CA Pranav Chandak's

A Z

Direct Tax Question Bank

Features of this Book:

- Updated for May/June & Nov/Dec 2022
- Useful for CA Inter, CS Executive & CMA Inter
- Covering ICAI Module, ICSI & CMA Module.
- Contains self-drafted 'Practice Questions'.
- Updated RTP Questions [May 2018 - Nov 2021]
- Past Exam Questions from May 2015 Exams

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ERRORLESS TAXATION

INCOME TAX QUESTION BANK

- CA Inter May 2022 & November 2022
- CS Executive June 2022 & December 2022
- CMA Inter June 2022 & December 2022

BY CA PRANAV CHANDAK

क्षणशः कणशश्चैव विद्यामर्थं च साधयेत् । क्षणत्यागे कुतो विद्या कणत्यागे कुतो धनम्॥

Knowledge should be gained through minute by minute efforts. Money should be earned utilizing each and every resource. If you waste time, how can you get knowledge. If you waste resources, how can you accumulate the wealth.

AUTHOR'S NOTE & CONTENT OF THE BOOK

It gives me immense happiness to present 7th Edition of INCOME TAX QUESTION BANK.

This book is relevant for CA Intermediate, CMA Inter Exams & CS Executive.

We have divided this book into 5 Sections

- Section A: ICAI Module Illustrations
- Section B: Practice Questions
- Section C: ICAI "Test your Knowledge" section
- Section D: Past Years RTP from May 2018
- Section E: Past Years Exam Papers from May 2015

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THANKING YOU ALL!!

CA PRANAV PRAMODJI CHANDAK

My Dear Students for your continuous love & faith.

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WhatsApp: 8888111134/8888111034

Website: www.pranavchandak.com

CHAPTER 1. BASIC CONCEPTS OF INCOME TAX QB

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. X has a total income of Rs. 12 Lacs for PY 2021-22, comprising of income from house property & interest on fixed deposits. Compute his tax liability for AY 2022-23 if his age is (a) 45 years; (b) 63 years; (c) 82 years.

[Assume that Mr. X has not opted for the provisions of section 115BAC]

Solution: (a) Age = 45 years

First Rs. 2,50,000	Nil
Next Rs. 2,50,000 @ 5%	Rs. 12,500
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 2 Lacs @ 30%	Rs. 60,000
Total	**Rs. 1,72,500**
Add: 4% HEC	Rs. 6,900
Total Tax (rounded off)	**Rs. 1,79,400**

PC Note: Tax on Rs. 10 Lacs = Rs. 1,12,500 in case of Normal Individual (Remember this). Only Tax on Income above Rs. 10 Lacs shall be calculated & such amount shall be added by Rs. 1,12,500 to arrive at final tax amount.

(b) Age = 63 years. Mr. X is a senior citizen he will get BEL of Rs. 3 Lacs & remaining slabs will be same.

First Rs. 3,00,000	Nil
Next Rs. 2,00,000 @ 5%	Rs. 10,000
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 2,00,000 @ 30%	Rs. 60,000
Total	Rs. 1,70,000
Add: 4% HEC	Rs. 6,800
Tax rounded off	**Rs. 1,76,800**

(c) Age = 82 Years. Since Mr. X is a super-senior citizen, he will get BEL of Rs. 5 lacs.

First Rs. 500,000	Nil
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 2,00,000 @ 30%	Rs. 60,000
Total	Rs. 1,60,000
Add: 4% HEC	Rs. 6,400
Tax rounded off	**Rs. 1,66,400**

Q2. Compute tax liability of Mr. A (Age 42), having total income of Rs. 51 Lacs for AY 2022-23.

Solution: **Computation of tax liability of Mr. A for AY 2022-23**

1. Tax payable including surcharge on Total Income of Rs. 51,00,000	Rs 14,76,750.
2. Tax Payable on total income of Rs. 50 Lacs	Rs. 13,12,500.
3. Excess tax payable = [(1) - (2)] = Rs. 14,76,750 – Rs. 13,12,500	Rs. 1,64,250.
4. Marginal Relief = [(Rs. 1,64,250- Rs. 1,00,000) Income in excess of Rs. 50,00,000]	Rs. 64,250.
5. Tax Payable = Rs. 14,76,750 – Rs. 64,250 (Marginal Relief) = Rs. 14,12,500 + 4% HEC	**Rs. 14,69,000**

Q3. Compute tax liability of Mr. B (Age 5), having total income of Rs. 1,01,00,000 for AY 2022-23.

Solution: **Computation of tax liability of Mr. B for AY 2022-23**

1. Tax payable including surcharge on total income of Rs. 1,01,00,000 @ 15%	Rs. 32,68,875.
2. Tax Payable on total income of Rs. 1 crore [SC @ 10%]	Rs. 30,93,750.
3. Excess tax payable = [(1) - (2)] = Rs. 32,68,875 - Rs. 30,93,750	Rs. 1,75,125.

4. Marginal Relief = [(Rs. 1,75,125 - Rs. 1,00,000) Income in excess of Rs. 50,00,000]	Rs. 75,125.
5. Tax Payable = Rs. 32,68,875 – Rs. 75,125 (Marginal Relief) = Rs. 31,93,750 + 4% HEC	**Rs. 33,21,500**

Q4. Compute tax liability of Mr. C (Age 58), having total income of Rs. 2,01,00,000 for AY 2022-23.

Solution: **Computation of tax liability of Mr. C for AY 2022-23**

1. Tax payable including surcharge on total income of Rs. 1,01,00,000 @ 25%	Rs. 73,03,125
2. Tax Payable on total income of Rs. 2 Crores [SC @ 15%]	Rs. 66,84,375
3. Excess tax payable = [(1) - (2)] = Rs. 73,03,125 - Rs. 66,84,375	Rs. 6,18,750
4. Marginal Relief = Extra Tax – Extra Income [Rs. 6,18,750 – Rs. 1,00,000]	Rs. 5,18,750
5. Tax Payable = Rs. 73,03,125 – Rs. 5,18,750 (Marginal Relief) = Rs. 67,84,375 + 4% HEC	**Rs. 70,55,750**

Q5. Compute tax liability of Mr. D (Age 37), having total income of Rs. 5,01,00,000 for AY 2022-23.

Solution: **Computation of tax liability of Mr. D for AY 2022-23**

1. Tax payable including surcharge on total income of Rs. 5,01,00,000 @ 37%	Rs. 2,03,34,225
2. Tax Payable on total income of Rs. 5 Crores [SC @ 25%]	Rs. 1,85,15,625
3. Excess tax payable = [(1) - (2)] = Rs. 2,03,34,225 - Rs. 1,85,15,625	Rs. 18,18,600
4. Marginal Relief = Extra Tax – Extra Income [Rs. 18,18,600 – Rs. 1,00,000]	Rs. 17,18,600
5. Tax Payable = Rs. 2,03,34,225 – Rs. 17,18,600 (Marginal Relief) = Rs. 1,86,15,625 + 4% HEC	**Rs. 1,93,60,250**

Q6. Total income of Mr. Raghav (26 years) is Rs. 4,40,000. Compute tax liability for AY 2022-23.

Solution: Since Mr. Raghav is a resident having Total Income < Rs. 5,00,000, rebate u/s 87A is available.

First Rs. 2,50,000	Nil
Next Rs. 1,90,000 @ 5%	Rs. 9,500
Less: Rebate u/s 87A = Lower of (i) Tax payable i.e Rs. 9,500; **OR** (ii) Rs. 12,500	(Rs. 9,500)
Tax payable after rebate u/s 87A	**Nil**

Q7. Mr. Dinesh (age 35 years) & a resident in India has a total income of Rs. 4,80,000, comprising of LTCG u/s 112. Compute his tax liability for AY 2022-23.

Solution: **Computation of tax liability of Mr. Dinesh for AY 2022-23**

1	Tax @ 20% on Rs. 2,30,000 (Rs. 4,80,000 – Rs. 2,50,000, being unexhausted BEL)	Rs. 46,000
2	Less: Rebate u/s 87A = Lower of (i) Tax payable i.e Rs. 46,000; **OR** (ii) Rs. 12,500	(Rs. 12,500)
3	Tax payable after rebate u/s 87A	Rs. 33,500
4	Add: Health & Education cess @ 4%	Rs. 1,340
5	**Tax Liability**	**Rs. 34,840**

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Compute tax liability of Mr. X (44 years) whose total income for AY 2022-23 is Rs. 18 Lacs.
Solution:

First Rs. 2,50,000	Nil
Next Rs. 2,50,000 @ 5%	Rs. 12,500
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 8 Lacs @ 30%	Rs. 2,40,000
Total	**Rs. 3,52,500**
Add: 4% HEC	Rs. 14,100
Total Tax (rounded off)	**Rs. 3,66,600**

PC Note: Tax on Rs. 10 Lacs = Rs. 1,12,500 in case of Normal Individual (Remember this). Only Tax on Income above Rs. 10 Lacs shall be calculated & such amount shall be added by Rs. 1,12,500 to arrive at final tax amount.

Q2. Total income of Mrs. X (44 years) resident is Rs. 12 Lacs. Compute tax liability for AY 2022-23.
Solution: BEL is same for male & female Assessee. Thus Mrs. X will get the same BEL of Rs. 2,50,000.

Tax on Rs. 10 Lacs	Rs. 1,12,500
Balance Rs. 2 Lacs @ 30%	Rs. 60,000
Total	Rs. 1,72,500
Add: 4% HEC	Rs. 6,900
Total Tax (rounded off)	**Rs. 1,79,400**

Q3. Total income of Mr. Rahim (63 years) is Rs. 15 Lacs. Compute his tax liability for AY 2022-23.
Solution: Since Mr. Rahim is a senior citizen, he will get the BEL of Rs. 3 Lacs.

First Rs. 3,00,000	Nil
Next Rs. 2,00,000 @ 5%	Rs. 10,000
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 5,00,000 @ 30%	Rs. 1,50,000
Total	Rs. 2,60,000
Add: 4% HEC	Rs. 10,400
Tax rounded off	**Rs. 2,70,400**

Q4. Total income of Mr. Ram (83 years) is Rs. 15 Lacs. Compute his tax liability for AY 2022-23.
Solution: Since Mr. X is a super-senior citizen, he will get BEL of Rs. 5 lacs.

First Rs. 500,000	Nil
Next Rs. 5,00,000 @ 20%	Rs. 1,00,000
Balance Rs. 5,00,000 @ 30%	Rs. 1,50,000
Total	Rs. 2,50,000
Add: 4% HEC	Rs. 10,000
Tax rounded off	**Rs. 2,60,000**

Q5. Total income of Jon (70 years) NR is Rs. 12 lacs. Compute his tax liability for AY 2022-23.
Solution: Mr. Joe is not eligible for higher BEL since he is a NR. He is eligible for BEL of Rs. 2,50,000.

Tax on Rs. 10 Lacs	Rs. 1,12,500
Balance Rs. 2 Lacs @ 30%	Rs. 60,000
Total	Rs. 1,72,500
Add: 4% HEC	Rs. 6,900
Total Tax (rounded off)	**Rs. 1,79,400**

Q6. Total income of Mr. Raghav (26 years) is Rs. 4,40,000. Compute tax liability for AY 2022-23.
Solution: Since Mr. Raghav is a resident having Total Income < Rs. 5,00,000, rebate u/s 87A is available.

First Rs. 2,50,000	Nil
Next Rs. 1,90,000 @ 5%	Rs. 9,500
Less: Rebate u/s 87A = Lower of (i) Tax payable i.e Rs. 9,500; **OR** (ii) Rs. 12,500	(Rs. 9,500)
Tax payable after rebate u/s 87A	**Nil**

Q7. Total income of Mr. Anup (22 years) resident in India is Rs. 5,00,000. Compute tax liability for AY 2022-23.
Solution: Since Mr. Anup is a resident having Total Income = Rs. 5,00,000, rebate u/s 87A is available.

First Rs. 2,50,000	Nil
Next Rs. 2,50,000 @ 5%	Rs. 12,500
Total	**Rs. 12,500**
Rebate u/s 87A = Lower of (i) Tax payable or (ii) Rs. 12,500	(Rs. 12,500)
Tax payable after rebate u/s 87A	**Nil**

Q8. Total income of Mr. Rahul (22 years) resident in India is Rs. 5,00,100. Compute tax liability for AY 2022-23.
Solution: Since Mr. Rahul is a resident having TI > Rs. 5,00,000, rebate u/s 87A is NOT available.

First Rs. 2,50,000	Nil
Next Rs. 2,50,000 @ 5%	Rs. 12,500
Next Rs. 100 @ 20%	Rs. 20
Total	Rs. 12,520
Rebate u/s 87A = Lower of (i) Tax payable or (ii) Rs. 12,500	**NA**
Add: 4% HEC	Rs. 500.80
Tax payable (rounded off)	**Rs. 13, 020**

Q9. Total income of Mr. John aged 35 years (NR) in India is Rs. 4,50,000. Compute tax liability for AY 2022-23.
Solution: Since Mr. John is a NR, rebate u/s 87A is **not** available.

First Rs. 2,50,000	Nil
Next Rs. 2,00,000 @ 5%	Rs. 10,000
Total	Rs. 10,000
Add: 4% HEC	Rs. 400
Tax rounded off	**Rs. 10,400**

Q10. Total income of Mr. Joe (70 yrs) NR in India for PY 2021-22 is Rs. 12 lacs. Compute his tax liability.
Solution: Mr. Joe is not eligible for higher BEL since he is a NR. However, he is eligible for BEL of Rs. 2,50,000.

Tax on Rs. 10 Lacs	Rs. 1,12,500
Balance Rs. 2 Lacs @ 30%	Rs. 60,000
Total	Rs. 1,72,500
Add: 4% HEC	Rs. 6,900
Total Tax (rounded off)	**Rs. 1,79,400**

Q11. Compute Marginal relief available to Y Ltd., a domestic company, assuming that total income of Y Ltd. for AY 2022-23 is Rs. 10,01,00,000 & TI does not include any income in the nature of capital gains. Company has not exercised option u/s 115BAA or 115BAB. (Gross Receipts of Y Ltd. for PY 2019-20 is Rs. 410 Cr) **[CA FINAL SM Q5]**
Solution:

- Tax payable on TI of Rs. 10,01,00,000 of Y Ltd. computed@ 33.6% (including SC @ 12%) is Rs. 3,36,33,600.
- However, tax cannot exceed Rs. 3,22,00,000 [i.e., tax of Rs. 3,21,00,000 (32.1% of Rs. 10 crore) payable on TI of Rs. 10 Cr + Rs. 1,00,000, being the amount of total income exceeding Rs. 10 Cr].
- Tax payable on Rs. 10,01,00,000 would be Rs. 3,22,00,000. Marginal relief is Rs. 14,33,600 (Rs. 3,36,33,600 - Rs. 3,22,00,000).

Q12. Compute tax liability & Marginal Relief for Resident Assessee in following situations for AY 2022-23:

Name	Mr. Pranav	Mr. Akshay	Mr. Bharat
Age of Assessee	25 years	62 years	81 years
Total Income	**Rs. 1.01 Cr**	**Rs. 1.01 Cr**	**Rs. 1.01 Cr**

Note: Any of the assessee does not have any income in the nature of Capital gains u/s 111A & 112A.

Solution:

SN	Particulars	Mr. Pranav	Mr. Akshay	Mr. Bharat
1(a)	Tax on Total Income	1,12,500 + (91 L x 30%) = **Rs. 28,42,500**	1,10,000 + (91 L x 30%) = **Rs. 28,40,000**	1,00,000 + (91 L x 30%) = **Rs. 28,30,000**
1(b)	**SC @ 15% on 1(a)**	Rs. 4,26,375	Rs. 4,26,000	Rs. 4,24,500
1	**Total Tax = 1(a) + 1(b)**	**Rs. 32,68,875**	**Rs. 32,66,000**	**Rs. 32,54,500**
2(a)	Tax if Income = Rs. 1 Cr	1,12,500 + (90 L x 30%) = Rs. 28,12,500	1,10,000 + (90 L x 30%) = Rs. 28,10,000	1,00,000+ (90 L x 30%) = Rs. 28,00,000
2(b)	**SC @ 10% on 2(a)**	Rs. 2,81,250	Rs. 2,81,000	Rs. 2,80,000
2	**Total Tax = 2(a) + 2(b)**	**Rs. 30,93,750**	**Rs. 30,91,000**	**Rs. 30,80,000**
3	Excess Tax payable	Rs. 1,75,125	Rs. 1,75,000	Rs. 1,74,500
4	Excess Income (i.e > 1 Cr)	Rs. 1,00,000	Rs. 1,00,000	Rs. 1,00,000
5	**Marginal Relief (3 – 4)**	**Rs. 75,125**	**Rs. 75,000**	**Rs. 74,500**
6	Tax Payable (1 - 5)	**Rs. 31,93,750**	**Rs. 31,91,000**	**Rs. 31,80,000**
7	HEC at 4 % on (6)	Rs. 1,27,750	Rs. 1,27,640	Rs. 1,27,200
8	**Tax Liability**	**Rs. 33,21,500**	**Rs. 33,18,640**	**Rs. 33,07,200**

Q13. An employee instructs his employer to pay a certain portion of his salary to a charity & claims it as exempt as it is diverted by overriding charge/title. Comment.

Solution: In the instant case, it is an application of income & in the nature of foregoing of salary. According to the **Supreme Court judgment in CIT v. L.W. Russel (1964) 52 ITR 91**, the salary which has been foregone after its accrual in the hands of the employee is taxable. Hence, the amount paid by the employer to a charity as per the employee's directions is taxable in the hands of the employee.

Q14. Describe 'Average rate of tax' & 'Maximum marginal rate' u/s 2(10) & 2(29C). **[ICAI SM Ex. Q1]**

Q15. Write a short note on "Surcharge".

Q16. Write a short note on "Marginal Relief"

Q17. Explain the provisions relating to Rebate u/s 87A.

Q18. Explain "Assessee", "Deemed Assessee", "Assessee in Default" with suitable examples. **[ICAI SM Ex. Q2]**

Q19. List out the capital receipts which are taxable under the Income Tax Act, 1961.

Q20. Based on "Application of Income Vs. Diversion of Income" [Source: CA Final Module]

Mr. Bhargava, a leading advocate on corporate law, decided to reduce his practice & to accept briefs only for paying his taxes & making charities with the fees received on such briefs. In a particular case, he agreed to appear to defend one company in Supreme Court on the condition that he would be provided with Rs. 5 lacs for a public charitable trust that he would create. He defended the company & was paid Rs. 5 Lacs by the company. He created a trust of that sum by executing a trust deed. Decide whether the amount received by Mr. Bhargava is assessable in his hands as income from profession.

Solution: In instant case, trust was created by Mr. Bhargava himself out of his professional income. Client did not create the trust. The client did not impose any obligation in the nature of a trust binding on Mr. Bhargava. Thus, there is no diversion of the money to the trust before it became professional income of Mr. Bhargava. This is an application of professional income & not of diversion of income by overriding title. Therefore, amount received by Mr. Bhargava is chargeable to tax u/h 'PGBP'.

Q21. Based on "Application of Income Vs. Diversion of Income" [Source: CA Final Module]
XYZ Ltd. took over the running business of a sole-proprietor by sale deed. As per the sale deed, XYZ Ltd. undertook to pay overriding charges of Rs. 15,000 p.a. to the wife of the sole-proprietor in addition to the sale consideration. The sale deed also specifically mentioned that the amount was charged on the net profits of XYZ Ltd., who had accepted that obligation as a condition of purchase of the going concern. Is payment of overriding charges by XYZ Ltd. to wife of sole-proprietor 'diversion of income' or 'application of income'? Discuss.

Solution: Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee. The obligation, therefore, was attached to the very source of income i.e. the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that amount in question was charged on the net profits of the assessee-company & the assessee-company had accepted that obligation as a condition of purchase of the going concern. Hence, it is clearly a case of diversion of income by an overriding charge & not a mere application of income. **[Jit & Pal X-Rays (P.) Ltd. v. CIT (2004)]**

Q22. Based on "Application of Income Vs. Diversion of Income" [Source: CA Final Module]
MKG Agency is a partnership firm consisting of father & 3 major sons. Partnership deed provided that after the death of father, business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to the mother. Father died in March 2020. In PY 2022-23, reconstituted firm paid Rs. 1 Lac (20%) to the mother & claimed the amount as deduction from its income. Examine the correctness of claim of the firm.

Solution: Amount of Rs. 1 Lac (20% of profits of the firm) paid to the mother gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. Firm might have received the said amount but it so received for & on behalf of mother, who possesses overriding title. Therefore, the amount paid to the mother should be excluded from the income of the firm. **[CIT vs. Nariman B. Bharucha & Sons (1981)]**

Q23. Based on 'Existence of HUF having Single Male Member' [Source: CA Final Module]
Anand was the Karta of HUF. He died leaving behind his major son Prem, his widow, his grandmother & brother's wife. Can the HUF retain its status as such or the surviving persons would become co-owners?

Solution: SC has made it clear that there need not be more than one male member to form a HUF.

Under Hindu Law, a joint family may consist of a single male member & widows of deceased male members. Therefore, property of a joint HUF does not cease to belong to the family merely because the family is represented by a single co-parcener who possesses the right which an owner of property may possess. Therefore, HUF would retain its status as such (as before).

Q24. Based on "Amount borrowed on Hundi u/s 69D" [Source: CA Final Module]
Mr. C borrowed on Hundi, a sum of Rs. 25,000 by way of bearer cheque on 11.09.2021 & repaid the same with interest amounting to Rs. 30,000 by A/c payee cheque on 12.10.2021. AO wants to treat the amount borrowed as income during the PY. Is the action of AO valid?

Solution: Section 69D provides that where any amount is borrowed on a hundi or any amount due thereon is repaid otherwise than by way of A/c Payee cheque, amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying the amount for PY in which the amount was so borrowed or repaid. Mr. C has borrowed Rs. 25,000 on Hundi by way of bearer cheque. Therefore, it shall be deemed to be income of Mr. C for AY 2022-23. Since the repayment of the same along with interest was made by A/c payee cheque, it would not be taxed.

- **If the amount is deemed as an Income at the time of borrowing, it will not be taxed again on repayment.**
- Therefore, action of AO treating the amount borrowed as income during PY is valid in law.

Q25. Based on "Unexplained Expenditure u/s 69C" [Source: CA Final Module]
AO found, during the course of assessment of a firm, that it had paid rent i.r.o its business premises of Rs. 60,000, which was not debited in the books of A/c for PY 2021-22. Firm did not explain the source for payment of rent. AO proposes to make an addition of Rs. 60,000 in the hands of the firm for AY 2022-23. Firm claims that even if the addition is made, the sum of Rs. 60,000 should be allowed as deduction while computing its business income since it has been expended for purposes of its business. Examine.

Solution: Action of AO in making addition of Rs. 60,000, being payment of rent not debited in the books of A/c (for which the firm failed to explain the source of payment) is correct in law since it is an unexplained expenditure u/s 69C. Proviso to section 69C states that unexplained expenditure, which is deemed to be the income of assessee, shall not be allowed as a deduction under any head. Claim of the firm for deduction of Rs. 60,000 in computing its business income is not tenable.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Who is an "Assessee"?

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

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
  - his income; or the income of any other person in respect of which he is assessable; or
  - the loss sustained by him or by such other person; or
  - the amount of refund due to him or to such other person.
- 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.

Q2. State any four instances where the income of PY is assessable in PY itself instead of AY.

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

(1) Where a ship, belonging to or chartered by a non-resident, carries passen- gers, 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.

(2) Where it appears to AO that any individual may leave India during the current AY or shortly after its expiry & 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 AY.

(3) If an AOP/BOI etc. is formed or established for a particular event or purpose & AO apprehends that the AOP/BOI is likely to be dissolved in the same year or in next year, he can make assessment of the income up to the date of dissolution as income of the relevant AY.

(4) During current AY, if it appears to AO 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 AO commences proceedings under this section is taxable in that AY.

(5) Where any business or profession is discontinued in any AY, the income of the period from the expiry of the PY up to the date of such discontinuance may, at the discretion of AO, be charged to tax in that AY.

Q3. Compute tax liability of Mr. Kashyap (aged 35), having total income of Rs. 51,75,000 for AY 2022-23. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. Assume that Mr. Kashyap has not opted for the provisions of section 115BAC.

Solution: **Computation of tax liability of Mr. Kashyap for AY 2022-23**

1. Tax payable including surcharge on Total Income of Rs. 51,75,000	Rs. 15,01,500
2. Tax Payable on total income of Rs. 50 Lacs	Rs. 13,12,500
3. Excess tax payable = [(1) - (2)] = Rs. 15,01,500 – Rs. 13,12,500	Rs. 1,89,000
4. Marginal Relief = [(Rs. 1,89,000 - Rs. 1,75,000) Income in excess of Rs. 50,00,000]	Rs. 14,000
5. Tax Payable = Rs. 15,01,500 **– Rs. 14,000 (Marginal Relief) = Rs. 14,87,500 + 4% HEC**	**Rs. 15,47,000**

Q4. Compute tax liability of Mr. Gupta (aged 61), having total income of Rs. 1,02,00,000 for AY 2022-23. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. Assume that Mr. Gupta has not opted for the provisions of section 115BAC.

Solution: **Computation of tax liability of Mr. Gupta for AY 2022-23**

1. Tax payable including surcharge on Total Income of Rs. 1,02,00,000	Rs. 33,00,500
2. Tax Payable on total income of Rs. 1 Crore	Rs. 30,91,000
3. Excess tax payable = [(1) - (2)] = Rs. 33,00,500 - Rs. 30,91,000	Rs. 2,09,500
4. Marginal Relief = [(Rs. 2,09,500 - Rs. 2,00,000) Income in excess of Rs. 1,00,00,000]	Rs. 9,500
5. Tax Payable = Rs. 33,00,500 **– Rs. 9,000 (Marginal Relief) = Rs. 32,91,500 + 4% HEC**	**Rs. 34,22,640**

Q5. Mr. Agarwal (age 40 years) & a resident in India, has a total income of Rs. 4,50,00,000, comprising LTCG u/s 112 of Rs. 55 Lacs, STCG u/s 111A of Rs. 65 Lacs & other income of Rs. 3.30 Crores. Compute his tax liability for AY 2022-23. Assume that Mr. Agrawal has not opted for the provisions of section 115BAC.

Solution: **Computation of tax liability of Mr. Agrawal for AY 2022-23**

SN	Particulars	Rs.	Rs.
1	**Tax on total income of Rs. 4,50,00,000**		
	(i) Tax @ 20% of Rs. 55,00,000		11,00,000
	(ii) Tax @ 15% of Rs. 65,00,000		9,75,000
	(iii) Tax on other income of Rs. 3,30,00,000		
	Rs. 2,50,000 – Rs. 5,00,000 @ 5%	12,500	
	Rs. 5,00,000 – Rs. 10,00,000 @ 20%	1,00,000	
	Rs. 10,00,000 – Rs. 3,30,00,000 @ 30%	96,00,000	97,12,500
	Total Tax		**1,17,87,500**
2	Surcharge @ 15% on Rs. 20,75,000 [on Share Market Income i.e (i) & (ii) Above]	3,11,250	
	Surcharge @ 25% on Rs. 97,12,500 [Since other income > Rs. 2 Cr but Less than 5 Cr]	24,28,125	**27,39,375**
	Total Tax & Surcharge [1,17,87,500 + 27,39,375]		1,45,26,875
3	Add: 4% HEC		5,81,075
4	Total Tax Liability		**1,51,07,950**

Q6. Mr. Sharma (age 62 years) & a resident in India, has a total income of Rs. 2,30,00,000, comprising LTCG u/s 112 of Rs. 52 Lacs, STCG u/s 111A of Rs. 64 Lacs & other income of Rs. 1.14 Crores. Compute his tax liability for AY 2022-23. Assume that Mr. Sharma has not opted for the provisions of section 115BAC.

Solution: **Computation of tax liability of Mr. Sharma for AY 2022-23**

SN	Particulars	Rs.	Rs.
1	**Tax on total income of Rs. 2,30,00,000**		
	(i) Tax @ 20% of Rs. 52,00,000		10,40,000
	(ii) Tax @ 15% of Rs. 64,00,000		9,60,000
	(iii) Tax on other income of Rs. 1,14,00,000		
	Rs. 3,00,000 – Rs. 5,00,000 @ 5%	10,000	
	Rs. 5,00,000 – Rs. 10,00,000 @ 20%	1,00,000	
	Rs. 10,00,000 – Rs. 1,14,00,000 @ 30%	31,20,000	32,30,000
	Total Tax		**52,30,000**
2	Surcharge @ 15% on Rs. 20,00,000 [on Share Market Income i.e (i) & (ii) Above]	3,00,000	
	Surcharge @ 15% on Rs. 32,30,000 [Since other income < Rs. 2 Cr]	4,84,500	**7,84,500**
	Total Tax & Surcharge [52,30,000 + 7,84,500]		**60,14,500**
3	Add: 4% HEC		2,40,580
4	Total Tax Liability		**62,55,080**

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

M18	**No Direct Question was asked.**
N18	**No Direct Question was asked.**

M19

Q1. Mr. Ajay is a recently qualified doctor. He joined a reputed hospital in Delhi on 01.01.2022. He earned total income of Rs. 3,40,000 till 31.03.2022. His employer advised him to claim rebate u/s 87A while filing return of income for AY 2022-23. He approached his father to enquire regarding what is rebate u/s 87A of the Act. His father told him:

(i) An individual who is resident in India & whose total income does not exceed Rs. 5,00,000 is entitled to claim rebate u/s 87A.
(ii) Individual resident in India & whose total income does not exceed Rs. 3,50,000 is entitled to rebate u/s 87A.
(iii) Maximum rebate allowable u/s 87A is Rs. 12,500.
(iv) Rebate u/s 87A is available in the form of exemption from total income.
(v) Maximum rebate allowable u/s 87A is Rs. 2,500.
(vi) Rebate u/s 87A is available in the form of deduction from tax liability.

As a tax expert, do you agree with the explanation given by Mr. Ajay's father? Choose correct option:

(a) (ii), (iii), (v) (b) (ii), (v), (vi) **(c) (i), (iii), (vi)** (d) (i), (iv), (v)

N19

Q2. Mr. Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is Rs. 1,45,000 each) during PY 2021-22 but he could offer satisfactory explanation for Rs. 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Ajay would be liable to pay tax of:

(a) Rs. 1,87,200 (b) Rs. 2,26,200 (c) Rs. 1,49,760 (d) Rs. 1,80,960

Q3. Mr. Sunil Patni (age 45) furnishes following details of his TI for AY 2022-23:

Income from Salaries (computed)	Rs. 26,56,000
Income from House Property (computed)	Rs. 16,90,000
Interest income from FDRs	Rs. 7,34,000

He has not claimed any Chapter VI-A deduction. Compute his tax liability for AY 2022-23.

Answer: Computation of tax liability of Mr. Sunil Patni for AY 2022-23

- Total Income = Rs. 26,56,000 + Rs. 16,90,000 + Rs. 7,34,000 = Rs. 50,80,000.
- Tax Liability: First Rs. 10 Lacs = Rs. 1,12,500 + Next Rs. 40,80,000 @ 30% = Rs. 12,24,000.
- Total Tax Liability = Rs. 1,12,500 + 12,24,000 = Rs. 13, 36,500.
- Surcharge @ 10% of Rs. 13, 36,500 = Rs. 1,33,650.

Calculation of Relief u/s 89

(a) Tax on Rs. 50 Lacs: Rs. 13,12,500.
(b) Tax on Rs. 50,80,000: Rs. 13,36,500 + Rs. 1,33,650 = Rs. 14,70,150.
- ☞ Extra Tax = Rs. 14,70,150 - Rs. 13,12,500 = Rs. 1,57,650 ___(i)
- ☞ Extra Income = Rs. 50,80,000 – Rs. 50,00,000 = Rs. 80,000 ___(ii)
- ☞ Marginal Relief u/s 89 = Extra Tax – Extra Income = Rs. 77,650 ____(iii)

Tax payable (b) - (iii) [Rs. 14,70,150 – Rs. 77,650] = Rs. 13,92,500 + 4% HEC = Rs. 14,48,200.

M20

Q4. During the AY 2022-23, Mr. Ranjit has STCG of Rs. 95 lacs taxable u/s 111A, LTCG of Rs. 110 lacs taxable u/s 112A & business income of Rs. 90 lacs. Which of the following statements is correct?

(a) Surcharge @ 25% is leviable on tax computed on total income of Rs. 2.95 crore, since total income > Rs. 2 crores.
(b) Surcharge @ 15% is leviable on income-tax computed on total income of Rs. 2.95 cr.
(c) Surcharge @ 15% is leviable i.r.o income-tax computed on capital gains of Rs. 2.05 cr; i.r.o business income, surcharge is leviable@25% on income- tax, since total income exceeds Rs. 2 crores.
(d) Surcharge @ 15% is leviable i.r.o income-tax computed on capital gains of Rs. 2.05 crore; surcharge @ 10% is leviable on income-tax computed on business income, since the same exceeds Rs. 50 lacs but < Rs. 1 crore.

N20	**No Direct Question was asked.**
M21	**No Direct Question was asked.**
N21	**No Direct Question was asked.**

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15	**No Direct Question was asked.**
N15	**No Direct Question was asked.**
M16	**Q1.** How is the term "Assessee" defined under the provisions of the Income-tax Act, 1961?
N16	**No Direct Question was asked.**
M17	**No Direct Question was asked.**
N17	**No Direct Question was asked.**
M18	**No Direct Question was asked.**
N18	**No Direct Question was asked.**
M19	**No Direct Question was asked.**
N19	**No Direct Question was asked.**
M20	
N20	**No Direct Question was asked.**
M21	
D21	

CHAPTER 2. RESIDENTIAL STATUS QB

SECTION A: ICAI MODULE 'ILLUSTRATIONS' [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Anand is an Indian citizen & a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2021. From the following details for PY 2021-22, determine the residential status of Mr. Anand for AY 2022-23, assuming that his stay in India in the last 4 previous years (preceding PY 2021- 22) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June 2021
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th Dec 2021

Answer: In this case, since Mr. Anand is an Indian citizen & leaving India during PY 2021-22 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) & having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 6th June, 2021 & ending on 9th Dec 2021, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2020- 21 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the PY 2021-22 is less than 182 days, he is a non-resident for AY 2022-23.

Q2. Brett Lee, Australian cricket player visits India for 100 days in every FY. This has been his practice for the past 10 FY.

(a) Find out his residential status for the AY 2022-23

(b) Would your answer change if above facts relate to Srinath, an Indian citizen who resides in Australia & represents the Australian cricket team?

(c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including PY 2021-22?

Answer:

(a) Determination **of Residential Status of Mr. Brett Lee for AY 2022-23:**

Period of stay during PY 2021-22 = 100 days. Stay during 4 preceding PYs (100 x 4=400 days).

2020-21	100 days
2019- 20	100 days
2018-19	100 days
2017-18	100 days
Total	**400 days**

Mr. Brett Lee has been in India for a period more than 60 days during PY 2021-22 & for a period of more than 365 days during the 4 immediately preceding PY. Therefore, since he satisfies one of the basic conditions u/s 6(1), he is a resident for AY 2021-22.

Computation of period of stay during 7 preceding PY = 100 x 7 =700 days.

Since his period of stay in India during the past 7 PY is less than 730 days, he is RNOR during AY 2022-23.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

(1) If such individual has been NR in India in any 9 out of the 10 PY preceding the relevant PY, or

(2) If such individual has during the 7 PY preceding the relevant PY been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (2), he is a not-ordinarily resident for the A.Y. 2022-23.

(b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as NR in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current FY is, in any case, less than 120 days.

(c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds 15 lakhs, he would be treated as RNOR in India for P.Y.2021-22, since his stay in India is 120 days in the P.Y.2021-22 & 480 days (i.e., 120 days x 4 years) in the immediately four preceding PY.

PC Note: If his total income (excluding income from foreign sources) does not exceed 15 lakhs, he would be treated as NR in India for the P.Y.2021-22, since his stay in India is less than 182 days in the P.Y.2021-22.

Q3. Mr. B, a Canadian citizen, comes to India for the first time during the PY 2017-18. During FY 2017-18, 2018-19, 2019-20, 2020-21 & 2021-22, he was in India for 55 days, 60 days, 90 days, 150 days & 70 days, respectively. Determine his residential status for AY 2022-23.

Answer: During the PY 2021-22, Mr. B was in India for 70 days & during 4 years preceding PY 2021-22, he was in India for 355 days (i.e. 55+ 60+ 90+150 days). Thus, he does not satisfy section 6(1). Therefore, he is a NR for PY 2021-22.

Q4. The business of a HUF is transacted from Australia & all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the PY 2021-22 after 15 years. He comes to India on 1.4.2021 & leaves for Australia on 1.12.2021. Determine the residential status of Mr. E & the HUF for AY 2022-23.

