| Less: Exempt  | 65,000     | Nil       |
| <b>Gross Total Income</b>   |            | 10,50,000 |
| Less: Deduction under Chapter VI-A  |            |           |
| Deduction under section 80C   |            |           |
| Investment in tax saver deposit on 31.3.2022  | 60,000     |           |

|  |        |                 |
|--|--------|-----------------|
| Deduction under section 80G  |        |                 |
| Donation to recognized and approved charitable trust [Donation of ₹ 1,40,000 to be first restricted to ₹ 63,000, being 10% of adjusted total income of ₹ 6,30,000 i.e., [₹ 10,50,000 – ₹ 3,60,000 – ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 63,000. | 31,500 | 91,500          |
| <b>Total Income</b>  |        | <b>9,58,500</b> |

#### Losses to be carried forward to AY 2023-24

| Particulars   | ₹      |
|---|--------|
| Loss from speculation business A (₹ 70,000 - ₹ 30,000)  | 40,000 |
| Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year. |        |

**Q 20**

**Nov 19 (New)**

Following are the details of incomes/losses of Mr. Rishi for the FY 2021-22 :

| (Figures in brackets represents losses)       | ₹          |
|---|------------|
| Taxable salary income (computed)              | 3,60,000   |
| Taxable income from house property (computed) |            |
| - from rented house property X                | 1,20,000   |
| - from rented house property Y                | (3,40,000) |
| Taxable profit from business (computed)       |            |
| - business P                                  | 2,30,000   |
| - business Q                                  | (12,000)   |
| - business R (speculative business)           | 15,000     |
| - business T (speculative business)           | (25,000)   |
| Taxable Income from other sources :           |            |
| - from card games                             | 16,000     |
| - from owning & maintenance of race horses    | (7,000)    |
| - interest on securities                      | 5,000      |

You are required to determine the Gross total income of Mr. Rishi for AY 2022-23.

## Answer

### Computation of gross total income of Mr. Rishi for the AY 2022-23

| Particulars  | ₹        | ₹               |
|--|----------|-----------------|
| <b>Salary Income (computed)</b>  | 3,60,000 |                 |
| Less: Set-off of loss from house property , restricted to ₹ 2,20,000   | 2,00,000 |                 |
|  |          | 1,60,000        |
| <b>Income from House Property</b>  |          |                 |
| Income from Property X   | 1,20,000 |                 |
| Less: Loss from Property Y [inter-source set-off is permitted under section 70(1)]   | 3,40,000 |                 |
| Loss from house property   | 2,20,000 |                 |
| Less: Loss eligible for set-off against salary income as per section 71(3A), restricted to   | 2,00,000 |                 |
| Loss to be carried forward to AY 2023-24 as per section 71B, for set-off against income from house property, if any, in that year.   | (20,000) |                 |
| <b>Profits and gains of business or profession</b>   |          |                 |
| Income from business P   | 2,30,000 |                 |
| Less: Loss from business Q (inter-source set-off is permitted)   | 12,000   |                 |
|  |          | 2,18,000        |
| Income from speculation business R   | 15,000   |                 |
| Less: Loss from speculation business T [can be set-off only against income from speculation business as per section 73(1)]   | 25,000   |                 |
| Loss to be carried forward to AY 2023-24 for set-off against speculative business income of that year by virtue of section 73(2).  | (10,000) |                 |
| <b>Income from Other Sources</b>   |          |                 |
| Income from card games   | 16,000   |                 |
| Interest on securities   | 5,000    | 21,000          |
| Loss from owning & maintaining race horses   | (7,000)  |                 |
| [Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to AY 2023-24 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)] |          |                 |
| <b>Gross Total Income</b>  |          | <b>3,99,000</b> |

**Note:** Loss from house property of ₹ 2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be ₹ 3,60,000 and business income would be ₹ 18,000. Gross total income would remain the same.

Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible.

## Q 21

Nov 19 (Old)

Ms. Netra, a resident individual aged 32 years, furnishes you with the following information for the year ended on 31-03-2022 :

| Particulars   | Amount (₹) |
|---|------------|
| Income from business of handloom trading  | 2,65,000   |
| Long term capital gain on sale of jewellery   | 1,55,000   |
| Long term capital loss on sale of shares listed in recognised stock exchange (STT paid both at the time of sale and purchase of shares) | 1,25,000   |

Ms. Netra also has a brought forward loss of ₹ 4,500 from handloom business related to AY 2013-14 and a brought forward loss from house property amounting to ₹ 2,20,000 related to the assessment year 2021-22.

You are required to compute the total income of Ms. Netra for the assessment year 2022-23 and the amount of loss, if any, to be carried forward.

### Answer

#### Computation of total income of Ms. Netra for AY 2022-23

| Particulars   | ₹               |
|---|-----------------|
| <b>Profits and gains of business or profession</b>  |                 |
| Income from business of handloom trading  | 2,65,000        |
| [By virtue of section 72(3), brought forward loss of ₹ 4,500 from handloom business for AY 2013-14 cannot be set-off against this income, since the eight year period immediately succeeding the assessment year relevant to the previous year in which the loss was incurred for carry forward and set-off of business loss has expired with AY 2022-23] |                 |
| <b>Capital Gains</b>  |                 |
| Long-term capital gains on sale of jewellery  | 1,55,000        |
| Less: Long-term capital loss on sale of listed shares on which STT was paid both at the time of purchase and sale   | 30,000          |
|   | <u>1,25,000</u> |
| {Since long-term capital gains on sale of such shares is taxable under section 112A, the long-term capital loss arising therefrom can be set-off against long-term capital gains on sale of jewellery [Section 70(3)]}  |                 |
| <b>Total Income</b>   | <b>2,95,000</b> |
| <b>Loss to be carried forward to AY 2023-24</b>   |                 |
| <b>Loss from house property ₹ 2,20,000 related to AY 2021-22</b>  |                 |
| As per section 71B, brought forward loss of ₹ 2,20,000 from house property related to AY 2021-22 has to be carried forward to AY 2023-24, since there is no income chargeable under this head in the AY 2022-23. Such loss can be carried forward for a maximum of 8 assessment years for set-off only against income from house property.                | 2,20,000        |

