



# **MUST DO LIST**

# **DIRECT TAX**

**BY : VINIT MISHRA SIR**

# ALL INDIA RANK - 04



**ARUL KUMAR**

(STUDENT OF TOP-20)



# ALL INDIA RANK - 10

**MEGHANA SAWAKAR**

(STUDENT OF TOP-20)





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# BASIC CONCEPTS

## QUESTIONS AND ANSWERS

### Question – 1

Compute the tax liability of Mr. D (aged 37), having total income of ₹ 5,01,00,000 for the Assessment Year 2022-23. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. D has not opted for the provisions of section 115BAC.

### SOLUTION:

#### Computation of tax liability of Mr. D for the A.Y. 2022-23

(A) Tax payable including surcharge on total income of ₹ 5,01,00,000	
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000
₹ 10,00,001 – ₹ 5,01,00,000 @ 30%	₹ <u>1,47,30,000</u>
Total	₹ 1,48,42,500
Add: Surcharge @ 37%	₹ <u>54,91,725</u>
(B) Tax Payable on total income of ₹ 5 crore (₹ 12,500 plus ₹ 1,00,000 plus ₹ 1,47,00,000)	₹ 1,48,12,500
Add: Surcharge @ 25%	₹ <u>37,03,125</u>
	₹ 1,85,15,625
(C) Total Income Less ₹ 5 crore	₹ 1,00,000
(D) Tax payable on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore (B + C)	₹ 1,86,15,625
(E) Tax payable (A) or (D), whichever is lower	₹ 1,86,15,625
Add: Health and education cess @ 4%	₹ <u>7,44,625</u>
Tax liability	₹ <u>1,93,60,250</u>
(F) Marginal Relief (A – D)	₹ 17,18,600

### Alternative method

(A) Tax payable including surcharge on total income of ₹ 5,01,00,000	
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000
₹ 10,00,001 – ₹ 5,01,00,000 @ 30%	₹ <u>1,47,30,000</u>
Total	₹ 1,48,42,500

Add: Surcharge @ 37%	₹ 54,91,725	₹ 2,03,34,225
<b>(B)</b> Tax Payable on total income of ₹ 5 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 1,47,00,000) plus surcharge @ 25%]		₹ 1,85,15,625
<b>(C)</b> Excess tax payable (A)-(B)		₹ 18,18,600
<b>(D)</b> Marginal Relief (₹ 18,18,600 – ₹ 1,00,000, being the amount of income in excess of ₹ 5,00,00,000)		₹ 17,18,600
<b>(E)</b> Tax payable (A) - (D)		₹ 1,86,15,625
Add: Health and education cess @ 4%		₹ 7,44,625
Tax liability		₹ 1,93,60,250

### Question – 2

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

#### SOLUTION:

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

Particulars	₹
Tax on total income of ₹ 4,40,000	
Tax @ 5% of ₹ 1,90,000 (₹ 4,40,000 - ₹ 2,50,000)	9,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	9,500
<b>Tax Liability</b>	<b>Nil</b>

### Question – 3

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

#### SOLUTION:

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

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

**Question – 4**

**Who is an “Assessee”?**

**ANSWER:**

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

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
  - His income; or
  - The income of any other person in respect of which he is assessable; or
  - The loss sustained by him or by such other person; or
  - The amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

**Question – 5**

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

**ANSWER:**

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

- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.

- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
- (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.
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# RESIDENCE AND SCOPE OF TOTAL INCOME

## QUESTIONS AND ANSWERS

### Question – 1

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

### SOLUTION:

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, inter alia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of “fees for technical services”.

The Explanation below section 9(2) clarifies that income by way of, inter alia, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

### Question – 2

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2022-23

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000

Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

**SOLUTION:**

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

Particulars	Resident & ordinarily resident ₹	Resident but not ordinarily resident ₹	Non-Resident ₹
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000

Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000	70,000	70,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding ( <b>not taxable</b> )	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [ <b>Exempt under section 10(1)</b> ]	-	-	-
<b>Gross Total Income</b>	<b>3,52,000</b>	<b>2,18,000</b>	<b>1,83,000</b>
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹10,000]	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
<b>Total Income</b>	<b><u>3,42,000</u></b>	<b><u>2,08,000</u></b>	<b><u>1,73,000</u></b>

### Question – 3

Mr. Ram, an Indian citizen, left India on 22.09.2021 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the assessment year 2022-23.

**SOLUTION:**

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

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

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2021-22, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30 + 31 + 30 + 31 + 22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2022-23.

#### Question – 4

**Mr. Dey, a non-resident, residing in US since 1990, came back to India on 1.4.2020 for permanent settlement. What will be his residential status for assessment year 2022-23?**

#### SOLUTION:

Mr. Dey is a resident in A.Y. 2022-23 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2021-22.

As per section 6(6), a person will be “Not ordinarily Resident” in India in any previous year, if such person, inter alia,:

- (a) Has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) Has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the previous year 2021-22 (A.Y. 2022-23), his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2021-22. He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the P.Y. 2021-22.

#### Question – 5

**Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2021-22. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2022-23.**

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000

3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

### SOLUTION:

#### Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2022-23

Sr. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000
2.	Dividend from British company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur, but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 5)	<u>70,000</u>	<u>42,000</u>
	<b>Gross Total Income</b>	<b>4,34,500</b>	<b>4,14,000</b>
	Less Deduction under Chapter VI-A		
	Section 80C – Life insurance premium	-	30,000

	Section 80TTA (See Note 6)	<u>7,000</u>	<u>10,000</u>
	<b>Total Income</b>	<b>4,27,500</b>	<b>3,74,000</b>

**Notes:**

- (1) Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
- (2) In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

- (i) Income received or deemed to be received in India; and  
(ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

- (3) Dividend received from British company in London by Mr Ramesh, a non-resident, is not taxable since it accrued and is received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
- (4) Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- (5) Income from house property-

	Mr. Ramesh (₹)	Mr. Suresh (₹)
Rent received	1,00,000	60,000
Less: Deduction under section 24(a) @ 30%	<u>30,000</u>	<u>18,000</u>
<b>Net income from house property</b>	<b><u>70,000</u></b>	<b><u>42,000</u></b>

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

- (6) In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA.

**Question – 6**

**Examine the correctness or otherwise of the statement - “Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus”.**

**SOLUTION:**

**This statement is correct.**

As per Explanation to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -

- (i) Non-resident has a residence or place of business or business connection in India; or
- (ii) The non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.



# INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

## QUESTIONS AND ANSWERS

### Question – 1

Y Ltd. furnishes you the following information for the year ended 31.3.2022:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2021-22, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2016-17.

### SOLUTION:

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y. 2021-22 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$\begin{aligned} &= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\% \\ &= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 100\% = ₹ 15 \text{ lakhs} \end{aligned}$$

**Note:** No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

### Question – 2

Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax:

- (i) Arvind received ₹ 20,000 as his share from the income of the HUF.
- (ii) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of ₹ 2,20,000 during the financial year 2021-22.
- (iii) Agricultural income of ₹ 1,27,000 earned by a resident of India from a land situated in Malaysia.



(iv) Rent of ₹ 72,000 received for letting out agricultural land for a movie shooting.

**SOLUTION:**

S. No.	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government employee who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(iii)	Taxable	1,27,000	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.
(iv)	Taxable	72,000	Agricultural income is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".

**Question – 3**

**Examine the taxability of agricultural income under the Income-tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?**

**SOLUTION:**

Agricultural income is exempt from tax as per section 10(1). However, aggregation of agricultural and non-agricultural income is to be done to determine the rate at which the non-agricultural income shall be chargeable to tax. In case the agricultural income is not more than ₹ 5,000 or the tax-payer has non-agricultural income not more than the basic exemption limit, then no such aggregation needs to be done.

Further, such aggregation has to be done only if the tax-payer is an individual, HUF, AOP, BOI or an artificial juridical person, since the Finance Act prescribes slab rates of income-tax for these assesseees.

In the case of other assesseees such as partnership firms, companies etc., whose income is chargeable to tax at a flat rate, aggregation of agricultural income would have no effect.

Since the second part of the question requires the manner of computation of income where an individual derives agricultural and non-agricultural income, the same can be answered on the basis of Rules 7A, 7B and 8 of the Income-tax Rules, 1962 dealing with composite income.

Rule	Particulars	Business Income	Agricultural Income
Rule 7A	Income from sale of rubber products derived from rubber plants grown by the seller in India.	35%	65%
Rule 7B	Income from sale of coffee		
	- Grown and cured by the seller in Ind	25%	75%
	- Grown, cured, roasted and grounded by the seller in India	40%	60%
Rule 8	Income from sale of tea grown and manufactured by the seller in India	40%	60%

Thereafter, income-tax shall be computed by aggregating the agricultural income and the non-agricultural income in the manner described below:

- (1) Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.
- (2) Aggregate the agricultural income with the basic exemption limit of the assessee i.e., ₹ 2,50,000/ ₹ 3,00,000/ ₹ 5,00,000, as the case may be, and determine tax on such amount.
- (3) Compute the difference between the tax computed in Step (1) and Step (2), which shall be the tax payable in respect of non-agricultural income.
- (4) The tax payable so computed in step (3) shall be increased by surcharge, if applicable or reduced by rebate under section 87A, if the total income does not exceed ₹ 5 lakh. Thereafter, health and education cess @ 4% has to be added to compute the total tax liability.