Answer:

(a) During the PY 2021-22, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+ 30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident. Therefore, residential status of Mr. E for PY 2021-22 is RNOR.

(b) Since the business of the HUF is transacted from Australia & policy decisions are taken there, it is assumed that control & management is in Australia i.e., the control & management is wholly outside India. Therefore, the HUF is a NR for the PY 2021-22.

Q5. From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2022, compute the total income for AY 2022-223, if he is: (a) ROR; (b) RNOR; (c) NR

(1)	STCG on sale of shares of an Indian Company received in Germany	Rs. 15,000
(2)	Dividend from a Japanese Company received in Japan	Rs. 10,000
(3)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	Rs. 75,000
(4)	Dividend from RP Ltd., an Indian Company	Rs. 6,000
(5)	Agricultural income from land in Gujarat	Rs. 25,000

Answer: **Computation of total income of Mr. Anirudh for AY 2022-23**

	Particulars	ROR	RNOR	NR
(1)	STCG on sale of shares of an Indian company, received in Germany	Rs. 15,000	Rs. 15,000	Rs. 15,000
(2)	Dividend from a Japanese company, received in Japan	Rs. 10,000	-	-
(3)	Rent from property in London deposited in a bank in London [Note (i)]	Rs. 52,500	-	-
(4)	Dividend from RP Ltd. Indian Company (w.e.f. AY 2021-22)	Rs. 6,000	Rs. 6,000	Rs. 6,000
(5)	Agricultural income from land in Gujarat [See Note (ii)]	-	-	-
	Total Income	Rs. 83,500	Rs. 21,000	Rs. 21,000

Notes:

(i) It has been assumed that rental income is the gross annual value of the property. Therefore, deduction @30% u/s 24, has been provided & the net income so computed is taken into account for determining the total income of ROR.

Rent received (assumed as gross annual value)	Rs. 75,000
Less: Deduction u/s 24 (30% of 75,000)	Rs. 22,500
Income from house property	Rs. 52,500

(ii) Agricultural income is exempt under section 10(1).

Q6. Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2021 due to his transfer to High Commission of Canada. He did not visit India any time during PY 2021-22. He has received the following income for PY 2021-22:

SN	Particulars	
(1)	Salary (Computed)	Rs. 5,00,000
(2)	Foreign Allowance	Rs. 4,00,000
(3)	Interest on fixed deposit from bank in India	Rs. 1,00,000
(4)	Income from agriculture in Nepal	Rs. 2,00,000
(5)	Income from house property in Nepal	Rs. 2,50,000

Compute his Gross Total Income for AY 2022-23.

Answer:

- As per section 6(1), Mr. David is a NR for AY 2022-23, since he was not present in India during PY 2021-22.
- As per section 5(2), NR is chargeable to tax in India only in respect of following incomes:
  - (i) Income received or deemed to be received in India; &
  - (ii) Income accruing or arising or deemed to accrue or arise in India.
- In view of the above provisions, income from agriculture in Nepal & income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a NR.
- However, allowances/ perquisites paid or allowed as such outside India by Govt. to a citizen of India for rendering service outside India is exempt u/s 10(7). So, foreign allowance of 4,00,000 is exempt u/s 10(7) in hands of Mr. David.

Gross Total Income of Mr. David for AY 2022-23

Particulars	Rs.
Salaries (computed)	Rs. 5,00,000
Income from other sources (Interest on fixed deposit in India)	Rs. 1,00,000
Gross Total Income	Rs. **6,00,000**

Q7. Miss Vivitha paid 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 NR. 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?

Answer:

- NR is chargeable to tax i.r.o. income received outside India only if such income accrues or is deemed to accrue in India.
- Income deemed to accrue or arise in India u/s 9 comprises 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".
- Explanation below section 9(2) clarifies that income by way of fees for technical services, from services utilized in India would be deemed to accrue in India in case of a NR & be included in his total income, whether or not such services were rendered in India or whether or not NR has a residence or PoB or business connection in India.
- In this case, since the services were utilized in India, payment received by Mr. Kulasekhara, a NR, in Colombo is taxable in his hands in India, as it is deemed to accrue or arise in India.

Q8. Compute the total income in the hands of an individual aged 35 years, being a ROR, RNOR, & NR for the AY 2022-23.

Particulars	Amount
Interest on UK Development Bonds, 50% of interest received in India	Rs. 10,000
Income from a business in Chennai (50% is received in India)	Rs. 20,000
STCG on sale of shares of an Indian company received in London	Rs. 20,000
Dividend from British company received in London	Rs. 5,000
LTCG on sale of plant at Germany, 50% of profits are received in India	Rs. 40,000
Income earned from business in Germany which is controlled from Delhi (40,000 is received in India)	Rs. 70,000
Profits from a business in Delhi but managed entirely from London	Rs. 15,000
Income from HP in London deposited in a Bank at London, brought to India (Computed)	Rs. 50,000
Interest on debentures in an Indian company received in London	Rs. 12,000

Fees for technical services rendered in India but received in London	Rs. 8,000
Profits from a business in Mumbai managed from London	Rs. 26,000
Income from property situated in Nepal received there (Computed)	Rs. 16,000
Past foreign untaxed income brought to India during the PY	Rs. 5,000
Income from agricultural land in Nepal, received there & then brought to India	Rs. 18,000
Income from profession in Kenya which was set up in India, received there but spent in India	Rs. 5,000
Gift received on the occasion of his wedding	Rs. 20,000
Interest on savings bank deposit in State Bank of India	Rs. 12,000
Income from a business in Russia, controlled from Russia	Rs. 20,000
Dividend from Reliance Petroleum Limited, an Indian Company	Rs. 5,000
Agricultural income from a land in Rajasthan	Rs. 15,000

Answer:

Computation of total income for the AY 2022-23

Particulars	ROR	RNOR	NR
Interest on UK Development Bonds, 50% of interest received in India	Rs.10,000	Rs. 5,000	Rs. 5,000
Income from a business in Chennai (50% is received in India)	Rs. 20,000	Rs.20,000	Rs. 20,000
STCG on sale of shares of an Indian company received in London	Rs. 20,000	Rs.20,000	Rs.20,000
Dividend from British company received in London	Rs. 5,000	-	-
LTCG on sale of plant at Germany, 50% of profits are received in India	Rs. 40,000	Rs. 20,000	Rs. 20,000
Income earned from business in Germany which is controlled from Delhi, out of which 40,000 is received in India	Rs. 70,000	Rs. 70,000	Rs. 40,000
Profits from a business in Delhi butmanaged entirely from London	Rs. 15,000	Rs. 15,000	Rs.15,000
Income from HP in London deposited in a Bank at London, later on remitted to India	Rs. 50,000	-	-
Interest on debentures in an Indian company received in London	Rs.12,000	Rs. 12,000	Rs. 12,000
Fees for technical services rendered in India but received in London	Rs. 8,000	Rs. 8,000	Rs.8,000
Profits from a business in Mumbai managed from London	Rs. 26,000	Rs. 26,000	Rs. 26,000
Income from property situated in Nepal & received there	Rs. 16,000	-	-
Past foreign untaxed income brought to India during the PY	-	-	-
Income from agri. land in Nepal, received there & brought to India	Rs. 18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	Rs. 5,000	Rs. 5,000	-
Gift received on the occasion of hiswedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	Rs. 12,000	Rs. 12,000	Rs. 12,000
Income from a business in Russia, controlled from Russia	Rs. 20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	Rs. 5,000	Rs. 5,000	Rs. 5,000
Agricultural income from land in Rajasthan [Exempt u/s 10(1)]	-	-	
Gross Total Income	Rs. 3,52,000	Rs. 2,18,000	Rs. 1,83,000
Less: Deduction u/s 80TTA [Interest on savings bank account]	Rs. 10,000	Rs. 10,000	Rs. 10,000
Total Income	Rs. 3,42,000	Rs.2,08,000	Rs. 1,73,000

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Roy is a foreign national. During PY 2021-22 he comes to India for 91 days. Determine his residential status for AY 2022-23 if during PY 2009-10 to PY 2020-21, he was present in India as follows:

2009-10	16 days	2012-13	179 days	2015-16	359 days	2018-19	67 days
2010-11	40 days	2013-14	362 days	2016-17	180 days	2019-20	12 days
2011-12	72 days	2014-15	22 days	2017-18	307 days	2020-21	134 days

Solution:

- During PY 2021-22, Mr. R is in India for 91 days. Thus, he does not satisfy 1st basic condition.
- During Last 4 PYs, he was in India for 520 days (134 + 12 + 67 + 307 days). Thus, he satisfies 2nd basic condition.
- Thus, he is **Resident.**

Additional conditions:

PY	Stay in India	Comments
2020-21	134 (566 days in last 4 PYs)	Satisfy 2nd Basic Condition; Thus **Resident (for 1st time)**
2019-20	12 (866 days in last 4 PYs)	Do not satisfy any Basic Condition; Thus, Non-resident
2018-19	67 (868 days in last 4 PYs)	Satisfy 2nd Basic Condition; Thus **Resident (for 2nd time)**
2017-18	307	Not necessary to determine further as resident for 2 years
2016-17	180	
2015-16	359	
2014-15	22	

- **Total stay** in 7 preceding PY in India is 1081 days. Thus, Roy satisfies both the additional conditions.
- Thus, Mr. Roy is **ROR** in India for AY 2022-23.

Q2. Mr. Raj a citizen of India, is an export manager of XYZ Ltd, an Indian Company, since 1.5.2017. He has been regularly going to USA for export promotion. He spent following days in USA for last 5 yrs:

Previous Year	PY 2021-22	PY 2020-21	PY 2019-20	PY 2018-19	PY 2017-18
Days spent in USA	294	311	271	150	317

Determine his residential status for AY 2022-23 assuming that prior to 1.5.2017 he had never travelled abroad.

Solution:

- This case does not fall in the exceptions to 2nd Basic condition since he has not gone for employment outside India but has gone out of India during the employment in India. Thus, Both Basic Conditions are applicable.
- Basic Conditions:
  (a) Stay during PY 2021-22: 71 Days (365 - 294) & thus 1st basic condition is not satisfied.
  (b) (i) Stay in India during PY 2021-22 = 71 days & (ii) Stay in 4 preceding PYs [48 + 215 + 94 + 55] = 412 days.

PY	PY 2021-22	PY 2020-21	PY 2019-20	PY 2018-19	PY 2017-18
Days in USA	294	311	271	150	317
Days in India	71	55	94	215	48

Thus, Mr. Raj satisfies 2nd basic condition. Thus, he is a resident in India.

Additional conditions:

(a) Stay in India in Last 7 PYs = 55 + 94 + 215 + 48 + 365 + 365 + 365 = **1507**. He satisfies 1st additional condition.

PY	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Days	55	94	215	48	366	365	365

(b)

PY	Stay in India	Residential Status
2020-21	55 Days	Non-Resident

2019-20	94 Days	Resident (1st time)
2018-19	215 Days	Resident (2nd time)
2017-18	48 Days	No need to check
Prior to 2017-18		No need to check

He satisfies 2nd additional condition of being resident in at least 2 out of 10 PY prior to the relevant PY. Since Mr. Raj satisfy both additional conditions, **he is a ROR.**

Q3. Mr. Shakib was born in Dhaka in 1945. He has been staying in Canada since 1974. He comes to visit India on 13.10.2021 & returns on 29.3.2022. Determine his residential status for AY 2022-23.

Solution:

- His stay in India during PY 2021-2022 is 168 days. He does not satisfy 1st Basic condition.
- Since Shakib was born in Dhaka in 1945 (undivided India), he is a person of Indian origin & thus 2nd basic condition is not applicable to him.
- Thus Mr. Shakib is a NR in India for AY 2022-23.

Q4. Mr. Nirmal is a citizen of Nepal. His grandfather was born near Multan (Now in Pakistan) in 1945. He came to India for the first time since 1986 on 2.10.2021 for a visit of 294 days. Find his residential status for AY 2022-23.

Solution:

- Mr. Nirmal's stay in India during PY 2021-22 is 181 days. Thus, he does not satisfy 1st Basic Condition.
- Since his grandfather was born in undivided India, he is a person of Indian origin & thus 2nd basic condition is not applicable to him.
- Therefore, Mr. D is a NR in AY 2022-23.
- **PC Note:** The fact that he has come for 294 days is irrelevant. No. of days in PY is to be considered.

Q5. Mr. PC comes to India, for the first time on 14.4.2019. During his stay in India upto 3.10.2021, he stays at Mumbai upto 08.04.2020 & then stays in Delhi till his departure from India. Determine his residential status for AY 2022-23.

Solution:

- During PY 2021-22, Mr. PC was in India for 186 days (1.4.2021 to 3.10.2021). [1st Basic condition → Satisfied].
- Thus Mr. PC is a Resident in India.
- To determine whether he is ROR/RNOR, we need to check additional conditions.
  (1) Mr. PC is resident in India for PYs 2019-20 & PY 2020-21 since his stay in India ≥ 182 days.
  (2) Mr. PC is in India from 14.4.2019 to 31.3.2021 (i.e. 717 days).
- Mr. PC satisfies one of the basic conditions & only one of the two additional conditions.
- Thus Mr. PC is a RNOR in India.

Q6. Mr. Raju, an Indian citizen left India for first time on 24.9.2020 for employment in USA. During PY 2021-22, he comes to India on 5.6.2021 for 165 days. Determine his residential status for PY 2020-21 & PY 2021-22.

Solution:

PY 2020-21	▪ He is a citizen of India & has left India during PY 2020-21 for employment outside India. ▪ Thus, 2nd basic condition is not applicable. ▪ PY 2020-21, his stay in India = 177 days [30 (M) + 31 (A) + 30 (M) + 31 (J) + 31 (J) + 24(A)]. ▪ Thus, he does not satisfy 1st basic condition. ▪ Thus, he is NR in India during PY 2020-21.
PY 2021-22	▪ His stay in India is for 165 days. ▪ Since he is a citizen of India & comes on a visit to India, 2nd basic condition is not applicable. ▪ During PY 2021-22, his stay in India is of 165 days. ▪ He does not satisfy 1st basic condition & therefore, he is NR in India during PY 2021-22.

Q7. Mr. PC, UK citizen has come to India for the first time on 1.7.2018 as an executive of a MNC. His employer has allowed him to visit UK every year & for this purpose he will be leaving India every year on 1st Nov & shall come back on 31st Dec. Besides that, he has visited China on several occasions for official work. Details are:

Date of leaving India	10.09.2018	07.02.2019	11.07.2019	10.02.2020	11.02.2021	01.02.2022
Date of arriving in India	30.09.2018	08.05.2019	21.10.2019	23.07.2020	12.06.2021	10.04.2022

Determine his residential status for PY 2018-19 to PY 2021-22. **[CA Exams - May 1998]**

Solution:

PY 2018-19	No. of days in India during PY 2018-19= 144. Thus, he is Non-Resident for PY 2018-19. [July - 31, Aug - 31, Sep - 11, Oct - 31, Nov - 1, Dec - 1, Jan - 31, Feb – 7]
PY 2019-20	No. of days in India during PY 2019-20= 119. Thus, he is Non–Resident for PY 2019-20. [May - 24, June - 30, July - 11, Oct - 11, Nov - 1, Dec – 1; Jan - 31, Feb – 10]
PY 2020-21	No. of days in India during PY 2020-21= 145. Thus, he is Non–Resident for PY 2020-21. [July - 9, Aug - 31, Sep - 30, Oct - 31, Nov - 1, Dec - 1, Jan - 31, Feb - 11].
PY 2021-22	(i) No. of days in India during PY 2021-22 = 176 Days. [June - 19, July - 31, Aug - 31, Sep - 30, Oct - 31, Nov - 1, Dec - 1, Jan- 31, Feb – 1] (ii) Stay in India in Last 4 PYs = 365 days or more so he is resident. **Additional Conditions:** His stay during Last 7 PYs < 730 days. Thus, he is a RNOR.

Q8. Mr. Akshay was born in 1977 in India. His parents were born in India in 1950. However, his grandparents were born in England. Mr. X was residing in India till 16.3.2018. Thereafter, he migrated to England & took the citizenship of that country on 15.3.2019. He visits India during PY 2021-22 for 90 days. Determine residential status of Mr. Akshay for AY 2022-23.

Solution: Mr. Akshay is neither a citizen of India nor a person of Indian origin, because neither he nor his parents nor his grandparents were born in undivided India. Thus 2nd basic condition is applicable.

- (a) 1st Basic Condition: Stay in India during PY 2021-22: 90 days. Thus, he does not satisfy 1st basic condition.
- (b) 2nd Basic Condition: (i) Stay in India during PY 2021-22: 90 days; (ii) Stay in India during Last 4 PY: 350 days [PY 2020-21: Nil; PY 2019-20: Nil; PY 2018-19: Nil; PY 2017-18: 350 days].
- Since he does not satisfy Any Basic Condition, he is a Non- Resident in India.

Q9. ABC Ltd is registered in India. All the meetings of BODs of ABC Ltd were held in China during PY 2021-22. Determine the residential status of ABC Ltd. for AY 2022-23.

Solution: As ABC Ltd. is an Indian Company, it is always resident in India even if its POEM is outside India. It is irrelevant that all the board meetings are held in China.

Q10. Discuss the taxability of the following items of receipt in the case of RNOR:

(1) Rs. 1,00,000 was earned from a business in the USA but the profit has been remitted to India. The assessee used to attend to the business only when he was in the USA.

(2) Remuneration of Rs. 20,000 due to him for services rendered in Russia was credited to his bank account in Russia & immediately thereafter remitted to India.

Solution:

(1) Remittance of profit to India does not mean that business is controlled in India.
For RNOR, income accruing outside India is taxable only when it is from a business controlled from India or from a profession set up in India. Thus, income of Rs. 1,00,000 is not taxable in India.

(2) Salary accrues where services are rendered. In the present case services were rendered in Russia & income received there, it is income accruing outside India & received outside India. Hence it is not taxable in India.

Q11. Mr. Rashid Khan, a national of Iraq received the following fees for technical services during PY 2021-22.

1	From Government of India	1,00,000
2	From Government of Iraq	4,00,000
3	From S, a ROI, services have been utilised for earning income in India	40,000
4	From V, a ROI, services have been utilised for earning income outside India	80,000

5	From J, a NR for services for a business carried on in India	70,000

Compute his TI for AY 2022-23. He has come for first time in India during PY 2021-22 & stayed for 181 days.

Solution:

Since Mr. Rashid does not satisfy any basic conditions; he is a NR. Thus, only Indian Incomes are taxable.

1	FTS received from Government of India [taxable u/s 9(vii)(a)]	1,00,000
2	FTS received from Government of Iraq [not taxable since paid by foreign government to NR]	.-
3	FTS received from Mr. S [Paid by resident & services has been used for earning Income in India]	40,000
4	FTS received from Mr. V [Paid by resident & services has been used for earning Income o/s India]	-
5	FTS received from Mr. J [Paid by NR to another NR but services are given for business in India]	70,000
	Total Income	**2,10,000**

Q12. What if Rashid came to India on 15.6.2021 & stayed upto. 31.12.2021, what will be his taxable income?

Solution: If Mr. Rashid stays in India from 15.6.2021 to 31.12.2021, his stay in India = 200 days. Thus, he will be Resident in India. However, he shall be "RNOR" as he does not satisfy both the additional conditions.

For RNOR, income earned & received o/s India is taxable only when it is from a business controlled from or profession set up in India. Assuming that this condition is not satisfied, FTS received from Government of Iraq as well as from V will still be exempt from tax in India. Hence Total Income of Rashid will remain at Rs. 2,10,000.

Q13. X is a citizen of Pakistan. His maternal grandfather was born in Karachi in 1933. He comes to India on 7th April 2021 to complete a foreign assignment of his employer-company. He goes back on 4.10.2021. Mrs. X is ROR in India for PY 2021-22. Prior to April 7th 2021, X was in India as follows:

PY	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
Stay in India	179	182	180	72	175	Nil

Income of Mr. X for PY 2021-22 is as follows:

Salary Income from Pakistani company (received in Pakistan) (for rendering service in Pakistan)	14,34,000
Salary Income from Pakistani company (received in Pakistan) (for rendering service in India)	6,63,000
Business income (Business is situated in UAE & income is received in UAE) (Business is partly controlled from India from Pakistan & partly from India)	9,95,000
Rental income from a property situated in Mumbai (income is received in Pakistan) [Computed]	2,10,000
Business income (business is situated in UK & it is partly controlled from UK & partly from Pakistan) (income is received in UK & later on Rs. 50,000 is remitted to India)	10,72,000
Birthday gift (he celebrated his birthday on 10th June 2020, received cash gifts in India from his friends, some of them have sent gift cheques from Pakistan)	74,000

Find out residential status & taxable income of X for AY 2022-23.

Solution: Maternal Grandfather of Mr. X was born in undivided India in 1933. Thus, he is a person of Indian origin. Thus 2nd basic condition is not applicable to Mr. X.

- Stay in India during PY 2021-22 = 181 days (i.e. 24 + 31 + 30 + 31 + 31 + 30 + 4) [7th April 2021 to 4th October 2021]
- Thus, he does not satisfy 1st basic condition. Thus, he is a NR in India for AY 2022-23.
- Being a NR, only Indian Income will be taxable in the hands of Mr. X.

Income of X for AY 2022-23 shall be calculated as follows:

Particulars	Nature of Income	Amount
Salary of Rs. 14,34,000 for rendering service in Pakistan	Foreign Income	Nil
Salary of Rs. 6,63,000 for rendering service in India	Indian Income	6,63,000
Business income of Rs. 9,95,000 (Business o/s India & received o/s India) *	**Foreign Income****	Nil
Rental income from Mumbai Property	Indian Income	2,10,000
Business Income of Rs. 10,72,000 (Business in UK & received in UK)	Foreign Income	Nil
Birthday gift [Gift received from Resident to NR > Rs. 50K]	**Indian Income**	**74,000**
Total Income		**9,47,000**

***Such Foreign Income will be taxable in the hands of RNOR since business is controlled from India.**

Q14. State whether the following attract Income Tax in India in the hands of Recipients: **[Modified ICAI Ex.]**

(1) Salary of Rs. 7,00,000 paid by CG to Mr. John, a Citizen of India, for services rendered outside India.
(2) Interest on moneys borrowed from outside India Rs. 5,00,000 by a NR for the business within India.
(3) Post Office Savings Bank Interest of Rs. 12,000 received by a Resident Assessee.
(4) Royalty paid by a Resident to a NR in respect of business carried on outside India.
(5) Legal Charges of Rs. 5,00,000 paid to a Lawyer of UK who visited India to represent a case at the Delhi High Court.
(6) X Ltd. is a foreign company. It has 10 shareholders, all of them are NR & foreign citizens. It has shot a feature film on location situated in Kerala. The film will be exhibited in UK. However, Kerala Government has power to telecast it in South India free of charge.
(7) Mr. X is a foreign citizen. He is a person of Indian origin. During PY 2021-22, X is in India for a visit of 150 days. He holds 1,000 equity shares in Reliance Industries. However, share certificates are in the office of X situated in Paris where X normally resides. These shares are transferred by X to a foreign company in UK by signing the agreement in UK. Certificates are handed over to the purchaser in UK & consideration is received by X in foreign currency in UK. On this transaction, X has generated a long-term capital gain of Rs. 95,00,000.
(8) Mr. Y is a citizen of UK. He is NR in India. He is employed by Indian High Commissioner in UK. Salary is paid to him in UK in pound sterling.
(9) What if in (8) above, Mr. Y is an Indian citizen?

Solution:

(1) Payer of Salary is CG. Salary paid by government to Indian Citizen for services rendered outside India is deemed to accrue or arise in India. Thus it is an Indian Income. However, Allowances or perquisites are exempt u/s 10(7).
(2) Taxable. U/s 9(1)(v), Interest paid by NR for the purpose of carrying on Business or Profession in India is deemed to accrue or arise in India. Thus it is an Indian Income & taxable to all.
(3) Taxable. Any Income received by Resident is taxable in India. However, it is exempt upto Rs. 3500 u/s 10(15)(i).
(4) Not Taxable. Payment relating to a Business/Profession carried on o/s India is not deemed to accrue or arise in India.
(5) Taxable. Legal Charges paid to a NR for earning any source of Income in India is deemed to accrue or arise in India.
(6) In case of NR, no income shall be deemed to accrue or arise in India through or from operations which are confined to the shooting of any cinematograph film in India if such NR is a foreign citizen or if such NR is a company & it does not have any shareholder who is a citizen of India or is resident in India. In this case, nothing is taxable in the hands of X Ltd.
(7) Since X is in India only for 150 days, he is a NR in India. Only Indian income is taxable to NR. Shares in a company incorporated in India are always situated in India. On transfer of such shares, capital profit is deemed to accrue or arise in India [Section 9(1)(i)]. This rule is applicable even if share certificates are handed over to the purchaser outside India under an agreement made outside India for which consideration is also payable outside India in foreign currency. Capital gain of Rs. 95,00,000 is taxable as income of X in India.
(8) Salary accrues at a place where services are rendered. In this case, services are rendered outside India & thus salary accrues outside India. It is received outside India. Thus, salary paid to Mr. Y is foreign Income. Mr. Y (employee) is a NR. Thus salary paid by High Commission to its NR Employee (Mr. Y) in UK is not taxable in India being a foreign income.
(9) If an employee is a citizen of India & service is rendered to Government of India o/s India, salary paid to such Citizen of India is deemed to be accrued in India & thus it is an Indian Income.
If Y is a citizen of India, then income is deemed to accrue or arise in India & chargeable to tax in India.

Q15. Mr. Federer, a NR residing in Sweden, has received rent from Mr. Nadal, another NR residing in France in respect of a property taken on lease at Mumbai. Since this income is received outside India from a NR, Federer claims that his income is not chargeable to tax in India. **[Nov 2016]**

Solution: As per Sec. 9(1)(i), if the source of Income (directly or indirectly) is through or from a Property or Asset in India, it shall be deemed to accrue or arise in India & thus it is an Indian Income. Hence, rent is taxable in India to all.

Q16. Mr. A, a Citizen of India, left for USA for the purposes of employment on 1.5.2021. He has not visited India thereafter. Mr. A borrows money from his friend Mr. B who left India one week before Mr. A's departure, to the extent of Rs. 10 Lacs & buys Shares in X Ltd, an Indian Company. Discuss the taxability of the interest charged at 10% in B's hands where the same has been received in New York. **[May 2006]**

Solution:

- Stay of Mr. A & Mr. B during PY 2021-22 is less than 60 days. Thus, both of them are NR.
- Receiver 'B' is a NR.
- As per section 9(1)(v), Interest paid by NR (Mr. A) to any person (Mr. B) (other than for carrying on business or profession in India) is not deemed to accrue or arise in India.
- Thus, interest Received by Mr. B from Mr. A is not taxable in India.

Q17. DAISY Ltd., a foreign company, incorporated in USA & engaged in the Manufacturing & distribution of diamonds, set up a branch office in India in June 2021. Branch office was required to purchase uncut & unassorted diamonds from the dealers of Mumbai & export them to USA. Out of 20 shareholders of DAISY Ltd., 12 shareholders are NR in India. All the major decisions were taken through Board Meetings held at USA.

(i) Determine the residential status of DAISY Ltd. for AY 2022-23.

(ii) Discuss the tax treatment of profit from export business. **[Nov 2017]**

Solution:

(i) As per section 6(3), A company would be resident in India if

(a) It is an Indian Company; or

(b) its POEM in that year is in India.

In given case, DAISY Ltd. a foreign company therefore it would be resident in India if its POEM in that year is in India. Section 6(3) defines "POEM" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of DAISY Ltd., its POEM for PY 2021-22 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in USA.

Hence, DAISY Ltd, being a foreign company is a NR for AY 2022-23, since its POEM is outside India in the PY 2021-22.

(ii) If any NR is purchasing goods from India for the purpose of export, such income shall not be accruing/arising in India, hence it is not taxable in India.

Q18. Mr. Frdie, a NR residing in Sweden, has received rent from Mr. Nadal, also a NR residing in France in respect of a property taken on lease at Mumbai. Since this income is received outside India from a NR, Frdie claims that his income is not chargeable to Tax in India. **[Nov 2016]**

Solution: As per section 9, if source of income is in India, income shall be accruing/arising in India and shall be taxable in all the three status even if income has been received outside India, hence in the given case Income is chargeable to tax in India as income is accruing and arising from India as property is situated in India.

Q19. Mr. X, an Indian Citizen left India on 20.04.2019 for first time to setup a software firm in Singapore. On 10.04.2021, he entered into an agreement with XYZ Ltd (Indian Company) for transfer of technical documents & designs to setup an automobile factory in Faridabad. He reached India to render requisite services on 15.05.2021 & able to complete assignment on 20.08.2021. He left for Singapore on 21.08.2021. He charged Rs. 50 Lacs for his services from XYZ Ltd. Determine residential status of Mr. X for AY 2022-23 & taxability of fees charged from XYZ Ltd. **[Nov 2015]**

Solution:

Any individual who is a citizen of India & has left India for taking up any business/profession/employment outside India will be considered to be resident only if they stay in India for 182 days or more. Mr. X's stay in India during PY 2020-21 = only 98 days (17 + 30 + 31 + 20) which is less than 182 days. Thus, he is non-resident.

As per section 9, if any non-resident has provided any patent right or any managerial, technical services and such patent right etc. was used in India, in such cases any royalty or fee received by non-resident shall be considered to be income accruing/arising in India and shall be taxable and it do not matter that the nonresident do not have residence or place of business or business connection in India i.e. there is no territorial nexus or non-resident has not rendered services in India. In the given case, fees charged from XYZ Limited is taxable in India because assesse has transferred technical documents and designs to setup an automobile factory in Faridabad (i.e. in India).

CQ20. Compute total income of Mr. PC assuming him (i) ROR (ii) RNOR (iii) NR for AY 2022-23.

SN	Particulars	Amt
1.	Interest on UK Development Bonds (50% of interest received in India)	10,000
2.	Interest for debentures in an Indian company (received in London)	10,000
3.	Income from a business in Chennai managed from London (50% is received in India)	20,000
4.	Profits on sale of shares of Indian company (received in London)	20,000
5.	Dividend from British Company (received in London)	5,000
6.	Profits on Sale of Plant at Germany (50% of profits are received in India)	40,000
7.	Business income in Germany which is controlled from Delhi (40,000 is received in India)	70,000
8.	Profits from a business in Delhi but managed entirely from London	15,000
9.	Income from House in London deposited in Indian Bank at London, brought to India (computed)	50,000
10.	Royalty/Fees for technical services rendered in India (received in London)	8,000
11.	Pension for services rendered in India (received in Burma)	4,000
12.	Income from property situated in Pakistan received there	16,000
13.	Past foreign untaxed Income brought to India during the PY	5,000
14.	Income from agricultural land in Nepal received there and then brought to India	18,000
15.	Income from profession in Kenya which was set up in India, received there but spent in India	5,000
16.	Gift received on the occasion of his wedding	20,000
17.	Income from a business in Russia, controlled from Russia	20,000
18.	Dividend from Reliance Petroleum Limited, an Indian company	5,000
19.	Honorarium received from Government of India (Rs. 15,000 was paid for travelling expenses)	20,000
20.	Income from Business connection in India, received in London	10,000
21.	Speculation profit earned & received outside India on 15.4.2020	20,000
22.	Salary drawn for 2 months for working in Indian Embassy's Office in Australia & received there	80,000

Solution: **Computation of Total Income for AY 2022-23**

SN	Particular	ROR	RNOR	NR
1.	Interest on UK Development Bonds.	10,000	5,000	5,000
	It is foreign Income. But 50% of interest received in India is Indian Income.			
2	Interest for debentures in an Indian company	10,000	10,000	10,000
	Since Interest is paid on debentures by Indian company, it is an Indian Income. Thus, taxable to Everyone.			
3.	Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
	Since business is situated in India, 100% is Indian Income irrespective of the place where it is Managed from.			
4.	Profits on sale of shares of Indian company received in London	20,000	20,000	20,000
5.	Dividend from British company received in London [Foreign Income]	5,000	-	-
6.	Profits on sale of plant at Germany [50% Foreign & 50% Indian Income]	40,000	20,000	20,000
7.	Income earned from business in Germany which is controlled from Delhi	70,000	70,000	40,000
	Since the business has been controlled from India, such foreign income is taxable to RNOR also.			
8.	Profits from business in Delhi [Indian Income & thus taxable to everyone]	15,000	15,000	15,000
9.	Income from property in London deposited in London, later on remitted to India [Foreign Income & thus taxable to ROR]; No tax on Remittance	50,000	-	-
10.	Royalty/FTS rendered in India; Indian Income & thus taxable to everyone	8,000	8,000	8,000
11.	Pension for services rendered in India & [Thus Indian Income]	4,000	4,000	4,000
12.	Income from property situated in Pakistan [Foreign Income; tax – ROR]	16,000	-	-
13.	Past foreign untaxed income brought to India during the PY	-	-	-
Income relates to past year; it is assumed that it must have been taxed in that PY. Thus, it is not taxable in this PY.				
14.	Income from Agricultural land in Nepal received there [Foreign Income]	18,000	-	-

15.	Income from profession in Kenya which was set up in India [Refer Pt. 7]	5,000	5,000	-
16.	Gift received on the occasion of his wedding [not taxable]	-	-	-
17.	Income from business in Russia, controlled from Russia [Foreign Income]	20,000	-	-
18.	Dividend from Reliance Limited, Indian Company [Exempt u/s 10(34)]	-	-	-
19.	Honorarium received from Government of India [Indian Income]. But Allowance are exempt u/s 10(7). Thus, travelling expenses are not taxable.	5,000	5,000	5,000
20.	Income from Business connection in India, received in London	10,000	10,000	10,000
21.	Speculation profit earned & received outside India [Foreign Income]	20,000	-	-
22.	Salary for working in Indian Embassy's Office in Australia & received there. [Deemed to accure in India & thus Indian Income]	80,000	80,000	80,000

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. 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 AY 2022-23.

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

(a) He has been in India during the PY for a total period of 182 days or more, or

(b) He has been in India during the 4 years immediately preceding the PY for a total period of 365 days or more & has been in India for at least 60 days in the PY.

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

During the PY 2021-22, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+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 PY, he is a NR for the AY 2022-23.

Q2. Mr. Dey is a NR, residing in US since 1990, came back to India on 1.4.2021 for permanent settlement. What will be his residential status for AY 2022-23?

Answer: Mr. Dey is a resident in AY 2022-23 since he has stayed in India for a period of 365 days (more than 182 days) during the PY 2020-21.

As per section 6(6), a person will be "Not ordinarily Resident" in India in any PY, if such person, inter alia,

(a) has been a NR in 9 out of 10 PY preceding the relevant PY; or

(b) has during the 7 PY immediately preceding the relevant PY been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a ROR.

For the PY 2021-22 (A.Y. 2022-23), his status would be "RNOR" since he was NR in 9 out of 10 PY immediately preceding the PY2021-22. He can be RNOR 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 PY 2021-22.

Q3. Mr. Ramesh & Mr. Suresh are brothers & they earned the following incomes during FY 2021-22. Mr. Ramesh settled in Canada in the year 1996 & Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2022-23.

SN	Particulars	Mr. Ramesh	Mr. Suresh
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	Rs. 35,000	Rs. 40,000
2.	Dividend from British company received in London	Rs. 28,000	Rs. 20,000
3.	Profits from a business in Nagpur, but managed directly from London	Rs. 1,00,000	Rs. 1,40,000
4.	STCG on sale of shares of an Indian company received in India	Rs. 60,000	Rs. 90,000
5.	Income from a business in Chennai	Rs. 80,000	Rs. 70,000
6.	Fees for technical services rendered in India, but received in Canada	Rs. 1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	Rs. 7,000	Rs. 12,000

8.	Agricultural income from a land situated in Andhra Pradesh	Rs. 55,000	Rs. 45,000
9.	Rent received in respect of house property at Bhopal	Rs. 1,00,000	Rs. 60,000
10.	Life insurance premium paid	---	Rs. 30,000

Answer:

Computation of total income of Mr. Ramesh & Mr. Suresh for the AY 2022-23

SN	Particulars	Mr. Ramesh (Non- Resident)	Mr. Suresh (Resident)
1.	Interest on Canada Development Bond (SeeNote 2)	Rs. 17,500	Rs. 40,000
2.	Dividend from British Company received inLondon (See Note 3)	-	Rs. 20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	Rs. 1,00,000	Rs. 1,40,000
4.	STCG on sale of shares of anIndian company received in India (See Note 2)	Rs. 60,000	Rs. 90,000
5.	Income from a business in Chennai (See Note 2)	Rs. 80,000	Rs. 70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	Rs. 1,00,000	-
7.	Interest on savings bank deposit in UCO Bank,Delhi (See Note 2)	Rs. 7,000	Rs. 12,000
8.	Agricultural income from a land situated inAndhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (SeeNote 5)	Rs. 70,000	Rs. 42,000
	Gross Total income	**Rs. 4,34,500**	**Rs. 4,14,000**
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	Rs. 30,000
	Section 80TTA (See Note 6)	Rs. 7,000	Rs. 10,000
	Total Income	**Rs. 4,27,500**	**Rs. 3,74,000**

Notes:

1. Mr. Ramesh is a NR since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, & thus, assumed ROR.
2. In case of ROR, his global income is taxable as per section 5(1). However, in case of NR, only Indian Incomes are taxable. Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a NR. Income referred to in Sl. No. 3,4,5 & 7 are taxable in the hands of both Mr. Ramesh & 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 (NR) is not taxable since it accrued & is received outside India. However, such dividend received by Mr. Suresh is taxable, since he is ROR.
4. Agricultural income from a land situated in India is exempt u/s 10(1) in case of both NR and residents.
5. Income from house property –

Particulars	Mr. Ramesh	Mr. Suresh
Rent received	Rs. 1,00,000	Rs. 60,000
Less: Deduction u/s 24(a) @30%	Rs. 30,000	Rs. 18,000
Net income from house property	Rs. 70,000	Rs. 42,000

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

6. In case of an individual, interest up to Rs. 10,000 from savings account with, inter alia, a bank is allowable as deduction u/s 80TTA.