## Q 22

## MTP May 20

Mr. Mustafa submits the following information for the previous year 2021-22:

|        |  | (Amount in ₹) |
|--------|--|---------------|
| (i)    | Income from salary   | 6,50,000      |
| (ii)   | Income from House-I  | 55,000        |
| (iii)  | Loss from House-II (self-occupied property)                            | 1,25,000      |
| (iv)   | Loss from House-III  | 190,000       |
| (v)    | Loss from leather business   | 68,000        |
| (vi)   | Profit from cloth business   | 1,70,000      |
| (vii)  | Short term capital loss in equity oriented funds on which STT was paid | 35,000        |
| (viii) | Income from crossword puzzles  | 12,000        |
| (ix)   | Dividend from foreign company  | 8,500         |
| (x)    | Loss on owning and maintenance of race horses                          | 7,500         |
| (xi)   | Income from owning and maintenance of race bulls                       | 9,000         |

Compute the gross total income and losses to be carried forward of Mr. Mustafa for assessment year 2022-23. Mr. Mustafa has filed his return of income on 25.07.2022.

### Answer

#### Gross Total Income of Mr. Mustafa for AY 2022-23

| Particulars  | ₹        | ₹          |
|--|----------|------------|
| <b>Salaries</b>  |          |            |
| Income from salary   | 6,50,000 |            |
| Less: Loss from house property of ₹2,60,000, restricted to               | 2,00,000 |            |
|  |          | 4,50,000   |
| <b>Income from house property</b>  |          |            |
| Income from House I  | 55,000   |            |
| Less: Loss from House II (self-occupied)                                 | 1,25,000 |            |
| Loss from House III  | 1,90,000 |            |
|  |          | (2,60,000) |
| Set-off of loss from house property against salary income, restricted to | 2,00,000 |            |
| Loss to be carried forward to AY 2023-24                                 | (60,000) |            |
| <b>Profits and gains of business or profession</b>                       |          |            |
| Profit from cloth business   | 1,70,000 |            |
| Less: Loss from leather business   | 68,000   |            |
|  |          | 1,02,000   |
| <b>Capital Gains</b>   |          |            |

|   |        |                 |
|---|--------|-----------------|
| Short term capital loss in equity-oriented funds on which STT is paid ₹35,000 to be carried forward to AY 2023-24 since such loss can be set-off only against capital gains and not against income under any other head                             | -      |                 |
| <b>Income from other sources</b>  |        |                 |
| Income from owning and maintenance of race bulls  | 9,000  |                 |
| Loss of ₹7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to AY 2023-24. | Nil    |                 |
| Income from crossword puzzles   | 12,000 |                 |
| Dividend from foreign company   | 8,500  |                 |
|   |        | 29,500          |
| <b>Gross Total Income</b>   |        | <b>5,81,500</b> |

**Losses to be carried forward to AY 2023-24:**

| Particulars   | ₹      |
|---|--------|
| Loss from house property [to be carried forward for set-off against income from house property]   | 60,000 |
| Short-term capital loss in equity oriented funds on which STT was paid [to be carried forward for set-off against capital gains, long-term or short-term] | 35,000 |
| Loss from owning and maintaining race horses [to be carried forward for set-off against income from the activity of owning and maintaining race horses]   | 7,500  |

**Note:** Loss from house property can also be set-off to the extent of ₹ 1,02,000 from profits and gains from business or profession and balance i.e., ₹ 98,000 against Income under the head "Salaries".

**Q 23**

**RTP May 20**

Compute total income of Mr. Mathur for the assessment year 2022-23 from the following information furnished by him for the financial year 2021-22.

| Particulars  | ₹        |
|--|----------|
| 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 Jewellery             | 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 2008 | 3,00,000 |

## Answer

### Computation of total income of Mr. Mathur for AY 2022-23

| Particulars  | ₹          | ₹               |
|--|------------|-----------------|
| <b>Salaries</b>  |            | 4,70,000        |
| <b>Profits and gains from business or profession</b>   |            |                 |
| Profit from speculation business Y   | 40,000     |                 |
| Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit   | (40,000)   | NIL             |
| Loss of ₹ 40,000 from speculation business X to be carried forward to AY 2022-23 for set-off against profits from speculation business.  |            |                 |
| Income from trading and manufacturing business @8%   | 3,50,000   |                 |
| Less: Brought forward business loss of AY 2016-17 set-off since a period of eight assessment years has not expired. Balance loss of ₹ 2,00,000 to be carried forward to AY 2023-24   | (3,50,000) | Nil             |
| <b>Capital Gains</b>   |            |                 |
| Enhanced compensation received from government for compulsory acquisition [Taxable in PY 2021-22 since enhanced compensation is taxable on receipt basis]  | 3,00,000   |                 |
| 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   |                 |
| <b>Less:</b> Loss from house property can be set-off to the extent of ₹ 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]. Balance loss of ₹ 60,000 to be carried forward to AY 2023-24. | (2,00,000) | 1,60,000        |
| <b>Income from Other Sources</b>   |            |                 |
| Interest on PPF deposit  | 95,000     |                 |
| Less: Exempt under section 10(11)  | (95,000)   | Nil             |
| <b>Gross Total Income</b>  |            | <b>6,30,000</b> |
| Less: Deduction under Chapter VI-A   |            |                 |
| <b>Deduction under section 80C</b>   |            |                 |
| Investment in tax saver deposit on 31.3.2022   | 60,000     |                 |
| <b>Deduction under section 80G</b>   |            |                 |

|   |        |                 |
|---|--------|-----------------|
| 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, deduction would be computed at 50% of ₹ 41,000. | 20,500 | 80,500          |
| <b>Total Income</b>   |        | <b>5,49,500</b> |

## Q24

## RTP Nov 20

Mr. Krishan, residing in Indore, provides the following information for the financial year 2020-21:

| Particulars   | ₹        |
|---|----------|
| Income from textile business  | 4,60,000 |
| Income from speculation business  | 25,000   |
| Loss from gambling  | 12,000   |
| Loss on maintenance of race horse   | 15,000   |
| Current year depreciation of textile business not adjusted in the income given above. | 5,000    |
| Unabsorbed depreciation of assessment year 2019-20                                    | 10,000   |
| Speculation business loss of assessment year 2020-21                                  | 30,000   |

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2021-22 and also state the losses eligible for carry forward and period upto which such losses can be carried forward.