#### Question – 4

**Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.**

#### **SOLUTION:**

As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

#### Question – 5

**Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:**

- (i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
- (ii) Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax.
- (iii) Mr. A, a member of a HUF, received ₹ 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.

## **SOLUTION:**

- (i) **False:** Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- (ii) **True:** Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government and has been awarded “Param Vir Chakra” or “Maha Vir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.
- (iii) **False:** Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, ₹ 10,000 should not be included in Mr. A’s chargeable income.

## **Question – 6**

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2021-22.

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2022-23, in the following situations:

- (i) If both the units were set up and start manufacturing from 22-05-2014.
- (ii) If both the units were set up and start manufacturing from 14-05-2018.

## **SOLUTION:**

### **Computation of deduction under section 10AA of the Income-tax Act, 1961**

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

### **Computation of eligible deduction under section 10AA [See Working Note below]:**

- (i) **If Unit in SEZ was set up and began manufacturing from 22-05-2014:**

Since A.Y. 2022-23 is the 8th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

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

**(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2017:**

Since A.Y. 2022-23 is the 4th assessment year from A.Y. 2019-20, relevant to the previous year 2018-19, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

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

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

**Working Note:**

**Computation of total sales, export sales and net profit of unit in SEZ**

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

# HEADS OF INCOME

## UNIT – 1: SALARIES

### QUESTIONS AND ANSWERS

#### Question – 1

Mr. Goyal receives the following emoluments during the previous year ending 31.3.2022.

Basic Pay	₹ 40,000
Dearness Allowance	₹ 15,000
Commission	₹ 10,000
Entertainment allowance	₹ 4,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2022-23, if Mr. Goyal is a State Government employee.

#### SOLUTION:

#### Computation of salary of Mr. Goyal for the A.Y. 2020-21

Particulars	₹	₹
Basic Salary		40,000
Dearness Allowance		15,000
Commission		10,000
Entertainment Allowance received		4,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
<b>Gross Salary</b>		<b>95,000</b>
Less: Deductions under Section 16		
Under section 16(ia) – Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) – Entertainment allowance being lowest of:		
(a) Allowance received	4,000	
(b) One fifth of basic salary [ $1/5 \times ₹ 40,000$ ]	8,000	
(c) Statutory amount	5,000	
		4,000

Under section 16(iii) – Professional tax paid		2,000
<b>Income from Salary</b>		<b>39,000</b>

**Note:** Employee's contribution to RPF is not taxable. IT is eligible for deduction u/s 80C.

### Question – 2

In the case of Mr. Hari, who turned 67 years on 28.3.2022, you are informed that the salary computed for the previous year 2021-22 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous Year	Taxable Salary (₹)	Arrears now received (₹)
2010-2011	7,10,000	1,03,000
2011-2012	8,25,000	1,17,000
2012-2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2022-23. Assume that Mr. Hari does not opt for section 115BAC.

**Note:** Rates of Taxes:

Assessment year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011-12	Upto ₹ 2,40,000	Nil	Up to ₹ 160000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 – ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 – ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2012-13	Upto ₹ 2,50,000	Nil	Up to ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 – ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 – ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%

2013-14	Upto ₹ 2,50,000	Nil	Up to ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 – ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 – ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note – Education cess @ 2% and secondary and higher education cess @1% was attracted on the income-tax for all above preceding years.

**SOLUTION:**

**Computation of tax payable by Mr. Hari for the A.Y. 2022 - 23**

Particulars	Incl. arrears of salary (₹)	Excl. arrears of salary (₹)
Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
<b>Taxable Salary</b>	<b>13,65,000</b>	<b>10,20,000</b>
Income –tax thereon	2,19,500	1,16,000
Add: Health and education cess @ 4%	8,780	4,640
<b>Total Payable</b>	<b>2,28,280</b>	<b>1,20,640</b>

**Computation of tax payable on arrears of salary if charged to tax in the respective A/Ys.**

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	--	1,17,000	--	1,25,000	--
<b>Taxable salary</b>	<b>8,13,000</b>	<b>7,10,000</b>	<b>9,42,000</b>	<b>8,25,000</b>	<b>10,75,000</b>	<b>9,50,000</b>
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess @ 3%	2,937	2,280	4,038	2,985	4,425	3,450
<b>Tax payable</b>	<b>1,00,837</b>	<b>78,280</b>	<b>1,38,638</b>	<b>1,02,485</b>	<b>1,51,925</b>	<b>1,18,450</b>

**Computation of relief under section 89**

	Particulars	₹	₹
i.	<b>Tax payable in A.Y. 2022-23 on arrears:</b>		
	Tax on income including arrears	2,28,280	
	Less: Tax on income excluding arrears	1,20,640	1,07,640
ii.	<b>Tax payable in respective years on arrears:</b>		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	

Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
<b>Relief under section 89 – difference between tax on arrears in A.Y. 2022 – 23 tax on arrears in the respective years.</b>		<b>15,455</b>

**Tax payable for A.Y. 2021-22 after relief under section 89**

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less: Relief under section 89 as computed above	15,455
<b>Tax payable after claiming relief</b>	<b>2,12,825</b>

**Question – 3**

Mr. Mohit is employed with XY Ltd. On a basic salary of ₹ 10,000 p.m. he is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 1.01.2022. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 1.02.2022. Rent paid by him during the previous year 2021-22 is as under:

- April and May, 2021 - Nil, as he stayed with his parents
- June to October, 2021 - ₹ 6,000 p.m. for an accommodation in Ghaziabad
- November, 2021 to March, 2022 - ₹ 8000 p.m. for an accommodation in Delhi.

Compute his gross salary for assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

**SOLUTION:**

**Computation of gross salary of Mr. Mohit for A.Y. 2021-22**

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 21)]	1,22,000
Dearness Allowance (10% of basic salary)	1,22,000
House Rent Allowance (See Note below)	21,300
<b>Gross Salary</b>	<b>2,65,300</b>

**Note: Computation on Taxable House Rent Allowance (HRA)**

Particulars	April-May	June–Oct	Nov-Dec	Jan	Feb-March
	(₹)	(₹)	(₹)	(₹)	(₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,000



Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month x relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000 x 5)	16,000 (₹ 8,000 x 2)	8,000 (₹ 8,000 x 1)	16,000 (₹ 8,000 x 2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000 x 2)	30,000 (₹ 6,000 x 5)	12,000 (₹ 6,000 x 2)	7,000 (₹ 7,000 x 1)	14,000 (₹ 7,000 x 2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct. 2021)	-	30,000	15,000	7,500	16,500
50% of salary (Residence at Delhi Nov, 21 – March, 22)		(40% x ₹ 75,000)	(50% x ₹ 30,000)	(50% x ₹ 15,000)	(50% x ₹ 33,000)
<b>Exempt HRA (B)</b>	<b>Nil</b>	<b>22,500</b>	<b>12,000</b>	<b>6,500</b>	<b>12,700</b>
Taxable HRA [Actual HRA (-) Exempt HRA] (A – B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 300 = ₹ 21,300

#### Question – 4

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2021-22:

	Particulars	₹
1.	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(a) On treatment of her self-employed daughter in a private clinic	4,000
	(b) On treatment of herself by family doctor	8,000
	(c) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2.	Payment of premium on Mediclaim Policy taken on her health	7,500
3.	Medical Allowance	2,000 p.m.
4.	Medical expenses reimbursed on her son's treatment in a government hospital	5,000

5.	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,95,000
6.	Expenses in relation to foreign travel of Rakhi and her son abroad for medical treatment Note - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	1,20,000

Examine the taxability of the above benefits and allowances in the hands of Rakhi.

**SOLUTION:**

**Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2022-23.**

	Particulars
1.	<b>Reimbursement of medical expenses incurred by Ms. Rakhi</b>
	(a) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. (b) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. (c) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependent mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax free perquisite.
5. & 6	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [ <b>₹ 1,05,000, in this case</b> ]; (ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [ <b>₹ 1,20,000, in this case</b> ]. The conditions subject to which the above expenditure would be exempt are as follows— (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; Since

- (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

### Question – 5

Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

- (1) A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2021.
- (2) A personal loan of ₹ 5,00,000 on 1.7.2021 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest on 1.4.2021 was 12.75% p.a.)
- (3) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2018. The motor cycle was finally sold to him on 1.8.2021 for ₹ 30,000.
- (4) Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2022-23 assuming Mr. X has not opted for the provisions of section 115BAC.

### SOLUTION:

#### Computation of Income from Salary of MR. X for the A.Y. 2022-23

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1000 × 12]		12,000
Rent free accommodation [Note -1]	48,600	
Add: Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
<b>Gross Salary</b>		<b>4,25,100</b>
Less: Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) – Professional tax paid	2,000	52,000
<b>Income from Salary</b>		<b>3,73,100</b>

**Note 1:** Value of rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 48,600

**Note 2:** Value of perquisite for interest on personal loan

= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

**Note 3:** Depreciated value of the motor cycle

= Original cost – Depreciation @ 10% p.a. for 3 completed years.

= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.

Perquisite = ₹ 42,000 - ₹ 30,000 = ₹ 12,000.