Q4. Examine the correctness of the statement. "Income deemed to accrue or arise in India to a NR by way of interest, royalty & fees for technical services is to be taxed irrespective of territorial nexus".

Answer: 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) & (vii) of section 9(1), shall be included in the total income of the NR, whether or not-

(i) NR has a residence or place of business or business connection in India; or
(ii) NR has rendered services in India.

In effect, 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 NR & be included in his total income, whether or not such services were rendered in India & irrespective of whether the NR has a residence or place of business or business connection in India.

Q5. Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients.

(a) Salary paid by CG to Mr. John, a citizen of India Rs. 7,00,000 for the services rendered outside India.
(b) Interest on moneys borrowed from outside India Rs. 5,00,000 by a NR for the purpose of business within India say, at Mumbai.
Post office savings bank interest of Rs.19,000 received by a resident Mr. Ram, aged 46 years.
(c) Royalty paid by a resident to a NR in respect of a business carried on outside India.
(d) Legal charges of Rs. 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

Answer:

SN	Taxable?	Amount	Reason
(i)	Taxable	Rs. 6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by CG to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of Rs. 50,000 u/s 16(ia).
(ii)	Taxable	Rs. 5,00,000	As per section 9(1)(v)(c), interest payable by a NR on moneys borrowed & used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	Rs. 5,500	Interest on Post Office Savings Bank a/c, would be exempt u/s 10(15) (i), only to the extent of Rs. 3,500 in case of an individual a/c. Further, interest upto Rs. 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance Rs. 5,500 i.e., Rs. 19,000 – Rs. 3,500 – Rs. 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a NR in respect of a business carried outside India would not be taxable in the hands of the NR provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	Taxable	Rs. 5,00,000	In case of a NR, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a NR lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. Mr. Kavin, a NR, entered into the following transactions during PY 2021-22:

(a) Received Rs. 20 Lacs from a NR for use of patent for a business in India.

(b) Received foreign currency equivalent to Rs. 15 Lacs from a NR Indian for use of know-how for a business in Sri Lanka & this amount was received in Korea.

(c) Received Rs. 7 Lacs from RR Ltd., an Indian company as fees for providing technical services in India.

(d) Received Rs. 5 Lacs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal & the payment was made in Nepal.

(e) Received Rs. 8 Lacs towards interest on moneys borrowed by a NR for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India.

Answer:

SN	Taxability	Explanation
(a)	Taxable	Amount of Rs. 20 lakhs received from a NR is deemed to accrue or arise in India by virtue of section 9(1)(vi)(c), since the patent was used for a business in India. Therefore, it is taxable to in India.
(b)	Not Taxable	Foreign currency equivalent to Rs. 15 lakhs received in Korea from a NR for use of know-how for a business in Sri Lanka is not deemed to accrue or arise in India as per section 9(1)(vi)(c), since it is i.r.o. a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.
(c)	Taxable	Amount of Rs. 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of section 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	Not Taxable	Amount of Rs. 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per section 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.
(e)	Taxable	Amount of Rs. 8 lakhs received in Korea towards interest on moneys borrowed by a NR for the purpose of business within India is deemed to accrue or arise in India by virtue of section 9(v)(c), since money borrowed was used for the purpose of business in India. Therefore, the same is chargeable to tax in India.

Nov 18

Q2. Mr. Sahil, a citizen of India, serving in Ministry of Human Resources in India, was transferred to Indian Embassy in Germany on 15th March 2021. His income during PY 2021-22 is as under:

Particulars	Rs.
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	4,80,000
Interest accrued on National Saving Certificate	25,600
Interest on Post office savings bank account	3,200
Salary from Government of India	8,15,000
Foreign Allowances from Government of India	9,00,000

Mr. Sahil did not come to India during FY 2021-22. Compute his GTI for AY 2022-23.

Answer:

- Mr. Sahil is NR for AY 2022-23, since he was not present in India at any time during PY 2021-22.
- As per section 5(2), a NR is chargeable to tax in India only i.r.o. following incomes:

(i) Income received or deemed to be received in India; **AND**

(ii) Income accruing or arising or income deemed to accrue or arise in India.

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

	Particulars	Rs.
1	**Salaries**	
	Salary from Government of India [Income chargeable u/h 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India u/s 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sahil, a citizen of India, even though he is a NR & rendering services outside India]	8,15,000
	Foreign Allowances from Government of India [Any allowances/ perquisites paid or allowed as such outside India by the Government of India to a citizen of India for rendering service outside India is exempt u/s 10(7)].	Nil
2	**House Property:** Rent from a house situated at Australia, received in Australia. (Income from property situated outside India would not be taxable in India in the hands of a NR, since it is neither accruing or arising in India nor is it deeming to accrue or arise in India nor is it received in India)	Nil
3	**Income from Other Sources** Interest accrued on NSC is taxable [Will be allowed as deduction u/s 80C]	25,600
	Interest on Post office savings bank account [Exempt upto Rs. 3,500]	Nil
	Gross Total Income	**8,40,600**

May 19

Q3. Mr. Sumit is an Indian citizen & a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25.4.2021. Determine the residential status of Mr. Sumit for AY 2022-23, assuming that his stay in India in the last 4 PYs preceding PY 2021-22 is 365 days & last 7 PYs preceding PY 2021-22 is 730 days:
- Date entered in Continuous Discharge Certificate i.r.o. joining the ship: 25.4.2021.
- Date entered in Continuous Discharge Certificate i.r.o. signing off the ship: 24.10. 2021.

Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years.
What is his residential status for AY 2022-23:
(a) **Resident & ordinarily resident**
(b) Resident but not-ordinarily resident
(c) Non-resident
(d) Non-resident till 24.10.2021 & resident till 31.03.2022.

Q4. Aashish earns the following income during the PY 2021-22:
- Interest on U.K. Development Bonds (1/4th being received in India): Rs. 4,00,000.
- Capital gain on sale of a building in India but received in Holland: Rs. 6,00,000.

Aashish is a RNOR in India, then what will be amount of income chargeable to tax in India for AY 2022-23?
(a) Rs. 7 Lacs (b) Rs. 10 Lacs (c) Rs. 6 Lacs (d) Rs. 1 Lac

Q5. Determine the residential status of Ms. Nicole Kidman, an Australian actress, for AY 2022-23, from the following information about her stay in India contained in her passport.

FY	From	To	FY	From	To
2021-22	3rd May	12th August	2016-17	3rd May	12th August
2020-21	23rd July	11th August	2015-16	3rd May	12th August
2019-20	9th Feb	26th March	2014-15	3rd May	12th August
2018-19	8th Sep	26th March	2013-14	3rd May	12th August
2017-18	17th May	30th Sep	-	-	-

Answer: Residential status of Ms. Nicole, a foreign national, would be determined in following manner:

PY	21-22	20-21	19-20	18-19	17-18	16-17	15-16	14-15	13-14
Stay in India	102	20	47	200	137	102	102	102	102

- **First Basic Condition:**
  - Ms. Nicole Kidman's stay in India during PY 2021-222 is 102 days which is < 182 days.
  - Thus, she does not satisfy first basic condition.
- **Second Basic Condition:**
  - Her stay in India during PY 2021-22 is 102 days, which exceeds 60 days;
  - Her stay in India during 4 PYs prior to PY 2021-22 is 404 days (20 + 47+ 200 + 137) which exceeds 365 days. Hence, she is a resident for PY 2021-22.
- **Additional Condition:**
  - In the present case, her stay in India in the last 7 PYs prior to PY 2021-22 is 710 days [20 +47 +200+137 +102 +102 +102], which is less than 730 days.
  - Therefore, she is RNOR for PY 2021-22. No need to check 2nd Additional condition.

Nov 19

Q6. Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2021 as stamped in passport & returned on 27th April 2022. He has been in India for less than 365 days during the 4 yrs immediately preceding the PY. Determine his residential status & his total income for AY 2022-23 from following info.

(1) STCG on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to Rs. 58,000. The sale proceeds were credited to his bank account in Singapore.

(2) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a NR Indian, for the above-mentioned investment on 2nd April, 2021. Interest on the borrowed money for PY 2021-22 amounted to Rs. 5,800.

(3) Interest on fixed deposit with Punjab National Bank, Delhi amounting to Rs. 9,500 was credited to his saving bank account.

Answer:

Mr. Rajesh Sharma has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during PY 2021-22. Hence, he is a NR for AY 2022-23.

Computation of total income of Mr. Rajesh Sharma for AY 2022-23

	Particulars	Amount
1	STCG on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued & arisen in India even though the sale proceeds were credited to bank account in Singapore.	58,000
2	Dividend of Rs. 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of NR since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.	Nil
3	Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has accrued and arisen in India & is also received in India. He would **not be eligible for deduction u/s 80TTB,** since he is a NR.	9,500
	Total Income	**67,500**

May 20

Q7. Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2021. His income during PY 2021-22 is as under:

Particulars	Rs.
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India [before deduction u/s 16(ia)]	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during PY 2021-22. Compute his GTI for AY 2022-23.

[PC Note: Same Question was asked in RTP Nov 2018]

Answer: Computation of Gross Total Income of Mr. Shridhar for AY 2022-23

1	**Salaries**	
	Salary from Government of India [9,25,000 - Rs. 50,000 {SD u/s 16(ia)}]	8,75,000
	Foreign Allowances from Government of India	Nil
2	**House Property:** Rent from a house situated at Australia, received in Australia	Nil
3	**Income from Other Sources**	
	Interest on Post office savings bank account [Exempt upto Rs. 3,500]	1,000
Gross Total Income		**8,76,000**

PC Note: Interest on Post office saving bank A/c of Rs. 1,000 is allowed as deduction u/s 80TTA.

Nov 20

Q8. Mr. Nishant, a RNOR for PY 2019-20 & ROR for PY 2020-21 has received rent from property in Canada amounting to Rs. 1,00,000 during PY 2019-20. He has deposited the same in a bank in Canada. During FY 2020-21, he remitted this amount to India through approved banking channels. Is such rent taxable in India, & if so, how much & in which year?

(a) Yes; Rs. 70,000 was taxable in India during PY 2019-20.
(b) Yes; Rs. 1,00,000 was taxable in India during PY 2019-20.
(c) Yes; Rs. 70,000 was taxable in India during PY 2020-21.
(d) **No; such rent is not taxable in India during PY 2019-20 nor in PY 2020-21.**

Q9. You are required to determine residential status of Mr. Dinesh, a citizen of India, for PY 2021-22. Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2021. Following details are made available to you for PY 2021-22:

Particulars	Date
Date entered into the CDC in respect of joining the ship by Mr. Dinesh	16th August, 2021
Date entered into the CDC in respect of signing off the ship by Mr. Dinesh	21st January, 2022

In June, 2021, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last 4 years preceding the PY 2021-22, he was present in India for 425 days. During the last 7 PYs preceding the PY 2021-22, he was present in India for 830 days.

Answer: Determination of residential status of Mr. Dinesh for PY 2021-22

As per Explanation 1 to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant PY.

As per Explanation 2 to section 6(1)1, in case of an individual, being a citizen of India & a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage & ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Therefore, the period from 16th August, 2021 & ending on 21st January, 2022 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing period of his stay in India during PY 2021-22.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2021, such period has also to be excluded for computing his period of stay in India during PY 2021-22.

Consequently, the period of stay in India during PY 2021-22 would be 179 days [i.e., 365 days – 159 days – 27 days], which is less than 182 days. Thus, Mr. Dinesh would be a **NR** for AY. 2022-23.

May 21

Q10. Mr. Tejas, an Indian Citizen, left India permanently with his wife & two children for extending his retail trade business of toys in Canada in year 2015. From Canada, he is managing his retail business of toys in India. For the purpose his Indian business, he visits India every year from 1st September to 31st January. His business income is 23.50 lakhs & 18 lakhs from retail trade business in Canada & in India, respectively for PY 2021-22. He has no other income during PY 2021-22. Determine his residential status & income taxable in his hands for AY 2022-23.

(a) ROR in India & income of 18 lakhs & 23.50 lakhs would be taxable.
(b) NR & 18 lakhs from Indian retail trade business would only be taxable.
(c) RNOR & 18 lakhs from Indian retail trade business would only be taxable.
(d) Deemed resident & 18 lakhs from Indian retail trade business would only be taxable.

Q11. Mr. Dhruv, a person of Indian origin & citizen of Country X, got married to Ms. Deepa, an Indian citizen residing in Country X, on 4th February, 2021 & came to India for the first time on 20-02-2021. He left for Country X on 12th August, 2021. He returned to India again on 20-01-2022 with his wife to spend some time with his parents-in law for 30 days & thereafter returned to Country X on 18.02.2022. He received the following gifts from his relatives & friends of her wife during 01-04-2021 to 31-03-2022 in India:

From parents of wife	Rs. 1,01,000
From married sister of wife	Rs. 11,000
From very close friends of his wife	Rs. 2,82,000

Determine his residential status & compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2022-23.
Will your answer change if he has received Rs. 16,00,000 instead of Rs. 2,82,000 from very close friends of his wife during the PY 2021-22 & he stayed in India for 400 days during the 4 years preceding the PY 2021-22?

Answers:

(a) Determination of residential status & computation of tax payable of Mr. Dhruv

u/s 6(1), an individual, being a person of Indian origin & who comes on a visit to India during the PY & his total income other than the income from foreign source exceeds Rs. 15,00,000, is said to be resident in India, if he stayed in India for 120 days or more during that PY & for 365 days or more during the 4 years immediately preceding the relevant PY.
However, in case, the total income other than the income from foreign source does not exceed Rs. 15,00,000, the said individual is said to be resident in India, only if he stayed in India for a total period of 182 days or more during that PY.
Since in the present case, total income other than from foreign source, of Mr. Dhruv, a person of Indian origin does not exceed Rs. 15,00,000, he would be said to be resident in India, only if he stayed in India for 182 days or more during PY 2021-22.
His stay in India during the PY 2021-22 is as under: **01.04.2021 to 12.08.2021: 134 days & 20.01.2022 to 18.02.2022: 30 days. Total = 164 days.**
Since Mr. Dhruv has stayed in India during PY for < 182 days, he is said to be NR. Accordingly, his total income & tax payable would be computed in the following manner:

Particulars	Amount
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds Rs. 50,000.	
Rs. 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' & gifts from a relative are not chargeable to tax.	Nil
11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative & gifts from a relative are not chargeable to tax	Nil
Gift received from close friends of his wife of Rs.2,82,000 is taxable u/s 56(2)(x) since the said sum exceeds 50,000.	2,82,000
Total Income	**2,82,000**
Tax on total income of Rs. 2,82,000 [5% of Rs. 32,000 above 2.5 Lacs]	1,600
Add: Health & Education cess@4%	64
Total tax payable	**1664**

	(b) Determination of residential status & computation of total income & tax payable of Mr. Dhruv (if he has received cash gifts from non-relative for Rs. 16,00,000): Where an individual, being a person of Indian origin comes on visit to India & he is having total income other than income from foreign sources exceeding Rs. 15 lakhs during the PY, such individual is said to be resident in India, if he stays in India during the PY for 120 days or more & for 365 days or more during the 4 years immediately preceding the relevant PY. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in PY 2021-22 would be RNOR irrespective of his residential status or no. of days of stay in India in the immediately preceding PYs. **Mr. Dhruv, is a person of India origin who has come on a visit to India during the PY. Since his total income other than income from foreign sources exceeds Rs. 15,00,000; & his stay in India is for 164 days during PY 2021-22 & for 400 days during the 4 years immediately preceding PY 2021-22, he is RNOR in India for PY 2021-22.** In such case, his total income & tax payable would be computed in the following manner:
Nov 21	**No Direct Question was asked.**

Computation of total income & tax payable of Mr. Dhruv for AY 2022-23

Particulars	Amount
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds Rs. 50,000.	
Rs. 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' & gifts from a relative are not chargeable to tax.	NIL
Rs. 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative & gifts from a relative are not chargeable to tax	NIL
Gift received from close friends of his wife of Rs. 16,00,000 is taxable u/s 56(2)(x) since the amount of cash gifts exceeds Rs. 50,000	16,00,000
Total Income	16,00,000
Tax on total income of Rs. 16,00,000	2,17,500
Upto Rs. 2,50,000 Nil	
Rs. 2,50,001 – Rs. 5,00,000 [Rs. 2,50,000 @ 5%]	12,500
Rs. 5,00,001 – Rs. 7,50,000 [Rs. 2,50,000 @ 10%]	25,000
Rs. 7,50,001 – Rs. 10,00,000 [Rs. 2,50,000 @ 15%]	37,500
Rs. 10,00,001 – Rs. 12,50,000 [Rs. 2,50,000 @ 20%]	50,000
Rs. 12,50,001 – Rs. 15,00,000 [Rs. 2,50,000 @ 25%]	62,500
Rs. 15,00,001 – Rs. 16,00,000 [Rs. 1,00,000 @ 30%]	30,000
Add: Health & Education cess@4%	8,700
Total tax payable	**2,26,200**

Note: Since his tax payable as per normal provisions is Rs. 3,04,200 [Rs. 2,92,500 (Rs. 1,12,500 + 30% on Rs. 6,00,000 income exceeding Rs. 10,00,000) + Rs. 11,700 HEC @ 4%, which is higher than the tax payable computed as per concessional tax rates available u/s 115BAC, it is beneficial for him to opt for section 115BAC.

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

<table>
<tr><td>M15</td><td>Q1. Answer the following:
1. Explain with reasons whether following transactions attract income-tax in India in hands of recipients?
(a) Salary paid to Mr. David, a citizen of India 15,00,000 by CG for services rendered in Canada.
(b) Legal charges of 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at Supreme Court.
(c) Royalty paid to Rajeev, a NR by Mr. Mukesh, a resident for a business carried on in Sri Lanka.
(d) Interest received of 1,00,000, on money borrowed from France, by Ms. Dyana, a NR for business at Bangalore.
2. Ms. Bindu, a NR, residing in New York since 1991, came back to India on 19.02.2020 for permanent settlement in India. Explain residential status of Ms. Bindu for AY 2022-23 in accordance with various provision of Indian Income Tax Act.
Solution:
1.
(a) Taxable. Salary paid by CG to citizen of India for services rendered outside India is deemed to accrue or arise in India.
(b) Taxable as amount has been paid for services rendered in India.
(c) Not taxable, as royalty has been paid for a business carried on outside India.
(d) Taxable in the hands of Ms Dyana as the borrowed money has been used for a business in India.

2. Stay in India of Ms. Bindu is as under:
PY 2021-22: (01.04.2021 – 31.03.2022) - 365 days.
PY 2020-21: (01.04.2020 – 31.03.2021) - 366 days.
PY 2019-20: (19.02.2020 – 31.03.2020) - 41 days.
She is in India for more than 182 days during PY 2021-22. Hence, she is a resident.
Further, she is a resident for PY 2020-21 but prior to that she is a NR. Therefore, she neither satisfies the first additional condition of being resident for at least 2 out of 10 PY immediately preceding the relevant PY nor she was here for 730 days or more in 7 preceding PYs immediately preceding the PY 2021-22. Therefore, Ms. Bindu will be RNOR in India.</td></tr>
<tr><td>N15</td><td>Q2. Mr. Soham, an Indian citizen left India on 20.4.2019 for the first time to setup a software firm in Singapore. On 10.4.2021, he entered into an agreement with LK Limited, an Indian Company for transfer of technical documents & designs to setup an automobile factory in Faridabad. He reached India along with his team to render the requisite services on 15.5.2021 & was able to complete his assignment on 20.8.2021. He left for Singapore on 21.8.2021. He charged 50 lakhs for his services from LK Limited.
Determine residential status of Mr. Soham for AY 2022-23 & explain as to the taxability of the fees charged from LK Limited as per the Income Tax Act, 1961.
Solution: Assessee is a citizen of India residing outside India.
During PY 2021-22 his stay in India is: From 15.5.2021 to 20.8.2021 = 17 +30+ 31+21= 99 days
As his stay in India is less than 120 days & he has come to India for a visit during PY he shall be NR.
He has received 50,00,000 for rendering technical services in India. Therefore, this amount shall be taxable in India as:
(1) Amount has been received in India.
(2) The amount shall be deemed to accrue in India u/s 9 as it is fee for technical services which has been paid by resident in India for services which have been utilized in India.</td></tr>
<tr><td>M16</td><td>Q3. How is the residential status of a company determined for the purposes of Income-tax Act, 1961, for the AY 2022-23?
Answer: See Concept Book by CA Pranav Chandak Sir.</td></tr>
<tr><td>N16</td><td>Q4. R, a citizen of India, serving in the Ministry of Finance in India was transferred to High Commission of Australia on 15.3.2021. He did not come to India during FY 2021-22. His income during FY 2021-22 is given hereunder:
<table><tr><th>Particulars</th><th>Amount</th></tr></table></td></tr>
</table>

Salary from Government of India	7,20,000
Foreign Allowances from Government of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2021-22.	45,000

Compute Gross Total Income of R for AY 2022-23. Assume R:

(a) does not opt to be taxed u/s 115BAC

(b) opts to be taxed u/s 115BAC

Answer: **Computation of Gross Total Income of R, a non-resident for AY 2022-23**

		Does not opt to be taxed u/s 115BAC	**Opts to be taxed u/s 115BAC**
Income from Salaries			
Salary from Government of India	7,20,000		
(Salary payable by the Government to a citizen of India for services rendered outside India is deemed to accrue/arise in India u/s 9(l)(iii).			
Foreign Allowance from Government of India exempt u/s 10(7)	Nil	7,20,000	7,20,000
Less: Standard deduction u/s 16(ia)		(50,000)	Nil
		6,70,000	7,20,000
Income from HP			
Rent from a house situated at London, received in London	Nil	Nil	Nil
(Not taxable as it neither accrues/arises in India nor deemed to accrue /arise in India)			
Income from Other Sources			
Interest accrued on National Savings Certificate		45,000	45,000
Gross Total Income		**7,15,000**	**7,65,000**

M17

Q5. A Korean Company D Ltd, entered in to following transactions during FY 2021-22:

(A) 1Received 20 Lakhs from a NR for use of Patent for a business in India.

(B) Received 15 Lakhs from a NR Indian for use of know-how for a business in Sri Lanka & this amount was received in Japan. [Assume that above amount is converted/stated in Indian Rupees].

(C) Received 7 Lakhs from RR Co. Ltd, an Indian Company, for providing Technical know-how in India.

(D) Received 5 Lakhs from R & Co. Mumbai for conducting Feasibility Study for a new project in Nepal & the payment was made in Nepal.

Explain briefly whether, these receipts are chargeable to tax in India.

Answer:

(A) Chargeable to tax in India. In this case as the payer is a NR, income received for patent used for business in India, shall be deemed to accrue or arise in India.

(B) Not chargeable to tax in India. In this case as the payer is a NR, income received for use of know-how for a business outside India, shall not be deemed to accrue or arise in India.

(C) Chargeable to tax in India. In this case as the payer is an Indian Company, i.e., resident in India, & further technical know-how is used for business in India, the income shall be deemed to accrue or arise in India.

(D) Not chargeable to tax in India. In this case as the payer, being an Indian company is a resident in India. However, as the fee is for feasibility study conducted for business outside India, it shall not be deemed to accrue or arise in India.

N17

Q6. Daisy Ltd., a foreign company, incorporated in USA & engaged in the manufacturing & distribution of diamonds, set up a branch office in India in June 2021. The branch office was required to purchase uncut &

	unassorted diamonds from the dealers of Mumbai & export them to USA. During the PY 2021-22, profit from such export amounted to 75 lakhs. Out of 20 shareholders of DAISY Ltd., 12 shareholders are NR in India. All the major decisions were taken through Board Meetings held at USA. (i) Determine the residential status of DAISY Ltd. for AY 2022-23. (ii) Discuss the tax treatment of profit from export business. **Answer:** (i) Daisy Ltd is NR in India as all the major decisions were taken through Board Meetings held in USA & thus its place of effective management was outside India. (ii) Profit of export amounting to 75 lakhs shall not be taxable in India as the branch activities are confined to purchase of diamonds & exports of the same to outside India. Such activity is not treated as business connection in India.
M18	**Q7.** Compute GTI in hands of an individual for AY 2022-23 if he is: (a) a resident & ordinary resident; (b) a non-resident.

SN	Particulars	Amount
1	Interest from German Derivatives Bonds (1/3 received in India)	21,000
2	Income from agriculture land situated in Malaysia, remitted to India	51,000
3	Income earned from business in Dubai, controlled from India (20,000 received in India)	75,000
4	Profit from business in Mumbai, controlled from Australia	1,75,000
5	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000
6	Dividend from Brown Ltd., an Indian Co.	30,000
7	Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada & 40% remitted to India)	60,000
8	Amount received from an NRI for use of know-how for his business in Singapore	8,00,000
9	Dividend received from foreign company in India	25,000
10	Past years untaxed foreign income brought to India	50,000

Answer: **Computation of gross total income**

SN	Particulars	ROR	NR
1	Interest from German Derivatives Bonds		
	Received in India (1/3)	7,000	7,000
	Other interest not received in India	14,000	-
2	Income from agriculture land situated in Malaysia (Not 1st receipt, only remitted)	51,000	-
3	Income earned from business in Dubai, controlled from India - Received in India - Other global accruals & receipts	20,000 55,000	20,000
4	Profit from business in Mumbai, controlled from Australia (Income accrues or arises in India)	1,75,000	1,75,000
5	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000	35,000
6	Dividend from Brown Ltd.	30,000	30,000
7	Profit from business in Canada (1st occasion when recipient gets the money under his control is Canada, it cannot be deemed to be received in India. Therefore, it is not chargeable to tax in India in case of a NR)	60,000	

8	Amount received from an NRI for the use of know-how for his business	8,00,000	
9	Dividend received from foreign company	25,000	25,000
10	Past years untaxed foreign income brought to India	-	-
		12,72,000	2,92,000

Notes:
1. Any income which is received in India, during PY by any assessee, is liable to tax in India, irrespective of residential status of the assessee & the place of accrual of such income.
2. Income from agriculture land situated outside India is not covered u/s 10(1).
3. Global income of a resident is taxed in India subject to DTAAs.
4. Income from a business connection in India will be deemed to accrue or arise in India.
5. Interest received from an NRI is deemed to accrue or arise in India if it is received in respect of money lent for business in India.
6. Dividend Income is fully taxable w.e.f. 1.4.2020.
7. For all NR, profits of business outside India are not chargeable to tax in India unless it is received in India.
8. Any receipt of fee for know-how for a business carried outside India by a NR is not chargeable to tax in India.
9. Past years untaxed foreign income is being remitted to India. It is not taxable for current FY for both ROR & NR. For NR, remittances are not chargeable to tax in India & for ROR, it shall be taxed in the relevant years.

Q8. Mrs. Karuna Kapoor, is a Hollywood actress. Her passport reveals following information about her stay in India:

2021-22	From April 3rd	To July 11th
2020-21	From June 22nd	To July 11th
2019-20	From Feb 10th	To March 26th
2018-19	From Sept. 7th	To March 26th
2017-18	From May 17th	To September 30
2016-17	From April 3rd	To July 11th
2015-16	From April 3rd	To July 11th
2014-15	From April 3rd	To July 11th
2013-14	From April 3rd	To July 11th

Find out her residential status for AY 2022-23.

Answer: **Period of stay in India**

Year	No.	Conditions to check residential status
2021-22	100	**(a) Basic Conditions:** (i) Minimum stay in India for 182 days or more during the relevant PY; Or (ii) 60 days during PY & 365 days or more in 4 PYs immediately preceding the relevant PY.
2020-21	20	
2019-20	46	
2018-19	201	**(b) Additional conditions:** (i) Resident in India for at least 2 out of Last 10 PY & (ii) Stay in India for 730 days or more during Last 7 PYs.
2017-18	137	
2016-17	100	
2015-16	100	
2014-15	100	
2013-14	100	

Residential status for PY 2021-22	
(i) Number of days in India during PY 2021-22	100
(ii) Number of days in preceding 4 PYs (20 + 46 + 201 + 137)	404
Since both conditions are satisfied, she is a resident	
Additional conditions	
Residential status for PY 2021-22	
(i) Stay in India during PY 2021-22	201
(ii) In preceding 4 PYs (137 + 100 + 100 + 100)	437
Residential status for PY 2021-22	Resident
Residential status for PY 2020-21	
(i) Stay in India during PY 2020-21	137
(ii) In preceding 4 PYs (100 + 100 + 100 + 100)	400
Residential status for PY 2020-21	Resident

Total Number of days in preceding 7 PYs in India: 704
Since total number of days in preceding 7 PYs is less than 730 days, additional conditions are not satisfied. Therefore, she is **RNOR**. **Note:** It is assumed that she is a foreign citizen.

N18

Q9. Following incomes are derived by Mr. Krishna Kumar during the year ended 31.3.2022:

Particulars	Amount
Pension received from the US Government	3,20,000
Agricultural income from lands in Malaysia	2.70,000
Rent received from let out property in Colombo, Sri Lanka	4,20,000

Discuss the taxability of the above items where the assessee is: Resident; Non-resident

Answer: As per section 5, global income of a 'Resident' is taxable in India, irrespective of whether it accrues/ arises in India or outside India. However, in case of a 'NR', only the income which accrues/ arises in India or is deemed to accrue/ arise in India or is received/ deemed to be received in India is taxable. Thus, taxability in the given question would be as under:

Particulars	Resident	NR
Pension received from US Government (Income accrues/arises outside India)	3,20,000	-
Agricultural income from lands in Malaysia (Income accrues/arises outside India)	2,70,000	-
Rent received from let out property in Colombo, Sri Lanka. (Income accrues/arises outside India) [Where rent received is taxable, standard deduction @ 30% u/s 24(a) would be available from the rent so received. Thus, taxable income would be (4,20,000 - 30% of 4,20,000)]	2,94,000	
Total Taxable Income	**8,84,000**	**-**

Note: It has been assumed that all of the above payments have been received outside India. If any part of the income is received in India, such income shall be taxable in India.

M19

Q10. Following are the incomes of Shri Subhash Chandra, a citizen of India for PY 2021-22:

(i) Income from business in India 2,00,000. The business is controlled from London & 60,000 were remitted to London.
(ii) Profits from business earned in Japan 70,000 of which 20,000 were received in India. This business is controlled from India.
(iii) Untaxed income of 1,30,000 for the year 2019-20 of a business in England which was brought in India on 3.3.2022.
(iv) Royalty of 4,00,000 received from Shri Ramesh, a resident for technical service provided to run a business outside India.
(v) Agricultural income of 90,000 in Bhutan.
(vi) Income of 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross total income of Shri Subhash Chandra for AY 2022-23, if he is:
(1) Resident & Ordinary Resident, &
(2) Resident & Not Ordinarily Resident

Answer:

Following incomes from whatever source derived form part of Total Income in case of resident in India/ ordinarily resident in India:

(a) any income which is received in India in relevant PY by/on behalf of such person;
(b) any income which accrues/ arises/ is deemed to accrue or arise in India during relevant PY;
(c) any income which accrues/ arises outside India during relevant PY.

In case of a RNOR in India all the above income form part of total income except the income referred in clause (c), which shall be treated as part of income only if it accrues/ arises to him outside India during the relevant PY & it is derived from a business controlled in or a profession set up in India.

Particulars	ROR	RNOR
Income from business in India, controlled from London	2,00,000	2,00,000
Profit from business in Japan, controlled from India	70,000	70,000
Past years untaxed foreign income brought to India	—	—
Royalty Income from a resident for technical service to run business outside India (Assumed amount received in India)	4,00,000	4,00,000
Agriculture Income from Bhutan i.e., outside India (Assumed received in Bhutan)	90,000	—
Income from HP in Dubai received in Dubai	73,000	—
Gross Total Income	**8,33,000**	**6,70,000**

N19

Q11. Mr. Jagdish, aged 61 years, has set-up his business in Thailand & is residing in Thailand since last 20 years. He owns a HP in Bangkok, half of which is used as his residence & half is given on rent (such rent received, converted in INR is 6,00,000). Annual value of the house in Thailand is 50,00,000 i.e., converted value in INR.

He purchased a flat in Pune during FY 2014-15 which has been given on monthly rent of 27,500 since 1.7.2020. Annual property tax of Pune flat is 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2020. He has taken a loan from Union Bank of India for purchase of Pune flat amounting to 15,00,000. Interest on such loan for FY 2021-22 was 84,000. However, interest for March 2022 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May, 2018. In respect of this house, he received arrear of rent of 96,000 in February 2022 (not taxed earlier).

He also derived some other incomes during FY 2021-22 which are as follows:

Profit from business in Thailand 2,75,000

Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India.

Income from Apple Orchid in Nepal given on contract & yearly contract fee of 5,00,000 for FY 2021-22 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank A/c maintained with Union Bank of India's Pune Branch.

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

Assume Mr. Jagdish:
(i) does not opt to be taxed u/s 115BAC
(ii) opts to be taxed u/s 115BAC

Answer: Since Mr. Jagdish is NR as he last visited India in July, 2020.

Computation of total income of Mr. Jagdish in India for AY 2022-23

Particulars	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from HPs in Thailand & Bankok	—	—

Income from HP in India [See Note (i) & (ii)]	2,14,200	2,14,200
Profit from business in Tailand	—	—
Interest on bond of a Japanese company, 50% received in India	22,500	22,500
Income from apple orchid in Nepal received in India, though deposited in Nepal but in an A/c maintained in India	5,00,000	5,00,000
Total income	**7,36,700**	**7,36,700**

Notes:

(i) It has been assumed that rental income is the GAV of the property. Therefore, deduction @ 30% u/s 24, has been provided & net income so computed is taken into A/c for determining the total income of ROR.

Particulars	Amount	Amount	Amount
Rent received (assumed as GAV) (27,500 x 12)		3,30,000	
Less: Deduction u/s 24(a) (30% of 3,30,000)	99,000		
Less: Deduction u/s 24(b)	84,000	1,83,000	
Income from HP (let out)			1,47,000
Arrear of rent received of Jaipur house		96,000	
Less: Deduction u/s 24(a) (30% of 96,000)		28,800	67,200
Income from HP			2,14,200

(ii) **Interest allowable on accrual basis:** Deduction u/s 24(b) for interest is available on accrual basis. Therefore, interest accrued but not paid during the year can also be claimed as deduction.

N20

Q12. Mr. Thomas, a NR & citizen of Japan entered into following transactions during PY ended 31.3.2022. Examine the tax implications in his hands for AY 2022-23:

(1) Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).

(2) Received 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).

(3) He is also engaged in the business of running news agency & earned income of 10 lakhs from collection of news & views in India for transmission outside India.

(4) He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents & design & for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged 10 lakhs for these services from SKK & Co.

Answer:

(1) Interest has been received by Mr. Thomas from Mr. Marshal outside India. Interest is not in respect of money borrowed & used for a business or profession carried on in India. Hence, the interest income is not taxable in hands of Mr. Thomas as he is a NR.

(2) As per Explanation 4 to section 9(l)(vi), granting license for computer software is included in meaning of royalty. As amount has been received from a person who is resident in India, it shall be deemed to have accrued in India. The income shall be taxable in the hands of Mr. Thomas.

(3) In the case of a NR, being a person engaged in the business of running a news agency or of publishing newspapers, magazines or journals, no income shall be deemed to accrue/arise in India to him through or from activities which are confined to collection of news & views in India for transmission out of India. Hence, amount of 10 lakhs will not be taxable in hands of Mr. Thomas.

(4) As the technical services have been used for purpose of business in India, the income shall be deemed to accrue/arise in India & the income shall be taxable in hands of Mr. Thomas.