### Answer

#### Computation of Gross Total Income of Mr. Krishan for A.Y. 2021-22

| Particulars   | ₹        | ₹               |
|---|----------|-----------------|
| <b>Profits and gains of business or profession</b>  | 4,60,000 |                 |
| Income from Textile business  | 5,000    |                 |
| Less: Current year depreciation allowable under section 32(1)                                   |          |                 |
|   | 4,55,000 |                 |
| Less: Unabsorbed depreciation brought forward from A.Y.2019-20 as per section 32(2)             | 10,000   |                 |
|   |          | 4,45,000        |
| <b>Income from speculation business</b>   |          |                 |
| Current year income from speculation business   | 25,000   |                 |
| Less: Speculation business loss for A.Y. 2020-21 set-off as per the provisions of section 73(2) | 30,000   |                 |
| Speculation business loss to be carried forward   | (5,000)  |                 |
|   |          | Nil             |
| <b>Gross Total Income</b>   |          | <b>4,45,000</b> |



### Losses eligible for carry forward to A.Y.2022-23

|     | Particulars  | ₹      |
|-----|--|--------|
| (1) | <b>Loss from speculation business to be carried forward as per section 73</b><br>Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2025-26 | 5,000  |
| (2) | <b>Loss on maintenance of race horses to be carried forward as per section 74A(3)</b><br>Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2026-27 | 15,000 |
| (3) | <b>Loss from gambling can neither be set-off nor be carried forward.</b>   |        |

## Q25

Nov 20 (New)

Ms, Pooja a resident individual provides the following information of her income / losses for the year ended on 31st March, 2022 :

| S. No. | Particulars  | (₹)      |
|--------|--|----------|
| 1      | Income from salary (Computed)  | 2,20,000 |
| 2      | Income from House Property (let out) (Net Annual Value)  | 1,50,000 |
| 3      | Share of loss from firm in which she is partner  | 10,000   |
| 4      | Loss from specified business covered under section 35 AD   | 20,000   |
| 5      | Income from textile business before adjusting the following items :  | 3,00,000 |
|        | (a) Current year depreciation  | 60,000   |
|        | (b) Unabsorbed depreciation of earlier year  | 2,25,000 |
|        | (c) Brought forward loss of textile business of the AY 2021-22   | 90,000   |
| 6      | Long-term capital gain on sale of debentures   | 75,000   |
| 7      | Long-term capital loss on sale of equity shares (STT not paid)   | 1,00,000 |
| 8      | Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale) | 1,50,000 |
| 9      | Dividend from units of UTI   | 5,000    |

During the previous year 2021-22, Ms. Pooja has repaid ₹ 5,25,000 towards housing loan from a scheduled bank. Out of this ₹ 3,16,000 was towards payment of interest and rest towards principal.

Compute the gross total income of Ms. Pooja and ascertain the amount of loss that can be carried forward. Ms. Pooja has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961.

## Answer

### Computation of gross total income of Ms. Pooja for the A.Y.2022-23

| Particulars   |          | ₹          | ₹      |
|---|----------|------------|--------|
| Salary Income (computed)  |          | 2,20,000   |        |
| Less: As per section 71(3A), loss from house property of ₹ 2,11,000 can be set-off, to the extent of  |          | 2,00,000   | 20,000 |
| Income from House Property  |          |            |        |
| Net Annual Value of House Property  |          | 1,50,000   |        |
| Less: Deduction u/s 24  |          |            |        |
| (a) 30% of NAV  | 45,000   |            |        |
| (b) Interest on housing loan  | 3,16,000 | 3,61,000   |        |
| Loss from house property  |          | (2,11,000) |        |
| Less: Loss eligible for set-off against salary income restricted to   |          | 2,00,000   |        |
| Loss to be carried forward to A.Y. 2023-24 for set-off against income from house property, if any, in that year.  |          | (11,000)   |        |
| Profits and gains of business or profession   |          |            |        |
| Share of loss from firm [loss from exempt source cannot be set-off against profit from taxable source. Hence such loss can neither be set-off nor be carried forward] |          | -          |        |
| Loss from specified business u/s 35AD ₹ 20,000 [Can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2023-24]   |          | -          |        |
| Income from textile business  |          | 3,00,000   |        |
| Less: Current year depreciation   |          | 60,000     |        |
|   |          | 2,40,000   |        |
| Less: Brought forward loss of textile business  |          | 90,000     |        |
| Less: Unabsorbed depreciation (₹ 2,25,000) set-off to the extent of   |          | 1,50,000   |        |
|   |          | 1,50,000   | Nil    |
| <b>Capital Gains</b>  |          |            |        |
| Long-term capital gains on sale of debentures   |          | 75,000     |        |
| Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid)   |          | 75,000     |        |
|   |          | Nil        |        |
| Long-term capital gains on sale of listed equity shares (STT paid)  |          | 1,50,000   |        |
| Less: Set-off of balance long-term capital loss on sale of equity shares (STT not paid) [₹ 1,00,000 – ₹ 75,000]   |          | 25,000     |        |
| Less: Set-off of balance unabsorbed depreciation [₹ 2,25,000 – ₹ 1,50,000 s/o against business income]  |          | 1,25,000   |        |

|  |  |        |        |
|--|--|--------|--------|
|  |  | 75,000 |        |
| Long-term capital gains on sale of listed equity shares <sup>1</sup> |  |        | 50,000 |
| <b>Income from Other Sources</b>                                     |  |        |        |
| Dividend from units of UTI [Exempt]                                  |  |        | Nil    |
| <b>Gross Total Income</b>  |  |        | 70,000 |

| Losses to be carried forward to A.Y.2022-23 |   | ₹      |
|---|---|--------|
| (i)   | Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]         | 20,000 |
| (ii)  | Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property] | 11,000 |