### Question – 6

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2022:

- (i) Basic salary upto 31.10.2021 ₹ 50,000 p.m.  
Basic salary from 01.11.2021 ₹ 60,000 p.m.  
Note: Salary is due and paid on the last day of every month.
- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2021 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2021.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 liters) provided to the employee from 01.11.2021 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2021 to 31.03.2022, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2022-23 assuming he has not opted for the provisions of section 115BAC.

### SOLUTION:

#### Computation of Taxable Salary of Mr. Balaji for A/Y. 2022-23

Particulars	₹
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Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]		6,50,000
Dearness allowance (40% of basic salary)		2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)		70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months ) (See Note 4)		12,000
<b>Gross Salary</b>		<b>10,20,000</b>
Less: Deduction u/s. 16		
Standard deduction u/s (16) (ia)	₹ 50,000	
Professional tax u/s 16(iii) (See Note 6)	<u>₹ 2,500</u>	
		52,500
<b>Taxable salary</b>		<b>9,67,500</b>

### Notes:

- (1) Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
- (2) It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- (3) As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
- (4) As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2020, therefore the perquisite value has been calculated for 5 months.
- (5) Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

- (6) As per section 17(2)(iv), a “perquisite” included any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment. I.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 provided from salary.

## UNIT – 2: INCOME FROM HOUSE PROPERTY

### Question – 1

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000 @ 10% taken on 1.4.2020 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000 @ 12% on 1.10.2020 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y. 2022-23.

### SOLUTION:

#### Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y. 2022-23

Particulars	₹
i. Interest on loan taken for acquisition of residential house property at Calcutta $₹ 50,00,000 \times 10\% = ₹ 5,00,000$ Ms. Aparna's share = 50% of 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
ii. Interest on loan taken for repair of flat at Pune = ₹ 3,00,000 × 12% = ₹ 36,000 Restricted to ₹ 30,000	30,000
Total Interest	2,30,000
Deduction under section 24(b) in respect of (i) and (ii) above to be restricted to	2,00,000

#### Computation of deduction u/s. 24(b) available to Ms. Dimple for A.Y. 2022-23

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta $₹ 50,00,000 \times 10\% = ₹ 5,00,000$ Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	2,00,000

### Question – 2

Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2022-23.

**SOLUTION:**

**Computation of income from house property of Mr. Raman for A.Y. 2022-23**

Particulars	₹	₹
Gross: Annul Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
– Interest on loan taken from bank	25,000	
– Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (See Note 3 below)		48,000

**Notes:**

**(1) Computation of Gross Annual Value:**

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	₹	₹	₹	₹
(a) Municipal value of property	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 × 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

**(2)** Interest on housing loan is allowable as deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction u/s. 24.

(3) Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

### Question – 3

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2022-22 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p.a.
Municipal tax (Paid by Mr. X)	15% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease Money	₹ 1200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. for the A.Y. 2022-23.

### SOLUTION:

#### Computation of Income from house property for A.Y. 2022-23

Particulars		₹	₹
<b>A.</b>	<b>Rented unit (50% of total area – See Note below)</b>		
	<b>Step-1: Computation of Expected Rent</b>		
	Municipal valuation (₹ 1,90,000 × ½)	95,000	
	Fair rent (₹ 1,85,000 × ½)	92,500	
	Standard rent (₹ 1,62,000 × ½)	81,000	
	Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
	<b>Step II- Actual Rent</b>		
	Rent receivable for the whole year (₹ 8,000 × 12)	96,000	
	<b>Step III – Computation of Gross Annual Value</b>		
	Actual rent received owing to vacancy (₹ 96,000 - ₹ 16,000)	80,000	
	Since, owing to vacancy, the actual rent actual rent received is the Gross Annual Value		
	<b>Gross Annual Value</b>		<b>80,000</b>



	Less: Municipal taxes (15% of ₹ 95,000)		14,250
	<b>Net Annual Value</b>		<b>65,750</b>
	Less: Deductions under section 24 –		
	i) 30% of net annual value	19,725	
	ii) Interest on borrowed capital (₹ 750 x 12)	9,000	28,725
	<b>Taxable income from let out portion</b>		<b>37,025</b>
<b>B)</b>	<b>Self-occupied unit (50% of total area - See Note below)</b>		
	Annual value	Nil	
	Less: Deduction under section 24 –		
	Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
	<b>Loss from self-occupied portion</b>		<b>(9,000)</b>
	<b>Income from house property</b>		<b>28,025</b>

**Note:** No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

#### Question – 4

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively.

During the Financial Year 2021-22, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The Remaining two-third portion was self-occupied by him. Municipal tax @ 11% of municipal values was paid during the year.

The construction of the house began in June, 2014 and was completed on 31-5-2017.

Vikas took a loan of ₹ 1,00,000 on 1.7.2014 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2022-23.

#### SOLUTION:

#### Computation of income from house property of Mr. Vikas for the A.Y. 2022-23

Particulars		₹	₹
	<b>Income from house property</b>		
<b>I.</b>	<b>Self-occupied portion (Two third)</b>		
	Net Annual value		Nil
	Less: Deduction under section 24(b)		
	Interest on loan ( <b>See Note below</b> ) (₹ 18,600 x 2/3)		12,400
	Loss from self-occupied property		<b>(12,400)</b>
<b>II.</b>	<b>Let-out portion (One third)</b>		
	Gross Annual Value		

(a) Actual rent received (₹ 5,000 × 12)	₹ 60,000		
(b) Expected rent	₹ 36,000		
[Higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 × 1/3			
Higher of (a) or (b)		60,000	
Less: Municipal taxes (₹ 96,000 × 11% × 1/3)		3,520	
<b>Net Annual Value</b>		<b>56,480</b>	
Less: Deduction under section 24			
(a) 30% of NAV		16,944	
(b) Interest on loan ( <b>See Note below</b> ) (₹ 18,600 × 1/3)		6,200	<b>33,336</b>
<b>Income from house property</b>			<b>20,936</b>

### Note: Interest on loan taken for construction of building

Interest for the year (1.4.2020 to 31.3.2021) = 12% of ₹ 1,00,000 = ₹ 12,000

Preconstruction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2014 to 31.3.2017) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2017-18 till F.Y. 2021-22.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

### Question – 5

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2021-22. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2021, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2022. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a., She paid the following to Corporation of Chennai:

Property Tax	₹ 16,200
Sewerage Tax	₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2019 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2021	49,200
1.4.2021 to 30.6.2021	50,800
1.7.2021 to 31.3.2022	1,31,300

She had a house property in Bangalore, which was sold in March, 2018. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2022. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2022-23.

**SOLUTION:**

Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of 'Nil' Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y. 2022-23 will be calculated as under:

Particulars	₹	₹
<b>1. Self-occupied house at Los Angeles</b>		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		<b>Nil</b>
<b>2. Self-occupied house property at Chennai</b>		
Annual value		Nil
Less: Deduction under section 24		
Interest on borrowed capital (See Note below)		1,91,940
		(1,91,940)
<b>3. Arrears in respect of Bangalore property (Section 25A)</b>		
Arrears of rent received	60,000	
Less: Deduction @ 30% u/s. 25A(2)	18,000	42,000
<b>Loss under the head 'Income from house property'</b>		<b>(1,49,940)</b>

**Note: Interest on borrowed capital**

Particulars	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5 <sup>th</sup> of pre-construction interest (₹ 49,200 × 1/5)	9,840
<b>Interest deduction allowable under section 24</b>	<b>1,91,940</b>

## Question – 6

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 1998-1999. The property consists of eight identical units and is situated at Cochin.

During the financial year 2021-22, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	₹
(i) Repairs	40,00
(ii) Insurance premium (paid)	15,000
(iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2021-22.

Compute the income under the head 'Income from House property' and the total income of two brothers for the assessment year 2022-23.

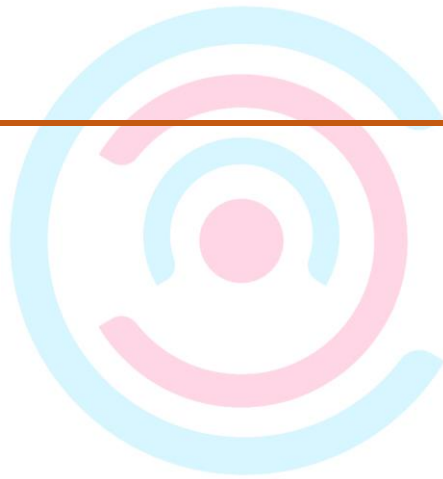
### SOLUTION:

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

Particulars	Arun (₹)	Bimal (₹)
<b>Income from house property</b>		
<b>1) Self-occupied portion (25%)</b>		
Annual value	Nil	Nil
Less: Deduction u/s. 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) restricted to maximum of ₹ 30,000 for each co-owner since the property was constructed before 1.04.1999. Hence, it is assumed that loan was taken before 1.4.1999	30,000	30,000
	(30,000)	(30,000)
Loss from self occupied property		
<b>2) Let-out portion (75%) - See Working Note below</b>	1,25,850	1,25,850
Income from house property	<b>95,850</b>	<b>95,850</b>
<b>Other Income</b>	2,90,000	180,000
<b>Total Income</b>	<b>3,85,850</b>	<b>2,75,850</b>

#### Working Note – Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹
<b>Let-out portion (75%)</b>		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [₹ 12000 × 6 × 12] – (₹ 12,000 × 1 × 4] = ₹ 8,64,000 - ₹ 48,000 - whichever is higher	8,16,000	8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		<u>1,35,000</u>
Net Annual value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
<b>Income from let-out portion of house property</b>		<b>2,51,700</b>
<b>Share of each co-owner (50%)</b>		<b>1,25,850</b>



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## UNIT – 3: PROFITS AND GAINS OF BUSINESS OR PROFESSION

### Question – 1

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the Assessment Year 2022-23.

- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the previous year 2020-21 was ₹ 202 Lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

### SOLUTION:

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

#### (i) Construction of school building in compliance with CSR activities

Under Section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

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

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

#### (ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @ 100% in respect of amount of ₹ 4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1<sup>st</sup> April 2009 (P.Y.2021-22, in this case.), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000. If Mr. Manav opts for section 35AD.

#### (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2020-21 exceeds ₹ 100 lacs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

**(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion**

Commodities transaction tax paid in respect of taxable commodities transaction entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transaction is included in the income computed under the head “Profits and gains of business or profession”.

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

### Question – 2

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961.

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- (ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a cheque crossed as “& Co. ₹ 25,000 can be the profits and gains for business under section 40A(3A) in the year of payment.
- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head “Profits and Gains from Business and Profession”.
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2021 is a deductible expenditure under section 36.
- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (vi) An existing assessee engaged in trading activities, can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

### SOLUTION:

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee

cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes, such as credit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(ia).

### Question – 3

**Examine with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the assessment year 2022-23:**

- (1) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (2) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (3) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- (4) Payment of ₹ 50,000 by using credit card for fire insurance.
- (5) Salary payment of ₹ 4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (6) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

### **SOLUTION:**

#### **1) Not allowable as deduction:**

As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (i) Where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;



(ii) Where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

**Note:** It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

**2) Allowable as deduction:**

As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

**3) Not allowable as deduction:**

Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

**4) Allowable as deduction:**

Payment for fire insurance is allowable as deduction under section 36(1). Since payment by credit card is covered under Rule 6DD, which contains the exceptions to section 40A(3), disallowance under section 40A(3) is not attracted in this case.

**5) Not allowable as deduction:**

Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 4,00,000 outside India by a company without deduction of tax at source.

**6) Allowable as deduction:**

The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

**Question – 4**

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2022 for ₹ 25,000 through a cheque duly crossed as “& Co.” is hit by the provisions of section 40A(3).
- (b) (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

- (ii) Failure to deduct tax at source in accordance with the provision of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

### **SOLUTION:**

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a cheque crossed as “& Co.” will attract disallowance under section 40A(3).
- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
- (ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

### **Question – 5**

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2022:

#### **Trading and Profit and Loss Account for the year ended 31.03.2021**

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on Loan	15,000		
To Depreciation	1,05,000		
To Printing & Stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

### Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	₹ 9,000
Closing Stock	₹ 18,000

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash by way of onetime payment to Mr. Ramesh.

(iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2021 minus depreciation for P.Y. 2020-21) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2021 for ₹ 70,000 Two old plants were sold on 1.10.2021 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2022.

(vi) Other general expenses include ₹ 2,000 paid as donation to a public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act assuming he has not opted for the provisions of section 115BAC. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

### SOLUTION:

#### Computation of business income of Mr. Sivam for the A.Y. 2022-23

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expense/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery – whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation ( <b>considered separately</b> )	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		

Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
Business income before depreciation		1,96,900
Less: Depreciation (See Note 1)		66,000
		<b>1,30,900</b>

### Computation of business income as per section 44AD -

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 × 6 /100 = ₹ 6,72,690

#### Notes:

##### 1. Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2021 (i.e. WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	4,20,000
Add: Cost of new plant & Machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2022	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

#### Question – 6

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2021, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2021, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2021. This new vehicle could however be put to use only on 15th June, 2021.

Compute the total income of Mr. Sukhvinder for the assessment year 2022-23, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	

Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

### SOLUTION:

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (**See Notes 1 & 2 below**) and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

### **Notes:**

#### 1) Computation of total income of Mr. Sukhvinder for A.Y. 2022-23

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [ <b>See Note 2 Below</b> ]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
<b>Total Income</b>	<b>14,42,500</b>	<b>5,15,000</b>

#### 2) Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount (₹)
(1)	(2)		(3)	(4)
<b><u>Heavy goods vehicle</u></b>				
1 goods carriage upto 1 <sup>st</sup> May	2	1,000	15 (15,000/ 1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/ 1,000)	9,00,000

<b><u>Goods vehicle other than heavy goods vehicle</u></b>				
1 goods carriage from 6 <sup>th</sup> May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
<b>Total</b>				<b>13,72,500</b>



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## UNIT – 4: CAPITAL GAINS

### Question – 1

Aarav converts his plot of land purchased in July, 2003 for ₹ 80,000 into stock-in-trade on 31st March, 2021. The fair market value as on 31.3.2021 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2022.

Find out the taxable income, if any, and if so under which 'head of income' and for which Assessment Year?

Cost Inflation Index: F.Y. 2003-04: 109; F.Y. 2020-21: 301.

### SOLUTION:

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2022-23.

Particulars	₹
<b>Capital Gains</b>	
Full value of consideration (Fair market value on the date of conversion)	3,00,000
Less: Indexed cost of acquisition (₹ 80,000 × 301/109)	2,20,917
<b>Long-term capital gain</b>	<b>79,083</b>
<b>Profits &amp; Gains of Business or Profession</b>	
Sale price of Stock-in-trade	3,25,000
Less: Fair market value on the date of conversion	3,00,000
	<b>25,000</b>

### Computation of taxable income of Mr. Aarav for A.Y. 2022-23

Particulars	₹
Profits and gains from business or profession	25,000
Long term capital gains	79,083
<b>Taxable Income</b>	<b>1,04,083</b>

## Question – 2

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the financial year 2003-04 and held the same as her capital asset till 20st March, 2021.

She started her real estate business on 21<sup>st</sup> March, 2021 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2022. She sold 10 flats at ₹ 30 lakhs per flat in March, 2022. The remaining 5 flats were held in stock as on 31st March, 2022.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2022 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2022.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for Assessment Year 2022-23 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2003-04: 109; FY 2020-21: 301].

### SOLUTION:

#### Computation of capital gains and business income of Harshita for A.Y. 2022-23

Particulars	₹
<b>Capital Gains</b>	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 301/ 109]	96,65,138
	1,13,34,862
Proportionate capital gains arising during A.Y. 2022-23 [₹ 1,13,34,862 × 2/3]	75,56,575
Less: Exemption under section 54EC	50,00,000
<b>Capital gains chargeable to tax for A.Y. 2021-22</b>	<b>25,56,575</b>
<b>Business Income</b>	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
<b>Business income chargeable to tax for A.Y. 2022-23</b>	<b>60,00,000</b>

### Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade. (i.e., P.Y. 2020-21, in this case).



- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y. 2020-21) and not up to the year of sale of stock-in-trade (i.e., P.Y. 2021-22).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2021-22, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2022-23.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y.2021-22 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y.2022-23, both within the stipulated six month period, the maximum deduction allowable for A.Y.2022-23, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y.2021-22, is only ₹ 50 lakhs.

### Question – 3

**Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident.**

**The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2021 (i.e., WDV as on 31.3.2021 after providing depreciation for P.Y. 2021-21) was ₹ 10,80,000.**

**During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he has purchased in April, 2004, for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.**

**Mr. A received the following amounts from the insurance company;**

- |   |            |
|---|------------|
| (i) Towards loss of stock                 | ₹ 4,80,000 |
| (ii) Towards damage of machinery          | ₹ 6,00,000 |
| (iii) Towards gold chain and diamond ring | ₹ 1,80,000 |

You are requested to briefly comment on the tax treatment of the above three items under the provision of the Income-tax Act, 1961.

### **SOLUTION:**

#### **(i) Compensation towards loss of stock:**

Any compensation received from the insurance company towards loss/ damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.

**Note** - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.

#### **(ii) Compensation towards damage to machinery:**

The question does not mention whether the salvaged machinery is taken over by the Insurance Company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance Company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

**Note** – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

#### **(iii) Compensation towards loss of gold chain and diamond ring:**

Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

### **Question – 4**

**Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2021 for ₹ 1,50,00,000.**

**The sale proceeds were to be paid in the following manner:**

- (i) 20% through account payee bank draft on the date of agreement.**
- (ii) 60% on the date of the possession of the property.**
- (iii) Balance after the completion of the registration of the title of the property.**

**Mr. Jaikumar was handed over the possession of the property on 15.12.2021 and the registration process was completed on 14.01.2022. He paid the sale proceeds as per the sale agreement.**

**The value determined by the Stamp Duty Authority-**

- (a) On 16.08.2021 was ₹ 1,70,00,000;**
- (b) On 15.12.2021 was ₹ 1,71,00,000; and**
- (c) On 14.01.2021 was ₹ 1,71,50,000.**

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2022 and another in Delhi for ₹ 35,00,000 on 28.5.2022.

Compute the income chargeable under the head “Capital; Gains” of Mrs. Sarthak for the Assessment Year 2022-23.