CHAPTER 3. SALARY QB

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Raj Kumar has the following receipts from his employer:

(1)	Basic pay	Rs. 40,000 p.m.
(2)	Dearness allowance (D.A.)	Rs.6,000 p.m.
(3)	Commission	Rs. 50,000 p.a.
(4)	Motor car for personal use (expenses met by the employer)	Rs. 1,500 p.m.
(5)	House rent allowance	Rs. 15,000 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of Rs. 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits.

Answer:

HRA received	Rs. 1,80,000
Less: Exempt u/s 10(13A) [Note]	Rs. 1,36,800
Taxable HRA	Rs. 43,200

Note: Exemption shall be least of the following three limits:

(a) Actual amount received (Rs. 15,000 × 12) = Rs. 1,80,000

(b) Excess of the actual rent paid by the assessee over 10% of his salary
= Rent Paid - 10% of salary for the relevant period
= (Rs. 16,000×Rs. 12) - 10% of [(Rs. 40,000+ Rs. 6,000) × 12]
= Rs. 1,92,000 – Rs. 55,200 = Rs. 1,36,800

(c) 40% salary as his accommodation is situated at Kanpur = 40% of [(Rs. 40,000+ Rs. 6,000) × 12] = Rs. 2,20,800.

Note: For the purpose of exemption u/s 10(13A), salary includes DA only when the terms of employment so provide, but excludes all other allowances & perquisites.

Q2. Mr. Srikant has two sons. He is in receipt of children education allowance of 150 p.m. for his elder son & 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances.

Transport allowance	Rs. 1,800 p.m.
Tribal area allowance	Rs. 500 p.m.

Compute his taxable allowances.

Answer: **Taxable allowance in the hands of Mr. Srikant is computed as under:**

Children Education Allowance:

Elder son [(Rs.150 – Rs.100) p.m. × 12 months]	Rs. 600	
Younger son [(Rs. 70 – Rs.70) p.m. × 12 months]	Nil	Rs. 600
Transport allowance (Rs.1,800 p.m. × 12 months)		Rs. 21,600
Tribal area allowance [(Rs.500 – Rs.200) p.m. × 12 months]		Rs. 3,600
Taxable allowances		Rs. 25,800

Q3. Mr. Sagar who retired on 1.10.2021 is receiving 5,000 p.m. as pension. On 1.2.2022, he commuted 60% of his pension & received 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

(a) He is a government employee.

(b) He is a private sector employee & received gratuity of 5,00,000 at the time of retirement.

(c) He is a private sector employee & did not receive any gratuity at the time of retirement.

Answer: (a) He is a government employee.

Uncommuted pension received (October – March) [(5,000 × 4 months) + (40% of 5,000 × 2 months)]		Rs. 24,000
Commuted pension received	Rs.3,00,000	
Less: Exempt u/s 10(10A)	Rs. 3,00,000	Nil
Taxable pension		**Rs. 24,000**

(b) He is a private sector employee & received gratuity of 5,00,000 at the time of retirement.

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

(c) He is a private sector employee & did not receive any gratuity at the time of retirement.

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

Q4. Mr. Ravi retired on 15.6.2021 after completion of 26 years 8 months of service & received gratuity of Rs. 15,00,000. At the time of retirement, his salary was:

Basic Salary	Rs. 50,000 p.m.
Dearness Allowance	Rs. 10,000 p.m. (60% of which is for retirement benefits)
Commission	1% of turnover (turnover in the last 12 months was Rs. 1,20,00,000)
Bonus	Rs. 25,000 p.a.

Compute his taxable gratuity assuming:

(a) He is private sector employee & covered by the Payment of Gratuity Act, 1972.
(b) He is private sector employee & not covered by Payment of Gratuity Act, 1972.
(c) He is a government employee

Answer: (a) He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement		Rs. 15,00,000
Less: Exemption u/s 10(10)		
Least of the following:		
(i) Gratuity received	Rs. 15,00,000	
(ii) Statutory limit	Rs. 20,00,000	
(iii) 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months. $= \frac{15}{26}$ × last drawn salary × years of service $= \frac{15}{26}$ × (Rs. 50,000 + Rs. 10,000) × 27	Rs. 9,34,615	Rs. 9,34,615
Taxable Gratuity		**Rs. 5,65,385**

(b) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	Rs. 15,00,000
Less: Exemption u/s 10(10) (Note)	Rs. 8,58,000
Taxable Gratuity	Rs. 6,42,000

Note:

Exemption u/s 10(10) is least of the following:	
(i) Gratuity received	Rs. 15,00,000
(ii) Statutory limit	Rs. 20,00,000
(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service $= \frac{1}{2}$ × Average salary × years of service $= \frac{1}{2} \times \frac{\left[(50,000 \times 10)+(10,000 \times 60\% \times 10)(1\% \times 1,20,00,000 \times \frac{10}{12})\right]}{10} \times 26$	Rs. 8,58,000

(c) He is a government employee

Gratuity received at the time of retirement	Rs. 15,00,000
Less: Exemption u/s 10(10)	Rs. 15,00,000
Taxable gratuity	**Nil**

Q5. Mr. Gupta retired on 1.12.2021 after 20 years 10 months of service & received leave salary of Rs. 5,00,000. Other details of his salary income are:

Basic Salary	Rs. 5,000 p.m. (1,000 was increased w.e.f. 1.4.2021)
Dearness Allowance	Rs. 3,000 p.m. (60% of which is for retirement benefits)
Commission	Rs. 500 p.m
Bonus	Rs. 1,000 p.m.
Leave availed during service	480 days

He was entitled to 30 days leave every year.
You are required to compute his taxable leave salary assuming:
(a) He is a government employee.
(b) He is a non-government employee.

Answer: (a) He is a government employee.

Leave Salary received at the time of retirement	Rs. 5,00,000
Less: Exemption u/s/ 10(10AA)	Rs. 5,00,000
Taxable Leave salary	**Nil**

(b) He is a non-government employee

Leave Salary received at the time of retirement	Rs. 5,00,000
Less: Exemption u/s 10(10AA) (See Note Below)	Rs. 26,400
Taxable Leave salary	**Rs. 4,73,600**

Note:

Exemption u/s 10(10AA) is least of the following	
(i) Leave salary received	Rs. 5,00,000
(ii) Statutory limit	Rs. 3,00,000
(iii) 10 months' salary based on average salary of last 10 months i.e., $\left[10 \times \frac{Salary\ of\ last\ 10\ months\ i.e. Feb\ Nov}{10\ months}\right] = \left[10 \times \frac{(5{,}000 \times 8) + (4{,}000 \times 2) + (60\% \times 3000 \times 10)}{10\ months}\right]$	Rs. 66,000
Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) Leave Due = Leave allowed - Leave taken = (30 days per year × 20 years) - 480 = 120 days i.e. $\left[\frac{\text{Leave due (in days)}}{\text{30 days}} \times \text{Average salary p. m.}\right] = \left[\frac{120\ dyas}{30\ days} \times \frac{66{,}000}{10}\right]$	Rs. 26,400

Q6. Mr. A retires from service on 31.12.2021, after 25 years of service. Following are the particulars of his income/investments for PY 2021-22:

Particulars	Amount
Basic pay @ 16,000 p.m. for 9 months	Rs. 1,44,000
Dearness pay (50% forms part of the retirement benefits) 8,000 p.m. for 9 months	Rs. 72,000
Lumpsum payment received from the Unrecognized Provident Fund	Rs. 6,00,000
Deposits in the PPF A/c	Rs. 40,000

Out of the amount received from URPF, employer's contribution was 2,20,000 & the interest thereon Rs. 50,000. The employee's contribution was Rs. 2,20,000 & the interest thereon 60,000. What is the taxable portion of the amount received from URPF in the hands of Mr. A for AY 2022-23?

Answer: Taxable portion of amount received from URPF in hands of Mr. A for AY 2022-23 is computed as:

Particulars	Amount
Amount taxable u/h Salaries:	
Employer's share in the payment received from the URPF	Rs. 2,20,000
Interest on the employer's share	Rs. 50,000
Total	Rs. **2,70,000**
Amount taxable u/h IFOS:	
Interest on the employee's share	Rs. 60,000
Total amount taxable from the amount received from the fund	Rs. **3,30,000**

Note: Since employee is not eligible for deduction u/s 80C for contribution to URPF at the time of such contribution, employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

Q7. Will your answer be any different if the fund mentioned above was a recognised provident fund (RPF)?
Answer: Since the fund is a recognised one, & the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Q8. Mr. B is working in XYZ Ltd. & has given the details of his income for the PY 2021-22. You are required to compute his gross salary from the details given below:

Basic Salary	10,000 p.m.
D.A. (50% is for retirement benefits)	8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	50,00,000
Bonus	40,000
Gratuity	25,000
His own contribution in the RPF	20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	13,000

Answer: **Computation of Gross Salary of Mr. B for AY 2022-23**

Particulars	Amount	Amount
Basic Salary [10,000 × 12]		Rs. 1,20,000
Dearness Allowance [8,000 × 12]		Rs. 96,000
Commission on turnover [0.1% × 50,00,000]		Rs. 5,000
Bonus		Rs. 40,000
Gratuity [Note 1]		Rs. 25,000
Employee's contribution to RPF [Note 2]		-
Employer's contribution to RPF [20% of 1,20,000]	Rs. 24,000	
Less: Exempt [Note 3]	(Rs. 20,760)	Rs. 3,240
Interest accrued in the RPF @ 13% p.a.	Rs. 13,000	
Less: Exempt @ 9.5% p.a.	(Rs. 9,500)	Rs. 3,500
Gross Salary		Rs. **2,92,740**

Notes:
(1) Gratuity received during service is fully taxable.
(2) Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.
(3) Employer's contribution in the RPF is exempt up to 12% of the salary. i.e., 12% of [Basic Salary + D.A forming part of retirement benefits + Commission based on turnover] = 12% of [Rs. 1,20,000 + (50% × Rs. 96,000) + Rs. 5,000] = 12% of Rs. 1,73,000 = Rs. 20,760

Q9. Mr. Dutta received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief u/s 89.

Answer:

Voluntary retirement compensation received	Rs. 7,00,000
Less: Exemption u/s 10(10C) [See Note below]	(Rs. 5,00,000)
Taxable voluntary retirement compensation	Rs. 2,00,000

Note: Exemption is to the extent of least of the following:

(i)	Compensation actually received	Rs. 7,00,000
(ii)	Statutory limit	Rs. 5,00,000
(iii)	3 months' salary × Completed years of service = (Rs. 20,000 + Rs. 5,000) × 3 × 30 years	Rs. 22,50,000
(iv)	Last drawn salary × Balance months of service left = (Rs. 20,000 + Rs. 5,000) × 6 × 12 months	Rs. 18,00,000

Q10. Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.5.2020. His basic salary is Rs. 5,50,000 p.m. He is paid 10% as D.A. He contributes 11% of his pay & D.A. towards his RPF & the company contributes the same amount. The accumulated balance in RPF as on 1.4.2021 & 31.3.2022 is Rs. 15,35,000 & Rs. 33,55,000. Compute the perquisite value chargeable in the hands of Mr. X u/s 17(2)(vii) & 17(2)(viia) for the P.Y. 2021-22.

Answer:

(1) Perquisite value taxable u/s 17(2)(vii) = Rs. 7,98,600, being employer's contribution to RPF during the PY 2021-22 – Rs. 7,50,000 = Rs. 48,600.

(2) Annual accretion on perquisite taxable u/s 17(2)(vii) = (PC/2) × R + (PC1 + TP1) × R
= (48,600/2) × 0.091 + 0 = Rs. 2,211.

PC	ABC Ltd.'s contribution in excess of Rs. 7.5 lakh to RPF during PY 2021-22 = Rs. 48,600.
PC1	Nil since employer's contribution is less than Rs. 7.5 lakh to RPF in PY 2020-21.
TP1	Nil.
R	I/Favg = 2,22,800/24,45,000 = 0.091.
I	RPF balance as on 31.3.2022 – employee's & employer's contribution during year – RPF balance as on 1.4.2021 = Rs. 2,22,800 (Rs. 33,55,000 –Rs. 7,98,600 – Rs. 7,98,600 – Rs. 15,35,000)
Favg	Balance to the credit of RPF as on 1.4.2021 + Balance to the credit of RPF as on 31.3.2022)/2 = (Rs. 15,35,000 + Rs. 33,55,000)/2 = Rs. 24,45,000

Note: Since the employee's contribution to RPF exceeds Rs. 2,50,000 in the PY 2021-22, interest on Rs. 5,48,600 (i.e., Rs. 7,98,600 – Rs. 2,50,000) will also be chargeable to tax.

Q11. Mr. D went on a holiday on 25.12.2021 to Delhi with his wife & three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) & the total cost of tickets reimbursed by his employer was Rs. 60,000 (Rs. 45,000 for adults & Rs. 15,000 for the three minor children). Compute the amount of LTC exempt.

Answer: Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India & the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.

Q12. In the above question 11, will there be any difference if among his three children the twins were 5 years old & the son 3 years old? Discuss.

Answer. Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable LTC = 15,000 × 1/3 =Rs. 5,000
LTC exempt would be only Rs. 55,000 (i.e., Rs. 60,000 – Rs. 5,000)

Q13. Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during PY 2021-22:

Medical premium paid for insuring health of Mr. G	Rs. 7,000
Treatment of Mr. G by his family doctor	Rs. 5,000
Treatment of Mrs. G in a Government hospital	Rs. 25,000
Treatment of Mr. G's grandfather in a private clinic	Rs. 12,000
Treatment of Mr. G's mother (68 years & dependant) by family doctor	Rs. 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	Rs. 3,000
Treatment of Mr. G's brother (independent)	Rs. 6,000
Treatment of Mr. G's father (75 years & dependent) abroad	Rs. 50,000
Expenses of staying abroad of the patient &	Rs. 30,000
Limit specified by RBI	Rs. 75,000

Answer: **Computation of taxable value of perquisite in the hands of Mr. G**

Particulars		Taxable Amount
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years & dependent) abroad	Rs. 50,000	
Expenses of staying abroad of the patient & attendant	Rs. 30,000	
	Rs. 80,000	
Less: Exempt up to limit specified by RBI	Rs. 75,000	Rs. 5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		Rs. 5,000
Treatment of Mr. G's mother (dependent) by family doctor		Rs. 8,000
Treatment of Mr. G's sister (dependent) in a nursing home		Rs. 3,000
Treatment of Mr. G's grandfather in a private clinic		Rs. 12,000
Treatment of Mr. G's brother (independent)		Rs. 6,000
Taxable value of perquisite		Rs. **39,000**

Q14. Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent- free unfurnished accommodation in Mumbai. He gives you the following particulars.

Basic salary	Rs. 6,000 p.m.
Dearness Allowance	Rs. 2,000 p.m. (30% is for retirement benefits)
Bonus	Rs. 1,500 p.m.

Even though the company allotted the house to him on 1.4.2021, he occupied the same only from 1.11.2021. Calculate the taxable value of the perquisite for AY 2022-23.

Answer:

Value of the rent-free unfurnished accommodation
= 15% of salary for the relevant period
= 15% of [(6000 × 5) + (2,000 × 30% × 5) + (1,500 × 5)] [See Note]
= 15% of Rs. 40,500 = Rs. 6,075

Note: Since, Mr. C occupies the house only from 1.11.2021, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2021 to 31.03.2022) will be considered.

Q15. Using the data given in the previous question 14, compute the value of the perquisite if Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this accommodation.

Answer:

- First of all, we have to see whether there is a concession in the matter of rent.

- In the case of accommodation owned by the employer in cities having a population exceeding 25 lacs, there would be deemed to be a concession in rent if 15% of salary > rent recoverable from the employee.
- In this case, 15% of salary would be Rs. 6,075 (15% of Rs. 40,500). Rent paid by the employee is 5,000 (i.e., 1,000 x 5).
- Since 15% of salary > rent recovered from the employee, there is a deemed concession in rent.
- Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation	Rs. 6,075
Less: Rent paid by the employee (1,000 × 5)	Rs. 5,000
Perquisite value of unfurnished accommodation	**Rs. 1,075**

Q16. Using the data given in question 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of 1,200 p.m. & Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this accommodation.

Answer:

- Here again, we have to see whether there is a concession in the matter of rent.
- In case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 15% of salary (whichever is lower) exceeds rent recoverable from the employee.
- In this case, 15% of salary is Rs. 6,075 (i.e. 15% of Rs. 40,500). Rent paid by the employer is Rs. 6,000 (i.e. 1,200 x 5). The lower of the two is Rs. 6,000, which exceeds the rent paid by the employee i.e. Rs. 5,000 (1,000 x 5). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation [Note]	Rs. 6,000
Less: Rent paid by the employee (1,000 × 5)	Rs. 5,000
Value of unfurnished accommodation given at concessional rent	Rs. **1,000**

Note: Value of the rent-free unfurnished accommodation is lower of

(1) Lease rent paid by the company for relevant period = 1,200 × 5 = Rs. 6,000.

(2) 15% of salary for the relevant period (computed earlier) = Rs. 6,075.

Q17. Using the data given in question 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV Rs. 10,000; Cost 25,000) & two air conditioners. The rent paid by the company for the air conditioners is Rs. 400 p.m. each. The television was provided on 1.1.2021. However, Mr. C is required to pay a rent of Rs. 1,000 p.m. to the company, for the use of this furnished accommodation.

Answer:

- Here again, we have to see whether there is a concession in the matter of rent.
- In the case of accommodation owned by the employer in a city having a population exceeding Rs. 25 lacs, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee.
- In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over & above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether there is a concession in the matter of rent.
- In this case, 15% of salary is Rs. 6,075 (i.e. 15% of Rs. 40,500). The rent paid by the employee is Rs. 5,000 (i.e. 1,000 x 5). The value of furniture of Rs. 4,625 (see Note) is to be added to 15% of salary. The deemed concession in the matter of rent is Rs. 6,075 + Rs. 4,625 - Rs. 5,000 = Rs. 5,700. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation (computed earlier)	Rs. 6,075
Add: Value of furniture provided by the employer [Note]	Rs. 4,625
Value of rent-free furnished accommodation	Rs. 10,700
Less: Rent paid by the employee (Rs. 1,000 × Rs. 5)	Rs. 5,000
Value of furnished accommodation given at concessional rent	**Rs. 5,700**

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

Q18. Using the data given in question 17 above, compute the value of the perquisite if Mr. C is a government employee. Licence fees determined by the Government for this accommodation was 700 p.m.

Answer:

- In the case of Government employees, excess of licence fees determined by the employer as increased by the value of furniture & fixture over & above the rent recovered/ recoverable from the employee & the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent.
- Therefore, the deemed concession in the matter of rent is Rs. 3,125 [i.e. Rs. 3,500 (licence fees: 700 x 5) + Rs. 4,625 (Value of furniture) – Rs. 5,000 (Rs. 1,000 × 5)].
- Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation (700 × 5)	Rs. 3,500
Add: Value of furniture provided by the employer (computed earlier)	Rs. 4,625
Value of rent-free furnished accommodation	Rs. 8,125
Less: Rent paid by the employee (1,000 × 5)	Rs. 5,000
Perquisite value of furnished accommodation given at concessional rent	Rs. 3,125

Q19. Mr. X & Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered.

(i) For Mr. X, who engaged a domestic servant for Rs. 500 p.m., his employer reimbursed the entire salary paid to the domestic servant i.e. Rs. 500 p.m.

(ii) For Mr. Y, he was provided with a domestic servant @ Rs. 500 p.m. as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X & Mr. Y, who are not specified employees.

Answer:

- **In the case of Mr. X**: it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered u/s 17(2)(iv) & will be taxable in the hands of Mr. X. This is taxable in the case of all employees.
- **In the case of Mr. Y**: it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

Q20. Mr. X retired from the services of M/s Y Ltd. on 31.01.2022, after completing service of 30 years & one month. He had joined the company on 1.1.1992 at the age of 30 years & received the following on his retirement.

(1) Gratuity Rs. 6,00,000. He was covered under the Payment of Gratuity Act, 1972.

(2) Leave encashment of Rs. 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

(3) As per the scheme of the company, he was offered a car which was purchased on 30.01.2019 by the company for Rs. 5,00,000. Company has recovered Rs. 2,00,000 from him for the car. Company depreciates the vehicles @ 15% on SLM.

(4) An amount of Rs. 3,00,000 as commutation of pension for 2/3 of his pension commutation.

(5) Company presented him a gift voucher worth Rs. 6,000 on his retirement.

(6) His colleagues also gifted him a Television (LCD) worth Rs. 50,000 from their own contribution.

Following are the other particulars:

(a) He has drawn a basic salary of Rs. 20,000 & 50% DA p.m. for the period from 01.04.2021 to 31.01.2022.

(b) Received pension of Rs. 5,000 p.m. for the period 01.02.2022 to 31.03.2022 after commutation of pension.

Compute his gross total income for AY 2022-23 assuming he has not opted for section 115BAC.

Answer: **Computation of Gross Total Income of Mr. X for AY 2022-23**

Particulars	Amount
Basic Salary = 20,000 x 10	Rs. 2,00,000
Dearness Allowance = 50% of basic salary	Rs. 1,00,000
Gift Voucher (See Note 1)	Rs. 6,000
Transfer of car (See Note 2)	Rs. 56,000
Gratuity (See Note 3)	Rs. 80,769
Leave encashment (See Note 4)	Rs. 1,30,000
Uncommuted pension (5000 x 2)	Rs. 10,000

Commuted pension (See Note 5)	Rs. 1,50,000
Gross Salary	**Rs. 7,32,769**
Less: Standard deduction u/s 16(ia)	(Rs. 50,000)
Taxable Salary /Gross Total Income	**Rs. 6,82,769**

Notes:

(1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during the PY is exempt. In this case, the amount was received on his retirement & the sum exceeds the limit of Rs. 5,000. Therefore, the entire amount of Rs. 6,000 is liable to tax as perquisite.

Note: Alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 1,000 & gross taxable income would Rs. 7,27,769.

(2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	Amount
Purchase price (30.1.2019)	Rs. 5,00,000
Less: Depreciation @ 20%	Rs. 1,00,000
WDV on 29.1.2020	Rs. 4,00,000
Less: Depreciation @ 20%	Rs. 80,000
WDV on 29.1.2021	Rs. 3,20,000
Less: Depreciation @ 20%	Rs. 64,000
WDV on 29.1.20212	Rs. 2,56,000
Less: Amount recovered	Rs. 2,00,000
Value of perquisite	Rs. 56,000

Rate of 15% as well as SLM adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) **Taxable gratuity**

Gratuity received	Rs. 6,00,000
Less: Exempt u/s 10(10) – least of the following:	
(i) Notified limit= Rs. 20,00,000 (ii) Actual gratuity = Rs. 6,00,000 (iii) 15/26 × last drawn salary × no. of completed years of service of part in excess of 6 months 15/26 × Rs. 30,000 × 30 = Rs. 5,19,231	Rs. **5,19,231**
Taxable Gratuity	**Rs. 80,769**

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption u/s 10(10).

(4) **Taxable leave encashment**

Particulars		Amount
Leave Salary received		Rs. 3,30,000
Less: Exempt u/s 10(10AA) - Least of the following:		
(i) Notified limit	Rs. 3,00,000	
(ii) Actual leave salary	Rs. 3,30,000	
(iii) 10 months x 20,000	Rs. 2,00,000	
(iv) Cash equivalent of leave to his credit $\left(\frac{330}{30} \times 20{,}000\right)$	Rs. 2,20,000	Rs. 2,00,000
Taxable Leave encashment		Rs. **1,30,000**

Note: It has been assumed that DA does not form part of salary for retirement benefits. In case it is assumed that DA forms part of pay for retirement benefits, then, the third limit for exemption u/s 10(10AA) in respect of leave encashment would be Rs. 3,00,000 (i.e. 10 x Rs. 30,000) & the fourth limit Rs. 3,30,000, in which case, the taxable leave encashment would be Rs. 30,000 (Rs. 3,30,000 - Rs. 3,00,000). In such a case, the GTI would be Rs. 6,32,769.

(5) **Commuted Pension**

Since Mr. X is a non-government employee in receipt of gratuity, exemption u/s 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	Amount
Amount received	Rs. 3,00,000
Exemption u/s 10(10A) = $\frac{1}{3} \times \left[3{,}00{,}000 \times \frac{3}{2}\right]$	Rs. 1,50,000
Taxable amount	Rs. **1,50,000**

(6) **Taxability** provisions u/s 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Q21. Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2021-22:

1. Domestic servant was provided at the residence of Bala. Salary of domestic servant is Rs. 1,500 p.m. The servant was engaged by him & the salary is reimbursed by the company (employer). In case the company has employed the domestic servant, what is the value of perquisite?
2. Free education was provided to his two children Arthy & Ashok in a school maintained & owned by the company. The cost of such education for Arthy is computed at 900 p.m. & for Ashok at 1,200 p.m. No amount was recovered by the company for such education facility from Bala.
3. Employer has provided movable assets such as television, refrigerator & air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is Rs. 1,10,000
4. A gift voucher worth Rs. 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade
5. Telephone provided at the residence of Shri Bala & the bill aggregating to Rs. 25,000 paid by the employer.
6. Housing loan @ 6% p.a. Amount outstanding on 1.4.2021 is Rs. 6,00,000. Shri Bala pays Rs. 12,000 p.m. towards principal, on 5th of each month. Compute the chargeable perquisite in the hands of Mr. Bala for the AY 2022-23 .
   The lending rate of State Bank of India as on 1.4.2021 for housing loan may be taken as 10%.

Answer: **Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala**

1. Domestic servant was employed by the employee & the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.
   Taxable perquisite value = Rs. 1,500 × 12 = Rs. 18,000.
   If the company had employed the domestic servant & the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be Rs. 18,000.
2. Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed 1,000 p.m.
   Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed Rs. 1,000 p.m.
   However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds Rs. 1,000 p.m. Taxable perquisite value would be Rs. 14,400 (1,200 × 12).
   Note: An alternate view possible is that only the sum in excess of Rs. 1,000 p.m. is taxable. In such a case, the value of perquisite would be Rs. 2,400.
3. Where the employer has provided movable assets to the employee or any member of his household, 10% p.a. of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops & computers. In this case, the movable assets are television, refrigerator & air conditioner & actual cost of such assets is Rs. 1,10,000
   Perquisite value would be 10% of the actual cost i.e., Rs. 11,000, being 10% of Rs. 1,10,000

4. Value of any gift/ voucher/ token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during PY is exempt. In this case, amount was received on the occasion of marriage anniversary & the sum exceeds the limit of Rs. 5,000. Therefore, the entire amount of Rs. 10,000 is liable to tax as perquisite.
   Note: Alternate view is that only the sum in excess of Rs. 5,000 is taxable. In such a case, perquisite = Rs. 5,000.
5. Telephone provided at the residence of the employee & payment of bill by the employer is a tax-free perquisite.
6. Value of the benefit to the assessee resulting from the provision of interest-free/concessional loan made available to the employee or any member of his household during the relevant PY by the employer/ any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged p.a. by SBI as on 1st day of the relevant PY in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance & the resulting amount should be reduced by the interest, if any, actually paid by him.
   Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month. The perquisite value for computation is 10% - 6% = 4%

Month	Maximum outstanding balance as on last date of month	Perquisite at 4% for month
April 2021	Rs. 5,88,000	1,960
May 2021	Rs. 5,76,000	1,920
June 2021	Rs. 5,64,000	1,880
July 2021	Rs. 5,52,000	1,840
Aug 2021	Rs. 5,40,000	1,800
Sept 2021	Rs. 5,28,000	1,760
Oct, 2021	Rs. 5,16,000	1,720
Nov 2021	Rs. 5,04,000	1,680
Dec 2021	Rs. 4,92,000	1,640
Jan 2022	Rs. 4,80,000	1,600
Feb 2022	Rs. 4,68,000	1,560
March 2022	Rs. 4,56,000	1,520
Total value of this perquisite		**20,880**

Total value of taxable perquisite = Rs. 74,280 [i.e., Rs. 18,000 + Rs. 14,400 + Rs. 11,000 + Rs. 10,000 + Rs. 20,880].
Note: In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be Rs. 57,280 [i.e., Rs. 18,000 + Rs. 2,400 + Rs. 11,000 + Rs. 5,000 + Rs. 20,880]

Q22. AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2021. The shares were allotted at 200 per share as against FMV of 300 per share on the date of exercise of option by the allottee viz. Sri Chand. FMV was computed in accordance with the method prescribed under the Act.
(1) What is the perquisite value of sweat equity shares allotted to Sri Chand?
(2) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

Answer.
(1) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the FMV of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	Amount
Fair market value of 1000 sweat equity shares @ 300 each	Rs. 3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ 200 each	(Rs. 2,00,000)
Value of perquisite of sweat equity shares allotted to Sri Chand	Rs. 1,00,000

(2) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the FMV which has been taken into A/c for perquisite valuation u/s 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter) Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be Rs. 3,00,000.

Q23. X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2021-22.

(1) Accommodation taken on lease by X Ltd. for Rs. 15,000 p.m. Rs. 5,000 p.m. is recovered from the salary of Mr. Y.

(2) Furniture, for which the hire charges paid by X Ltd. is Rs. 3,000 p.m. No amount is recovered from the employee in respect of the same.

(3) A Car of 1,200 cc which is owned by X Ltd. & given to Mr. Y to be used both for official & personal purposes. All running & maintenance expenses are fully met by the employer. He is also provided with a chauffeur.

(4) A gift voucher of 10,000 on his birthday.

Compute value of perquisites chargeable to tax for AY2022-23, assuming his salary for perquisite valuation to be 10 lacs.

Answer: **Value of taxable perquisites in the hands of Mr. Y for AY 2022-23**

	Particulars			
(1)	**Value of concessional accommodation**			
	(a) Actual amount of lease rental paid by X Ltd	Rs. 1,80,000		
	(b) 15% of salary i.e., 15% of Rs. 10,00,000	Rs. 1,50,000		
	Lower of (a) & (b)		Rs. 1,50,000	
	Less: Rent paid by Mr. Y (5,000 × 12)		(Rs. 60,000)	
			Rs. 90,000	
	Add: Hire charges paid by X Ltd. for furniture provided for use of Mr. Y (3,000 × 12)		Rs. 36,000	Rs. 1,26,000
(2)	Perquisite value of Santro car owned by X Ltd. & provided to Mr. Y for his personal & official use [(Rs.1,800 + Rs.900) × 12]			Rs. 32,400
(3)	Value of gift Voucher			Rs. 10,000
	Value of perquisites chargeable to tax			Rs. **1,68,400**

An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000.

Q24. Mr. Goyal receives the following emoluments during the PY ending 31.03.2022.

Basic pay	Rs. 40,000
Dearness Allowance	Rs. 15,000
Commission	Rs. 10,000
Entertainment allowance	Rs. 25,000
Professional tax paid	Rs. 2,000 (1,000 was paid by his employer)

Mr. Goyal contributes Rs. 5,000 towards RPF. He has no other income. Determine the income from salary for AY 2022-23, if Mr. Goyal is a State Government employee.

Answer:

Particulars	Rs.	Rs.
Basic Salary Rs.		Rs. 40,000
Dearness Allowance		Rs. 15,000
Commission		Rs. 10,000
Entertainment Allowance received		Rs. 4,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		Rs. 25,000
Professional tax paid by the employer		Rs. 1,000
Gross Salary		**Rs. 95,000**
Less: Deductions u/s 16		
u/s 16(ia) - Standard deduction of upto Rs. 50,000		Rs. 50,000
u/s 16(ii) - Entertainment allowance		
being lowest of:		
(a) Allowance received	Rs. 4,000	

(b) One fifth of basic salary [1/5 × Rs. 40,000]	Rs. 8,000	
(c) Statutory amount	Rs. 5,000	Rs. 4,000
u/s 16(iii) - Professional tax paid		Rs. 2,000
Income from Salary		Rs. **39,000**

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

Q25. In the case of Mr. Hari, who turned 68 years on 28.03.2022, you are informed that salary (computed) for PY 2021-22 is 10,20,000 & 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 (Rs)	Arrears now received (Rs)
2010 – 2011	Rs. 7,10,000	Rs. 1,03,000
2011 – 2012	Rs. 8,25,000	Rs. 1,17,000
2012 – 2013	Rs. 9,50,000	Rs. 1,25,000

Compute the relief available u/s 89 & tax payable for AY 2022-23. Assume that Mr. Hari does not opt for section 115B AC.

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 PY		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011–12	Upto Rs. 2,40,000	Nil	Upto Rs. 1,60,000	Nil
	Rs. 2,40,001 - Rs. 5,00,000	10%	Rs. 1,60,001 - Rs. 5,00,000	10%
	Rs. 5,00,001 - Rs. 8,00,000	20%	Rs. 5,00,001 - Rs. 8,00,000	20%
	Above Rs. 8,00,000	30%	Above Rs. 8,00,000	30%
2012–13	Upto Rs. 2,50,000	Nil	Upto Rs. 1,80,000	Nil
	Rs. 2,50,001 - Rs. 5,00,000	10%	Rs. 1,80,001 - Rs. 5,00,000	10%
	Rs. 5,00,001 - Rs. 8,00,000	20%	Rs. 5,00,001 - Rs. 8,00,000	20%
	Above Rs. Rs. 8,00,000	30%	Above Rs. 8,00,000	30%
2013–14	Upto Rs. 2,50,000	Nil	Upto Rs. 2,00,000	Nil
	Rs. 2,50,001 - Rs. 5,00,000	10%	Rs. 2,00,001 - Rs. 5,00,000	10%
	Rs. 5,00,001 - Rs. 10,00,000	20%	Rs. 5,00,001 - Rs. 10,00,000	20%
	Above Rs. 10,00,000	30%	Above Rs. 10,00,000	30%

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

Answer: **Computation of tax payable by Mr. Hari for AY 2022-23**

Particulars	Incl. arrears of salary	Excl. arrears of salary
Current year salary (computed)	Rs. 10,20,000	Rs. 10,20,000
Add: Arrears of salary	Rs. 3,45,000	-
Taxable Salary	Rs. 13,65,000	Rs. 10,20,000
Income tax thereon	Rs. 2,19,500	Rs. 1,16,000
Add: HEC @4%	Rs. 8,780	Rs. 4,640
Total payable	**Rs. 2,28,280**	**Rs. 1,20,640**

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

Particulars	AY 2011-12		AY 2012-13		AY 2013-14	
	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears	Incl. arrears	Excl. arrears
Taxable salary	Rs. 7,10,000	Rs. 7,10,000	Rs. 8,25,000	Rs. 8,25,000	Rs. 9,50,000	Rs. 9,50,000

Add: Arrears of salary	Rs. 1,03,000	-	Rs. 1,17,000	-	Rs. 1,25,000	-
Taxable salary	**Rs. 8,13,000**	**Rs. 7,10,000**	**Rs. 9,42,000**	**Rs. 8,25,000**	**Rs. 10,75,000**	**Rs. 9,50,000**
Tax on above	Rs. 97,900	Rs. 76,000	Rs. 1,34,600	Rs. 99,500	Rs. 1,47,500	Rs. 1,15,000
Add: Cess @3%	Rs. 2,937	Rs. 2,280	Rs. 4,038	Rs. 2,985	Rs. 4,425	Rs. 3,450
Tax payable	**1,00,837**	**78,280**	**1,38,638**	**1,02,485**	**1,51,925**	**1,18,450**

Computation of relief u/s 89:

SN	Particulars	Rs.	Rs.
1	**Tax payable in AY 2022-23 on arrears:**		
	Tax on income including arrears	Rs. 2,28,280	
	Less: Tax on income excluding arrears	Rs. 1,20,640	Rs. 1,07,640
2	**Tax payable in respective years on arrears:**		
	Tax on income including arrears (Rs. 1,00,837 + Rs. 1,38,638 + Rs. 1,51,925)	Rs. 3,91,400	
	Less: Tax on income excluding arrears (Rs. 78,280 + Rs. 1,02,485 + Rs. 1,18,450)	Rs. 2,99,215	Rs. 92,185
	Relief u/s 89: Difference b/w tax on arrears in AY 2022-23 & tax on arrears in the respective years		Rs. 15,455

Tax payable for AY 2022-23 after relief u/s 89

Particulars	Rs.
Income-tax payable on total income including arrears of salary	Rs. 2,28,280
Less: Relief u/s 89 as computed above	Rs. 15,455
Tax payable after claiming relief	**Rs. 2,12,825**

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Roy, staying at Chennai, receives Rs. 12,500 monthly as basic salary; Rs. 1,500 p.m as DA provided in terms of employment & 4% as commission on turnover achieved by him. He is paid HRA of Rs. 1,800 p.m. Turnover achieved by him for the year is Rs. 15 Lacs. House rent paid by him is Rs. 2,500 p.m. He received advance salary of Rs. 50,000 in March 2021 relating to the period April to July 2022. Find taxable HRA for AY 2022-23.