## Q26

Jan 21 (Old)

Mr. Tarun, a resident individual, furnishes the following particulars of his income and other details for the previous year 2021-22 :

|   | ₹         |
|---|-----------|
| Income from Salary (Computed)   | 25,00,000 |
| Business loss before providing current year depreciation (Business discontinued on 31.5.2021) | 1,20,000  |
| Current year depreciation   | 80,000    |
| Interest from Fixed Deposit   | 12,14,000 |
| Interest on Loan in respect of self-occupied property   | 2,15,000  |
| Income from specified business (Not eligible for deduction under section 35 AD)               | 20,000    |

Brought forward losses (Pertaining to AY 2021-22)

|  |        |
|--|--------|
| Unabsorbed depreciation  | 58,000 |
| Loss from specified business (eligible for deduction under section 35AD) | 24,000 |

You are required to compute his total income for the AY 2022-23 in such a way that his tax liability is minimised.

### Answer

#### Computation of total income of Mr. Tarun for A.Y.2021-22

| Particulars  | ₹         | ₹ |
|--|-----------|---|
| Income from Salary (Computed)  | 25,00,000 |   |
| Less: Loss from self-occupied house property (on account of interest deduction upto ₹ 2,00,000) [Loss from house property can be set-off against salary income as per section 71(1)] | 2,00,000  |   |

<sup>1</sup> No tax is payable u/s 112A in respect of LTCG of ₹ 50,000, since the same is less than ₹ 1,00,000

|   |           |           |
|---|-----------|-----------|
|   |           | 23,00,000 |
| <b>Profits and gains from business and profession</b>   |           |           |
| Income from specified business [not eligible for deduction u/s 35AD]  | 20,000    | Nil       |
| Less: Set-off of brought forward loss from specified business [eligible for deduction u/s 35AD] allowable as per section 73A [Brought forward loss from specified business eligible for deduction u/s 35AD can be set-off against income from any specified business, whether or not the same is eligible for deduction u/s 35AD] | (20,000)  |           |
| <b>Income from Other Sources</b>  |           |           |
| <b>Interest from fixed deposit</b>  | 12,14,000 |           |
| Less: Current year business loss set-off [Inter-head set-off is permissible by virtue of section 71(1). Hence, current year business loss can be set-off against interest income from fixed deposit]  | 1,20,000  |           |
|   | 10,94,000 |           |
| Less: Current year depreciation   | 80,000    |           |
|   | 10,14,000 |           |
| Less: Unabsorbed depreciation under section 32(2) [Can be set-off against any head of income other than Salaries]   | 58,000    | 9,56,000  |
| <b>Gross Total Income/Total Income</b>  |           | 32,56,000 |

## Q27

## MTP Apr 21

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2022. Also, show the items eligible for carry forward.

| Particulars  | ₹        |
|--|----------|
| Income from salaries   | 2,20,000 |
| Loss from house property   | 2,50,000 |
| Loss from toy business   | 1,30,000 |
| Income from speculation business   | 40,000   |
| Loss from specified business covered by section 35AD   | 20,000   |
| Long-term capital gains from sale of urban land  | 2,50,000 |
| Long-term capital loss from sale of listed shares in recognized stock exchange<br>(STT paid at the time of acquisition and sale of shares) | 1,10,000 |
| Loss from card games   | 32,000   |
| Income from betting (Gross)  | 45,000   |
| Life Insurance Premium paid (10% of the capital sum assured)   | 50,000   |

## Answer

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

| Particulars   | ₹        | ₹        |
|---|----------|----------|
| <b>Salaries</b>   |          |          |
| Income from salaries  | 2,20,000 |          |
| Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)   | 2,00,000 | 20,000   |
| <b>Profits and gains of business or profession</b>  |          |          |
| Income from speculation business  | 40,000   |          |
| Less: Loss from toy business set off  | 40,000   | Nil      |
| Capital gains   |          |          |
| Long-term capital gains from sale of urban land   | 2,50,000 |          |
| Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A | 1,10,000 |          |
|   | 1,40,000 |          |
| Less: Loss from toy business set off  | 90,000   | 50,000   |
| <b>Income from other sources</b>  |          |          |
| Income from betting   |          | 45,000   |
| <b>Gross total income</b>   |          | 1,15,000 |
| Less: Deduction under section 80C(life insurance premium paid)  |          | 20,000   |
| <b>Total income</b>   |          | 95,000   |

Losses to be carried forward:

| Particulars  | ₹      |
|--|--------|
| (1) Loss from house property (₹2,50,000 – ₹2,00,000)       | 50,000 |
| (2) Loss from toy business (₹1,30,000 - ₹40,000 - ₹90,000) | Nil    |
| (3) Loss from specified business covered by section 35AD   | 20,000 |

#### Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.

As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2030-31, in this case.

- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.

- (iii) Business loss cannot be set off against salary income. However, business loss of ₹90,000 (₹1,30,000 – ₹40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹50,000.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹50,000 (LTCG) – ₹45,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

## Q28

## MTP Mar 21

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years upto which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2022:

| Particulars  | Amount (₹) |
|--|------------|
| Loss from speculative business MNO   | 12,000     |
| Income from speculative business BPO   | 25,000     |
| Loss from specified business covered under section 35AD  | 45,000     |
| Income from salary (computed)  | 4,18,000   |
| Loss from house property   | 2,20,000   |
| Income from trading business   | 2,80,000   |
| Long-term capital gain from sale of urban land   | 2,05,000   |
| Long-term capital loss on sale of equity shares (STT not paid)   | 85,000     |
| Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares) | 1,10,000   |
| Short-term capital loss under section 111A   | 85,000     |

Following are the brought forward losses:

- (1) Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2018-19.
- (2) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2016-17. 6
- (3) Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2021-22

Assume Mr. Farhan has furnished his return of income on or before the due date specified under section 139(1) in all the above previous years.