Cost inflation Index for Financial Year(s): 2001-02- 100; 2021-22 - 317

**SOLUTION:**

Computation of income chargeable under the head “Capital Gains” of Mr. Sarthak for A.Y. 2022-23

Particulars	₹
<b>Capital Gains on sale of residential house</b>	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000
<p>[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provide the whole or part of the consideration is paid by way of account payee cheque/ bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]</p>	
<b>Full value of sale consideration</b> [Stamp duty value of the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
<b>Less: Indexed cost of acquisition of residential house</b> [₹ 30 lakhs x 317/100]	95,10,000
<b>Long-term capital gains</b> [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	<b>74,90,000</b>
<b>Less: Exemption u/s 54</b>	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gains arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two year after the	

date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.

Long term capital gains chargeable to tax

19,90,000

### Question – 5

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2021 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-1-2022 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

- (i) Acquired two residential houses at Delhi for ₹ 130 lakhs and ₹ 50 lakhs on 31.1.2022 and 15.5.2022
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2022.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 29-3-2022 and for ₹ 40 lakhs on 12-5-2022.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2022-23. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2004-05 – 113; F.Y. 2006-07 – 122; F.Y. 2021-22 - 317.

### SOLUTION:

Computation of income chargeable under the head “Capital Gains” of

Mrs. Yuvika for A.Y.2022-23

Particulars	₹ (in lakhs)	₹ (in lakhs)
<b>Capital Gains on sale of residential building</b>		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp		

duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.

However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.

In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration).

Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)	810.00
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<b>Less:</b> Brokerage @ 1% of sale consideration (1% of ₹ 810 lakhs)	8.10
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<b>Net Sale consideration</b>	<b>801.90</b>
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<b>Less:</b> Indexed cost of acquisition	
--	--

- |  |        |        |
|--|--------|--------|
| - Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakh, being 10% of cost of land [₹ 88 lakhs x 317/113] | 246.87 |        |
| - Construction cost of residential building (₹ 100 lakhs x 317/122)  | 259.84 | 506.71 |

<b>Long-term capital gains</b>		<b>295.19</b>
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Since the residential house property was held by Mrs. Yuvka for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]

**Less: Exemption under section 54**

Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.

Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It

would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.

**Less: Exemption under section 54EC**

**50.00**

Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2021), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year.

Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.7.2021(i.e., within six months after the date of transfer).

**Long term capital gains chargeable to tax**

**115.19**

**Note:** Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head “Income from other sources”, in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

**Question – 6**

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2007, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2014, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2014, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2020, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2022. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2021 was ₹ 35,00,000 and on 20th February, 2022 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2022-23.

CII for F.Y. 2001-02: 100; F.Y. 2007-08: 129; F.Y. 2014-15: 240; F.Y. 2021-22: 317

**SOLUTION:**

**Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2022-23**

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.  However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement.	39,00,000	
<b>Deemed Full value of consideration</b> [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		<b>39,00,000</b>
Less; Expenses on transfer (Brokerage @ 1% of ₹ 30,50,000)		30,500
<b>Net sale consideration</b>		<b>38,69,500</b>
Less: Indexed cost of acquisition (Note 1)	30,40,030	
Less: Indexed cost of improvement (Note 2)	5,15,125	35,55,155
<b>Long term capital gain</b>		<b>3,14,345</b>

#### Notes:

##### (1) Computation of indexed cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition, Being the higher of		10,70,000
(i) Lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @ 10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
<b>Cost of acquisition for indexation</b>		<b>9,59,000</b>
Index cost of acquisition (₹ 9,59,000 x 317/100)		30,40,030

##### (2) Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2014	3,90,000
Indexed cost of improvement ( $₹3,90,000 \times 317/240$ )	5,15,125

- (3) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 - ₹ 1,11,000 (being the advance money forfeited during the P.Y.2007-08) = ₹ 9,59,000]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head ‘Income from Other Sources’ and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y. 2015-16.



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## UNIT – 5: INCOME FROM OTHER SOURCES

### Question – 1

Interest on enhanced compensation received by Mr. G during the previous year 2021-22 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2017-18, ₹ 1,65,000 relates to previous year 2018-19 and ₹ 1,85,000 relates to previous year 2019-20. Discuss the tax implication, if any, of such interest income for A.Y.2022-23.

### SOLUTION:

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2021-22.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @ 50%	2,50,000
<b>Interest chargeable under the head “Income from other sources”</b>	<b>2,50,000</b>

### Question – 2

Examine under which heads the following incomes are taxable:

- (i) Rental income in case property held as stock-in-trade for 3 years
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary received by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, Interest on employee’s contribution if provident fund is unrecognized.
- (ix) Rental income in case in case of a person engaged in the business of letting out of properties.

### SOLUTION:

Particulars	Head of Income
(i) Rental income in case property held as stock-in-trade for 3 years	Income from house property
(ii) Dividend on shares in case of a dealer in shares	Income from other sources
(iii) Salary by a partner from his partnership firm	Profits and gains of business or profession
(iv) Rental income of machinery ( <b>See Note Below</b> )	Profits and gains of business or profession/ income from other sources

(v) Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi) Salaries payable to a Member of parliament	Income from other sources
(vii) Receipts without consideration	Income from other sources
(viii) In case of retirement, Interest on employee's contribution if provident fund is unrecognized	Income from other sources
(ix) Rental income in case of a person engaged in the business of letting out of properties.	Profits and gains from business or profession

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

### Question – 3

Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- (ii) Interest on enhanced compensation of ₹ 96,000 received on 12-3-2022 for acquisition of urban land, of which 40% relates to P.Y. 2020-21.

### SOLUTION:

S. No.	Taxable/ Note Taxable	Answer Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2021-2022 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

#### Question – 4

On 10.10.2021, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from state Govt. in respect of compulsory acquisition of his land effected during the financial year 2014-15.

Out of this interest, ₹ 1,50,000 relates to the financial year 2015-16; ₹ 1,65,000 to the financial year 2016-17; and ₹ 1,85,000 to the financial year 2017-18. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2022-23?

#### **SOLUTION:**

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'income from other sources.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

**Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y. 2022-23:**

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% × 5,00,000)	2,50,000
<b>Taxable interest on enhanced compensation</b>	<b>2,50,000</b>

#### Question – 5

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2022:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her 'Shastiapha Poorthi', a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklaces worth ₹ 2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2022, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as income from other sources.

#### **SOLUTION:**

- (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative, Thus, the gift of diamond necklace received from her sisters, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.
- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage if the individual, not that of the individual’s son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year, “Sum of money” has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x), are not attracted. It may be noted that fixed deposit is also not included in the definition of “property”.
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

#### **Income assessable as “income from other sources”**

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be ₹ 51,000, being cash gift received from a friend on her Shastiapha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

### **Question – 6**

**Examine the following transactions in the context of Income-tax Act, 1961:**

- (i) **Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2021 for ₹ 3,00,000 when the market Price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.**

**Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.**

- (ii) **Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2021 for meeting his medical expenses.**

**Is the cash gift so receive from the trust chargeable to tax in the hands of Mr. Chezian?**

## **SOLUTION:**

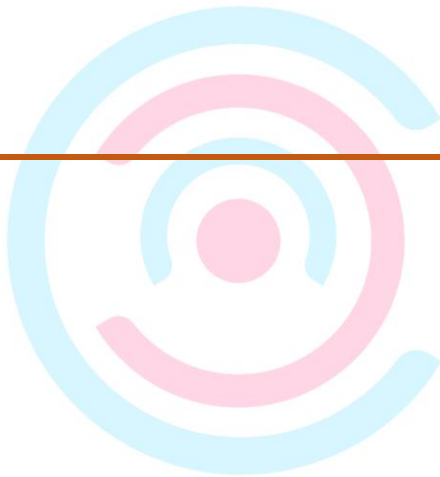
- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd, from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd. are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,55,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be Chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.



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# INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

## QUESTIONS AND ANSWERS

### Question – 1

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

Particulars	₹
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 let out 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 A.Y. 2020-21 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2017-18.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC.

### SOLUTION:

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

Particulars	₹	₹
<b>Salaries</b>		
Income from Salary	3,00,000	
<b>Less:</b> Loss from house property set-off against salary income as per section 71(3A)	<u>2,00,000</u>	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 - ₹ 2,00,000) to be carried forward to A.Y. 2023-24		
<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 A.Y. 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
<b>Income from speculative business B</b>	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	5,000	
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2023-24 as per section 73(2)		NIL
<b>Loss of ₹ 20,000 from specified business covered under section 35AD</b> to be carried forward for set-off against income from specified business as per section 73A.		
<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 75(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 A.Y. 2023-24

Particulars	₹
<b><u>Loss from House property</u></b>	50,000
As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 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.	
<b><u>Loss from speculative business A</u></b>	20,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2026-27, in this case, as specified under section 73(4).	
<b><u>Loss from specified business</u></b>	20,000
Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so 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.

**Loss from the activity of owning and maintaining race horses**

2,000

Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2024-25, in this case, as specified under section 74A(3).

**Question – 2**

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2020-21.