Answer: Salary for HRA = Basic Salary + Dearness Allowance (Retirement Benefits) + Commission (% of TO)
= (12,500 x 12 months) + (1,500 x 12 months) + 4% on 15,00,000 = Rs. 2,28,000.

Computation of Taxable House Rent Allowance of Mr. Roy

Particulars	Rs.	Rs.
Actual House Rent allowance (Rs. 1800 x 12 months)		21,600
Less: Exempt u/s. 10 (13A) to the extent of least of the following:		
1. Excess of rent paid over 10% of the salary (30,000 – 22,800)	7,200	
2. 50% of salary (50% of 2,28,000)	1,14,000	
3. Actual HRA received	21,600	7,200
Taxable HRA		**14,400**

PC Note: Though advance Salary is taxable in AY 2022-23 on receipt basis, it should not be considered in computing Salary for the purpose of calculating exemption u/s 10(13A).

Q2. During PY 2021-22, the following allowances are given to X by the employer company:

Nature of allowance	Amount of Allowance	Amount Actually spent	Amount taxable
Travelling allowance for official purposes	36,000	32,000	4,000
Transfer allowance given on transfer of X	40,000	41,000	Nil
Conveyance allowance for official purposes	50,000	42,000	8,000

Helper allowance of helper for official purposes	68,000	64,000	4,000
Research allowance	1,00,000	90,000	10,000
Uniform allowance for official purposes	18,000	17,000	1,000

Q3. During PY 2021-22, following allowance are given to X by the employer company:

Name of Allowance	Received	Spent	Exempt	Tax
1. Tribal area allowance for X posted in Assam for 2 months	1000	NA	200 p.m	600
2. Child education allowance for X's elder son	1800	NA	100 p.m	600
3. Child education allowance for X's younger son	900	NA	Nil	900
4. Child education allowance for X's daughter	1080	NA	100 p.m	Nil
5. Hostel expenditure allowance for X's elder son	6600	NA	300 p.m	3000

Q4. The employer has made arrangements for education of 3 childrens of his employee in his own school & has incurred Rs. 1,500 p.m per child & has recovered Rs. 300 p.m per child from the employee. Calculate the value of taxable perquisite.

Answer: Exemption of Rs. 1,000 p.m is available irrespective of number of children.

▪ Value of perquisite per children = Rs. 1,500 – Rs. 300 – Rs. 1,000 (Exemption) = Rs. 200 p.m.

Value of taxable perquisite = Rs. 200 p.m × 12 months × 3 children = Rs. 7,200.

Q5. Mr. Lakshman informs you the particulars of salary for previous year ending 31.03.2022:

Basic pay: Rs. 36,000; DA: Rs. 4,800 (not forming part of salary); Bonus: Rs. 6,000; Commission: Rs. 4,000; City Compensatory Allowance: Rs. 3,600. Calculate the value of perquisite in respect of rent-free furnished house if Mr. Lakshman stays in a city with a population (a) more than 25 Lacs, (b) less than 10 Lacs, (c) between 10 Lacs & 25 Lacs. Cost of furniture provided is Rs. 16,000. Sofa was taken on rent for Rs. 300 p.m.

Answer: Salary = BS + Bonus + Commission + City Compensatory Allowance = 36,000 + 6,000 + 4,000 + 3,600 = 49,600

Value of Rent-free unfurnished Accomodation			
(a) Population > 25 Lacs	→ 15% of salary	= 15% of Rs. 49,600	= Rs. 7,440
(b) Population 10 lac – 25 lacs	→ 10% of salary	= 10% of Rs. 49,600	= Rs. 4960
(c) Population < 10 lacs	→ 7.5% of salary	= 7.5% of Rs. 49,600	= Rs. 3,720

Value of Furnished Accommodation			
Particulars	**Population > 25L**	**10 Lacs – 25 Lacs**	**Population < 10L**
Value of unfurnished accommodation	7,440	4,960	3,720
Add: Perquisites for value of furniture [(10% of Rs. 16,000) + (300 x 12)]	5,200	5,200	5,200
Value of furnished accommodation	**12,640**	**10,160**	**8,920**

Note: Since DA is not forming part of salary for retirement benefits, it shall not be included in salary for the purpose of computation of Value of Rent free Accomodation.

Q6. Mr. X is employed with ABC Ltd. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs. 60,000 on 1.5.2018 & given him on the same date. The motor cycle was finally sold to him on 1.8.2021 for Rs. 30,000. Compute the taxable perquisite in the hands of Mr. X.

Answer:

(a) **Perquisite for Use of motor cycle** = 60,000 x 10% p.a. for 4 months [1.4.2021 – 31.7.2021] = Rs. 2,000.

Note: Only the period of use in this previous year shall be considered for valuation of perquisite. Because we are determining the taxability for this PY. Students generally make mistake on this point.

(b) **Perquisite in respect of Transfer of motor cycle:**

Depreciated value of the motor cycle = Original cost - Depreciation @ 10% p.a. for 3 completed years

= Rs. 60,000 - (Rs. 60,000 x 10% p.a. x 3 years) = Rs. 42,000.

Taxable Perquisite = Rs. 42,000 - Rs. 30,000 = Rs. 12,000.

Q7. Mr. X is employed in ABC Ltd. getting basic pay of Rs. 22,000 p.m. Employer has provided him rent free accommodation which is owned by employer himself (Population of 5,00,000). **[CA Exam Question]**
Employer has provided him 3 motor cars for official as well as personal use with particulars as given below:

Particulars	I	II	III
Actual cost	4,00,000	3,00,000	2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	3,000	10,000	15,000
Repairs	5,000	4,000	3,000
Driver	4,000 p.m.	3,000 p.m.	no driver

All the expenses are met by the employer. Compute his gross salary.
Answer:

Basic Pay (22,000 x 12)	Rs. 2,64,000
Rent free accommodation (Sec 17(2)(i) Rule 3(1)} [7.5 % of Rs. 2,64,000]	Rs. 19,800
Motor Car {Sec 17(2)(iii) Rule 3(2)} [See working Note]	Rs. 1,62,600
Gross Salary	**Rs. 4,46,400**

Working Note:
Option I: Car I is for official & personal purposes; Car II & III for personal purposes; perquisite value shall be:

Car I = (Rs. 2,400 + Rs. 900) x 12	Rs. 39,600
Car II = Rs. 30,000 + Rs. 10,000 + Rs. 4,000 + Rs. 36,000	Rs. 80,000
Car III = Rs. 25,000 + Rs. 15,000 + Rs. 3,000	Rs. 43,000
Perquisite value	**Rs. 1,62,600**

Option II: Car II is for official & personal purpose; Car I & Car III is for personal use; perquisite value shall be:

Car I = Rs. 40,000 + Rs. 3,000 + Rs. 5,000 + Rs. 48,000	Rs. 96,000
Car II = (Rs. 1,800 + Rs. 900) x 12	Rs. 32,400
Car III = Rs. 25,000 + Rs. 15,000 + Rs. 3,000	Rs. 43,000
Perquisite Value	**Rs. 1,71,400**

Option III: Car III is for official & personal purpose; Car I & Car II is for personal use; perquisite value shall be:

Car I = Rs. 40,000 + Rs. 3,000 + Rs. 5,000 + Rs. 48,000	Rs. 96,000
Car II = Rs. 30,000 + Rs. 10,000 + Rs. 4,000 + Rs. 36,000	Rs. 80,000
Car III = Rs. 1,800 x 12	Rs. 21,600
Perquisite Value	**Rs. 1,97,600**

Conclusion: 1st option is better.

Q8. Mrs. Roma, an employee of XYZ Ltd., submits the following information for AY 2022-23:
Salary: Rs. 1,86,000; City compensatory allowance: Rs. 8,000; Bonus: Rs. 10,200; Education allowance: Rs. 4,000 (for her grandchildren); Income tax penalty paid by the employer: Rs. 2,000: Medical expenses reimbursed by the employer: Rs. 12,000; Leave travel concession: Rs. 1,000 (expenditure incurred by the employee nil); Free residential telephone: Rs. 4,000; Free refreshment during office hours: Rs. 4,000; reimbursement of electricity bill by the employer: Rs. 1,060; reimbursement of gas bills: Rs. 1,000; Professional tax paid by the employer: Rs. 300 on behalf of Mrs. Roma; Professional tax paid by Mrs. Roma: Rs. 150. Determine Total Income of Mrs. Roma for AY 2022-23.
Answer: **Computation of Salary Income of Mrs. Roma**

Basic Salary		Rs. 1,86,000
City Compensatory Allowance		Rs. 8,000
Bonus		Rs. 10,200
Education Allowance	[Fully taxable since given for grandchildren]	Rs. 4,000

Income tax Penalty paid by employer [Income tax paid by employer on Non-monetary perquisites is exempt. In this case, penalty is paid. Thus, it is a taxable perquisite]	Rs. 2,000
Medical Reimbursement [other medical facilities are fully taxable]	Rs. 12,000
Leave Travel Concession [taxable since actual expenditure is not incurred]	Rs. 1,000
Residential Telephone	Nil
Refreshment [Since during office hours]	Nil
Payment of electricity bills by employer [It is a taxable perquisite]	Rs. 1060
Reimbursement of gas bills [It is a taxable perquisite]	Rs. 1000
Professional tax paid by employer [First included in salary & then allowed as deduction u/s 16(iii)]	Rs. 300
Gross Salary	Rs. **2,25,560**
Less: Standard deduction u/s 16(ia)	(Rs. 50,000)
Less: Professional Tax paid by employee as well as employee [Rs. 300 + Rs. 150]	(Rs. 450)
Taxable salary	**Rs. 1,75,110**

Q9. X was employed by PQR Ltd. upto March 15, 2006. At the time of leaving PQR Ltd, he was paid Rs. 3,50,000 as leave salary out of which Rs. 57,000 was exempt from tax u/s 10(AA)(ii). Thereafter he joined ABC(P.) Ltd. & received Rs. 4,12,200 as leave salary at the time of his retirement on 31st Dec 2021. Determine taxable leave salary:

1	Salary at the time of retirement (p.m)	Rs. 22,900
2	Average salary received during 10 months ending on December 31,2021	
	- From March 1, 2021 to July 31, 2021 (p.m)	Rs. 22,600
	- From August 1, 2021 to December 31, 2021 (p.m)	Rs. 22,900
3	Duration of service (a)	14.75 years
4	Leave entitlement for every year of service (b)	45 days
5	Leave availed while in service (c)	90 days
6	Leave at the credit of employee at the time of retirement [(14 years x 45 months - 90)/30]	18 months
7	Leave salary paid at the time of retirement @ Rs. 22,900 p.m (i.e., Rs. 22,900 x 18)	Rs. 4,12,200

Answer:

1	Leave Salary Received	Rs. 4,12,200
2	Leave Salary Exempt u/s 10(10AA) [Lower of the following]	
	(i) Amount actually received = Rs. 4,12,200	
	(ii) Rs. 3 Lacs – Rs. 57000 (Amount already exempted from previous employer) Rs. 2,43,000	
	(iii) 10× 22,750 (Note 1) = Rs. 2,27,500	
	(iv) 11 × 22750 (Note 2) = Rs. 2,50,250	(Rs. 2,27,500)
3	**Taxable Leave Salary** [1 – 2]	**Rs. 1,84,700**

Note 1: AMS = [(Rs. 22600 × 5) + (Rs. 22900 × 5)] ÷ 10 = Rs. 22750.

Note 2: Leaves Earned = {Completed years of service × No. of leaves credited/month (Max. 30 days allowed in a PY)] – Leaves actually taken} ÷ 30 days. = [{14 × 30} – 90] ÷ 30 = 11 months.

Q10. Mr. Raj not being covered by the Payment of Gratuity Act, 1972 retires during PY 2021-22 from XYZ Private Ltd & receives Rs. 45,000 as gratuity after a service of 40 years 11 months. His average monthly salary during the last 10 months of services was Rs. 2,200. Determine the taxable gratuity for AY 2022-23.

Answer: **Computation of taxable gratuity of Mr. Raj**

1	Amount of Gratuity Received	Rs. 45,000
2	**Amount of Gratuity** Exempt u/s 10(10) [Least of the following] (1) Amount of Gratuity actually received = Rs. 45,000 (2) Specified Amount = Rs. 10 Lacs (3) Rs. 2,200 x ½ x 40 = Rs. 44,000	Rs. 44,000
3	**Taxable gratuity [1 – 2]**	**Rs. 1,000**

Q11. Mr. X retires from PQR Ltd. on 31.3.2021. He is paid Rs. 1,800 p.m. as pension. On his request, RG Co. pays Rs. 36,000 to Mr. X in lieu of 50% of his monthly pension on 1.12.2021. Calculate taxable pension in the hands of Mr. X for AY 2022-23 assuming that (i) Gratuity is paid, (ii) Gratuity is not paid.

Answer: Mr. X has commuted his pension on 1.12.2021. Till 31.11.2021 (i.e for 8 months), he was receiving monthly pension of Rs. 1,800. Now from 1.12.2021, he will receive only Rs. 900 as monthly pension since he has commuted 50% of his monthly pension. Total pension = $\frac{\text{Rs. } 36{,}000}{50\%}$ = Rs. 72,000 for the purpose of exemption.

	Case I: Gratuity is paid to Mr. X	Amount	Total
1	Uncommuted Pension (Always Taxable to all employees)		
	▪ Before commutation (Rs. 1,800 x 8 months)	14,400	
	▪ After commutation (Rs. 900 x 4 months)	3,600	**18,000**
2	Taxable Commuted Pension [A – B]		
	A. Commuted Pension Received	36,000	
	B. Exempt u/s 10(10A) = 1/3rd of Total Pension [1/3 x Rs. 72,000]	(24,000)	12,000
	Total Taxable Pension [1 + 2]		30,000

	Case II : Gratuity is not paid to Mr. X	Amount	Total
1	Uncommuted Pension (Always Taxable to all employees)		
	▪ Before commutation (Rs. 1,800 x 8 months)	14,400	
	▪ After commutation (Rs. 900 x 4 months)	3,600	**18,000**
2	Taxable Commuted Pension [A – B]		
	C. Commuted Pension Received	36,000	
	D. Exempt u/s 10(10A) = 1/2 of Total Pension [1/2 x Rs. 72,000]	(36,000)	Nil
	Total Taxable Pension [1 + 2]		18,000

Q12. Mr. Dutta received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; Dearness allowance (which forms part of pay) Rs. 5,000 p.m. Compute his taxable VRS.

Answer: Exemption of Rs. 5,00,000 is available if Amount payable for VRS does not exceed Higher of

(a) 3 Months Salary for each completed year of service = 3 × Rs. 25,000 × 30 years = Rs. 22,50,000;

(b) Salary @ time of retirement × Balance months of service left before retirement = Rs. 25,000 × 72 = Rs. 18 lacs;

Thus, If VRS Compensation received does not exceed Rs. 22,50,000, Exemption of Rs. 5,00,000 will be available.

Amount of VRS Compensation received = Rs. 7,00,000. Thus Rs. 5,00,000 will be Exempt. Taxable VRS = Rs. 2,0,000.

Q13. Mr. D, a government employee gets Rs. 20,000 per year as entertainment allowance out of which he spends Rs. 2,000 for official purpose; Rs. 3,200 for personal purposes & save the balance Rs. 14,800. Basic salary amounts to Rs. 60,000. Compute the taxable entertainment allowance.

Answer: **Computation of taxable entertainment allowance**

1	Entertainment allowance actually received for the year	20,000
2	**Least of the following will be deductible u/s 16(ii)** 1. Specified Amount (i.e. Rs. 5,000); 2. 20% of basic salary: Rs. 60,000 × 20% = Rs. 12,000 3. Actual entertainment allowance: Rs. 20,000	(5,000)
3	**Taxable Entertainment Allowance [1 – 2]**	**15,000**

TQ1. Salary in lieu of notice period.

Answer: Normally, if any employer wants to terminate the services of an employee, he gives notice of his intention to do so.

Ex: As per the contract of service, he may have to give 3-months notice in advance to the employee. This is known as notice period.

Sometime employer instead of giving him a notice gives him salary for the notice period & terminates him immediately. This amount paid by employer is known as salary in lieu of notice period & is fully taxable to employee in PY in which it is received.

TQ2. What is annuity. Discuss its tax implication.

Answer:

- Annuity is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.
- Annuity received by a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.
- Annuity received from a past employer is taxable as profit in lieu of salary.
- Annuity received from person other than employer is taxable as u/h IFOS.

TQ3. Write a short note on "Profit in lieu of salary". **[Section 17(3)]**

Answer: These payments are received by employee in lieu of or in addition to salary. They are:

(a) **Terminal Compensation:** Compensation received by employee from his present/former employer in connection with termination (retirement, premature termination, resignation or otherwise) of his employment or the modification of terms & conditions of the employment.

(b) **Payment from URPF/URSF:** Accumulated balance of URPF/URSF consists of employee's contribution plus interest on employee's contribution & employer's contribution plus interest on employer's contribution.

- Employer's contribution & interest on the employee's contribution as well as employer's contribution are not taxed during the period of employment.
- When the accumulated balance is paid to the employee either on retirement or on termination of service, the untaxed portion, i.e. the employer's contribution & interest thereon is taxed
- Interest on employee's contribution is taxed as 'Income from other sources'.

PC Note: Payment received by employee on termination of employment form URPF/URSF to the extent of total employer's contribution & interest on such employer's contribution → Taxable as "profit in lieu of salary".

Note: Since employee is not eligible for deduction u/s 80C for contribution to URPF, employee's share received from the URPF is not taxable at the time of withdrawal.

(c) **Payment under Keyman Insurance Policy:** Any payment received by an employee, under a Keyman Insurance Policy including bonus on such policy will be regarded as profit in lieu of salary.

(d) Any amount due or received before joining or after cessation of employment.

(e) Any other sum received by the employee from the employer: This is a comprehensive provision by virtue of which all payments made by an employer to an employee whether made in pursuance of a legal obligation or voluntarily are brought to tax under "profit in lieu of salary".

Following receipts are not termed as 'profits in lieu of salary' to the extent they are exempt u/s 10.

Death-cum-retirement gratuity – Sec. 10(10)	Commuted Pension – Sec. 10(10A)	HRA exempt u/s 10(13A)
Payment received from SPF - Sec 10(11)	Payment received from RPF – Sec. 10(12)	
Payment from Approved SAF as per Sec. 10(13)	Retrenchment compensation received by a workman Sec. 10(10B)	

TQ4. The question whether a particular income "Income from Salary" or "Income from Business" depends upon whether the contracts is a 'Contract of Service' or is a 'Contract for Service'. Discuss. **[IMPORTANT]**

Answer: Income is taxable u/h 'salary', if there is a 'contract of service' i.e. the relationship is that of employer-employee. In other words, the employee does the work for his master. Control and supervision vests in the master.

Contract for service

A 'contract for service', on the other hand, is one, in which a person offers his services to any person who is willing to pay the prescribed charges. He has discretion to do the work in his own way. He is entitled to the fruits of his labour and liable for its losses. Such receipts constitute income from business in his hands.

Q14. Mr. Khanna, an Employee of IOL, New Delhi, Private Sector Company, received the following for PY 2021-22:
Basic Salary: Rs. 5,20,000; House Rent Allowance: Rs. 90,000; Special Allowance: Rs. 50,000. **[Nov. 2007]**
Mr. Khanna was residing at New Delhi & was paying a rent of Rs. 10,000 per month.

(a) Compute eligible exemption u/s 10(13A) in respect of House Rent Allowance received.
(b) If Khanna opts for Rent Free Accommodation whereby IOL would be paying a rent of Rs. 10,000 p.m to the Landlord & recovers Rs. 1,000 p.m from Khanna which was in excess of his entitlement, what is perquisite value i.r.o such RFA?
(c) Which of the above would be beneficial to Khanna, i.e. House Rent Allowance or Rent-Free Accommodation?

Solution: **Statement of Total Income & Tax Payable**

Particulars	HRA Option	RFA Option
Basic Salary	5,20,000	5,20,000
Special Allowance	50,000	50,000
House Rent Allowance [WN 1]	**22,000**	**NA**
Perquisite Value of Rent-Free Accommodation [WN 2]	**NA**	**73,500**
Gross Salary	5,92,000	6,43,500
Less: Deduction u/s 16(ia) Standard Deduction	(50,000)	(50,000)
Income u/h 'Salaries'	**5,42,000**	**5,93,500**
Total Income	5,42,000	5,93,000
Tax on Total Income	20,900	31,100
Add: HEC at 4%	Rs. 836	1244
Total Tax Payable (Rounded off)	**Rs. 21736 (Opt)**	**Rs. 32344**

Working Notes:

1. Computation of Taxable House Rent Allowance

1. Actual House Rent Allowance Received		Rs. 90,000
2. HRA Exempt u/s 10(13A) = Least of the following:		
(a) Actual Actually Received	Rs. 90,000	
(b) Rent paid (10,000 x 12) - 10% of Salary (10% x 5,20,000)	Rs. 68,000	
(c) 50% of Basic Pay: (50% x Rs. 5,20,000)	Rs. 2,60,000	(Rs. 68,000)
3. Taxable HRA [1 – 2]		**Rs. 22,000**

2. Computation of Perquisite Value of Rent-Free Accommodation:

Lower of (i) Rent paid by Employer (Rs. 1,20,000) or (ii) 15% of Salary [15% of 5,70,000]	Rs. 85,500
Less: Amount recovered from Employee [1,000 x 12]	(Rs. 12,000)
Value of Perquisite	**Rs. 73,500**

Note: For Valuation of RFA, Salary includes DA if considered for retirement benefits, all Taxable Allowances, Bonus, Commission & other monetary payments. Therefore, **Salary for RFA = Rs. 5,20,000 + Rs. 50,000 = Rs. 5,70,000.**

Q15. Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you following information for PY 2021-22:

SN	Particulars
1	Basic salary upto 31.10.2021: Rs. 50,000 p.m.; Basic salary from 1.11.2021: Rs. 60,000 p.m.
2	Dearness allowance @ 40% of basic salary (not forming part of retirement benefits)
3	Bonus: 1-month salary. Paid in Oct 2021 on basic salary + DA applicable for that month.
4	Employer's Contribution to RPF: 16% of Basic Salary

5	Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
6	Laptop & Computer was provided to Balaji for both official & personal use. Cost of laptop is Rs. 45,000.
7	Car owned by the employer (CC > 1.60 litres) provided to the employee from 1.11.2021 for both official & personal use. Repair & running expenses were fully met by the employer. Motor car was self-driven.
8	LTC was given to employee, his wife & three children (one daughter aged 7 & twin sons aged 3). Cost of Air Tickets (Economy Class) reimbursed by the employer: Rs. 30,000 for adults & Rs. 45,000 for 3 children.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for AY 2022-23.

Solution:

Particulars	Amount
Basic salary [(Rs. 50,000 × 7) + (Rs. 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (Rs. 50,000 + 40% of Rs. 50,000) [**Note 1**]	70,000
Employer's contribution to RPF in excess of 12% of salary = 4% of Rs. 6,50,000 [**Note 2**]	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (Rs. 2,400 for 5 months) (**See Note 4**)	12,000
Gross Salary	**10,20,000**
Less: Deduction u/s 16(ia): Rs. 50,000 + Professional tax u/s 16(iii) (**See Note 6**) Rs. 2,500	(52,500)
Taxable Salary	**9,67,500**

Notes:

1. Since bonus was paid in October, basic salary of Rs. 50,000 for October is considered for its calculation.
2. Facility of use of laptop & computer is an exempt perquisite, whether used for official or personal purpose or both.
3. Value of Perquisite on Motor car (CC > 1.60 liters) owned by the employer & expenses incurred by the employer = Rs. 2,400 p.m. Car was provided from 01.11.2020. Perquisite value has been calculated for 5 months.
4. Mr. Balaji can avail exemption u/s 10(5) on entire amount of Rs. 75,000 reimbursed by the employer towards LTC Travel Concession since the same was availed for himself, his wife & three children & 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.
5. Professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), professional tax paid during PY is allowed as deduction.
   Therefore, professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in salary & deduction of the entire professional tax of Rs. 2,500 is provided from salary. Therefore, professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary & deduction of entire professional tax of Rs. 2,500 is provided from salary.

Q16. From the following details, find out the salary chargeable to tax for AY 2022-23:

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2021 in the scale of Rs. 20,000 - Rs. 1,000 - Rs. 30,000. He is paid 10% Dearness Allowance & Bonus equivalent to one month pay based on the salary of March every year. He contributes 15% of his basic pay & DA towards his RPF & company contributes the same amount.

He is provided free housing facility which has been taken on rent by the company at Rs. 10,000 p.m. He is also provided with following facilities:

- Facility of laptop costing Rs. 50,000.
- Company reimbursed the medical treatment bill of his brother of Rs. 25,000, who is dependent on him.
- Monthly salary of Rs. 1,000 of a house keeper is reimbursed by the company.
- A gift voucher of Rs. 10,000 on the occasion of his marriage anniversary.
- Conveyance allowance of Rs. 1,000 per month is given by the company towards actual reimbursement.
- He is provided personal accident policy for which premium of Rs. 5,000 is paid by the company.
- He is getting telephone allowance @ Rs. 500 per month.

Solution:

Particulars	Amount in Rs
Basic pay [(Rs. 20,000×9) + (Rs. 21,000×3)] = Rs. 1,80,000 + Rs. 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to RPF in excess of 12% (15%-12% =3% of Rs. 2,67,300) [See WN1]	8,019
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	**Exempt**
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	**3,68,464**
Less: Standard Deduction u/s 16(ia)	(50,000)
Taxable Salary Income	**3,18,464**

Notes:

1. It has been assumed that dearness allowance forms part of salary for retirement benefits & accordingly, the perquisite value of rent-free accommodation & employer's contribution to RPF have been worked out.
2. If house is taken on lease or rent by employer, value of rent-free accommodation provided to employee = Actual amount of lease rental paid/payable by the employer or 15% of salary, whichever is lower.
   For the purposes of valuation of rent-free house, salary includes:
   (a) Basic salary i.e., Rs. 2,43,000
   (b) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. Rs. 24,300
   (c) Bonus i.e., Rs. 21,000
   (d) Telephone allowance i.e., Rs. 6,000.
   Therefore, salary works out to Rs. 2,43,000 + Rs. 24,300 + Rs. 21,000 + Rs. 6,000 = Rs. 2,94,300.
   15% of salary = Rs. 2,94,300 × 15/100 = Rs. 44,145.
   Value of rent-free house = Lower of rent paid by the employer (i.e. Rs. 1,20,000) or 15% of salary (i.e., Rs. 44,145). Therefore, the perquisite value is Rs. 44,145.
3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. Value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below Rs. 5,000 in aggregate during the PY is not taxable. In this case, gift voucher was received on the occasion of marriage anniversary & the sum exceeds the limit of Rs. 5,000. Therefore, Rs. 10,000 is liable to tax as perquisite.
   Alternate view: only the sum in excess of Rs. 5,000 is taxable. In such a case, value of perquisite = Rs. 5,000.
6. Premium of Rs. 5,000 paid by the company for personal accident policy is not liable to tax.

Q17. Raghav requests you to compute his Taxable Income for PY 2021-22 from the following data:
(a) Joined service on 01.10.2021 on a consolidated salary of Rs. 60,000 per month.
(b) He was paid Rs. 30,000 in September 2021 so that he should not join elsewhere.
(c) He contributed towards (i) Life Insurance Premium – Rs. 20,000; (ii) PPF – Rs. 1,50,000. **[MAY 2002]**

Solution: **Computation of Total Income of Mr. Raghav**

Particulars	Amount	Amount
Consolidated Salary (Rs,60,000 x 6 Months)		3,60,000
Amount received for not to join elsewhere: Profits in Lieu of Salary u/s 17(3)(iii)		30,000
Gross Salary		3,90,000
Less: Standard Deduction u/s 16(ia)		(50,000)
Income u/h Salary/Gross Total Income (Since no other Heads of Income)		3,40,000

Less: Deduction Under Chapter VI-A		
U/s 80C – LIC Premium paid (Maximum deduction u/s 80C is restricted to Rs. 1,50,000)	(20,000)	
- PPF	(1,50,000)	(1,50,000)
Total Income		1,90,000

Q18. Mr. Nambi, a salaried employee, furnishes the following details for PY 2021-22:

- Basic salary: Rs. 6,00,000; Dearness allowance: Rs. 3,20,000; Commission: Rs. 50,000.
- Entertainment allowance: Rs. 7,500; Profession Tax (of this, 50% paid by employer): Rs. 7,000.
- Health insurance premium paid by employer: 9,000; Life insurance premium Paid by employer: 34,000.
- Gift voucher given by employer on his birthday: Rs. 12,000.
- Laptop provided for use at home. Actual cost of Laptop to employer: Rs. 30,000. [His Children are also using it at home]
- Employer - Company owns a Tata Nano car, which was provided to the assessee, Both for official & personal use. No driver was provided. (Engine CC: Less than 1.6 litres)
- Annual credit card fees paid by employer [not exclusively used for Official purposes;]: Rs. 2,000. [Details of usage are not available]

You are required to compute the income chargeable u/h 'Salaries' for AY 2022-23. **[MAY 2017]**

Solution: **Computation of Salary Income of Mr. Nambi for AY 2022-23**

Basic Salary	6,00,000
Dearness Allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Professional Tax paid by the employer Section 17 (2)(iv)	3,500
Gift voucher given by employer on his birthday	12,000
Facility of Laptop/computer (Rule 3(7)(vii))	Nil
Life Insurance paid by Employer (section 17 (2) (v))	34,000
Perquisite value of use of motor car (section 17 (2) (iii)/Rule 3(2)) [(1,800 x 12)]	21,600
Annual Credit card fees (Rule 3 (7)(v))	2,000
Gross Salary	10,50,600
Less: Standard Deduction u/s 16(ia)	(50,000)
Less: Deduction of professional tax u/s 16(iii)	(7,000)
Income u/h Salary	**9,93,600**

Working Notes:

- As per section 16(ii) Deduction of entertainment allowance is allowed only to Government employees & not to other employees. Thus, entertainment allowance is fully taxable in the hands of Mr. Nambi.
- Professional tax paid by employer shall be added to the gross salary of the employee then deduction u/s 16 (iii) shall be allowed for professional tax.
- As per section 17 (2) (v), Life Insurance premium of employee paid by employer shall be included in his income as it is a perquisite for an employee.
- Credit card facility is exempt only if it is exclusively used for official purpose & employer maintain complete records.

Q19. Mr. X is a regular employee of ABC Ltd. in Mumbai. He was appointed on 1.3.2021 [Pay scale: 25,000 - 2,500 - 35,000].

- He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay & bonus equivalent to one & a half month's basic pay as at the end of the year.
- He contributes 18% of (BS + DA) towards RPF & Company contributes the same amount.
- He is provided free housing facility which has been taken on rent by Company at Rs. 15,000 per month.
- Monthly salary of Rs. 2,000 of a house keeper is reimbursed by the Company.
- He is getting telephone allowance @ Rs. 1,000 per month.
- Company pays medical insurance premium to effect an insurance on the health of Mr. X Rs. 12,000.

- Motor car running & maintenance charges fully paid by employer of Rs. 36,600. (Car is owned & driven by Mr. X. CC is below 1.60 litres. Motor car is used for both official & personal purpose by the employee.)
- Value of free lunch provided during office hours is Rs. 2,200.

From the following details, find out the salary chargeable to tax of Mr. X for AY 2022-23: **[NOV 2013]**

Solution: **Computation of taxable salary of Mr. X for AY 2022-23**

Particulars	Rs.
Basic pay [(Rs. 25,000x 11) + (Rs. 27,500x 1)] = Rs. 2,75,000 + Rs. 27,500	3,02,500
Dearness allowance [15% of basic pay]	45,375
Bonus [Rs. 27,500 x 1.5]	41,250
Employer's contribution to RPF in excess of 12% (18% - 12% = 6% of Rs. 3,47,875)	20,873
Telephone allowance	12,000
Rent-free accommodation [Sec 17(2)(i)/Rule 3(1)]	
Lower of (i) 15% of salary (3,02,500 + 45,375 + 41,250 +12,000) or (ii) Rs. 1,80,000	60,169
Reimbursement of salary of housekeeper [Rs. 2,000 x 12] [Sec 17(2)(iv)]	24,000
Motor car owned & driven by employee [36,600 - 21,600 (Rs. 1,800 x 12)]	15,000
Value of free lunch facility (Presuming that value per lunch was upto Rs. 50)	-
Gross Salary	**5,21,167**
Less: Standard Deduction u/s 16(ia)	**(50,000)**
Income under the head Salary	**4,71,167**

Note: Medical insurance premium paid by employer to effect an insurance on health of the employee is fully exempt.

Q20. Mr. X, Marketing Manager of KL Ltd. based at Mumbai furnishes information for PY 2021-22:

- Basic salary: Rs. 1,00,000 per month
- Dearness allowance - Rs. 50,000 per month (forming part for retirement benefit salary)
- Bonus - 2 Months basic salary
- Contribution of employer to RPF @ 15% of basic salary + Dearness allowance
- Rent free unfurnished accommodation provided by company at Mumbai (owned by company).
- RPF contribution made by Mr. X: Rs. 1,50,000
- Health insurance premium for his family paid by cheque: Rs. 20,000
- Health insurance premium in respect of parents (senior citizens) paid by cheque: Rs. 28,000
- Medical expenses of dependent brother with severe disability (covered): 60,000
- Interest on loan taken for education of his son studying B.com (full-time) in a recognized college: 24,000
- Interest on loan taken for education of a student for whom Mr. X is a legal guardian for pursuing B. Sc. (Pyhsics) (full-time) in recognized university: Rs. 20,000.

Compute the Total Income of Mr. X for AY 2022-23. **[Nov 2010]**

Solution: **Computation of Total Income of Mr. X for AY 2022-23**

Particulars	Rs.
Basic salary	12,00,000
Dearness allowance	6,00,000
Bonus	2,00,000
Employer contribution to RPF in excess of 12% is taxable (3% of 18,00,000) [See Note]	54,000
Rent free accommodation @ 15% of Rs. 20 lacs [Basic salary + Dearness Allowance + Bonus]	3,00,000
Less: Standard deduction u/s 16 (ia)	(50,000)
Income from Salary	**23,04,000**
Less: Deductions under Chapter VI-A (i) Section 80C Contribution to RPF: 1,50,000 (ii) Section 80D - Health insurance premium Family: 20,000 (iii) Parents (Senior Citizens) Section 80D: 28,000	(1,98,000)

Medical treatment of dependent brother with severe disability [Sec 80DD]		(1,25,000)
Section 80E		
Interest on loan taken for his son studying B. Com:	24,000	
Interest on loan taken for a student studying B.Sc.:	20,000	(44,000)
Total Income		**19,37,000**

Q21. Mr. X an employee of XYZ Co. Ltd. at Mumbai & covered by Payment of Gratuity Act, retires at the age of 64 years on 31.12.2021 after completing 33 years & 7 months of service.

- On retirement, his employer pays him Rs. 20,51,640 as Gratuity & Rs. 6 Lacs as RPF accumulated balance.
- He is entitled for monthly pension of Rs. 8,000.
- He gets 75% of his pension commuted for Rs. 4,50,000 on 01.02.2022.
- Basic Salary: (Rs. 80,000 x 9): Rs. 7,20,000; Bonus: Rs. 36,000.
- House Rent Allowance (Rs. 15,000 x 9): Rs. 1,35,000.
- Rent paid by Mr. X (Rs. 10,000 x 12): Rs. 1,20,000.
- Employer contribution towards RPF: Rs. 1,10,000.
- Professional Tax paid by Mr. X: Rs. 2,000. **Note:** Salary & Pension falls due on last day.

Determine taxable salary of Mr. X for AY 2022-23. [Nov 2014]

Solution: **Computation of income u/h 'Salary' of Mr. X**

Basic Pay (80,000 x 9)	7,20,000
Bonus	36,000
House rent allowance {Sec 10(13A), Rule 2A} [WN 1]	1,17,000
Employer's contribution to provident fund {Part A of schedule IV} [WN 2]	23,600
Gratuity {Sec 10(10)} [WN 3]	4,82,409
Uncommuted Pension {Sec 17(1)}	12,000
Commuted Pension (Sec 10(10A)}	2,50,000
Gross Salary	16,41,009
Less: Standard Deduction u/s 16(ia) + Deduction u/s 16(iii) - Professional Tax	(52,000)
Income under the head Salary	**15,88,009**

Working Note:

1. HRA [Lowest amount is Exempt]	**2. Contribution to PF** [Least is exempt]
(a) Amount Received = Rs. 1,35,000 (b) Rs. 90,000 - Rs. 72,000 = Rs. 18,000 (c) 50% of Salary = 3,60,000. [Retirement Benefit Salary = 80,000 x 9 = 7,20,000] **Exempt = (Rs. 18,000); Taxable = Rs. 1,17,000**	(a) Employer contribution = Rs. 1,10,000 (b) Allowed = 12% of Salary = 86,400; Salary for RPF = Rs. 7,20,000 **Exempt = (Rs. 86,400); Taxable = Rs. 23,600**
3. Gratuity [Least of the following is exempt]	**4. Pension**
1. Rs. 20,51,640 2. Rs. 20,00,000 3. 15/26 x 80,000 x 34 = Rs. 15,69,231 Received = Rs. 20,51,640; Exempt = Rs. 15,69,231; Taxable = Rs. 4,82,409.	Uncommuted Pension = Rs. 12,000. [8,000 x 1 (Jan) + 8,000 x 25% x 2 (Feb & Mar) = Rs. 4,000. **5. Uncommuted pension** Received = 4,50,000; Exempt = 4,50,000/75% x 1/3 = (2,00,000); Taxable = 2,50,000.