## Answer

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

| Particulars   | ₹          | ₹        |
|---|------------|----------|
| <b>Salaries</b>   |            |          |
| Income from Salary  | 4,18,000   |          |
| Less: Loss from house property set-off against salary   | (2,00,000) | 2,18,000 |
| [As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]  |            |          |
| <b>Profits and gains of business or profession</b>  |            |          |
| Income from trading business  | 2,80,000   |          |
| Less: Brought forward loss from trading business of A.Y. 2016-17 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired. | (12,000)   |          |
| Less: Unabsorbed depreciation   | (1,00,000) | 1,68,000 |
| <b>Income from speculative business BPO</b>   | 25,000     |          |
| Less: Loss from speculative business MNO set-off as per section 73(1)   | (12,000)   |          |
| Loss from speculative business MNO brought forward from A.Y. 2018-19 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years his expired  | (13,000)   | -        |
| <b>Capital Gains</b>  |            |          |
| Long term capital gain on sale of urban land  | 2,05,000   |          |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)  | (85,000)   |          |
| Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A  | (1,10,000) |          |
| Less: Short-term capital loss under section 111A as per section 71(2)   | (10,000)   | -        |
| <b>Gross Total Income</b>   |            | 3,86,000 |

### Items eligible for carried forward to A.Y.2023-24

| Particulars  | ₹      |
|--|--------|
| <b>Loss from house property</b>  | 20,000 |
| As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2030-31, in this case. |        |

|  |        |
|--|--------|
| <p><b>Loss from specified business under section 35AD</b></p> <p>Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .</p> | 45,000 |
| <p><b>Short-term capital loss under section 111A</b></p> <p>Short-term capital loss under section 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., upto A.Y.2030-31, in this case, as specified under section 74(1).</p>                                   | 75,000 |

## Q 29

RTP May 21

Mr. Prakash furnishes the following information for the financial year 2021-22.

| Particulars  | ₹        |
|--|----------|
| Loss from speculation business-X   | 85,000   |
| Profit from speculation business-Y   | 45,000   |
| Interest on borrowings in respect of self-occupied house property  | 3,18,000 |
| Income from let out house property   | 1,20,000 |
| Presumptive Income from trading and manufacturing business under section 44AD  | 1,00,000 |
| Salary from XYZ (P) Ltd.   | 5,25,000 |
| Interest on PPF deposit  | 65,000   |
| Long term capital gain on sale of Vacant site  | 1,25,000 |
| Short term capital loss on sale of Jewellery   | 65,000   |
| Investment in tax saver deposit on 31-03-22  | 60,000   |
| Brought forward loss of business of assessment year 2016-17  | 1,00,000 |
| Donation to a charitable trust recognized under section 12AA and approved under section 80G (payment made via credit card) | 60,000   |

Compute total income of Mr. Prakash for the assessment year 2022-23 also show the loss, eligible to be carried forward. Assume that he does not opt for section 115BAC.

### Answer

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

| Particulars                         | ₹        | ₹ |
|-------------------------------------|----------|---|
| <b>Salary from XYZ (P) Ltd.</b>     | 5,25,000 |   |
| Less: Standard Deduction u/s 16(ia) | 50,000   |   |



|  |            |          |
|--|------------|----------|
|  | 4,75,000   |          |
| Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]   | 20,000     | 4,55,000 |
| <b>Income from house property</b>  |            |          |
| Income from let out house property   | 1,20,000   |          |
| Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings   | 2,00,000   |          |
|  | (80,000)   |          |
| Less: Amount set-off against other heads of income   | (80,000)   |          |
| <b>Profits and gains from business or profession</b>   |            |          |
| Profit from speculation business Y   | 45,000     |          |
| Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit   | (45,000)   |          |
|  |            | Nil      |
| Presumptive Income from trading and manufacturing business   | 1,00,000   |          |
| Less: Brought forward business loss of A.Y. 2016-17 set-off since the period of eight assessment years has not expired   | (1,00,000) | Nil      |
| <b>Capital Gains</b>   |            |          |
| Long term capital gain on sale of vacant site  | 1,25,000   |          |
| Less: Short term capital loss on sale of jewellery   | 65,000     |          |
|  | 60,000     |          |
| Less: Loss from house property to be set-off to the extent of LTCG<br>(It is more beneficial for Mr. Prakash to first set-off the loss from house property against the long-term capital gains, since it is taxable @20%)                            | 60,000     | Nil      |
| <b>Income from Other Sources</b>   |            |          |
| Interest on PPF deposit  | 65,000     |          |
| Less: Exempt   | 65,000     | Nil      |
| <b>Gross Total Income</b>  |            | 4,55,000 |
| Less: Deduction under Chapter VI-A   |            |          |
| <b>Deduction under section 80C</b>   |            |          |
| Investment in tax saver deposit on 31.3.2022   | 60,000     |          |
| <b>Deduction under section 80G</b>   |            |          |
| Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 – ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500. | 19,750     |          |
|  |            | 79,750   |
| <b>Total Income</b>  |            | 3,75,250 |

### Losses to be carried forward to A.Y.2023-24

| Particulars   | ₹      |
|---|--------|
| Loss from speculation business X (₹ 85,000 - ₹ 45,000)  | 40,000 |
| Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year. |        |

## Q 30

May 21 (New)

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2022:

| S. No. | Particulars                                   | Amount (₹)   |
|--------|---|--------------|
| (i)    | Income from Salary (Computed)                 | 2,22,000     |
| (ii)   | Income from House Property                    |              |
|        | - House in Delhi                              | 22,000       |
|        | - House in Chennai                            | (-) 2,60,000 |
|        | - House in Mumbai (self-occupied)             | (-) 20,000   |
| (iii)  | Profit and gains from business or profession  |              |
|        | - Textile business                            | 18,000       |
|        | - Cosmetics business                          | (-) 22,000   |
|        | - Speculative business- 1                     | (-) 74,000   |
|        | - Speculative business-2                      | 46,000       |
| (iv)   | Capital gains                                 |              |
|        | Short term capital loss from sale of property | (-) 16,000   |
|        | Long term capital gains from sale of property | 15,400       |
| (v)    | Income from other sources (Computed)          |              |
|        | - Income from betting                         | 34,000       |
|        | - Income from card games                      | 46,000       |
|        | - Loss on maintenance of race horses          | (-)14,600    |

Determine the gross total income of Mr. X for the assessment year 2022-23 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC.