Particulars	₹
(1) Income from salary (computed)	15,000
(2) Income from business	66,000
(3) Long term capital gain on sale of land	10,800
(4) Loss on maintenance of race horses	15,000
(5) Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment year 2021-22 are as follows:

Particulars	₹
(1) Unabsorbed depreciation	11,000
(2) Loss from speculative business	22,000
(3) Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2022-23 and the amount of loss, if any that can be carried forward or not.

**SOLUTION:**

**Computation of Gross Total income of Mr. Garg for the A.Y. 2022-23**

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2021-22	<u>11,000</u>	55,000
(Unabsorbed depreciation can be set-off against any head of income other than “Salary”)		
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	



Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
<b>Gross Total Income</b>		<b>71,000</b>

**Amount of loss to be carried forward to A.Y. 2023-24**

Particulars	₹
<b>(1) Loss from speculative business [to be carried forward as per section 73]</b> Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y. 2021-22 has to be carried forward to A.Y. 2023-24 for set-off against speculated business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., up to A.Y. 2025-26]	22,000
<b>(2) Loss on maintenance of race horses [to be carried forward as per section 74A]</b> As per section 74A(3), the loss incurred in the activity owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e. up to A.Y. 2026-27]	15,000
<b>(3) Loss from gambling can neither be set-off not be carried forward.</b>	

**Question – 3**

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31-03-2022:

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, assuming that he does not opt for the provisions of section 115BAC.

**SOLUTION:****Computation of total income of Mr. Srivatsan for the A.Y. 2022-23**

Particulars	₹	₹
<b>Salaries</b>		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
<b>Profit and gains of business or profession</b>		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	NIL
<b>Capital gains</b>		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	40,000
<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) [See Note (iv) below]		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 causal income. Therefore, the deduction under section 80C I respect

of life insurance premium of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 - ₹ 40,000 LTCC) - ₹ 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.

#### Question – 4

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	₹
(i) He has two houses:	
(a) House No. I – Income after all statutory deductions	72,000
(b) House No. II – Current year loss	(30,000)
(ii) He has three property businesses:	
(a) Textile Business:	
(i) Discontinued from 31 <sup>st</sup> October, 2021 – Current year loss	40,000
(ii) Brought forward business loss of A.Y. 2017-18	95,000
(b) Chemical Business:	
(i) Discontinued from 1 <sup>st</sup> 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 A.Y. 2018-19	50,000
(c) Leather Business: Profit for the current year	1,00,000
(d) Share of profit in a firm in which he is partner since 2008	16,550
(iii) (a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium	10,000

#### SOLUTION:

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

Particulars	₹	₹
1. Income from house property		
House No. 1	72,000	
House No. 2	(-) 30,000	42,000
2. Profits and gains of business or profession		

	Profit from leather business	1,00,000	
	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 A.Y. 2017-18 set off against the business income of current year	95,000	Nil
<b>3.</b>	<b>Capital Gains</b>		
	Short-term capital gain		60,000
	<b>Gross Total Income</b>		<b>1,02,000</b>
	Less: Deduction under Chapter VI-A		
	Under section 80C – LIC premium paid		10,000
	<b>Total income</b>		<b>92,000</b>

#### Statement of losses to be carried forward to A.Y. 2023-24

Particulars	₹
Brought forward chemical business loss of A.Y. 2018-19 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2022-23 to be carried forward u/s 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.

#### Question – 5

Ms. Geeta, a resident individual, provides the following details of her income/ losses for the year ended 31-03-2021:

- (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 & 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 ascertain the amount of loss that can be carried forward.

**SOLUTION:****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 form a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: B/f business loss A.Y. 2020-21 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	7,50,000
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	
<b>Capital Gains</b>	
Long term capital gains on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000
	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 in the hands of shareholders	55,000
	1,06,000
<b>Gross Total Income</b>	<b>3,06,000</b>

**Notes:**

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

**Question – 6**

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

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800

(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2021-22) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the Gross Total Income of Mr. P for the A.Y. 2022-23, and the amount of loss that can or cannot be carried forward.

**SOLUTION:**

Compute the Gross Total Income of Mr. P for the A.Y. 2021-22

Particulars		₹	₹
(i)	Income from salary		18,000
(ii)	Income from House Property		
	Net Annual Value	70,000	
	Less: Deduction under section 24 (30% of ₹ 70,000)	21,000	49,000
(iii)	Income from business and profession		
(a)	Income from business	80,000	
	Less: Current year depreciation	8,000	
		72,000	
	Less: Unabsorbed depreciation	9,000	63,000
(b)	Income from speculative business	12,000	
	Less: B/f loss of ₹ 16,000 from speculative business S/O to the extent of ₹ 12,000	12,000	Nil
	(Balance loss of ₹ 4,000 (i.e. ₹16,000 - ₹ 12,000) can be carried forward to the next year)		
(iv)	Income from capital gain		
	Long-term capital gain on sale of land	15,800	
	Less: Brought forward short-term capital loss	7,800	8,000
<b>Gross total income</b>			<b>1,38,000</b>

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

**Notes:**

- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2023-24. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).



**CA DREAMERS**  
THE AVENGER

# AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

## QUESTIONS AND ANSWERS

### Question – 1

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

Particulars	₹
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 let out 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:

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

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC.

### SOLUTION:

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

Particulars	₹	₹
<b>Salaries</b>		
Income from Salary	3,00,000	
<b>Less:</b> Loss from house property set-off against salary income as per section 71(3A)	<u>2,00,000</u>	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 - ₹ 2,00,000) to be carried forward to A.Y. 2023-24		
<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 A.Y. 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
<b>Income from speculative business B</b>	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	5,000	
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2023-24 as per section 73(2)		NIL
<b>Loss of ₹ 20,000 from specified business covered under section 35AD</b> to be carried forward for set-off against income from specified business as per section 73A.		
<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 75(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 A.Y. 2023-24

Particulars	₹
<b><u>Loss from House property</u></b>	50,000
As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 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.	
<b><u>Loss from speculative business A</u></b>	20,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2026-27, in this case, as specified under section 73(4).	
<b><u>Loss from specified business</u></b>	20,000
Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so 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.

**Loss from the activity of owning and maintaining race horses**

2,000

Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2024-25, in this case, as specified under section 74A(3).

**Question – 2**

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2020-21.

Particulars	₹
(6) Income from salary (computed)	15,000
(7) Income from business	66,000
(8) Long term capital gain on sale of land	10,800
(9) Loss on maintenance of race horses	15,000
(10) Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment year 2021-22 are as follows:

Particulars	₹
(4) Unabsorbed depreciation	11,000
(5) Loss from speculative business	22,000
(6) Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2022-23 and the amount of loss, if any that can be carried forward or not.

**SOLUTION:**

**Computation of Gross Total income of Mr. Garg for the A.Y. 2022-23**

Particulars	₹	₹
(iv) Income from salary		15,000
(v) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2021-22	<u>11,000</u>	55,000
(Unabsorbed depreciation can be set-off against any head of income other than “Salary”)		
(vi) Capital gains		
Long-term capital gain on sale of land	10,800	

Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
<b>Gross Total Income</b>		<b>71,000</b>

**Amount of loss to be carried forward to A.Y. 2023-24**

Particulars	₹
<b>(4) Loss from speculative business [to be carried forward as per section 73]</b> Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y. 2021-22 has to be carried forward to A.Y. 2023-24 for set-off against speculated business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., up to A.Y. 2025-26]	22,000
<b>(5) Loss on maintenance of race horses [to be carried forward as per section 74A]</b> As per section 74A(3), the loss incurred in the activity owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e. up to A.Y. 2026-27]	15,000
<b>(6) Loss from gambling can neither be set-off not be carried forward.</b>	

**Question – 4**

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31-03-2022:

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, assuming that he does not opt for the provisions of section 115BAC.

**SOLUTION:**

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

Particulars	₹	₹
<b>Salaries</b>		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
<b>Profit and gains of business or profession</b>		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	NIL
<b>Capital gains</b>		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	40,000
<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) [See Note (iv) below]		30,000
<b>Total income</b>		<b>85,000</b>

**Losses to be carried forward:**

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

**Notes:**

- (vi) 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.
- (vii) 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.
- (viii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (ix) 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 of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 - ₹ 40,000 LTCCG - ₹ 45,000 (Casual income)].

- (x) 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.

### Question – 5

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

- (c) Compute the total income and  
(d) Ascertain the amount of losses that can be carried forward

Particulars	₹
(i) He has two houses:	
(c) House No. I – Income after all statutory deductions	72,000
(d) House No. II – Current year loss	(30,000)
(ii) He has three property businesses:	
(e) Textile Business:	
(iii) Discontinued from 31 <sup>st</sup> October, 2021 – Current year loss	40,000
(iv) Brought forward business loss of A.Y. 2017- 18	95,000
(f) Chemical Business:	
(iv) Discontinued from 1 <sup>st</sup> March, 2019 – hence no profit/loss	Nil
(v) Bad debts allowed in earlier years recovered during this year	35,000
(vi) Brought forward business loss of A.Y. 2018-19	50,000
(g) Leather Business: Profit for the current year	1,00,000
(h) Share of profit in a firm in which he is partner since 2008	16,550
(iii) (c) Short-term capital gain	60,000
(d) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium	10,000

### SOLUTION:

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

Particulars	₹	₹
1. Income from house property		
House No. 1	72,000	
House No. 2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
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 A.Y. 2017-18 set off against the business income of current year	95,000	Nil
<b>3.</b>	<b>Capital Gains</b>		
	Short-term capital gain		60,000
	<b>Gross Total Income</b>		<b>1,02,000</b>
	Less: Deduction under Chapter VI-A		
	Under section 80C – LIC premium paid		10,000
	<b>Total income</b>		<b>92,000</b>

#### Statement of losses to be carried forward to A.Y. 2023-24

Particulars	₹
Brought forward chemical business loss of A.Y. 2018-19 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2022-23 to be carried forward u/s 74	35,000

#### Notes:

- (3) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (4) 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.