Note: Rs. 6,00,000 as accumulated balance of RPR received from employer is exempt as Mr. X has rendered continuous service of more than 5 Years with the employer.

Q22. Mr. Honey is working with a Domestic Company having a production unit in USA for last 15 years, he has been regularly visiting India for export promotion of Company's product. He has been staying in India for at least 184 days every year. He submits the following information:

- Salary received outside India (For 6 Months) Rs. 50,000 p.m.
- Salary received in India (For 6 months) Rs. 50,000 p.m.
- He has been given a rent-free accommodation in USA for which company pays Rs. 15,000 p.m as rent, but when he comes to India, he stays in the guest house of the company.
- During this period, he is given free lunch facility, for which company incurred Rs. 48,000.
- He has been provided a car of 2,000 CC in USA which is used by him for both office & private purposes. Actual cost of the car is Rs. 8 Lacs. But when he is in India, car is used by him & his family members only for personal purpose. Monthly expenditure of the car is Rs. 5,000.
- His elder son is studying in India for which his employer spends Rs. 12,000 per year where as his younger son is studying in U.S.A & stays in a hostel for which Mr. Honey gets Rs. 3,000 p.m as combined allowance.
- Company has taken an accident insurance policy & a life insurance policy. During PY, company paid premium of Rs. 5,000 & Rs. 10,000 respectively.

Compute Mr. Honey's taxable income from salary for AY 2022-23. **[May 2018]**

Solution: **Computation of Income from Salary of Mr. Honey**

Particulars	Amount
Basic Salary [50,000 x 12]	6,00,000
RFA in USA [WN 1]	95,400
RFA in India [WN 2]	Nil
Lunch Facility [(48,000) – (Rs. 50 x 184)]	38,800
Motor Car in USA (2400 x 6)	14,400
Motor Car in India (5000 x 6) + [8,00,000 x 10% x 6/12]	70,000
Education expenditure of Elder Son met in India – Taxable Perquisite	12,000
Education Allowance: Fully taxable – (3,000 x 12) – No exemption for allowance received for education & hostel facility of children outside India.	36,000
Life Insurance	10,000
Gross Salary	8,76,600
Less: Standard Deduction u/s 16(ia)	(50,000)
Income u/h Salaries	8,26,600

Note:

1. Salary for the purpose of RFA = Basic Salary (6,00,000) + All taxable allowances (36,000) = 6,36,000.
2. Taxable RFA during Stay in USA = 15% of salary or Actual rent paid by Employer (whichever is lower) = 15% on 6,36,000 = 95,400 or 15,000 x 12 = 1,80,000 whichever is lower = 95,400.
3. Taxable RFA during stay in India = since the accommodation is provided to him for his stay in India entirely for official purpose, it is not taxable.

Q23. Compute Total Income & Tax Payable for AY 2022-23 by Mr. X with the help of following information:

(a) X retired on 31.12.2021 (age 58) after 25 years & 9 months of service, from a Pvt. Company situated at Mumbai.
(b) He was paid a Salary of 40,000 p.m. & HRA of 10,000 p.m. He paid Rent of 13,000 p.m. during his service.
(c) On retirement, he was paid a Gratuity of 6,00,000. He was not covered by the Payment of Gratuity Act.
(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. Rs. 5,15,000 was received by him in this regard. [Note: His Average Salary is Rs. 37,500]
(e) After retirement, he ventured into textile business & incurred a loss of Rs. 80,000 for the period upto 31.3.2022.
(f) Mr. X has invested Rs. 22,500 in RPF; Rs.1,20,000 in PPF & Rs. 37,500 in NSC. **[MAY 2005]**

Solution: **1. Computation of Total Income**

Particulars	Rs.
Salary (40,000 x 9)	3,60,000
Taxable HRA (WN 1)	9,000

Taxable Gratuity (WN 2)	1,31,250
Taxable Leave Encashment (WN 3)	2,15,000
Gross Salary	**7,15,250**
Less: Deductions u/s 16 (ia) Standard Deduction of Rs. 50,000	(50,000)
Income under the head "Salaries"/ Gross Total Income	6,65,250
Less: Deduction under Chapter VI A, i.e. Sec. 80C (WN 5)	(1,50,000)
Total Income	**5,15,250**
Tax Payable on Total Income = [12,500 + (5,15,250 – 5,00,000) x 20%] = 15,550 + 4%HEC	16,172

Working Notes: **1. Computation of Taxable HRA u/s 10(13A)**

Amount of HRA Received (10,000 x 9)		90,000
Less: Amount exempt u/s 10(13 A) = Least of the following -		
(a) Actual HRA Received	90,000	
(b) 50% of Salary (Being at Mumbai) = 50% of Rs.3,60,000	1,80,000	
(c) Rent Paid Less 10% of Salary = (13,000 x 9) – (10% of 3,60,000)	81,000	(81,000)
Taxable HRA		**9,000**

Note: Salary = Basic + DA (Considered for Retirement Benefits) + Commission as a percentage of Turnover.

2. Taxable Gratuity u/s 10(10)

Amount of Gratuity Received		6,00,000
Less: Amount exempt u/s 10(10) = Least of the following -		
(a) Actual Gratuity received	6,00,000	
(b) ½ x Avg. Salary of 10 months x Completed years of Service (1/2 x 37,500 x 25)	4,68,750	
(c) Notified Amount	20,00,000	(4,68,750)
Taxable Gratuity		1,31,250

3. Computation of Taxable Leave Encashment

Amount of Leave Encashment Received Less: Amount exempt u/s 10(10AA) = Least of the following -		5,15,000
(a) Amount actually received	5,15,000	
(b) Average Salary of past 10 months' Salary x 10 months (37,500 x 10)	3,75,000	
(c) Notified Amount	3,00,000	
(d) Leave Encashment Calculation on basis of 30 days credit for every completed years of service (15 x 25 x 37,500/30)	4,68,750	(3,00,000)
Taxable Leave Encashment		**2,15,000**

4. Treatment of Loss: Loss u/h PGBP cannot be set off against Income under the head Salaries (Sec. 71). So, it shall be carried forward u/s 72 for a period of 8 Assessment Years & can be set off only against Business Income.

5. Computation of Deduction u/s 80C

Contribution to RPF	22,500
PPF (Maximum Investment Rs. 1,50,000)	1,20,000
NSC	37,500
Total (Maximum deduction u/s 80C restricted to Rs.1,50,000)	**1,80,000**

Q24. Mr. PC is offered an employment by ABC Ltd., Mumbai with the following two alternatives:

Particulars	I	II
Basic salary	40,000	40,000
Education allowance for 2 children	10,200	-
Education facility for 2 children in an institution maintained by the employer	-	10,200
Sweeper allowance	10,000	-
Free sweeper	-	10,000
Entertainment allowance	6,000	-
Club facility	-	6,000
Conveyance allowance for personal use	12,000	-
Free car facility for personal use	-	12,000
Medical allowance	18,000	-
Medical facility for Mr. PC & family members in its own hospital	-	18,000
Allowance for gas, electricity & water supply	4,500	-
Free gas, electricity & water supply	-	4,500
Rent-free unfurnished house - Fair rent	24,000	24,000

Mr. PC is neither a director nor he has substantial interest in the company. Which of the two alternatives he should opt assuming that both employer & employee will contribute 10% of salary towards URPF?

Solution:

Particulars	Alternative I	Alternative II
Basic salary	40,000	40,000
Education allowance (Rs. 10,200 – Rs. 2,400)	7,800	NA
Education facility [Exempt upto Rs. 1,000 per month per child)	NA	Exempt *
Sweeper allowance	10,000	NA
Free Sweeper	NA	Exempt *
Entertainment allowance	6,000	Exempt
Club facility	NA	6,000
Conveyance allowance	12,000	NA
Car facility	NA	Exempt *
Medical allowance	18,000	NA
Medical Facility in employer's hospital	NA	Exempt
Allowance for gas/electricity/water	4,500	NA
Free facility for gas/electricity/water	NA	Exempt *
Rent free unfurnished house (Note 2)	15,645*	6,900*
Gross Salary	**1,19,945**	**58,900**
Less: Standard Deduction u/s 16(ia)	(50,000)	(50,000)
Income from Salary	**63,945**	**2,900**

Note:

1. Such facilities are exempt in case of Non-Specified Employees. *
2. Salary for the purpose of Rent-free accommodation =

Option I	40,000 + 6000 + 7800 + 10,000 + 6000 + 12,000 + 18,000 + 4500 = 1,04,300 = 1,04,300 × 15% = 15,645*
Option II	(Non-specified employee): Rs. 40,000 + 6,000 = Rs. 46,000 = 15% of Rs. 46,000 = Rs. 6,900*.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Mohit is employed with XY Ltd. on a basic salary of Rs. 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 Rs. 6,000 p.m. which was increased to Rs. 7,000 p.m. with effect from 01.01.2022. He also got an increment of Rs. 1,000 p.m. in his basic salary with effect from 01.02.2022. Rent paid by him during PY 2021-22 is as under:

April & May, 2021: Nil, as he stayed with his parents

June to October 2021: Rs. 6,000 p.m. for an accommodation in Ghaziabad

November, 2021 to March, 2022 - 8,000 p.m. for an accommodation in Delhi.

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

Answer: **Computation of gross salary of Mr. Mohit for AY 2022-23**

Particulars	Amount
Basic salary [(Rs.10,000 × Rs. 10) + (Rs. 11,000 × Rs. 2)]	Rs. 1,22,000
Dearness Allowance (100% of basic salary)	Rs. 1,22,000
House Rent Allowance (See Note)	Rs. 21,300
Gross Salary	**Rs. 2,65,300**

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May	June-Oct	Nov-Dec	Jan	Feb-March
Basic salary p.m.	Rs. 10,000	Rs. 10,000	Rs. 10,000	Rs. 10,000	Rs. 11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	Rs. 5,000	Rs. 5,000	Rs. 5,000	Rs. 5,000	Rs. 5,500
Salary p.m. for purpose of computation of house rent allowance	Rs. 15,000	Rs. 15,000	Rs. 15,000	Rs. 15,000	Rs. 16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary p.m. × relevant period)	Rs. 30,000	Rs. 75,000	Rs. 30,000	Rs.15,000	Rs. 33,000
Rent paid for the relevant period	Nil	Rs. 30,000 (6,000×5)	Rs. 16,000 (8,000×2)	Rs. 8,000 (8,000×1)	Rs. 16,000 (8,000×2)
House rent allowance (HRA) received during the relevant period (A)	Rs. 12,000 (6,000×2)	Rs. 30,000 (6,000×5)	Rs. 12,000 (6,000×2)	Rs. 7,000 (7,000×1)	Rs. 14,000 (7,000×2)
Least of the following isexempt:	NA				
▪ Actual HRA received	-	Rs. 30,000	Rs. 12,000	Rs. 7,000	Rs. 14,000
▪ Rent paid (–) 10% of salary	-	Rs. 22,500	Rs. 13,000	Rs. 6,500	Rs. 12,700
▪ 40% of salary (Residence at Ghaziabad – June to Oct, 2021) 50% of salary (Residence at Delhi– Nov, 21 - March, 22)	-	Rs. 30,000 (40% × Rs. Rs. 75,000)	Rs. 15,000 (50% × Rs. 30,000)	Rs. 7,500 (50% × 15,000)	Rs. 16,500 (50% × Rs. 33,000)
Exempt HRA (B)	Nil	Rs. 22,500	Rs. 12,000	Rs. 6,500	Rs. 12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	Rs. 12,000	Rs. 7,500	Nil	Rs. 500	Rs. 1,300

Taxable HRA (total) = Rs. 12,000 + Rs. 7,500 + Rs. 500 + Rs. 1,300 = Rs. 21,300

Q2. Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the PY 2021-22:

		Particulars	Amount
1	Reimbursement of following medical expenses incurred by Ms.Rakhi		
	(A)	On treatment of her self-employed daughter in a private clinic	Rs. 4,000
	(B)	On treatment of herself by family doctor	Rs. 8,000

	(C)	On treatment of her mother-in-law dependent on her, in a nursing home	Rs. 5,000
2		Payment of premium on Mediclaim Policy taken on her health	Rs. 7,500
3		Medical Allowance	Rs. 2,000 p.m.
4		Medical expenses reimbursed on her son's treatment in agovernment hospital	Rs. 5,000
5		Expenses incurred by company on the treatment of her minor sonabroad including stay expenses	Rs. 1,95,000
6		Expenses in relation to foreign travel of Rakhi & her son for medical treatment Note: Limit prescribed by RBI for expenditure on medical treatment & stay abroad is USD Rs. 2,50,000 per FY under liberalized remittance scheme.	Rs. 1,20,000

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

Answer: Tax treatment of medical benefits, allowances & mediclaim premium in the hands of Ms. Rakhi for AY 2022-23

	Particulars
1.	**Reimbursement of medical expenses incurred by Ms. Rakhi**
	(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 dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of 17,000 specified in (A) (B) & (C) above reimbursed by the empoyers is taxable perquisite.
2.	Medical insurance premium of 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax-free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of 2,000 p.m. 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 – 1) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [1,05,000, in this case]; 2) Expenditure on travel & stay abroad of the employee or any member of the family of such employee for medical treatment & one attendant who accompanies the patient in connection with such treatment [1,20,000, in this case]. The conditions subject to which the above expenditure would be exempt are as follows - 1) Expenditure on medical treatment & stay abroad would be excluded from perquisite to the extent permitted by RBI; Since 2) Expenditure on travel would be excluded from perquisite only in the case of an employee whose GTI, as computed before including the said expenditure, does not exceed 2 lakh. Since the expenditure on medical treatment & stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However,the foreign travel expenditure of Ms. Rakhi & 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.

Q3. Mr. X is employed with AB Ltd. on a monthly salary of 25,000 p.m. & an entertainment allowance & 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. 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 income from salary of Mr. X for AY 2022-23 assuming Mr. X has not opted for the provisions of section 115BAC.

Answer: **Computation of Income from Salary of Mr. X for the AY 2022-23**

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

Note1: Value of rent-free unfurnished accommodation
= 15% of salary for the relevant period
= 15% of (Rs. 3,00,000 + Rs. 12,000 + Rs. 12,000) = Rs. 48,600

Note 2: Value of perquisite for interest on personal loan
= [Rs. 5,00,000 × (12.75% - 6.75%) for 9 months] = Rs. 22,500

Note 3: Depreciated value of the motor cycle
= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= Rs. 60,000 – (Rs. 60,000 × 10% p.a. × 3 years) = Rs. 42,000.
Perquisite = Rs. 42,000 – Rs. 30,000 = Rs. 12,000

Q4. Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2022.

(1) Basic salary upto 31.10.2021 Rs. 50,000 p.m.
Basic salary from 01.11.2021 Rs. 60,000 p.m. [Note: Salary is due & paid on the last day of every month].
(2) Dearness allowance @ 40% of basic salary.
(3) Bonus = 1 month salary. Paid in October 2021 on basic salary + DA applicable for that month.
(4) Contribution of employer to RPF A/c of the employee @16% of basic salary.
(5) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
(6) Facility of laptop & computer was provided to Balaji for both official & personal use. Cost of laptop Rs. 45,000 & computer Rs. 35,000 were acquired by the company on 01.12.2021.
(7) Motor car owned by employer (cc of engine exceeds 1.60 litres) provided to the employee from 01.11.2021 meant for both official & personal use. Repair & running expenses of Rs. 45,000 from 01.11.2021 to 31.03.20212, were fully met by the employer. Motor car was self-driven by the employee.
(8) Leave travel concession given to employee, his wife & 3 children (one daughter aged 7 & twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer Rs. 30,000 for adults & Rs. 45,000 for 3 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 AY 2022-23.

Answer: **Computation of Taxable Salary of Mr. Balaji for AY 2022-23**

Particulars	Rs.	Rs.
Basic salary [(Rs. 50,000 × Rs. 7) + (Rs. 60,000 × Rs. 5)]		Rs. 6,50,000
Dearness Allowance (40% of basic salary)		Rs. 2,60,000
Bonus (Rs. 50,000 + 40% of Rs. 50,000) (Note 1)		Rs. 70,000
Employer's contribution to RPF in excess of 12% of salary = 4% of Rs. 6,50,000 (Note 2)		Rs. 26,000

Professional tax paid by employer		Rs. 2,000
Perquisite of Motor Car (Rs. 2,400 for 5 months) (Note 4)		Rs. 12,000
Gross Salary		**Rs. 10,20,000**
Less: Deduction u/s 16		
Standard deduction u/s 16(ia)	Rs. 50,000	
Professional tax u/s 16(iii) (Note 6)	Rs. 2,500	(Rs. 52,500)
Taxable Salary		**Rs. 9,67,500**

Notes:

1. Since bonus was paid in month of October, basic salary of Rs. 50,000 for month of Oct 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 & computer is a tax-free perquisite, whether used for official/personal purpose/both.
4. As per provisions of Rule 3(2), in case a motor car (engine cc 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 Rs. 2,400 p.m. The car was provided to the employee from 01.11.2021, therefore perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption u/s 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 & three children & the journey was undertaken by economy class airfare. The restriction imposed for 2 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 includes 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 Rs. 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 A/c 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 Rs. 2,000 is first included in the salary & deduction of the entire professional tax of Rs. 2,500 is provided from salary.

Q5. From the following details, find out the salary chargeable to tax for AY 2022-23 assuming he has not opted for the provisions of section 115BAC:

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2021 in scale of Rs. 20,000 - Rs. 1,000 - Rs. 30,000. He is paid 10% D.A. & Bonus equivalent to 1 month pay based on salary of March every year. He contributes 15% of his pay & D.A. towards his RPF & the company contributes same amount. DA forms part of pay for retirement benefits.

He is provided free housing facility which has been taken on rent by the company at 10,000 p.m. He is also provided with following facilities:

- Facility of laptop costing Rs. 50,000.
- Company reimbursed the medical treatment bill of his brother of Rs. 25,000, who is dependent on him.
- The monthly salary of Rs. 1,000 of a house keeper is reimbursed by the company.
- A gift voucher of Rs. 10,000 on the occasion of his marriage anniversary.
- Conveyance allowance of Rs. 1,000 p.m. is given by the company towards actual reimbursement of conveyance spent on official duty.
- He is provided personal accident policy for which premium of Rs. 5,000 is paid by the company.
- He is getting telephone allowance @ Rs. 500 p.m.

Answer: **Computation of taxable salary of Mr. X for AY 2022-23**

Particulars	Rs.
Basic pay [(Rs. 20,000× Rs. 9) + (Rs. 21,000× Rs. 3)] = Rs. 1,80,000 + Rs. 63,000	Rs. 2,43,000
Dearness allowance [10% of basic pay]	Rs. 24,300
Bonus	Rs. 21,000
Employer's contribution to RPF in excess of 12% (15%-12% =3% of 2,67,300) [Note 1]	Rs. 8,019
Taxable allowances	
Telephone allowance	Rs. 6,000

Taxable perquisites	
Rent-free accommodation [Note 1 & 2]	Rs. 44,145
Medical reimbursement	Rs. 25,000
Reimbursement of salary of housekeeper	Rs. 12,000
Gift voucher [Note 5]	Rs. 10,000
Gross Salary	**Rs. 3,93,464**
Less: Deduction u/s 16(ia) – Standard deduction	Rs. 50,000
Salary income chargeable to tax	**Rs. 3,43,464**

Notes:

1. Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation & employer's contribution to RPF have been accordingly worked out.
2. Where the accommodation is taken on lease/rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

   For the purposes of valuation of rent-free house, salary includes:
   - Basic salary i.e., Rs. 2,43,000
   - DA (assuming that it is included for calculating retirement benefits) i.e., Rs. 24,300
   - Bonus i.e., Rs. 21,000
   - Telephone allowance i.e., Rs. 6,000.

   Therefore, salary works out to Rs. 2,43,000 + Rs. 24,300 + Rs. 21,000 + Rs. 6,000 = Rs. 2,94,300.
   15% of salary = Rs. 2,94,300 × 15/100 = Rs. 44,145.
   Value of rent-free house = Lower of rent paid by the employer (i.e., Rs. 1,20,000) or 15% of salary (i.e., Rs. 44,145). Therefore, the perquisite value is Rs. 44,145.
3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. Value of any gift/voucher/token in lieu of gift received by the employee or by member of his household below Rs. 5,000 in aggregate during PY is exempt. In this case, gift voucher was received on the occasion of marriage anniversary & the sum exceeds the limit of Rs. 5,000. Therefore, entire amount of Rs. 10,000 is liable to tax as perquisite.

   Note - An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable. In such a case, the value of perquisite would be Rs. 5,000.
6. Premium of Rs. 5,000 paid by the company for personal accident policy is not liable to tax.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. Mr. Kashyap retired from the services of M/s ABC Ltd. on 31.01.2022, after completing service of 30 years & one month. He had joined the company on 1.1.1992 at the age of 30 years & received the following on his retirement:

(a) Gratuity: Rs. 5,50,000. He was covered under the Payment of Gratuity Act, 1972.
(b) Leave encashment of Rs. 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
(c) As per the scheme of the company, he was offered a car on 31.01.2022 which was purchased on 1.3.2019 by the company for Rs. 5,00,000. Company has recovered Rs. 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
(d) Amount of Rs. 3,00,000 as commutation of pension for 2/3 of his pension commutation.
(e) Company presented him a gift voucher worth Rs. 8,000 on his retirement.

Following are the other particulars:

- He has drawn a basic salary of Rs. 20,000 & dearness allowance @ 50% of basic salary for period from 1.04.2021 to 31.01.2022. Dearness allowance doesn't form part of pay for retirement benefits.
- Received pension of Rs. 7,000 p.m for 1.2.2022 to 31.03.2022 after commutation of pension.

Compute his income taxable u/h "Salaries" for AY 2022-23.

Answer: Computation of income taxable u/h "Salaries" of Mr. Kashyap for AY 2022-23

Particulars	Rs.
Basic Salary = Rs. 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	8,000
Transfer of car (See Note - 2)	1,20,000
Gratuity (See Note - 3)	30,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (Rs. 7000 x 2)	14,000
Commuted pension (See Note - 5)	1,50,000
Taxable Salary/Gross Total Income	**7,52,769**

Notes:

1. As per Rule 3(7)(iv), value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs. 5,000 in aggregate during PY is exempt. In this case, the amount was received on his retirement & the sum exceeds the limit of Rs. 5,000.
   Therefore, the entire amount of Rs. 8,000 is liable to tax as perquisite.
   Note: An alternate view is possible that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs. 3,000 & gross total income would be Rs. 7,47,769.
2. **Perquisite value of transfer of car:** As per Rule 3(7)(viii), value of benefit to the employee arising from transfer of an asset, being a motor car, by the employer is actual cost to the employer as reduced by 20% on WDV basis for each completed year during which such motor car was put to use by the employer. Therefore, value of perquisite on transfer of motor car would be:

Particulars	Rs.
Purchase price (1.3.2019)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.2.2020	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 28.2.2021	3,20,000
Less: Amount recovered	2,00,000
Value of perquisite	**1,20,000**

Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear & tear is to be calculated i.r.o. each completed year during which the asset was put to use by the employer.

In the given case, third year of use of car is completed on 28.2.2022 whereas the car was sold to the employee on 31.1.2022. Accordingly, wear & tear has to be calculated @ 20% on reducing balance method for only two years.

Rate of 15% as well as SLM adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. Kashyap.

3. Taxable gratuity

Particulars	Rs.
Gratuity received	5,50,000
Less: Exempt u/s 10(10) - Least of the following:	
(i) Notified limit = Rs. 20,00,000	
(ii) Actual gratuity received = Rs. 5,50,000	
(iii) 15/26 **x** last drawn salary **x** no. of completed years or part in excess of 6 months 15/26 x 30,000 x 30 = Rs. 5,19,231	5,19,231
Taxable Gratuity	**30,769**

PC Note: As per Payment of Gratuity Act, 1972, dearness allowance is included in the meaning of salary. Since Mr. Kashyap is covered under Payment of Gratuity Act, 1972, dearness allowance has to be included within the meaning of salary for computation of exemption u/s 10(10).

4. Taxable leave encashment

Particulars	Rs.
Leave Salary received	3,30,000
Less: Exempt u/s 10(10AA) - Least of the following:	
(i) Notified limit: Rs. 3,00,000	
(ii) Actual leave salary received: Rs. 3,30,000	
(iii) 10 months x Rs. 20,000: Rs. 2,00,000	
(iv) Cash equivalent of leave to his credit [$\frac{330}{30}$ x 20,000] = Rs. 2,20,000	2,00,000
Taxable Leave encashment	**1,30,000**

Note: Salary, for the purpose of exemption u/s 10(10AA), would include dearness allowance only if it forms part of pay for retirement benefits. Therefore, since dearness allowance does not form part of pay for retirement benefits, only basic salary has to be considered.

5. Commuted Pension

Since Mr. Kashyap is a non-government employee in receipt of gratuity, exemption u/s 10(10A) would be available to the extent of 1/3rd of the amount of the commuted pension which he would have received had he commuted the whole of the pension.

Particulars	Rs.
Amount received	3,00,000
Less: Exemption under section 10(10A) = 1/3 x 3 Lacs x 3/2	1,50,000
Taxable amount	**1,50,000**

Nov 18

Q2. You are required to compute the income chargeable u/h Salaries in the hands of Mr. Narayan for AY 2022-23 from the following details pertaining to PY 2021-22:

Particulars	Rs.
Basic salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000

Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Narayan paid by employer	42,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000
Employer company owns a motor car, which was provided to the assessee, both for official & personal use. All repair & maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	

Ans: Computation of income taxable u/h 'Salaries' of Mr. Narayan for AY 2022-23

Particulars	Rs.
Basic Salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Professional tax paid by employer is a taxable perquisite since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium paid by the employer is exempt perquisite	Nil
Gift voucher given by employer on Mr. Narayan's birthday (entire amount is taxable since the perquisite value exceeds Rs. 5,000) **[See Note below]**	15,000
Life insurance premium of Narayan paid by employer – taxable perquisite	42,000
Laptop provided for use at home is an exempt perquisite	Nil
Motor car (CC < 1.6 litres) owned by employer to employee for both official & personal purposes - Perquisite value = Rs. 21,600 [Rs.1,800 ×12]	21,600
Annual credit card fees paid by employer is a taxable perquisite since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	**12,57,600**
Less: Deductions under section 16	
Less: Standard deduction u/s 16(ia)	(50,000)
Less: Professional tax paid allowable as deduction as per section 16(iii)	(3,000)
Income chargeable u/h "Salaries"	**12,04,600**

Note: As per Rule 3(7)(iv), value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, value of any gift or voucher received by the employee or by member of his household below Rs. 5,000 in aggregate during PY would be exempt. In this case, gift voucher of Rs. 15,000 was received by Mr. Narayan from his employer on the occasion of his birthday. Since value of the gift voucher > Rs. 5,000, entire amount of Rs. 15,000 is taxable.

Alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto Rs. 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, value of perquisite would be Rs. 10,000.

May 19

Q3. Miss Riya has started working in a reputed company. This is her first job. She earned total income of Rs. 8 Lakhs in PY 2021-22. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of Rs. 1600 p.m. i.r.o said allowance can be claimed. According to you, what is the correct treatment for the same?

(a) Transport allowance upto a maximum Rs. 1600 per month can be claimed.

(b) Transport allowance upto a maximum Rs. 800 per month can be claimed.

(c) No separate deduction for transport allowance is allowed. However, standard deduction of Rs. 50,000 is allowed to salaried assessees.

(d) Deduction of transport allowance is allowed without any monetary limit.

Q4. Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars:

Basic Salary	Rs. 70,000 p.m.
Dearness Allowance (30% forms part of retirement benefits)	Rs. 24,000 p.m.
Bonus	Rs. 21,000 p.m

- Her employer has provided her with an accommodation on 1st April 2021 at a concessional rent. House was taken on lease by Shipra Ltd. for Rs. 12,000 p.m. Ms. Aarohi occupied the house from 1st November 2021. Rs. 4,800 p.m. is recovered from the salary of Ms. Aarohi.
- Employer gave her a gift voucher of Rs. 10,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards RPF & company contributes the same amount.
- Company pays medical insurance premium to effect insurance on health of Ms. Aarohi Rs. 20,000.
- Motor car owned by the employer (Cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aarohi from 1st Nov 2021 which is used for both official & personal purposes. Repair & running expenses of Rs. 70,000 were fully met by the company. Motor car was self-driven by the employee.

Compute income taxable u/h "Salaries" in the hands of Ms. Aarohi for AY 2022-23.

Answer: Computation of 'Salaries' in the hands of Ms. Aarohi for AY 2022-23

Particulars	Rs.
Basic Salary [Rs. 70,000 x 12]	8,40,000
Dearness allowance [Rs. 24,000 x 12]	2,88,000
Bonus [Rs. 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent **[See Working Note below]**	36,000
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value > Rs. 5,000) **[See Note]**	10,000
Employer's contribution to RPF in excess of 12% of salary = 18% x [(70,000 + 24,000) x 12] – 12% x {[Rs. 70,000 + Rs. 7,200 (being 30% of Rs. 24,000)] x 12} = 2,03,040 – 1,11,168 [Salary = BS + DA (forming part of RB)	91,872
Medical insurance premium of Rs. 20,000 paid by the employer	Nil
Provision of motor car = Rs.2400 p.m. [Rs.2,400 × 5 months]	12,000
Gross salary	**15,29,872**
Less: Standard deduction under section 16(ia)	**50,000**
Salary chargeable to tax	**14,79,872**

Working Note:

- Value of perquisite = Lower of (a) Lease rent or (b) 15% of salary i.r.o. period during which the house is occupied by the employee, reduced by the rent recoverable from the employee.
- Actual rent paid by the employer from 1.11.2018 to 31.3.2019 = Rs. 60,000 [Rs. 12,000 x 5 months]
- 15% of salary = Rs. 73,650 [15% x (Rs. 70,000 + Rs. 7,200 + Rs. 21,000) x 5 months]
- Salary = BS + DA to the extent it forms part of pay for retirement benefits + Bonus
- Lower of the above is Rs. 60,000 which is to be reduced by the rent recovered from the employee.
- Hence, perquisite value of concessional rent = 60,000 – 24,000 [Rs. 4,800 x 5 months] = Rs. 36,000

Nov 19

Q5. Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During PY 2021-22, following transactions were undertaken by Mr. Jagat:

- He attended a seminar on "Perquisite Valuation". Seminar fees of Rs. 12,500 was paid by Bharat Ltd.
- Tuition fees of Mr. Himanshu (son of Mr. Jagat) was reimbursed by Bharat Ltd. Fees = Rs. 25,000.
- Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned & maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was Rs. 750 per month. Cost of education in similar institution is Rs. 5,250 per month.

Compute the amount which is chargeable to tax u/h "Salaries" for AY 2022-23.

(a) Rs. 25,000 (b) Rs. 37,500 (c) Rs. 66,500 **(d) Rs. 79,000**

Q6. Ms. Suhaani, a resident, aged 33 years, is assistant manager of Daily Needs Ltd. She is getting a salary of Rs. 48,000 per month. During PY 2021-22, she received following amounts from employer.

- Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- Bonus for PY 2020-21 of Rs. 52,000 was received on 30th November, 2021.
- Fixed Medical allowance of Rs. 48,000 for meeting medical expenditure.
- She was also reimbursed medical bill of her father (dependent) amounting to Rs. 4,900.
- Ms. Suhaani was provided;
  (a) Laptop for official & personal use. Laptop was acquired by company on 1st June 2019 at Rs. 35,000.
  (b) Servant at a monthly salary of Rs. 5,000 which was reimbursed by her employer.
- Daily Needs Ltd. allotted 700 equity shares in October 2021 @ Rs. 170 per share against FMV of Rs. 280/share on date of exercise of option by Ms. Suhaani. FMV computed as per prescribed method.
- Professional tax Rs. 2,200 (out of which Rs. 1,400 was paid by the employer).

Compute the Income u/h "Salaries" of Ms. Suhaani for the AY 2022-23.

Ans: Income u/h "Salaries" in the hands of Ms. Suhaani for AY 2022-23.

Particulars	Rs.
Basic Salary [Rs. 48,000 x 12]	5,76,000
Dearness allowance [10% of basic salary]	57,600
Bonus [Taxable in the PY 2021-22 since it is taxable on receipt basis]	52,000
Fixed Medical Allowance [Taxable]	48,000
Reimbursement of Medical expenditure incurred for her father [Fully taxable from AY 2022-23 even though father is included in meaning of "family" on account of standard deduction being introduced in lieu of reimbursement of medical expenditure].	4,900
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [Rs. 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	60,000
Value of equity shares allotted [700 shares x Rs. 110 (Rs. 280 being FMV - Rs. 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Any sum paid by the employer i.r.o. any obligation which would have been payable by the employee = Perquisite]	1,400
Gross Salary	**8,76,900**
Less: Deduction u/s 16	
Less: Professional tax paid	2,200
Less: Standard Deduction (Lower of Rs. 50,000 or amount of salary)	50,000
Taxable Salary	**8,34,700**

May 20	Mr. Hardik (age 45 years) is appointed as senior executive officer in Sky India Limited, Mumbai on 01.02.2021 in the scale of Rs. 35,000-3500-65,000. He is paid dearness allowance @ 40% of salary forming part of retirement benefits. He is given rent free unfurnished accommodation on 1.5.2021 which he occupied only from 01.10.2021. The company pays lease rent of Rs. 5,000 p.m. He has been provided a car of 2000 CC which is used by him for private purposes only. Actual cost of the car is Rs. 8,00,000. The monthly expenditure of car is Rs. 5,000, which is fully met by the employer. He pays lumpsum premium of Rs. 1,50,000 towards health insurance for self & his wife for 48 months on 01.10.2021 by account payee cheque. He also contributes Rs. 1,50,000 towards PPF. In the light of above facts, you are required to answer the following: **Q7.** Value of rent-free accommodation taxable in the hands of Mr. Hardik, would be ____ (a) Rs. 44,835 (b) Rs. 44,100 (c) Rs. 45,570 **(d) Rs. 30,000** **Q8.** Hardik would be eligible for deduction I.r.o. health insurance premium paid during PY 2021-22 for ___ (a) Rs. 30,000 (b) Rs. 18,750 **(c) Rs. 25,000** (d) Rs. 37,500 **Q9.** Perquisite value of car chargeable to tax in the hands of Mr. Hardik would be ____ (a) Rs. 28,800 (b) Rs. 21,600 (c) Rs. 60,000 **(d) Rs. 1,40,000**
Nov 20	**Q10.** Mr. Neeraj, a salaried employee, furnishes following details for PY 2021-22:

Particulars	Amount
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cc more than 1.6 liters), which was provided to the assessee, both for official & personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable u/h Salaries for AY 2022-23.

Answer: **Computation of income chargeable u/h Salaries of Mr. Neeraj for AY 2022-23**

Particulars	Amount
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds 5,000, as per Rule 3(7)(iv)]	12,000

Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be 28,800 [2,400 ×12] as per Rule 3(2)	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes & details of usage are not available	5,000
Gross Salary	**10,60,300**
Less: Deductions under section 16	
- Standard Deduction u/s 16(ia), lower of gross salary & 50,000	(50,000)
- Entertainment allowance (deduction not allowable as Mr. Neeraj is not Government employee)	Nil
- Professional tax paid allowable as deduction u/s 16(iii)	(4,000)
Income chargeable u/h Salaries	**10,06,300**

May 21	**No Direct Question was asked.**
Nov 21	**No Direct Question was asked.**

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15	**No Direct Question was asked.**
N15	**No Direct Question was asked.**
M16	**No Direct Question was asked.**

N16

Q1. Compute amount of LTC Exemption in following cases with reference to provisions of Income tax Act, 1961

(a) Mr. Suresh went on a holiday on 9.9.2021 to Mysore with his wife & 3 children - one daughter born on 2.2.2015 & twin sons born on 5.5.2017. Total cost of travel was 80,000. The ticket cost for Mr. Suresh & his wife was 50,000 & for all three children was 30,000. The employer reimbursed total ticket cost 80,000.