### Answer

Computation of Gross Total Income of Mr. X for A.Y. 2022-23

| Particulars   | Amount     | Amount |
|---|------------|--------|
| Salaries  |            |        |
| Income from salary (computed)   | 2,22,000   |        |
| Less: Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)  | 2,00,000   | 22,000 |
| Income from house property  |            |        |
| - House in Delhi  | 22,000     |        |
| - House in Chennai  | (2,60,000) |        |
| - House in Mumbai (self-occupied)   | (20,000)   |        |
|   | (2,58,000) |        |
| Loss upto ₹ 2 lakhs can be set off against income from salary.<br>Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2023-24.  |            |        |
| Profits and gains from business or profession   |            |        |
| Profits from Speculative business – 2   | 46,000     |        |
| Less: Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business.<br>Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2023-24. | (46,000)   | -      |
| Profits from textile business   | 18,000     |        |
| Less: Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70(1).   | (18,000)   | -      |
| Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2023-24, since the same cannot be set-off against salary income.  | 15,400     |        |
| <b>Capital Gains</b>  |            |        |
| Long term capital gain from sale of property  |            |        |
| Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long- term capital gains to the extent of ₹ 15,400 as per section 74(1).  | (15,400)   | -      |
| Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2023-24   |            |        |
| Income from Other Sources   |            |        |
| Income from betting [No loss is allowed to be set off against such income]  | 34,000     |        |
| Income from card games [No loss is allowed to be set off against such income]   | 46,000     |        |

|  |     |          |
|--|-----|----------|
| Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2023-24] | Nil |          |
|  |     | 80,000   |
| <b>Gross Total Income</b>  |     | 1,02,000 |

## Q 31

May 21 (Old)

Mr. Brajesh is a partner in a partnership firm named XYZ Associates. He provides the details regarding his income and losses for the F.Y. 2021-22 and brought forward losses as follows:

- (i) Salary from XYZ & Associates ₹ 3,75,000 which was claimed by the firm in its return and allowed as deduction.
- (ii) Long term capital gain on sale of his house ₹ 2,50,000.
- (iii) Long term capital loss on sale of shares listed in National Stock Exchange. STT has been paid on the transactions of purchase and sales ₹ 1,50,000.
- (iv) Business loss brought forward from A.Y. 2021-22 ₹ 6,25,000.
- (v) Dividend received from listed equity shares of domestic companies ₹ 27,500.
- (vi) Gift received from father's friend ₹ 51,000 in cash.
- (vii) Loss from speculative business brought forward from Assessment Year 2019-20 ₹ 2,50,000.
- (viii) Life Insurance Premium paid (10% of the capital sum assured) ₹ 1,00,000.

Compute the total income of Mr. Brajesh for the Assessment Year 2022-23 and show the items eligible for carry forward. (Ignore the provisions of section 115BAC)

### Answer

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

| Particulars   | ₹        | ₹   |
|---|----------|-----|
| <b>Profits and gains from business and profession</b>   |          |     |
| Salary from XYZ & Associates [Taxable as business income, since firm has claimed and been allowed deduction in respect of the remuneration in its return of income]       | 3,75,000 |     |
| Less: Set-off of brought forward business loss of ₹ 6,25,000 of A.Y.2021-22 to the extent of ₹ 3,75,000 by virtue of section 72(1)  | 3,75,000 | Nil |
| [Balance brought forward business loss of ₹ 2,50,000 (i.e., ₹ 6,25,000 – ₹ 3,75,000) to be carry forward to A.Y.2023-24 for set-off against business income of that year] |          |     |

| <b>Capital Gains</b>   |          |          |
|--|----------|----------|
| Long term capital gain on sale of house  | 2,50,000 |          |
| Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off against long-term capital gain on sale of house as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A. | 1,50,000 | 1,00,000 |
| <b>Income from Other Sources</b>   |          |          |
| Dividend from domestic companies   | 27,500   |          |
| Gifts from father's friend [Taxable under section 56(2)(x), since received from a non-relative and it exceeds the aggregate limit of ₹ 50,000]   | 51,000   | 78,500   |
| <b>Gross Total Income</b>  |          | 1,78,500 |
| Less: Deduction under section 80C  |          |          |
| LIC premium paid of ₹ 1,00,000 restricted to ₹ 78,500, being gross total income excluding long term capital gains as Chapter VIA deductions are not allowable against long-term capital gains  |          | 78,500   |
| <b>Total Income</b>  |          | 1,00,000 |

#### Losses eligible for carried forward to A.Y. 2023-24

| Particulars   | Amount (₹) |
|---|------------|
| Business loss of A.Y. 2021-22 [₹ 6,25,000 – ₹ 3,75,000]   | 2,50,000   |
| Loss from Speculative business of A.Y. 2019-20 (since the same can be set off only against profits of any other speculation business. As there is no such profit in the current year, the loss has to be carried forward to A.Y. 2023-24, since the four year time limit for carry forward expires only in A.Y.2023-24) | 2,50,000   |

## Q 32

## Nov 21 (Old)

Gopal, a resident aged 50 years furnishes the following information for the year ended on 31-03-2022 :

|  |            |
|--|------------|
| Income by way of salary (computed)   | 2,75,000   |
| Income from house property   | (1,85,000) |
| Business income - Retail business  | 1,20,000   |
| Business income — whole sale business  | (1,00,000) |
| Brought forward business loss (AY 2020-21)   | (1,35,000) |
| Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares) | 2,00,000   |
| Lottery winning (gross)  | 45,000     |
| Contribution to provident fund and NSC   | 1,50,000   |
| Income of minor daughter Manisha from special talent   | 2,00,000   |
| Interest from Bank received by Manisha on deposit made out of her special talent                   | 15,000     |

Compute his income tax liability assuming that he does not opt for Section 115 BAC and his wife does not earn any income.