#### Question – 6

Ms. Geeta, a resident individual, provides the following details of her income/ losses for the year ended 31-03-2021:

- (vii) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (viii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months & STT paid on sale and acquisition.
- (ix) Long-term capital gain on sale of land ₹ 5,00,000.
- (x) ₹ 51,000 received in cash from friends in party.
- (xi) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.
- (xii) 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 ascertain the amount of loss that can be carried forward.

#### SOLUTION:

#### 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 form a partnership firm is taxable under the head “Profits and gains of business and profession”	7,50,000
Less: B/f business loss A.Y. 2020-21 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	7,50,000
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	
<b>Capital Gains</b>	
Long term capital gains on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000
	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 in the hands of shareholders	55,000
	1,06,000
<b>Gross Total Income</b>	<b>3,06,000</b>

**Notes:**

- (3) Balance brought forward business loss of assessment year 2020-21 of ₹ 5,00,000 has to be carried forward to the next year.
- (4) 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).

# DEDUCTIONS FROM GROSS TOTAL INCOME

## QUESTIONS AND ANSWERS

### Question – 1

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2022. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2022-23 from the following particulars, assuming that he does not opt for section 115BAC:

- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- (ii) Life insurance premium of ₹ 25,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2018 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

### SOLUTION:

Computation of total income of Mr. Gurnam for the Assessment Year 2022-23

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
<b>Gross Total Income</b>			<b>5,64,500</b>
<b>Less: Deduction under Chapter VIA</b>			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- Major son	25,500		
- Self ₹22,500 restricted to 10% of ₹ 2,00,000	20,000	45,500	
Under section 80D (See Note 2)			



Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
<b>Under section 80E</b>			
For Payment of interest on loan taken from bank for MBA course of his daughter		6,500	
<b>Under section 80TTA (See Note 4)</b>			
Interest on savings bank account ₹ 14,500 restricted to		10,000	91,500
<b>Total Income</b>			<b>4,73,000</b>

#### Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of ₹ 25,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

- (3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of **cash donation** of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.

- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore,

deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

## Question – 2

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (i) During the financial year 2021-22, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2021, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2022-23.
- (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD.

## SOLUTION:

- (i) **The statement is correct.** The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- (ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- (iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹14,000.
- (v) **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2022-23.

- (vi) The statement is **not** correct. Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

### Question – 3

Examine the allowability of the following:

- (i) Rajan has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- (ii) Raju, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependent disabled.
- (iii) Rajan has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependent disabled.
- (iv) Payment of ₹ 50,000 by cheque to an electrical trust by an Indian company.

### SOLUTION:

- (i) The deduction of ₹ 75,000 under section 80DD is allowed in full, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.
- (iv) Amount paid by an Indian Company to an electoral trust is eligible for deduction under section 80GGB from gross total income, since such payment is made otherwise than by way of cash.

### Question – 4

For the Assessment year 2022-23, the Gross Total Income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross Total Income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2021. Ignore the provisions of section 115BAC.

### SOLUTION:

Computation of total income and tax payable by Mr. Chaturvedi for the A.Y. 2022-23

Particulars	₹	₹
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Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deduction under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)		
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662
<b>Total income (excluding long term capital gains)</b>		<b>3,35,578</b>
<b>Total income (including long term capital gains)</b>		<b>5,80,578</b>
<b>Total income (rounded off)</b>		<b>5,80,580</b>
<b>Tax on total income (including long-term capital gains of ₹ 2,45,000)</b>		
LTCC ₹ 2,45,000 × 20%		
Balance total income ₹ 3,35,580 (See Note 4 below)		1,779
		50,779
Add: Health and Education cess @ 4%		2,031
<b>Total tax liability</b>		<b>52,810</b>

#### Notes:

##### 1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTB	2,20,000
	<b>3,53,240</b>
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section 80G	35,324
<b>Deduction under section 80G – 50% of ₹ 35, 324</b>	<b>17,662</b>

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.

4. Mr. Chaturvedi, being a senior citizen is eligible for basic exemption of ₹ 3,00,000.

### Question – 5

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2021-22, furnishes you the following information:

- (i) Stamp duty paid on acquisition of residential house (self-occupied) - ₹ 50,000
- (ii) Five year post office time deposit – ₹ 20,000.
- (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.
- (iv) Interest on loan taken for higher education of spouse paid during the year ₹ 10,000.

Compute the total income of Mr. Rajmohan for the Assessment year 2022-23, assuming that he has not opted for section 115BAC.

### SOLUTION:

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

Particulars	₹	₹
Gross Total Income		6,40,000
Less: <b>Deduction under Chapter VI-A</b>		
<u><b>Under section 80C</b></u>		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
<u><b>Under section 80E</b></u>		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
<u><b>Under section 80G (See Note below)</b></u>		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
<b>Total Income</b>		<b>5,47,500</b>

**Note:** In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

### Question – 6

Compute the eligible deduction under Chapter VI-A for the A.Y. 2022-23 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2022-23 and provides the following information about her investments/payments during the P.Y. 2021-22:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mohila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque.	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

### SOLUTION:

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2021-22

Particulars	₹	₹
<b>Deduction under section 80C</b>		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
<b>Restricted to a maximum of ₹ 1,50,000</b>	<b>1,50,000</b>	
<b>Deduction under section 80CCC for payment towards LIC pension fund</b>		
	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
<b>Deduction under section 80D</b>		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
<b>Eligible deduction under Chapter VI-A</b>		<b>2,25,000</b>

# COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

## QUESTIONS AND ANSWERS

### Question – 1

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

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

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

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

### SOLUTION:

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

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000

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



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

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

Particulars	₹	₹
<b>Salary Income</b>		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
Salary of servant	12,000	
Free gas, electricity and water	11,000	23,000
		3,69,000
Less: Standard deduction under section 16(ia) [not allowable as per section 115BAC(2)]		Nil
		3,69,000
<b>Income from house property</b>		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 x 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
30% of NAV	₹ 11,310	
Interest on loan from LIC @ 15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
	35,310	2,390
<b>Income from speculative business</b>		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		

<b>Income from Other Sources</b>		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
<b>Gross Total Income</b>		<b>5,00,890</b>
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
<b>Total Income</b>		<b>5,00,890</b>

<b>Particulars</b>	<b>₹</b>
Tax on total income [5% of ₹ 2,50,000 + 10% of ₹ 890]	12,589
Add: Health and education cess @ 4%	504
<b>Tax liability</b>	<b>13,093</b>
<b>Tax liability (rounded off)</b>	<b>13,090</b>

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

#### Notes:

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

<b>Particulars</b>	<b>₹</b>	<b>₹</b>
<b>Total Income as per regular provisions of the Income-tax Act</b>		<b>3,99,390</b>
Add:(i) Standard deduction u/s 16(ia), as it would not be allowable under the special provisions	50,000	
(ii) Exemption under section 10(32), as it would not be available under the special provisions	1,500	

(iii) Deduction under section 80C, as not deduction under Chapter VI-A would be allowed under the special provisions	<u>50,000</u>	1,01,500
<b>Total Income</b>		<b>5,00,890</b>

### Question – 2

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

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lacs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.

### SOLUTION:

#### Computation of Total income for the A.Y. 2022-23

Particulars	₹	₹
<b>Income from Salaries</b>		
Basic Salary (₹ 15,000 × 12)		1,80,000
Dearness Allowance (₹ 12,000 × 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity ( <b>See Note 1</b> )		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt ( <b>See Note 2</b> )	33,240	2,760
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 <sup>th</sup> wedding anniversary by employer ( <b>See Note 3</b> )		10,000

Prerequisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
<b>Profits and Gains of Business or Profession</b>		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
<b>Income from Other Sources</b>		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
<b>Gross total Income</b>		<b>5,99,160</b>
Less: Deductions under Chapter VI-A		
<b>Section 80C</b>		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
<b>Section 80D – Mediclaim Insurance</b>		22,500
<b>Section 80G (See Note 4)</b>		10,600
<b>Total income</b>		<b>4,40,690</b>
<b>Tax on total income</b>		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 - ₹ 2,50,000)]		9,535
Add: Rebate u/s 87A, since total income does not exceeds ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
<b>Net tax refundable</b>		<b>754</b>
<b>Tax refundable (rounded off)</b>		<b>750</b>

**Notes:**

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

= 12% of (₹ 1,80,000+ (50% of ₹ 1,44,000)+ ₹ 25,000)

= 12% of 2,77,000 = ₹ 33,240

3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
<b>Total deduction</b>	<b>10,600</b>

Adjusted Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

### Question – 3

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

- (a) Mr. X retired on 31.12.2021 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- (b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2022.
- (f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