(b) In the above case (a), if among his 3 children's twin sons were born on 2.2.2015 & daughter was born on 5.5.2017, what shall be the exemption?

Answer:

(a) Total cost of travel amounting of 80,000, being 50,000 towards ticket cost of Mr. Suresh & his wife & 30,000 for all three children, reimbursed by the employer, would be exempt.

(b) The restriction of two children is not applicable to multiple births after birth of first child. In this case, since twin sons were born after one daughter i.e., the first child, restriction of two children is not applicable. If the twin sons were born first i.e., on 2.2.2015, then exemption of leave travel concession for children would be restricted to travel cost of two children i.e., 20,000. Hence, in this case 70,000 shall be exempt.

Note: If Suresh opts to be taxed u/s 115BAC, he shall not be entitled to exemption of LTC.

M17

Q2. Mr. Nambi, a Salaried Employee, furnishes following details for PY 2021-22:

Particulars	Amount
Basic Salary	6,00,000
Dearness Allowance	3,20,000
Commission	50,000
Entertainment Allowance	7,500
Medical Expenses reimbursed by the Employer	21,000
Profession Tax (of this 50% paid by Employer)	7,000
Health Insurance Premium paid by Employer	9,000

Gift Voucher given by Employer on his birthday	12,000
Life Insurance Premium of Nambi paid by Employer	34,000
Laptop provided for use at home. Actual Cost of Laptop to Employer [Children of assessee are also using the laptop at home.]	30,000
Employer Company owns a Tata Nano Car, which was provided to the assessee, both for official & personal use. No Driver was provided. (Engine Cubic Capacity less than 1.6 litres)	
Annual Credit Card Fees paid by Employer (Credit Card is not exclusively used for official purposes; details of usage are not available.)	2,000

You are required to compute income chargeable u/h Salaries for AY 2022-23. Assume Mr. Nambi:
(a) does not opt to be taxed u/s 115BAC
(b) opts to be taxed u/s 115B AC

Answer: Computation of income chargeable u/h Salaries

Particulars	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Basic Salary	6,00,000	6,00,000
Dearness Allowance	3,20,000	3,20,000
Commission	50,000	50,000
Entertainment Allowance	7,500	7,500
Medical Reimbursement by the employer	21,000	21,000
50% of profession tax paid by the employer to be treated as perquisite	3,500	3,500
Health Insurance Premium paid by employer (not a perquisite)	Nil	Nil
Gift Voucher given by employer on his birthday	12,000	12,000
Life Insurance Premium paid by Employer	34,000	34,000
Laptop provided by employer (tax free perquisite)	Nil	Nil
Motor Car (1,800 p.m. x 12)	21,600	21,600
Credit Card Fees (Fully Taxable as nothing is recovered from Employee)	2,000	2,000
Gross Salary	**10,71,600**	**10,71,600**
Less: Standard deduction u/s 16(ia) 50,000	(50,000)	Nil
Less: Deduction u/s 16(iii) Professional Tax paid during the year 7,000	(7,000)	Nil
Income u/h Salaries	**10,14,600**	**10,71,600**

N17

Q3. Ms. Jaya is the marketing manager in XYZ limited. She gives you the following particulars:

Basic Salary	65,000 p.m.
Dearness Allowance	22,000 p.m. (30% is for retirement benefits)
Bonus	17,000 p.m.

Her employer has provided her with an accommodation on 1.4.2021 at a concessional rent. The house was taken on lease by XYZ Ltd, for 12,000 p.m. Ms. Jaya occupied house from 1.11.2021. Rs. 4,800 p.m. is recovered from the salary of Ms. Jaya. Employer gave her a gift voucher of 8,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards RPF & the company contributes same amount. Company pays medical insurance premium to effect insurance on health of Ms. Jaya 18,000. Motor car owned by the employer (cc of engine exceeds 1.6 litres) provided to Ms. Jaya from 1.11.2021 which is used for both official & personal purposes. Repair & running expenses of 50,000 were fully met by the company. Motor car was self-driven by employee. Compute income u/h Salaries in the hands of Ms. Jaya for AY 2022- 23. Assume Ms Jaya
(a) does not opt to be taxed u/s 115BAC

(b) opts to be taxed u/s 115BAC

Answer: **Computation of income chargeable u/h salaries of Ms Jaya for AY 2022-23**

Particulars		**Does not opt to be taxed u/s 115BAC**	**Opts to be taxed u/s 115BAC**
Basic salary (65,000 x 12)		7,80,000	7,80,000
Dearness allowance		2,64,000	2,64,000
Bonus (17,000 x 12)		2,04,000	2,04,000
Gift voucher in excess of 5,000		3,000	3,000
Valuation of concession in the matter of rent (See working note)		86,400	86,400
Employer's contribution to RPF 18% of 8,59,200 (7,80,000 + 79,200)	1,54,656		
Less: Exempt 12% of 8,59,200	(1,03,104)	51,552	51,552
Medical premium paid by employer		Tax free	Tax free
Value of motor car (2,400 x 5)		12,000	12,000
Gross salary		**14,00,952**	**14,00,952**
Less: Standard deduction u/s 16(ia)		(50,000)	Nil
Income from salaries		**13,50,952**	**14,00,952**

Working Note: Salary for purpose of rent-free accommodation			
Basic salary	7,80,000		
DA part of retirement benefits 30% of 2,64,000	79,200		
Bonus	2,04,000		
Total	**10,63,200**		
Value of unfurnished accommodation			
15% of 10,63,200 = 1,59,480; Or			
12,000 p.m. x 12 = 1,44,000, whichever is less		1,44,000	
Less: Rent recovered (4,800 x 12)		(57,600)	
Value of concession in the matter of rent		86,400	

Note: Although the house was occupied by Ms. Jaya w.e.f. 1.11.2021 but it was provided to her w.e.f. 1.4.2021. Hence, valuation shall be taken for entire year instead of 5 months.

M18

Q4. Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

Salary received: (i) outside India (6 months): 50,000 p. m; (ii) in India (6 months): 50,000 p. m.

- He has been given rent free accommodation in U.S.A. for which company pays 15,000 p.m. as rent, but when he comes to India, he stays in the guest house of company.
- He is given free lunch facility. During PY, company incurred an expenditure of 48,000 on this facility.
- He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office & private purposes. Actual cost of the car is 8,00,000. But when he is in India, car is used by him & members of his family only for personal purpose. Monthly expenditure of car is 5,000.
- His elder son is studying in India for which his employer spends 12,000 p.a. where as his younger son is studying in U.S.A. & stays in a hostel for which Mr. Honey gets 3,000 p.m. as combined allowance.
- Company has taken an accident insurance policy & a life insurance policy. During PY, company paid premium of 5,000 & 10,000 respectively.

Compute Mr. Honey's taxable income from salary for AY 2022-23 assuming: (a) does not opt to be taxed u/s 115BAC; (b) opts to be taxed u/s 115BAC Solution

Answer: **Mr. Honey is ROR in India**

Stay in India during current year	184 days (Resident)
Stay in India during 10 PYs	184 days/year (Resident for 10 PY)
Stay in India during last 7 PYs (Therefore, he is ROR)	184 x 7 = 1,288 (More than 730 days)

Particulars	**Does not opt to be taxed u/s 115BAC**		**Opts to be taxed u/s 115BAC**	
Salary (50,000 x 12)	-	6,00,000	-	6,00,000
Education allowance (3,000 x 12)	36,000	-	36,000	-
Less: Exempt (100 + 300) x 12	(4,800)	31,200	Nil	36,000
Rent free accommodation				
Lower of 15% of Rs. 6,31,200/15% of Rs. 6,36,000;	94,680		95,400	
or 15,000 x 12	1,80,000	94,680	1,80,000	95,400
Motor car (2,400 x 6)	14,400		14,400	
(5,000 x 6 + 8,00,000 x 10% x 6/12)	70,000	84,400	70,000	84,400
Education expenses for elder son		12,000		12,000
Life Insurance Premium (LIP) paid by employer		10,000		10,000
Accidental Insurance Premium paid by the employer (This is the responsibility of employer)				
Total		**8,32,280**		**8,37,800**
Less: Standard deduction u/s 16(ia)		(50,000)		Nil
Gross salary		**7,82,280**		**8,37,800**

Notes:
1. It is assumed that car maintenance expenses are made by employer
2. LIP paid by the employer can be claimed as deduction u/s 80C. Deduction u/s 80C will not be allowed if he opts to be taxed u/s 115BAC.
3. Mr Honey is provided guest house accommodation & lunch facility when he visits India for official purpose. Therefore, it is not chargeable to tax.

N18 **Q5.** Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the under-mentioned information for year ended 31.3.2022:

1. Basic salary up to 30.11.2021 70,000 p.m.
   Basic salary from 1.12.2021 80,000 p.m.
   Note: Salary is due & paid on the last day of every month.
2. Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
3. Bonus equal to one-month salary. This was paid in November, 2021 on basic salary plus dearness allowance applicable for that month.
4. Contribution of employer to RPF A/c of the employee @ 18% of basic salary, employee also contribute an equivalent amount.
5. Profession tax paid 6,000 of which 3,000 was paid by the employer.
6. Facility of laptop was provided to Janakaraj for both official & personal use. Cost of laptop 65,000 & was purchased by the company on 11.10.2021.
7. Leave travel concession given to Janakaraj, his wife & three children (one daughter aged 6 & twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer 20,000 for adults & lump sum of 25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under Income-tax Act, 1961.

   Compute the taxable salary of Mr. Janakaraj. If he:
   (a) does not opt to be taxed u/s 115BAC (b) opts to be taxed u/s 115BAC

Answer: **Computation of Income u/h Salary**

Particulars		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Basic Salary (70,000 x 8)+ (80,000 x 4)		8,80,000	8,80,000
Dearness Allowance (50% x 8,80,000)		4,40,000	4,40,000
Bonus (770,000 + 35,000)		1,05,000	1,05,000
Employer's Contribution to RPF (78,80,000 x 6%) (In excess of 12% shall be taxable)		52,800	52,800
Professional Tax paid by the employer section 17(2)(iv)		3,000	3,000
Facility of Laptop/computer [Section 17(2)(viii)/Rule 3(7)(vii)]		Nil	Nil
Leave Travel concession [Section 10(5)/Rule 2B]		Nil	45,000
Gross Salary		**14,80,800**	**15,25,800**
Less: Deduction u/s 16(ia)	50,000		
Less: Deduction of professional tax u/s 16(iii)	6,000	56,000	Nil
Income u/h Salary		**14,24,800**	**15,25,800**

Note:

1. As per section 10(12), Employer's contribution up to 12% of retirement benefit salary shall be exempt & excess amount shall be taxable.
2. As per section 10(5) r.w. Rule 2B, Leave Travel Concession shall be allowed to employee & his family. Exemption shall be allowed for expenditure incurred during the trip. Family shall include spouse, two children & dependent parents, brothers & sisters of the employee. However, in case of multiple births after one child, exemption is allowed for all the children. Not exempt if she opts to be taxed u/s 115BAC.
3. Professional tax paid by employer shall be added to gross salary of employee then deduction u/s 16(iii) shall be allowed for professional tax paid. Deduction not allowed if she opts to be taxed u/s 115BAC.
4. Employee's own contribution to RPF (i.e.,1,58,400) shall be allowed as a deduction u/s 80C (up to 1,50,000). Not allowed if she opts to be taxed u/s 115BAC.

CHAPTER 4. HOUSE PROPERTY QB

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1 Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below:

Particulars	House I	House II	House III	House IV	House V
Municipal Value	Rs. 80,000	Rs. 55,000	Rs. 65,000	Rs. 24,000	Rs. 80,000
Fair Rent	Rs. 90,000	Rs. 60,000	Rs. 65,000	Rs. 25,000	Rs. 75,000
Standard Rent	N.A.	Rs. 75,000	Rs. 58,000	N.A.	Rs. 78,000
Actual rent received/ receivable	Rs. 72,000	Rs. 72,000	Rs. 60,000	Rs. 30,000	Rs. 72,000

Answer: As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent & actual rent received. Expected rent is higher of municipal value & fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

	Particulars	House I	House II	House III	House IV	House V
(i)	Municipal value	Rs. 80,000	Rs. 55,000	Rs. 65,000	Rs. 24,000	Rs. 80,000
(ii)	Fair rent	Rs. 90,000	Rs. 60,000	Rs. 65,000	Rs. 25,000	Rs. 75,000
(iii)	Higher of (i) & (ii)	Rs. 90,000	Rs. 60,000	Rs. 65,000	Rs. 25,000	Rs. 80,000
(iv)	Standard rent	N.A.	Rs. 75,000	Rs. 58,000	N.A.	Rs. 78,000
(v)	Expected rent [Lower of (iii) & (iv)]	Rs. 90,000	Rs. 60,000	Rs. 58,000	Rs. 25,000	Rs. 78,000
(vi)	Actual rent received/receivable	Rs. 72,000	Rs. 72,000	Rs. 60,000	Rs. 30,000	Rs. 72,000
	GAV [Higher of (v) & (vi)]	Rs. 90,000	Rs. 72,000	Rs. 60,000	Rs. 30,000	Rs. 78,000

Q2. Rajesh, a British national, is a resident & ordinarily resident in India during the PY 2021-22. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the PY 2021-22. Value of one £ in Indian rupee to be taken at 95.

Compute Rajesh's Net Annual Value of the property for the AY 2022-23.

Answer: For PY 2021-22, Mr. Rajesh, a British national, is resident & ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is be to allowed as deduction from GAV.

Computation of Net Annual Value of the property of Mr. Rajesh for AY 2022-23

Particulars	Rs.
Gross Annual Value (£ 10,000 × 12 × 95)	Rs. 1,14,00,000
Less: Municipal taxes paid (£ 8,000 × 95)	Rs. 7,60,000
Net Annual Value (NAV)	1,06,40,000

Q3. Mr. Manas owns two house properties one at Bombay, wherein his family resides & the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of Rs. 30 lakh@10% p.a. on 1.4.2020. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of 5 lakh@11% p.a. on 1.10.2020 towards repairs. Compute the deduction which would be available to him under section 24(b) for AY 2022-23 i.r.o. interest payable on such loan.

Answer: Mr. Manas can claim benefit of Nil Annual Value i.r.o. his house property at Bombay & Delhi, since no benefit is derived by him from such properties, & he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

Computation of deduction u/s 24(b) for AY 2022-23

Particulars	Rs.
Interest on loan taken for acquisition of residential house property at Bombay Rs. 30,00,000 x 10% = Rs. 3,00,000 Restricted to Rs. 2,00,000	Rs. 2,00,000

Interest on loan taken for repair of residential house property at Delhi Rs. 5,00,000 x 11% = Rs. 55,000 Restricted to Rs. 30,000	Rs. 30,000
Total interest	**Rs. 2,30,000**
Deduction under section 24(b) i.r.o. (I) & (II) above to be restricted to	Rs. 2,00,000

Q4. Anirudh has a property whose municipal valuation is Rs. 1,30,000 p.a. The fair rent is Rs. 1,10,000 p.a. & the standard rent fixed by the Rent Control Act is Rs. 1,20,000 p.a. The property was let out for a rent of Rs. 11,000 p.m. throughout the previous year. Unrealised rent was Rs. 11,000 & all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was Rs. 40,000 for the year. Compute his income from house property for AY 2022-23.

Answer: **Computation of Income from house property of Mr. Anirudh for AY 2022-23**

	Computation of GAV		
Step 1	Compute ER		
	ER = Higher of MV of Rs. 1,30,000 p.a. & FR of Rs. 1,10,000 p.a. but restricted to SR of Rs. 1,20,000 p.a.	Rs. 1,20,000	
Step 2	Compute actual rent received/receivable		
	Actual rent received/ receivable less unrealized rent as per Rule 4 = 1,32,000 - 11,000	Rs. 1,21,000	
Step 3	Compare ER of Rs. 1,20,000 & Actual rent received/receivable of Rs. 1,21,000		
Step 4	GAV is the higher of ER & Actual rent received/receivable	Rs. 1,21,000	
	Gross Annual Value (GAV)		Rs. 1,21,000
Less:	Municipal taxes (paid by the owner during the previous year) = 10% of Rs. Rs. 1,30,000		Rs. 13,000
	Net Annual Value (NAV)		Rs. 1,08,000
Less:	Deductions under section 24		
	(a) 30% of NAV	Rs. 32,400	
	(b) Interest on borrowed capital (actual without any ceiling limit)	Rs. 40,000	Rs. 72,400
	Income from house property		**Rs. 35,600**

Note: Alternatively, if as per income-tax returns, URR is deducted from GAV, then GAV = Rs. 1,32,000, being higher of expected rent of Rs. 1,20,000 & actual rent of Rs. 1,32,000. Thereafter URR of Rs. 11,000 & municipal taxes of Rs. 13,000 would be deducted from GAV of Rs. 1,32,000 to arrive at NAV of Rs. 1,08,000.

Q5. Ganesh has a property whose municipal valuation is Rs. 2,50,000 p.a. The fair rent is Rs. 2,00,000 p.a. & the standard rent fixed by the Rent Control Act is Rs. 2,10,000 p.a. The property was let out for a rent of Rs. 20,000 p.m. However, the tenant vacated the property on 31.1.2022. Unrealised rent was Rs. 20,000. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was Rs. 65,000 for the year. Compute the income from house property of Ganesh for AY 2022-23.

Answer:

	Particulars	**Amount**	
	Computation of GAV		
Step 1	Compute ER		
	Higher of MV of Rs. 2,50,000 p.a. & FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a.	Rs. 2,10,000	
Step 2	Compute Actual rent received/ receivable		
	AR received/ receivable for let out period less unrealized rent as per Rule 4 = Rs. 2,00,000 – Rs. 20,000	Rs. 1,80,000	
Step 3	Compare ER & Actual rent received/ receivable		
Step 4	In this case the AR of Rs.1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would		

	have been Rs. 2,20,000 (Rs. 1,80,000 + Rs. 40,000, being notional rent for February & March 2020). Therefore, actual rent is the GAV.	Rs. 1,80,000	
	Gross Annual Value (GAV)		Rs.1,80,000
	Less: Municipal taxes (paid by the owner during PY) = 8% of Rs. 2,50,000		Rs. 20,000
	Net Annual Value (NAV)		Rs. **1,60,000**
	Less: Deductions under section 24		
	(a) 30% of NAV = 30% of Rs. 1,60,000	Rs. 48,000	
	(b) Interest on borrowed capital (without any limit)	Rs. 65,000	Rs.1,13,000
	Income from house property		Rs. **47,000**

Note: Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs. 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of Rs. 2,10,000 owing to vacancy. Thereafter, unrealized rent of Rs. 20,000 & municipal taxes of Rs. 20,000 would be deducted from GAV of Rs. 2,00,000 to arrive at the NAV of Rs. 1,60,000.

Q6. Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is 25,000 p.m. The municipal valuation is 2,80,000 p.a. Municipal taxes paid is 8,000. The house construction began in April 2015 with a loan of 20,00,000 taken from SBI Housing Finance Ltd. @ 9% p.a. on 1.4.2015. The construction was completed on 30.11.2017. The accumulated interest up to 31.3.2017 is 3,60,000. On 31.3.2022, Poorna paid 2,40,000 which included 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for AY 2022-23.

Answer: **Computation of income from house property of Smt. Poorna for AY 2022-23**

Particulars	Amount
Annual Value of house used for self-occupation under section 23(2)	**Nil**
Less: Deduction under section 24	
Interest on borrowed capital Interest on loan was taken for construction of house on or after 1.4.99 & same was completed within the prescribed time - interest paid or payable subject to a maximum of Rs. 2,00,000 (including apportioned pre- construction interest) will be allowed as deduction. In this case the total interest is Rs. 1,80,000 + Rs. 72,000 (Being 1/5th of Rs. 3,60,000) = Rs. 2,52,000. However, the interest deduction is restricted to Rs. 2,00,000.	Rs. 2,00,000
Loss from house property	**(Rs. 2,00,000)**

Q7. Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs. 5,00,000, fair rent is Rs. 4,20,000 & standard rent is Rs. 4,80,000. The property was let-out for Rs. 50,000 p.m. up to December 2020. Thereafter, the tenant vacated the property & Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November & December 2021 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs. 25,000 during year for amount borrowed for repairs for the house property. Compute her income from house property for AY 2022-23.

Answer: **Computation of income from house property of Smt. Rajalakshmi for AY 2022-23**

Particulars		Amount	
	Computation of GAV		
Step 1	Compute ER for the whole year ER = Higher of MV of Rs. 5,00,000 & FR of Rs. 4,20,000, but restricted to SR of Rs. 4,80,000	Rs. 4,80,000	
Step 2	Compute Actual rent received/ receivable		
	Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (Rs. 50,000 × Rs. 9) - (Rs. 50,000 × 2) = Rs. 4,50,000 – Rs. 1,00,000	Rs. 3,50,000	
Step 3	Compare ER for the whole year with the actual rent received/ receivable for the let out period i.e. Rs. 4,80,000 & Rs. 3,50,000		

Step 4	GAV is the higher of ER computed for the whole year & Actual rent received/ receivable computed for the let-out period	Rs. 4,80,000	
	Gross Annual Value (GAV)		**4,80,000**
Less	Municipal taxes (paid by the owner during the previous year) = 12% of Rs. 5,00,000		Rs. 60,000
	Net Annual Value (NAV)		
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of 4,20,000	Rs. 1,26,000	
	(b) Interest on borrowed capital	Rs. 25,000	Rs. 1,51,000
	Income from house property		**2,69,000**

Note: Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs. 4,80,000, being higher of expected rent of Rs. 4,80,000 & actual rent of Rs. 4,50,000. Thereafter, unrealized rent of Rs. 1,00,000 & municipal taxes of Rs. 60,000 would be deducted from GAV of Rs. 4,80,000 to arrive at the NAV of Rs. 3,20,000. The deduction u/s 24(a) would be Rs. 96,000, being 30% of Rs. 3,20,000. The income from house property would, therefore, be Rs. 1,99,000.

Q8. Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the PY 2021-22 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	Rs. 3,00,000	Rs. 3,60,000	Rs. 3,30,000
Fair rent p.a.	Rs. 3,75,000	Rs. 2,75,000	Rs. 3,80,000
Standard rent p.a.	Rs. 3,50,000	Rs. 3,70,000	Rs. 3,75,000
Date of completion/purchase	31.3.1999	31.3.2001	01.4.2014
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	Rs. 55,000	
Interest for current year on money borrowed in July 2014 for purchase of property			Rs. 1,75,000

Compute Ganesh's income from house property for AY 2022-23 & suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

Answer: Let us first calculate the income from each house property assuming that they are deemed to be let out.

Particulars	Amount in Rs.		
	House I	**House II**	**House III**
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV & FR, but restricted to SR	Rs. 3,50,000	Rs. 3,60,000	Rs. 3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	Rs. 36,000	Rs. 28,800	Rs. 19,800
Net Annual Value (NAV)	Rs. 3,14,000	Rs. 3,31,200	Rs. 3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	Rs. 94,200	Rs. 99,360	Rs. 1,06,560
(b) Interest on borrowed capital	-	Rs. 55,000	Rs. 1,75,000
Income from house property	**Rs. 2,19,800**	**Rs. 1,76,840**	**Rs. 73,640**

Ganesh can opt to treat any two of the above house properties as self-occupied.

OPTION 1 (House I & II– self-occupied & House III – deemed to be let out)

If House I & II are opted to be self-occupied, the income from house property shall be:

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Self-occupied) (interest deduction restricted to Rs. 30,000)	(Rs. 30,000)

House III (Deemed to be let-out)	Rs. 73,640
Income from house property	Rs. 43,640

OPTION 2 (House I & III – self-occupied & House II – deemed to be let out)

If House I & III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	Rs. 1,76,840
House III (Self-occupied)	(Rs. 1,75,000)
Income from house property	**Rs. 1,840**

OPTION 3 (House II & III – self-occupied & House I – deemed to be let out)

If House II & III are opted to be self-occupied, the income from house property shallbe –

Particulars	Amount in Rs.	
House I (Deemed to be let-out)		Rs. 2,19,800
House II (Self-occupied) (interest deduction restricted to Rs. 30,000)	(Rs. 30,000)	
House III (Self-occupied) (Total interest deduction restricted to Rs. 2,00,000)	(Rs. 1,75,000)	(Rs. 2,00,000)
Income from house property		**Rs. 19,800**

Since Option 2 is most beneficial, Ganesh should opt to treat House I & III as self- occupied & House II as deemed to be let out. His income from house property would be 1,840 for the AY 2022-23.

Q9. Prem owns a house in Madras. During the PY 2021-22, 2/3rd portion of the house was self-occupied & 1/3rd portion was let out for residential purposes at a rent of Rs. 8,000 p.m. Municipal value of the property is Rs. 3,00,000 p.a. fair rent is Rs. 2,70,000 p.a. & standard rent is Rs. 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of Rs. 25,00,000 was taken by him during the year 2017 for acquiring the property. Interest on loan paid during PY 2021-22 was Rs. 1,20,000. Compute Prem's income from house property for the AY 2022-23.

Answer: There are two units of the house. Unit I with 2/3rd area is used by Prem for self- occupation throughout the year & no other benefit is derived from that unit, hence it will be treated as self-occupied & its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout PY & its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for AY 2022-23

Particulars		Amount in	
Unit I (2/3rd area – self-occupied)			
Annual Value			Nil
Less:	Deduction under section 24(b) 2/3rd of 1,20,000		Rs. 80,000
Income from Unit I (self-occupied)			**(Rs. 80,000)**
Unit II (1/3rd area – let out)			
Computation of GAV			
Step 1	Compute ER ER = Higher of MV & FR, restricted to SR However, in this case, SR of Rs. 1,10,000 (1/3rd of Rs. 3,30,000) is more than the higher of MV of Rs. 1,00,000 (1/3rd of Rs. 3,00,000) & FR of Rs. 90,000 (1/3rd of Rs. 2,70,000). Hence the higher of MV & FR is the ER. In this case, it is the MV.	Rs. 1,00,000	
Step 2	Compute actual rent received/ receivable Rs. 8,000 □□12 = Rs. 96,000	Rs. 96,000	
Step 3	Compare ER & Actual rent received/ receivable		
Step 4	GAV is the higher of ER & actual rent received/ receivable i.e. higher of Rs. 1,00,000 & Rs. 96,000	Rs. 1,00,000	
Gross Annual Value(GAV)			**1,00,000**

Less:	Municipal taxes paid by the owner during theprevious year relating to let-out portion 1/3rd of (10% of 3,00,000) = Rs. 30,000/3 = Rs. 10,000		Rs. 10,000
	Net Annual Value(NAV)		**Rs. 90,000**
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of 90,000	Rs. 27,000	
	(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of 1,20,000	Rs. 40,000	Rs. 67,000
	Income from Unit II (let-out)		Rs. 23,000
Loss under the head "Income from house property" = (Rs. 80,000) + Rs. 23,000 = (Rs. 57,000)			

Q10. Mr. Anand sold his residential house property in March, 2021. In June, 2021, he recovered rent of Rs. 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2015 to March 2017. He could not realise two months rent of Rs. 20,000 from him & to that extent his actual rent was reduced while computing income from house property for AY 2017-18.

Further, he had let out his property from April, 2017 to February, 2021 to Mr. Satish. In April, 2019, he had increased the rent from Rs. 12,000 to Rs. 15,000 per month & the same was a subject matter of dispute. In September, 2021, the matter was finally settled & Mr. Anand received Rs. 69,000 as arrears of rent for the period April 2019 to February, 2021.

Would the recovery of unrealised rent & arrears of rent be taxable in the hands of Mr. Anand, & if so in which year?

Answer: Since the unrealised rent was recovered in the PY 2021-22, the same would be taxable in the A.Y. 2021-22 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the PY 2021-22, & hence the same would be taxable in the AY 2022-23 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered & arrears of rent would be allowed while computing income from house property of Mr. Anand for AY 2022-23.

Computation of income from house property of Mr. Anand for AY 2022-23

Particulars	Rs.
1. Unrealised rent recovered	Rs. 10,000
2. Arrears of rent received	Rs. 69,000
	Rs. 79,000
Less: Deduction@30%	Rs. 23,700
Income from house property	**Rs. 55,300**

Q11. 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 property & same is used by them for self-occupation. Interest is payable i.r.o. loan of Rs. 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 & her parents reside. She has taken a loan of Rs. 3,00,000@12% on 1.10.2020 for repairs of this flat. Compute deduction which would be available to Ms. Aparna & Ms. Dimple under section 24(b) for AY 2022-23.

Answer: **Computation of deduction u/s 24(b) available to Ms. Aparna for AY 2022-23**

	Particulars	Rs.
I	Interest on loan taken for acquisition of residential house	
	property at Calcutta Rs. 50,00,000 x 10% = Rs. 5,00,000 Ms. Aparna's share = 50% of Rs. 5,00,000 = Rs. 2,50,000 Restricted to Rs. 2,00,000	Rs. 2,00,000
II	Interest on loan taken for repair of flat at Pune Rs. 3,00,000 x 12% = Rs. 36,000 Restricted to Rs. 30,000	
	Total interest	**Rs. 2,30,000**
	Deduction under section 24(b) i.r.o. (I) & (II) above to be restricted to	Rs. 2,00,000

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

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

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. X owns one residential house in Mumbai. The house is having 2 units. 1st unit of the house is self-occupied by Mr. X & another unit is rented for Rs. 8,000 p.m. Rented unit was vacant for 2 months during the year. Particulars of the house for PY 2021-22 are as under:

Standard Rent	Rs. 1,62,000 p.a.
Fair Rent	Rs. 1,85,000 p.a
Municipal Value	Rs. 1,90,000 p.a
Light & Water Charges	Rs. 500 p.m.
Insurance charges	Rs. 3,000 p.a
Repairs	Rs. 1,200 p.m
Municipal Tax paid	15 %
Interest on Borrowed Capital	Rs. 1,500 p.m.

Compute Income from House Property of Mr. X for AY 2022-23

[Nov 2013 + Nov 2008 + Nov 2012 + ICAI Ex. Q2]

Answer: **Computation of Income from House Property**

Particulars	1st Unit SOP	2nd Unit LOP
Gross Annual Value	NIL	80,000
Less: Municipal Taxes (assumed as paid during PY) [1,90,000 x 15% x 50%]	NIL	(14,250)
Net Annual Value	NIL	65,750
Less: Deduction u/s 24		
Deduction at 30% of NAV (Rs. 65,750 x 30%)	NIL	(19,725)
Interest on Borrowed Capital (Rs. 750 p.m. x 12 months) each for 2 units	(9,000)	(9,000)
Income from House Property	(9,000)	37,025
Taxable Income from House Property		**28,025**

Working Note:

(1) **GAV of 2nd Unit is determined as:**
ER = Higher of MV (Rs. 95,000) or FR (Rs. 92,500) subject to Maximum of SR (Rs. 81,000) **= Rs. 81,000.**
Actual Rent Receivable = Rs. 80,000 (8,000 x 10).
If there would have been no vacancy, ARR would be Rs. 96,000.
Thus, we can say that ARR < ER due to vacancy, GAV = ARR = Rs. 80,000.

(2) Annual Value of 1st Unit: Since the House Property is self-occupied by the Assessee, GAV is taken as NIL.

(3) Light & Water Charges, Lease Money, Insurance charges & Repairs are not allowed as deduction u/s 24.

(4) Loss from one House property can be set off against Income from another Property, u/s 70.

Q2. Prem owns a house in Madras. During PY 2021-22, 2/3rd portion of the house was self-occupied & 1/3rd portion was let out for residential purposes at a rent of Rs. 8,000 p.m. MV = Rs. 3,00,000 p.a., FR = Rs. 2,70,000 p.a. & SR = Rs. 3,30,000 p.a. He paid MT @ 10% during the year. A loan of Rs. 25,00,000 was taken by him during the year 2015 for acquiring the property. Interest on loan paid during PY 2021-22 was Rs. 1,20,000. Compute Prem's income from house property for the AY 2022-23. **[Nov 2012 + ICAI SM Q9]**

Answer:

- There are two units of the house. Unit I with 2/3rd area is used by Prem for self- occupation throughout the year & no benefit is derived from that unit, hence it will be treated as SOP & its NAV will be Nil.
- Unit 2 with 1/3rd area is let-out throughout the previous year & its NAV has to be determined as per sec 23(1).

Computation of Income from House Property of Mr. Prem for AY 2022-23

Unit I (2/3rd area: Self-occupied)	
NAV Annual Value	Nil
Less: Deduction u/s 24(b) 2/3rd of Rs. 1,20,000	(80,000)
Unit II (1/3rd area: Let out)	

Gross Annual Value	Higher of ER = 1,00,000; ARR: 8,000 x 12 = Rs. 96,000	Rs. 1,00,000
Less: Municipal tax paid	[1/3rd of (10% of Rs. 3 lacs)] = Rs. 30,000/3	(Rs. 10,000)
Net Annual Value	GAV – MT	Rs. 90,000
Less: Deduction u/s 24		
24(a): Std Deduction @ 30%	30% of Rs. 90,000	(Rs. 27,000)
24(b): Interest	1/3rd of Rs. 1,20,000	(Rs. 40,000)
Income from Unit II (let-out)		Rs. 23,000
Total Income from House Property = (Rs. 80,000) + Rs. 23,000 = (Rs. 57,000).		

Q3. Mr. Raman is a Co-Owner of a House Property along with his brother. **[Nov 09 + ICAI Ex. Q1]**

Municipal Value of the Property	Rs. 1,60,000
Fair Rent	Rs. 1,50,000
Standard Rent under the Rent Control Act	Rs. 1,70,000
Rent Received	Rs. 15,000 p.m.

Loan for the construction of this property is jointly taken & interest charged by the bank is Rs. 25,000 out of which 21,000 have been paid. Interest on the unpaid interest is 450. To repay this loan, Raman & his brother has taken a fresh loan & interest charged on this loan is Rs. 5,000. Municipal Taxes of Rs. 5,100 have been paid by Tenant. Compute Income from house property in hands of Mr. Raman for AY 2022-23.

Answer: Shares of each co-owner is not given. If share of each Co-Owner of the property is not definite, then Income from property will be determined & charged to tax in the capacity of an AOP (Sec. 26).

Computation of Income from House Property

Gross Annual Value [Note 1]	Rs. 1,80,000
Less: Municipal Taxes paid [Note 2]	(Nil)
Net Annual Value of the House Property	Rs. 1,80,000
Less: Deduction u/s 24(a): 30% of NAV = 30% of Rs. 1,80,000	(Rs. 54,000)
Deduction u/s 24(b): Interest on original loan + Loan taken to repay the original loan	(Rs. 30,000)
Income from House Property	**Rs. 96,000**

Note:

(1) GAV = Higher of ER or ARR.
  a) ER = Higher of FR (1,50,000) & MR (1,60,000) sub to Max. of SR (1,70,000) = 1,60,000
  b) ARR = Rs. 1,80,000 (15,000 x 12).

(2) Since Municipal Taxes have been paid by the tenant, it shall not be allowed as a deduction to owner.

(3) Interest on interest of Rs. 450 shall not be allowed as deduction u/s 24.

(4) Interest shall be allowed on accrual basis even though it is not paid during the Relevant Previous Year.

(5) It is assumed the interest of Rs. 25,000 does not include the interest on interest of Rs. 450.

(6) **If Mr. Raman is an equal co-owner, Income from House Property in hands of Mr. Raman = Rs. 48,000 (Rs. 96,000/2).**

PQ4. A owns a house property at Delhi. 60% of house property is self-occupied for residence & 40% is let out on monthly rent of Rs. 5,000. Let-out portion was also self-occupied from 1.10.2021 to 31.12.2022. However, w.e.f. 1.1.2022, entire house was let out for Rs. 12,500 pm. Construction of house property was completed on 31.12.1998.

The following expenses were incurred for the above house property during the year ending on 31.3.2021.

Municipal Tax paid for	PY 2019-20: 5,000	PY 2020-21: 10,000	PY 2021-22: 15,000

Insurance premium paid: 3,000; Land revenue due: 6,000; Interest on money borrowed for construction: 18,000. Calculate income u/h 'house property' of A for AY 2021-22. [Expected Rent = Rs. 12,500 per month]

Answer: As both units are let out for the part of the year & self-occupied for some part of the year, benefit of self-occupied house property will not be available & NAV of both units shall be determined as per sec. 23(1).