## Answer

### Computation of tax liability of Mr. Gopal for A.Y.2021-22

| Particulars   | ₹        | ₹        |
|---|----------|----------|
| <b>Salary</b>   |          |          |
| Income by way of salary (computed)  | 2,75,000 |          |
| Less: Set-off of loss from house property against salary income   | 1,85,000 | 90,000   |
| <b>Profits and gains from business and profession</b>   |          |          |
| Business Income- Retail business  | 1,20,000 |          |
| Less: Set-off of business loss of ₹ 1,00,000 from wholesale business  | 1,00,000 |          |
|   | 20,000   |          |
| Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2019-20 allowable to the extent of ₹ 20,000 by virtue of section 72(1)  | 20,000   | Nil      |
| [Balance brought forward business loss of ₹1,15,000 (i.e., ₹ 1,35,000 – ₹ 20,000) to be carry forward to A.Y. 2022-23 for set- off against business income of that year]                |          |          |
| <b>Capital Gains</b>  |          |          |
| Long-term capital gain on sale of listed equity shares on which STT is paid   |          | 2,00,000 |
| <b>Income from Other Sources</b>  |          |          |
| Lottery winnings  |          | 45,000   |
| Income of minor daughter from special talent [Not included in Gopal's income since it is earned from special talent]  | -        |          |
| Interest from bank received by minor daughter on deposit made out of her income from special talent [Includible in the income of Mr. Gopal, since Mrs. Gopal does not earn any income]  | 15,000   |          |
| Less: Exemption under section 10(32)  | 1,500    | 13,500   |
| <b>Gross Total Income</b>   |          | 3,48,500 |
| Less: Deduction under section 80C   |          |          |
| Contribution to provident fund and NSC ₹ 1,50,000, deduction to be restricted to gross total income excluding LTCG and winnings from lottery (i.e., ₹ 3,48,500 – ₹ 2,00,000 – ₹ 45,000) |          | 1,03,500 |
| <b>Total Income</b>   |          | 2,45,000 |
| <b>Tax on ₹ 2,45,000</b>  |          |          |
| Tax on lottery income of ₹ 45,000 @30% [unexhausted basic exemption limit can not be reduced from lottery income]   | 13,500   |          |
| Tax u/s 112A on LTCG exceeding ₹ 1 lakh [No tax, since unexhausted basic exemption limit of ₹ 2,50,000 can be exhausted against such long-term capital gains]                           | -        |          |
|   |          | 13,500   |
| Less: Rebate under section 87A [See Note for Alternative view]  |          | -        |
|   |          | 13,500   |
| Add: Health and education cess @4%  |          | 540      |
| <b>Tax liability</b>  |          | 14,040   |

**Alternate Solution** – The solution can also be worked out by setting-off loss from house property partially against long-term capital gains as given below -

**Computation of tax liability of Mr. Gopal for A.Y.2021-22**

| Particulars  | ₹        | ₹        |
|--|----------|----------|
| <b>Salary</b>  |          |          |
| Income by way of salary (computed)   | 2,75,000 |          |
| Less: Set-off of balance loss from house property against salary income (i.e., ₹1,85,000 – ₹1,00,000)  | 85,000   | 1,90,000 |
| <b>Profits and gains from business and profession</b>  |          |          |
| Business Income- Retail business   | 1,20,000 |          |
| Less: Set-off of business loss of ₹ 1,00,000 from wholesale business   | 1,00,000 |          |
|  | 20,000   |          |
| Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2019-20 allowable to the extent of ₹ 20,000 by virtue of section 72(1)   | 20,000   | Nil      |
| [Balance brought forward business loss of ₹ 1,15,000 (i.e., ₹ 1,35,000 – ₹ 20,000) to be carry forward to A.Y.2022-23 for set- off against business income of that year]               |          |          |
| <b>Capital Gains</b>   |          |          |
| Long-term capital gain on sale of listed equity shares on which STT is paid  | 2,00,000 |          |
| Less: Set-off of loss from house property against long term capital gains to the extent of ₹ 1 lakh only, since LTCG exceeding ₹ 1 lakh alone is taxable under section 112A            | 1,00,000 | 1,00,000 |
| <b>Income from Other Sources</b>   |          |          |
| Lottery winnings   |          | 45,000   |
| Income of minor daughter from special talent [Not included in Gopal's income since it is earned from special talent]   | -        |          |
| Interest from bank received by minor daughter on deposit made out of her income from special talent [Includible in the income of Mr. Gopal, since Mrs. Gopal does not earn any income] | 15,000   |          |
| Less: Exempt under section 10(32)  | 1,500    | 13,500   |
| <b>Gross Total Income</b>  |          | 3,48,500 |
| Less: Deduction under section 80C  |          |          |
| Contribution to provident fund and NSC   |          | 1,50,000 |
| <b>Total Income</b>  |          | 1,98,500 |
| <b>Tax on ₹ 1,98,500</b>   |          |          |
| Tax on lottery income of ₹ 45,000 @30% [unexhausted basic exemption limit can not be reduced from lottery income]  | 13,500   |          |
| Tax u/s 112A on LTCG exceeding ₹ 1 lakh  | -        |          |
| Tax on other income of ₹ 53,500 (since it does not exceed basic exemption limit)   | -        |          |

|   |  |               |
|---|--|---------------|
|   |  | 13,500        |
| Less: Rebate under section 87A [See Note below] |  | -             |
|   |  | 13,500        |
| Add: Health and education cess @4%              |  | 540           |
| <b>Tax liability</b>                            |  | <b>14,040</b> |

**Note** - Section 58 of the Income-tax Act, 1961 provides that no deduction in respect of any expenditure or allowance shall be allowed under any provision of this Act in computing the income by way of, inter alia, any winnings from lotteries. Accordingly, in line with the intent of this provision, rebate under section 87A is not provided to Mr. Gopal in respect of such income both in the main solution and alternate solution given above.