### SOLUTION:

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

Particulars	₹	₹
Income from Salaries		

Basic salary (₹ 25,000 × 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 × 9 months)	54,000	
Less: Exemption under section 10(13A) ( <b>Note 1</b> )	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) ( <b>Note 2</b> )	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less: Exemption under section 10(10AA) ( <b>Note 3</b> )	2,45,000	70,000
<b>Gross Salary</b>		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
<b>Profit and gains of business or profession</b>		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
<b>Gross Total Income</b>		2,63,000
Less: Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
<b>Total Income</b>		1,63,000
<b>Tax on total income</b> (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

#### Notes:

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

Particulars	₹
(i) HRA actually received (₹ 6,000 × 9)	54,000
(ii) Rent paid in excess of 10% of salary (6,500 - ₹ 2,500) × 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹3,50,00 is exempt under section 10(10)(ii), being the minimum of the following amounts:

Particulars	₹
(i) Actual amounts received	3,50,000

(ii) Half month salary for each year of completed service [(₹ 25,000 × 15/26) × 26 years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

Particulars	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 × 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired ( <b>See Note 4 below</b> )	3,18,500
(iv) Statutory limit	3,00,000

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

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

#### Question – 4

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

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land of at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of share of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000

6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Medicliam policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

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

**SOLUTION:**

**Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y. 2021-22**

S.No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
<b>(I)</b>	<b>Salaries</b>		
	Pension received from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 16 (ia) ₹ 50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
<b>(II)</b>	<b>Income from house property</b>		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a)@30%	18,000	9,000
		<b>42,000</b>	<b>21,000</b>
<b>(III)</b>	<b>Capital gains</b>		
	Long-term capital gains on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		<b>1,20,000</b>	<b>3,50,000</b>
<b>(A)</b>	<b>Gross Total Income [(I) + (II) + (III)]</b>	<b>1,62,000</b>	<b>3,81,000</b>
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	--	10,000



	2. Premium paid to Canadian Life Insurance Corporation	40,000	--
	3. Deposit in PPF	--	20,000
		<b>40,000</b>	<b>30,000</b>
2.	Deduction under section 80D – Medclaim premium paid		25,000
		<b>40,000</b>	<b>55,000</b>
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	<b>Total income (A-B)</b>	<b>1,22,000</b>	<b>3,50,000</b>
	<b>Tax liability of Mrs. Rosy for A.Y.2022-23</b>		
	Tax on long-term capital gains @ 20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @ 15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		<b>23,000</b>	
	<b>Tax liability of Mrs. Mary for A.Y.2022-23</b>		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess @4%	920	100
	<b>Total tax liability</b>	<b>23,920</b>	<b>2,600</b>

### Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000–₹ 1,50,000) against short-term capital gains.

- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2022-23.

### Question – 5

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

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

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

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

### SOLUTION:

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

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
<b>Total Income</b>		<b>48,00,000</b>
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 48,00,000		12,52,500
Add: Health and Education cess@4%		50,100

**Total tax liability****13,02,600****Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax**

Particulars	₹	₹
<b>Total Income (computed above as per regular provisions of income tax)</b>		<b>48,00,000</b>
Add: Deduction under section 10AA		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs	6,50,000	58,50,000
<b>Adjusted Total Income</b>		<b>1,38,50,000</b>
Alternate Minimum <a href="#">Tax@18.5%</a>		25,62,250
Add: Surcharge @ 15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
<b>Tax Liability u/s 115JC (rounded off)</b>		<b>30,64,450</b>

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus surcharge@15% and cess @ 4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

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

Particulars	₹	₹
<b>Total Income (as computed above as per regular provisions of income tax)</b>		<b>48,00,000</b>
Add: Deduction under section 10AA (not allowable)		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	58,50,000
<b>Total Income</b>		<b>1,38,50,000</b>
<b>Computation of tax liability as per section 115BAC</b>		
Tax on ₹ 1,38,50,000		38,92,500

Add: Surcharge@15%	5,83,875
	44,76,375
Add: Health and Education cess@4%	1,79,055
<b>Total tax liability</b>	<b>46,55,430</b>

**Notes:**

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Individuals or HUFs exercising option u/s 115BAC are **not** liable to alternate minimum tax u/s 115JC. Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **not to opt for section 115BAC for A.Y. 2022-23**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

**AMT Credit to be carried forward under section 115JEE**

Particulars	₹
Tax liability under section 115JC	39,64,450
Less: Tax liability under the regular provisions of the Income-tax act, 1961	13,02,600
	<b>17,61,850</b>

**Notes:**

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

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

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

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

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

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

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

# ADVANCE TAX, TAX DEDUCTION AT SOURCE AND INTRODUCTION TO TAX COLLECTION AT SOURCE

## QUESTIONS AND ANSWERS

### Question – 1

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2020-21 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2021-22 was ₹ 95 lakh (₹ 20 lakh on 1.6.2021, ₹ 25 lakh on 12.8.2021, ₹ 22 lakh on 23.11.2021 and ₹ 28 lakh on 25.3.2022). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2020-21 was ₹ 15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2020-21 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

### SOLUTION:

- (1) Since Mr. Gupta's turnover for F.Y.2020-21 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2021-22, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2021 and 12.8.2021, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2021 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2022.

**Note** – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the F.Y.2020-21 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2020-21 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2021 and 12.8.2021, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2021 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit).

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2022.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2021 and 25.3.2022, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2021 and 25.3.2022, respectively.

### Question – 2

An amount of ₹ 40,000 was paid to Mr. X on 1.7.2021 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2022, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2022. Compute the interest chargeable under section 201(1A).

### SOLUTION:

- (i) Interest under section 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months	320
1 ½% on tax deducted but not deposited i.e. 1 ½% on ₹ 9,000 for 4 months	540
	860

- (ii) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- (iii) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default under section 201(1) on account of payment of taxes by such payee, interest under section 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.
- (iv) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

### Question – 3

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

Particulars	₹
2019-20	1,05,00,000
2020-21	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2021-22:

Particulars	₹
Interest paid to UCO Bank on 15.8.2021	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2021	24,000
Shop rent paid (one payee) on 21.1.2022	2,50,000
Commission paid to Balu on 15.3.2022	7,000

### **SOLUTION:**

As the turnover of business carried on by Ashwin for F.Y. 2020-21, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2021-22, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

#### **Interest paid to UCO Bank**

TDS under section 194A is not attracted in respect of interest paid to a banking company.

#### **Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each**

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

**Shop Rent paid to one payee** – Tax has to be deducted @10% under section 194-I as the annual rental payment exceeds ₹ 2,40,000.

**Commission paid to Balu** – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 15,000.

### **Question – 4**

Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during the financial year 2021-22 as per the provisions of the Income-tax Act, 1961.

Sr. No.	Date	Nature of Payment
(i)	1-10-2021	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN.
(ii)	1-11-2021	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2021	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.

(iv)	01-01-2022	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2022	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2022	Payment of commission of ₹ 14,000 to Mr. Y.

### **SOLUTION:**

- (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- (1) He owns ten or less goods carriages at any time during the previous year.
  - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
  - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2021 to M/s. X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
- Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.
- In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 2,50,000.
- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 15,000.
- Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

### **Question – 5**

**Examine the applicability of TDS provisions and TDS amount in the following cases:**

- (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2021.



(b) Fee paid on 1.12.2021 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.

(c) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2022.

### **SOLUTION:**

(a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source:

$$= ₹ 2,60,000 \times 2\% = ₹ 5,200.$$

**Note:** In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA.

(b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2021 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2021-22. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

(c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

### **Question – 6**

**Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2021-22:**

(1) Payment of ₹ 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2021 for contribution of articles in relation to the sport of cricket.

- (2) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2022.
- (3) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (4) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2022 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

**SOLUTION:**

- (1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @ 20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @ 4% on TDS should also be added.

Therefore, tax to be deducted = ₹ 27,000 × 20.80% = ₹ 5,616.

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

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200

- (3) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.

- (4) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

# PROVISIONS FOR FILING RETURN OF INCOME AND SELF ASSESSMENT

## QUESTIONS AND ANSWERS

### Question – 1

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

### SOLUTION:

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised. (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (ii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

### Question – 2

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2022 audited under section 44AB. Her total income for the assessment year 2022-23 is ₹ 6,35,000. She wants to furnish her return of income for assessment year 2022-23 through a tax return preparer. Can she do so?

### SOLUTION:

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2022-23 through a Tax Return Preparer.

### Question – 3

State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.

(b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2022, whether or not opting to offer presumptive income under section 44AD, is 31st October, 2022.:

**SOLUTION:**

(a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2022, shall be 31st July, 2022.

In case, Mr. A does not opt for presumptive taxation provisions under section 44AD, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2022.

**Question – 4**

Mr. Vineet submits his return of income on 12-09-2022 for A.Y 2022-23 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 21-12-2022, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2023?

**SOLUTION:**

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2022-23 under section 139(1), in his case, is 31st July, 2022. Since Mr. Vineet had submitted his return only on 12.9.2022, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2022, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2022.

However, he cannot revise return had he discovered this omission only on 21-03-2023, since it is beyond 31.12.2022.

**Question – 5**

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

**SOLUTION:**

- (i) **True** : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- (ii) **False** : Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

**Question – 6**

**Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?**

**SOLUTION:**

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).