However, the tax calculator in the income-tax website [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in) allows rebate under section 87A in respect of lottery income, provided the conditions stipulated under section 87A are satisfied. Also, there is no express prohibition in section 115BB in respect of availing rebate under section 87A (whereas section 112A contains an express prohibition in this regard). In such case, the tax liability of Mr. Gopal would be ₹ 1,040.

## Q 33

## MTP Oct 21

Compute total income of Mr. Mayank for the A.Y.2022-23 from the following information furnished by him for the financial year 2021-22.

| Particulars   | ₹        |
|---|----------|
| 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 Jewellery  | 1,50,000 |
| 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 |



## Answer

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

| Particulars   | ₹          | ₹        |
|---|------------|----------|
| Salaries  |            | 4,70,000 |
| Income from house property  |            |          |
| Loss from self-occupied house property  | (2,00,000) |          |
| Loss from let out house property  | (60,000)   |          |
|   | (2,60,000) |          |
| Less: Loss of ₹ 2,00,000 set off against capital gain. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2023-24 for set-off against income from house property  |            |          |
| <b>Profits and gains from business or profession</b>  |            |          |
| Profit from speculation business Y  | 40,000     |          |
| Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit  | (40,000)   |          |
| Loss of ₹ 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.   | (3,50,000) | Nil      |
| Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2023-24  |            |          |
| <b>Capital Gains</b>  |            |          |
| Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2021-22 since enhanced compensation is taxable on receipt basis]   | 3,00,000   |          |
| 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 ₹ 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 |
| <b>Income from Other Sources</b>  |            |          |
| Interest on PPF deposit   | 95,000     |          |
| Less: Exempt under section 10(11)   | (95,000)   | Nil      |
| <b>Gross Total Income</b>   |            | 6,30,000 |
| Less: Deduction under Chapter VI-A  |            |          |
| <b>Deduction under section 80G</b>  |            |          |

|  |        |          |
|--|--------|----------|
| Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 47,000, being 10% of adjusted total income of ₹ 4,70,000 i.e., [₹ 6,30,000 – ₹ 1,60,000]. Thereafter, deduction would be computed at 50% of ₹ 47,000. | 23,500 | 23,500   |
| <b>Total Income</b>  |        | 6,06,500 |

## Q 34

## MTP Nov 21

Compute the total income of Mr. Veer for the assessment year 2022-23 under proper heads from the following information furnished by him for the financial year 2021-22:

| Particulars   | ₹        |
|---|----------|
| Income from let out house property (computed)                                     | 3,50,000 |
| Interest paid on housing loan for self-occupied property                          | 2,00,000 |
| Income from Textile business  | 5,75,000 |
| Brought forward business loss of Assessment Year 2018-19                          | 1,05,000 |
| Short-term capital loss   | 70,000   |
| Brought forward long-term loss from Assessment Year 2020-21                       | 90,000   |
| Long-term capital gain on sale of house   | 75,000   |
| Interest on enhanced compensation from Government for acquisition of land in 2017 | 5,00,000 |
| Dividend from ABC Ltd., Andhra Pradesh  | 15,000   |
| Deposit made on 15.02.2022 in his Public Provident fund account                   | 75,000   |
| Loss from owning and maintaining race horse of Assessment Year 2021-22            | 20,000   |
| Loss from Gambling  | 8,000    |

Also state the loss that can be carried forward to A.Y. 2023-24. Mr. Veer filed the return of income for assessment year 2018-19 after the expiry of due date for filing the return.

### Answer

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

| Particulars  | ₹          | ₹        |
|--|------------|----------|
| <b>Income from house property</b>  |            |          |
| Income from let out house property   | 3,50,000   |          |
| Less: Set-off of loss from self-occupied house property by virtue of section 70(1) [Whole of interest i.e., ₹ 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self- occupied property; The said amount represents loss from self- occupied property] | (2,00,000) | 1,50,000 |
| <b>Profits and gains of business or profession</b>   |            |          |
| Income from textile business   | 5,75,000   |          |

|   |          |          |
|---|----------|----------|
| [As per section 80, brought forward business loss of ₹ 1,05,000 of assessment year 2018-19 cannot be set-off, since return of income for that year was filed after the expiry of due date specified under section 139(1)] | Nil      | 5,75,000 |
| <b>Capital Gains</b>  |          |          |
| Long-term capital gains on sale of house  | 75,000   |          |
| Less: Short-term capital loss can be set-off against long-term capital gains [section 70(2)]  | 70,000   |          |
|   | 5,000    |          |
| Less: Brought forward long- term capital loss of ₹ 90,000 from A.Y. 2020-21, set-off to the extent of ₹ 5,000   | 5,000    | Nil      |
| <b>Income from Other Sources</b>  |          |          |
| Interest on enhanced compensation from Government   | 5,00,000 |          |
| Less: Deduction @50%  | 2,50,000 |          |
|   | 2,50,000 |          |
| Dividend from ABC Ltd.  | 15,000   | 2,65,000 |
| <b>Gross Total Income</b>   |          | 9,90,000 |
| Less: Deduction under section 80C – Deposit in PPF  |          | 75,000   |
| Total Income  |          | 9,15,000 |
| Losses to be carried forward to A.Y.2023-24   |          |          |
| Long-term capital loss of A.Y. 2020-21 (₹ 90,000 – ₹ 5,000) to be set-off against long-term capital gains, if any, in that year   | 85,000   |          |
| Loss from owning and maintaining racehorse of the A.Y. 2021-22 to be set-off against income, if any, from owning and maintaining race horses in that year.  | 20,000   |          |
| Loss from gambling (it can neither be set-off against any income during the previous year nor can it be carried forward for set-off against any income in the subsequent assessment years).                               |          |          |