(a) ER [12,500 x 12]		1,50,000
(b) AR [Rs. 5,000 x 6 + Rs. 12,500 x 3]		67,500
Thus GAV = Higher of ER or AR		**1,50,000**
Less: Municipal tax paid (5,000 + 10,000 + 15,000) [Deductible on Payment basis]		(30,000)
Net Annual Value		**1,20,000**
Less: Standard deduction @ 30% u/s 24(a)	(36,000)	
Less: Deduction u/s 24(b) on Interest	(18,000)	(54,000)
Income from House Property		**66,000**

PQ5. Mrs. Deepali (aged 40 years) is working with M/s Good Company Ltd, a manufacturer of tyres based at Mumbai, has received the following payments during PY 2020-21 from her employer:
(a) Basic Salary: Rs. 60,000 per month; (b) Dearness Allowance: 40% of Basic Salary.
Her employer has taken on rent her own house on a monthly rent of Rs. 15,000 & the same has been provided for residence of Mrs. Deepali. Company is recovering Rs. 2,000 per month as rent of house.
Mrs. Deepali has further furnished the following details:
(1) Contribution to PPF Rs. 60,000.
(2) She has paid Professional Tax of Rs. 6,000 during PY 2020-21.
(3) She is owning only one house & payment of Interest of Rs. 1,75,000 & Principal of Rs. 1,00,000 was made for Housing Loan taken for purchase of House.
(4) She has also taken a Loan of Rs. 2,00,000 from her employer for study of her son. SBI Rate for such Loan is 10%. Her employer has recovered Rs. 10,000 as interest from her Salary for such Loan during the year.
Compute Taxable Income & Tax Liability for AY 2022-23. **[Nov 2011]**

Answer:

Computation of Total Income & Tax Liability for AY 2021-22

Particulars		Rs.	Rs.
Income under the Head Salary			
Basic salary (60,000 x 12)		7,20,000	
DA (40% of 7,20,000)		2,88,000	
Value of Accommodation taken on Lease by the Employer [Least of] (i) Rent paid by employer (15,000 x 12) (ii) 15% of Salary (15% of 10,08,000) **Less:** Amount Recovered from Employee (2,000 x 12)	 1,80,000 1,51,200 (24,000)	 1,27,200	
Concessional Loan (Loan o/s @ SBI Rate – Actual Rate) = (2 Lac x 10%) - 10,000		10,000	
Gross Salary		**11,45,200**	
Less: Standard Deduction u/s 16(ia)		(50,000)	
Less: Deduction u/s 16(iii) – Professional Tax		(6,000)	**10,89,200**
Income u/h House Property (Let out Property)			
Gross Annual Value (15,000 x 12)		1,80,000	
Less: Deduction u/s 24(a) @ 30% of NAV		(54,000)	
Less: Deduction u/s 24(b): Interest on Housing Loan		(1,75,000)	**(49,000)**
Gross Total Income			**10,40,200**
Less: Deduction under Chapter VI A			
U/s 80C: Housing Loan Principal (1,00,000) + NSC 60,000 (Max. 1,50,000)			(1,50,000)
Total Taxable Income			**8,90,200**

Note: Tax on Total Income = [12,500 + (8,90,200 – 5,00,000) x 20%] = 90,540 + HEC @ 4% = Rs. 94,160.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property

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

The loan for the construction of this property is jointly taken & the interest charged by the bank is Rs. 25,000, out of which Rs. 21,000 has been paid. Interest on the unpaid interest is Rs. 450. To repay this loan, Raman & his brother have taken a fresh loan & interest charged on this loan is Rs. 5,000. The municipal taxes of Rs. 5,100 have been paid by the tenant. Compute the income from this property chargeable in the hands of Mr. Raman for the AY 2022-23.

Answer:

Computation of income from house property of Mr. Raman for AY 2022-23

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

Notes:

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

GAV is the higher of ER and AR received. ER is the higher of municipal value & fair rent, but restricted to SR.

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

(2) Interest on housing loan is allowable as a 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 under section 24.

Q2. 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 & another unit is rented for Rs. 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the PY 2021-22 are as under:

Standard rent	Rs. 1,62,000 p.a.
Municipal valuation	Rs. 1,90,000 p.a.
Fair rent	Rs. 1,85,000 p. a
Municipal tax (Paid by Mr. X)	15% of municipal valuation
Light & water charges	Rs. 500 p.m.
Interest on borrowed capital	Rs. 1,500 p.m.

Lease money	Rs. 1,200 p.a.
Insurance charges	Rs. 3,000 p.a.
Repairs	Rs. 12,000 p.a.

Compute income from house property of Mr. X for the AY 2022-23

Answer:

	Particulars	Rs.	Rs.
(A)	Rented unit (50% of total area – See Note below)		
	Step I - Computation of Expected Rent		
	Municipal valuation (Rs. 1,90,000 x ½)	Rs. 95,000	
	Fair rent (Rs. 1,85,000 x ½)	Rs. 92,500	
	Standard rent (Rs. 1,62,000 x ½)	Rs. 81,000	
	ER = Higher of MV & FR but restricted to standard rent	Rs. 81,000	
	Step II - Actual Rent		
	Rent receivable for the whole year (Rs. 8,000 x Rs. 12)	Rs. 96,000	
	Step III – Computation of Gross Annual Value		
	Actual rent received owing to vacancy (Rs. 96,000 – Rs. 16,000)	Rs. 80,000	
	Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
	Gross Annual Value		Rs. 80,000
	Less: Municipal taxes (15% of Rs. 95,000)		Rs. 14,250
	Net Annual value		Rs. 65,750
	Less: Deductions under section 24 -		
	(i) 30% of net annual value	Rs. 19,725	
	(ii) Interest on borrowed capital (750 x 12)	Rs. 9,000	Rs. 28,725
	Taxable income from let out portion		Rs. 37,025
(B)	Self occupied unit (50% of total area – See Note below)		Rs. 9,000
	Annual value	Nil	
	Less: Interest on borrowed capital (750 x 12)	Rs. 9,000	
	Loss from self occupied portion		**Rs. (9,000)**
	Income from house property		**Rs. 28,025**

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

Q3. Mr. Vikas owns a house property whose Municipal Value, Fair Rent & Standard Rent are Rs. 96,000, Rs. 1,26,000 & Rs. 1,08,000 (per annum), respectively.

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

The construction of the house began in June, 2015 & was completed on 31-5-2018. Vikas took a loan of Rs. 1,00,000 on 1-7-2015 for the construction of building.

He paid interest on loan @ 12% per annum & every month such interest was paid. Compute income from house property of Mr. Vikas for AY 2022-23.

Answer:

Computation of income from house property of Mr. Vikas for AY 2022-23

	Particulars		
	Income from house property		
I.	Self-occupied portion (Two third)		
	Net Annual value		Nil

	Less: Deduction under section 24(b) Interest on loan (See Note below) (Rs. 18,600 x 2/3)			Rs. 12,400
	Loss from self occupied property			(Rs. 12,400)
II.	**Let-out portion (One third)**			
	Gross Annual Value			
	(a) Actual rent received (Rs. 5,000 x Rs. 12)	Rs. 60,000		
	(b) Expected rent	Rs. 36,000		
	[higher of municipal valuation (Rs. 96,000) & fair rent (Rs. 1,26,000) but restricted to standard rent (i.e. Rs. 1,08,000)] = Rs. 1,08,000 x 1/3			
	Higher of (a) or (b)		Rs. 60,000	
	Less: Municipal taxes (Rs. 96,000 x 11% x 1/3)		Rs. 3,520	
	Net Annual Value		Rs. 56,480	
	Less: Deductions under section 24			
	(a) 30% of NAV		Rs. 16,944	
	(b) Interest on loan (See Note below) (18,600 x 1/3)		Rs. 6,200	Rs. 33,336
	Income from house property			**Rs. 20,936**

Note: Interest on loan taken for construction of building
Interest for the year (1.4.2021 to 31.3.2022) = 12% of Rs. 1,00,000 = Rs. 12,000
Pre-construction period interest = 12% * Rs1,00,000 for 33 months (1.07.2013 to 31.3.2016) = Rs. 33,000
Pre-construction period interest to be allowed in 5 equal annual instalments of Rs. 6,600 from the year of completion of construction i.e. from FY 2017-18 till F.Y. 2021-22.
Therefore, total interest deduction under section 24 = Rs. 12,000 + Rs. 6,600 = Rs. 18,600

Q4. Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident & ordinarily resident in India during PY 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 & 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 Rs. 3,84,000 p.a. & the fair rent is Rs. 4,20,000 p.a. She paid the following to Corporation of Chennai:
Property Tax Rs. 16,200
Sewerage Tax Rs. 1,800
She had taken a loan from Standard Chartered Bank in June, 2018 for purchasing this flat. Interest on loan was as under:

Particulars	Rs.
Period prior to 1.4.2021	Rs. 49,200
1.4.2021 to 30.6.2021	Rs. 50,800
1.7.2021 to 31.3.2022	Rs. 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 Rs. 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 AY 2022-23.
Answer: 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 i.r.o. 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 AY 2022-23 will be calculated as under:

	Particulars	Amount	
1.	Self-occupied house at Los Angeles		

	Annual value		Nil
	Less: Deduction under section 24		Nil
	Chargeable income from this house property		Nil
2.	Deemed let out house property at Chennai		
	Annual value		Nil
	Less: Deduction under section 24		
	Interest on borrowed capital (See Note below)		Rs. 1,91,940
3.	Arrears i.r.o. Bangalore property (Section 25A)		(Rs. 1,91,940)
	Arrears of rent received	Rs. 60,000	
	Less: Deduction @ 30% u/s 25A(2)	Rs. 18,000	Rs. 42,000
	Loss under the head "Income from house property"		(Rs. 1,49,940)

Note: Interest on borrowed capital

Particulars	Rs.
Interest for the current year (Rs. 50,800 + Rs. 1,31,300)	Rs. 1,82,100
Add: 1/5th of pre-construction interest (Rs. 49,200 x 1/5)	Rs. 9,840
Interest deduction allowable under section 24	**Rs. 1,91,940**

Q5. Two brothers Arun & Bimal are co-owners of a house property with equal share. The property was constructed during FY 1998-1999. The property consists of eight identical units & is situated at Cochin.
During PY 2021-22, each co-owner occupied one unit for residence & the balance of six units were let out at a rent of Rs. 12,000 per month per unit. The municipal value of the house property is Rs. 9,00,000 & the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:
Repairs -Rs. 40,000 Insurance premium (paid)-Rs. 15,000
Interest payable on loan taken for construction of house-Rs. 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 & Mr. Bimal are Rs. 2,90,000 & Rs. 1,80,000, respectively, for PY 2021-22.
Compute the income under the head 'Income from House Property' & the total income of two brothers for AY 2022-23.
Answer:

Particulars	Arun	Bimal
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b) Interest on loan taken for construction 37,500 (being 25% of 1.5 lakh) restricted to maximum of Rs. 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	Rs. 30,000	Rs. 30,000
Loss from self occupied property	(Rs. 30,000)	(Rs. 30,000)
II. Let-out portion (75%) – See Working Note below	**Rs. 1,25,850**	**Rs. 1,25,850**
Income from house property	Rs. 95,850	Rs. 95,850
Other Income	Rs. 2,90,000	Rs. 1,80,000
Total Income	**Rs. 3,85,850**	**Rs. 2,75,850**

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

	Particulars	Rs.	Rs.
	Let-out portion (75%)		
	Gross Annual Value		
(a)	Municipal value (75% of 9 lakh)	Rs. 6,75,000	

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

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. In August 2017, Mr. Kailash, a first-time home buyer, borrowed a sum of Rs. 35 lakhs from the National Housing Bank for construction of a residential house for Rs. 48 lakhs. The loan was sanctioned on 12.5.2017. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2021 & repayments towards principal and interest commenced immediately after disbursement of loan.

In the light of the above facts, examine:

(a) Whether Mr. Kailash can claim deduction u/s 24 i.r.o interest for AY 2022-23?

(b) Whether deduction u/s 80C and 80EE can be claimed by him for AY 2022-23?

Answer:

(a) As per section 24(b), interest payable on loans borrowed for acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the construction is completed only in May, 2022. Hence, deduction u/s 24 i.r.o. interest on housing loan cannot be claimed in AY 2022-23.

(b) Deduction u/s 80C cannot be claimed

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During AY 2022-23, there is no such income chargeable under this head. Hence, deduction u/s 80C cannot be claimed for AY 2022-23.

Deduction u/s 80EE cannot be claimed **[Answer Updated for AY 2022-23]**

As per section 80EE, interest payable on loan taken for acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of Rs. 50,000, provided:

- Such loan is sanctioned during the PY 2017-18.
- Value of the house does not exceed Rs. 50 lakhs
- Amount of loan sanctioned does not exceed Rs. 35 lacs &
- Assessee does not own any residential house on the date of sanction of loan

Since loan was sanctioned in PY 2017-18, interest on such loan would not qualify for deduction u/s 80EE.
However, deduction u/s 80EEA can be claimed.

Nov 18

Q2. Mr. Ranjan owns a shop whose construction got completed in August 2020.

- He took a loan of Rs. 22 lacs from Bank of Baroda on 1.08.2019 & had been paying interest calculated at 9% p.a.
- During PY 2021-22, shop was let out at a monthly rent of Rs. 45,000.
- He paid municipal tax of Rs. 18,000 each for PY 2021-22 & 2022-23 on 25.05.2021 & 15.04.2022 respectively.
- Compute income u/h 'House Property' of Mr. Ranjan for AY 2022-23, assuming that the entire amount of loan is outstanding on the last day of the current PY.

Answer:

Computation of income u/h "House Property" of Mr. Ranjan for AY 2022-23

Particulars	Rs.	Rs.
Gross Annual Value (45,000 x 12)		5,40,000
Less: Municipal taxes (See Working Note 1)		18,000
Net Annual Value (NAV)		5,22,000
Less: Deduction u/s 24		
24(a): 30% of NAV	1,56,600	
24(b): Interest on housing loan (See Working Note 2)	2,24,400	3,81,000
Income chargeable u/h "House Property"		1,41,000

	Working Notes: (1) **Municipal taxes deductible from Gross Annual Value** Municipal taxes actually paid by the owner during PY is allowed to be deducted from GAV. Accordingly, only Rs. 18,000 paid on 25.05.2021 is allowed to be deducted from GAV while computing income from house property of PY 2021-22. (2) Interest on housing loan allowable as deduction u/s 24 ▪ Interest for Current year (Rs. 22,00,000 x 9%) = Rs. 1,98,000 ▪ **Pre-construction interest** For the period 1.8.2019 to 31.03.2020: (Rs. 22,00,000 x 9% x 8/12) = Rs. 1,32,000. Rs. 1,32,000 allowed in 5 equal instalments (Rs. 1,32,000/5) from PY 2021-22 to PY 2024-25. Total Deduction u/s 24(b) = Rs. 1,98,000 + Rs. 26,400 = Rs. 2,24,400. (3) Deduction u/s 24(b) i.r.o. interest for let out property, fully allowed without any limit.
May 19	**Q3.** Shraddha has two flats in Mumbai, both are self-occupied. Particulars of these are given below:

Particulars	Flat at Goregaon	Flat at Navi Mumbai
Municipal Valuation per annum	1,40,000	1,35,000
Standard rent per annum	1,40,000	1,90,000
Date of completion of construction	1-02-2014	24-08-2008
Municipal taxes payable during the year (paid for Flat at Navi Mumbai only)	10%	12%
Interest on money borrowed for repair of property during current year	-	72,000

Compute Shraddha's income from house property for AY 2022-23. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum.

Answer: This question has been irrelevant now since she can claim 2 house properties as self-occupied & their annual value will be nil. Refer question of "Ganesh" in Main Book.

Q4. In respect of loss from house property, which of the following statements are correct?

(a) While computing income u/h house property, maximum deduction allowable u/s 24 is Rs. 2 lacs.

(b) **Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of Rs. 2 lacs.**

(c) Loss in excess of Rs. 2 lacs, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)

(d) All the above

Nov 19

Q5. Mr. Vihaan is a resident but not ordinarily resident in India during AY 2022-23. He furnishes the following information regarding his income pertaining to his house properties for PY 2021-22:

- He owns two houses, one in Singapore & the other in Pune.
- House in Singapore is let out there at a rent of SGD 4,000 p.m. Entire rent is received in India. He paid Property tax of SGD 1250 & Sewerage Tax SGD 750 there. (1SGD=INR 51).
- House in Pune is self-occupied. He had taken a loan of Rs. 25,00,000 to construct the house on 1st June, 2017 @ 12%. Construction was completed on 31st May, 2019 & he occupied the house on 1st June, 2019.
- Entire loan is outstanding as on 31st March, 2022. Property tax paid i.r.o. 2nd house is Rs. 2,800.

Compute income u/h 'House property' in the hands of Mr. Vihaan for AY 2022-23.

Answer: **Income from house property of Mr. Vihaan for AY 2022-23**

Particulars	Rs.
1. Income from let-out property in Singapore [See Note 1 below]	
Gross Annual Value (SGD 4,000 p.m. x 12 Month x Rs. 51)	24,48,000
Less: Municipal taxes paid during PY [SGD 2,000 (SGD 1,250 + SGD 750) x Rs. 51]	1,02,000
Net Annual Value (NAV)	23,46,000
Less: Deduction u/s 24	
(a) 30% of NAV	7,03,800
(b) Interest on housing loan	Nil
Taxable Income	**16,42,200**
2. Income from Self-Occupied property in Pune	
Net Annual Value	Nil
Less: Deduction i.r.o. interest on housing loan [See Note 2 below]	Rs. 2,00,000
Income from house property [Rs. 16,42,200 – Rs. 2,00,000]	14,42,200

Note:

1) Since Mr. Vihaan is a RNOR in India for AY 2022-23, Only Indian Income will be taxable. Accordingly, rent received from house property in Singapore would be taxable in India since it is an Indian Income because it is received by him in India.
2) Interest on housing loan for construction of self-occupied property allowable as deduction u/s 24
   - **Interest for current year** = Rs. 3,00,000 (Rs. 25,00,000 x 12%).
   - **Pre-construction interest**

For the period 01.06.2017 to 31.03.2019 (Rs. 25,00,000 x 12% x 22/12) = Rs. 5,50,000.
Rs. 5,50,000 allowed in 5 equal installments (Rs. 5,50,000/5) = Rs. 1,10,000.
In case of self-occupied property, interest deduction to be restricted to Rs. 2,00,000

May 20

Q6. Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. Municipal value is Rs. 8,50,000, Fair Rent of the property is Rs. 7,30,000 & Standard Rent is Rs. 8,20,000 p.a.
Property was let out for Rs. 85,000 per month for the period April 2021 - December 2021.
Thereafter, tenant vacated the property & Mrs. Daya used the house for self- occupation.
Rent for the months of November & December 2020 could not be realized from the tenant.
Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent.
She paid municipal taxes @ 12% during the year & paid interest of Rs. 50,000 during the year for amount borrowed towards repairs of the house property.
You are required to compute her income from house property for AY 2022-23.

Answer: **Computation of income from house property of Mrs. Daya for AY 2022-23**

Particulars	Amount
Expected Rent for the whole year = Higher of Municipal Value of Rs. 8,50,000 & Fair Rent of Rs. 7,30,000, but restricted to Standard Rent of Rs. 8,20,000	8,20,000
Actual rent receivable for the let-out period = Rs. 85,000 x 9 [Note 1]	7,65,000
Gross Annual Value [Higher of ER for whole year & ARR for let-out period]	8,20,000
Less: Municipal taxes (paid by the owner during PY) 12% of Rs. 8,50,000	1,02,000

Net Annual Value (NAV)	**7,18,000**
Less: Standard Deductions u/s 24(a) @ 30% of NAV	2,15,400
Less: u/s 24(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let- out property)	50,000
Income from house property	**4,52,600**

Note: URR is not deductible from actual rent since Mrs. Daya has not instituted any legal proceedings for recovery of unpaid rent. Hence one of the conditions in Rule 4 is not fulfilled.

Q7. Mr. Raghav has three houses for self-occupation. What would be the tax treatment for AY 2022-23 i.r.o. income from house property?

(a) One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out.
(b) **Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out.**
(c) One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.
(d) Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out.

Q8. Mr. Ritvik has purchased his first house in Gwalior for self-occupation on 5.4.2021 for Rs. 45 lacs (stamp duty value being the same) with bank loan sanctioned on 30.3.2021 & disbursed on 3.4.2021. He paid interest of Rs. 3.8 lacs during PY 2021-22. What is the tax treatment of interest paid by him?

(a) **Interest of Rs. 2 lacs allowable u/s 24.**
(b) Interest of Rs. 2 lacs allowable u/s 24 & Rs. 1.8 lacs allowable u/s 80EEA.
(c) Interest of Rs. 2 lacs allowable u/s 24 & Rs. 1.5 lacs allowable u/s 80EEA.
(d) Interest of Rs. 1.5 lacs allowable u/s 24 & Rs. 1.5 lakhs allowable u/s 80EEA.

Nov 20

Q9. Ms. Pihu has 3 houses, all of which are self-occupied. Particulars of these houses are given below:

Particulars	House – I	House – II	House-III
Municipal Valuation p.a.	1,30,000	1,20,000	1,20,000
Fair Rent p.a.	1,10,000	1,85,000	1,45,000
Standard rent p.a.	1,00,000	1,90,000	1,30,000
Date of completion	30.01.2007	31.07.2010	31.5.2013
Municipal taxes payable during year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from HP for AY 2022-23 & suggest which houses should be opted by Pihu to be assessed as self- occupied so that her tax liability is minimum.

Answer: In this case, Pihu has more than two HP for self-occupation. As per section 23(4), Pihu can avail benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only i.r.o. any two of the HP, at her option. The other HP would be treated as "deemed let-out" property, i.r.o. which Expected Rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which HPs should be treated by her as self-occupied.

OPTION 1 [House I & II – Self-occupied & House III- Deemed to be let out]

If House I & II are opted to be self-occupied, Pihu's income from HP for AY 2022-23 would be:

Particulars	Amount
House I (Self-occupied) [Annual value is Nil]	Nil

House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs. 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to Rs. 30,000, irrespective of the date of borrowal].	(30,000)
House III (Deemed to be let-out) [See Working Note]	82,600
Income from HP	**52,600**

OPTION 2 [House I & III – Self-occupied & House II- Deemed to be let out]

If House I & III are opted to be self-occupied, Pihu's income from HP for AY 2021-22 would be:

Particulars	Amount
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from HP	**46,940**

OPTION 3 [House I – Deemed to be let out & House II & III – Self-occupied]

If House II & III are opted to be self-occupied, Pihu's income from HP for AY 2022-23 would be:

Particulars	Amount
House I (Deemed to be let-out) [See Working Note]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs. 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to Rs. 30,000, irrespective of the date of borrowal].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from HP	**40,000**

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self- occupied & House I as Deemed to be let out, in which case, her income from HP would be Rs. 40,000 for the AY 2022-23.

Working Note:

Computation of income from House I, House II & House III assuming that all are deemed to be let out

Particulars	House I	House II	House III
Gross Annual Value (GAV) Expected rent (ER) is GAV of HP ER = Higher of MV & FR but restricted to SR	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by owner during PY)	Nil	10,800	12,000
Net Annual Value (NAV)	**1,00,000**	**1,74,200**	**1,18,000**
Less: Deductions u/s 24 - 30% of NAV - Interest on borrowed capital	 30,000 -	 52,260 75,000	 35,400 -
Income from deemed to be let-out HP	**70,000**	**46,940**	**82,600**

May 21

Q10. Mr. Roxx, a citizen of Country Y, is a RNOR in India during FY 2021-22. He owns two HPs in Country Y, one is used as his residence. Another HP is rented for a monthly rent of $ 18,000. Fair rent of HP is $ 20,000. The value of one CYD ($) may be taken as 78.

He took ownership & possession of a flat in Delhi on 1.10.2021, which is used for self- occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during PY 2021-22. Municipal valuation is 4,58,000 p.a. & fair rent is 3,60,000 p.a. He paid property tax of 13,800 & 2,800 as sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of 18,00,000 @ 9.5% from HDFC Bank on 1st August, 2019 for purchasing this flat. No amount is repaid by him till 31.03.2022.

He also had a HP in Bangalore which is let out on a monthly rent of 40,000. Fair rent of which is 4,58,000 p.a. & Municipal value of 3,58,000 p.a. & Standard Rent of 4,20,000 p.a. He had taken a loan of 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of 5,400 is paid by him i.r.o. this house during PY 2021-22.

Compute the income chargeable from HP of Mr. Roxx for AY 2022-23.

Answer:

Since Mr. Roxx, is RNOR in India, only income i.r.o. properties situated in India would be taxable in his hands. Thus, the rental income which accrues or arises in Country Y from the let-out property & annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Income from HP of Mr. Roxx for AY 2022-23 will be calculated as under:

	Particulars	**Amount**	**Amount**
1.	**Self-occupied house at Delhi**		
	Annual value		Nil
	Less: Deduction u/s 24		Nil
	Interest on borrowed capital (See Note)		(2,00,000)
	Chargeable income from this HP		**(2,00,000)**
2.	**Let out HP at Bangalore**		
	ER, being higher of 3,58,000 MV & FR of 4,58,000 but restricted to SR of 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	GAV (being higher of ER & AR)		**4,80,000**
	Less: Municipal taxes		(5,400)
	Net Annual Value		**4,74,600**
	Less: Deduction u/s 24 - 30% of net annual value [30% x 4,74,600] - Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	 1,42,380 2,50,000	 (3,92,380)
	Chargeable income from this HP		82,220
Loss under the head "Income from HP" (Rs. 2,00,000 – Rs. 82,220)			**(1,17,780)**

Note: Interest on borrowed capital

Particulars	**Amount**
Interest for current year [18,00,000 x 9.5%]	1,71,000
Add: 1/5th of pre-construction interest (2,85,000 x 1/5)	57,000
1.8.2019 to 31.03.2020 (18,00,000 x 9.5% x 8/12) = 1,14,000 1.4.2020 to 31.03.2021 (18,00,000 x 9.5%) = 1,71,000	2,28,000
Interest deduction allowable u/s 24, restricted to	**2,00,000**

Nov 21	**No Direct Question was asked.**

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15 No Direct Question was asked.

N15

Q1. Mr. Raphael constructed a shopping complex. He had taken a loan of 25 lakhs for construction of the said property on 1.8.2019 from SBI @ 10% for 5 years. The construction was completed on 30.6.2020. Rental income received from shopping complex 30,000 p.m. let out for the whole year. Municipal Taxes paid for shopping complex 8,000. Arrears of rent received from shopping complex 1,20,000.

Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2021-22 is 3 lakhs. You are required to compute income from HP of Mr. Raphael for AY 2022-23. Assume Mr. Raphael:

(a) does not opt to be taxed under section 115BAC

(b) opts to be taxed under section 115BAC

Answer:

Particulars	Does not opt to be taxed u/s 115BAC		Opts to be taxed u/s 115BAC	
Income from let out property:				
Actual rent (30,000 x 12)	3,60,000		3,60,000	
Less: Municipal taxes	(8,000)		(8,000)	
Net annual value		3,52,000		3,52,000
Less: Deduction u/s 24				
Standard deduction @ 30% of 3,52,000	(1,05,600)		(1,05,600)	
Deduction for interest (2,50,000 current year + 33,333 pre-construction)	(2,83,333)	(3,88,933)	(2,83,333)	(3,88,933)
Loss from house property		**(36,933)**		**(36,933)**
Arrears of rent u/s 25A	1,20,000		1,20,000	
Less: Standard deduction @ 30% of ₹ 1,20,000	(36,000)	84,000	(36,000)	84,000
Income from self-occupied property:				
Net annual value	Nil			-
Less: Deduction u/s 24 (Restricted to maximum 2,00,000)	(2,00,000)	(2,00,000)		-
Total income from HP (- 36,933 + 84,000 - 2,00,000)/ (-36,933 + 84,000)		**(1,52,933)**		**47,067**

Calculation of interest for pre-construction period:

From 1.8.2019 to 31.3.2020 i.e. for 8 months = 25,00,000 x 10% x 8/12 = 1,66,667

1/5th of 1,66,667 = ₹ 33,333

Note: As complete information about repayment of loan is not provided, it is assumed that it will be repaid after 5 years.

M16 No Direct Question was asked.

N16 No Direct Question was asked.

M17

Q2. G owns a Commercial Building whose construction got completed in June 2020. He took a Loan of 15 Lakhs from his friend on 1.8.2019 & had been paying interest calculated at 15% p.a. He is eligible for Pre-Construction Interest as deduction as per the provisions of the Income Tax Act.

G has let out the Commercial Building at a monthly rent of 40,000 during FY 2021-22. He paid Municipal Tax of 18,000 each for FY 2020-21 & 2021-22 on 1.5.2021 & 5.4.2022 respectively. Compute Income u/h HP of G for AY 2022-23.

Answer: Computation of income u/h HP

Gross Annual Value (40,000 x 12)		4,80,000
Less: Municipal Taxes (deduction allowed only for actual payment during PY 2021-22)		(18,000)

Net Annual Value			4,62,000
Less: Deductions u/s 24			
(a) Standard Deduction @ 30% of NAV		1,38,600	
(b) Interest on loan borrowed: Current Year Interest: 15,00,000 ₹ 15%	2,25,000		
Interest for pre-construction period 1/5th of 1,50,000	30,000	2,55,000	(3,93,600)
Income from HP			**68,400**

Note: Calculation of pre-construction period interest -
Pre-construction period from 1.8.2019 to 31.3.2020 i.e., 8 months
Interest for 8 months i.e., 15,00,000 x 15% x 8/12 = 1,50,000.
Deduction allowed for pre-construction interest = 1/5th of 1,50,000 i.e., ₹ 30,000

N17

Q3. Mr. Aditya is RNOR in India during AY 2022-23. He owns two houses, one in Dubai & the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1 DHS = INR 18). The entire rent is received in India. He paid Property tax of DHS 2,500 & Sewerage Tax DHS 1,500 there, for FY 2021-22. House in Mumbai is self-occupied. He had taken a loan of 25,00,000 to construct the house on 1.6.2018 @ 12%. Construction was completed on 31.5.2020 & he occupied the house on 1.6.2020. The entire loan is outstanding as on 31.3.2022. Property tax paid i.r.o. second house is 2,400 for FY 2021-22. Compute income chargeable u/h Income from HP in the hands of Mr. Aditya for AY 2022-23. Assume Mr. Aditya

(i) does not opt to be taxed u/s 115BAC
(ii) opts to be taxed u/s 115BAC

Answer: Computation of income u/h HP

Particulars			**Does not opt to be taxed u/s 115BAC**	**Opts to be taxed u/s 115BAC**
Income from property in Dubai (let out)				
Annual value (20,000 x 18 x 12)		43,20,000		
Less: Municipal Taxes (4,000 x 18)		(72,000)		
Net annual value		42,48,000		
Less: Deduction 30% of 42,48,000		(12,74,400)		
Income from property let out			**29,73,600**	**29,73,600**
Income from self-occupied property				
Annual value		Nil		
Less: Deduction - Standard deduction		Nil		
Interest on money borrowed Current interest	3,00,000			
Pre-construction interest 1/5	1,10,000			
	4,10,000			
But limited to		2,00,000	(2,00,000)	Nil
Income from HP			**27,73,600**	**29,73,600**
Working Note: Pre-construction interest				
Interest for 1.6.2018 to 31.3.2020:				
25,00,000 x 12/100 x 22/12		5,50,000		
1/5th of 5,50,000		1,10,000		

Q4. Ms. Jyoti purchased a HP costing 49 lakhs on 1.5.2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of 35 lakhs bearing interest @ 14% p.a. on 1.4.2021.

She does not own any other house. State with brief reasons deductions that can be claimed by Ms. Jyoti i.r.o. interest on loan for AY 2022-23.

Answer: Although total interest is 4,90,000 but in case of a self-occupied house, deduction of interest can be claimed up to maximum of 2,00,000. Thus, Ms. Jyoti can claim deduction of interest amounting to 2,00,000. However, if she opts to be taxed u/s 115BAC, even the deduction of 2,00,000 shall not be allowed.

M18

Q5. Mr. Rohan a resident individual, owns 3 houses in Chennai. One house is self-occupied by him, second house is self-occupied by his major son & the third house is vacant during the year.

You are required to highlight the steps involved to compute Income from HP for Mr. Rohan under deemed to be let out concept.

Answer:

(A) Since one house was vacant during the whole year, it cannot be deemed to be let out. As per section 23(l)(c), where property or any part of property is let & was vacant during whole or any part of PY & owing to such vacancy actual rent received/receivable by the owner in respect **thereof is less than** expected rent, the amount so received/receivable i.e. actual rent, if any shall be the annual value.

(B) Where the house which is in occupation of owner for the purpose of his own residence, annual value i.r.o. such house shall be NIL.

(C) In respect of house self-occupied by his major son, annual value i.r.o. this house shall be calculated as if such house was actually let out.

N18

Q6. Mrs. Disha Khanna, a resident of India, owns a HP at Bhiwani in Haryana. Municipal value of the property is Rs. 7,50,000, Fair Rent of the property is 6,30,000 & Standard Rent is 7,20,000 p.a.

Property was let out for 75,000 p.m. for the period April 2021 to December 2021.

Thereafter, the tenant vacated the property & Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November & December 2021 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year & paid interest of 35,000 during the year for amount borrowed towards repairs of the HP. You are required to compute her income from HP for AY 2022-23.

Answer: **Computation of Income u/h HP for AY 2022-23**

Particulars	Amount	Amount
Gross Annual Value [See Working Note]		7,20,000
Less: Municipal taxes (12% of 7,50,000)		(90,000)
Net Annual Value		6,30,000
Less: Deduction u/s 24		
Standard deduction @ 30% of NAV u/s 24(a)	1,89,000	
Interest on capital borrowed u/s 24(b)	35,000	(2,24,000)
Income from HP		**4,06,000**

Working Note:

(a)	Fair rent	6,30,000
(b)	Municipal Valuation	7,50,000
(c)	Higher of (a) or (b)	7,50,000
(d)	Standard Rent	7,20,000
(e)	Expected Rent [Lower of (c) or (d)]	7,20,000
(f)	Actual rent (75,000 x 9)	6,75,000
(g)	GAV = Higher of (e) or (f)	7,20,000

CHAPTER 5. PROFITS & GAINS OF BUSINESS & PROFESSION

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	Amount in Rs.
(1)	Opening WDV of P&M as on 1.4.2021	Rs. 30,00,000
(2)	New P&M purchased & put to use on 08.06.2021	Rs. 20,00,000
(3)	New P&M acquired & put to use on 15.12.2021	Rs. 8,00,000
(4)	Computer acquired & installed in the office premises on 2.1.2022	Rs. 3,00,000

Compute the amount of depreciation & additional depreciation for AY 2022-23. Assume that all assets were purchased by way of account payee cheque.

Answer: Computation of depreciation & additional depreciation for AY 2022-23

	Particulars	P&M (15%)	Computer (40%)
1	**Normal depreciation**		
	@ 15% on Rs. 50,00,000 [See W.N. 1 & 2]	7,50,000	-
	@ 7.5% (50% of 15%, since put to use < 180 days) on Rs. 8,00,000	60,000	
	@ 20% (50% of 40%, since put to use < 180 days) on Rs. 3,00,000		60,000
2	**Additional Depreciation**		
	@ 20% on Rs. 20 Lacs (New P&M put to use for more than 180 days)	4,00,000	-
	@ 10% (50% of 20%, since put to use < 180 days) on Rs. 8,00,000	80,000	-
	Total depreciation	12,90,000	60,000

Working Notes:

(1) Computation of written down value of P&M as on 31.03.2022		
Particulars	**P&M**	**Computer**
Written down value as on 1.4.2021	Rs. 30,00,000	-
Add: P&M purchased on 08.6.2021	Rs. 20,00,000	-
Add: P&M acquired on 15.12.2021	Rs. 8,00,000	-
Computer acquired & installed in office premises	-	Rs. 3,00,000
Written down value as on 31.03.2022	Rs. 58,00,000	Rs. 3,00,000
(2) Composition of P&M included in the WDV as on 31.3.2022		
Particulars	**P&M**	**Computer**
P&M put to use for 180 days or more [Rs. 30,00,000 (Opening WDV) + Rs. 20 Lacs (purchased on 8.6.2020)]	Rs. 50,00,000	
P&M put to use for less than 180 days	Rs. 8,00,000	-
Computers put to use for less than 180 days	-	Rs. 3,00,000
	Rs. 58,00,000	Rs. 3,00,000

Notes:

(1) If asset acquired during PY is put to use for less than 180 days in that PY, normal depreciation & additional depreciation would be restricted to 50% of amount computed as per the prescribed %. Therefore, normal depreciation on P&M acquired & put to use on 15.12.2021 & computer acquired & installed on 02.01.2022, is restricted to 50% of 15% & 40%, respectively. Additional depreciation on said P&M is restricted to Rs. 80,000, being 10% (i.e., 50% of 20%) of Rs. 8 lakhs.

(2) Balance Additional depreciation of Rs. 80,000 would be allowed as deduction in AY 2023-24.

(3) Additional depreciation shall not be allowed on P&M installed in office premises, houses etc.

Q2. A car purchased by Dr. Soman on 10.08.2018 for Rs. 5,25,000 for personal use is brought into professional use on 1.07.2021 by him, when its market value was Rs. 2,50,000.
Compute the actual cost of the car & depreciation for AY 2022-23. [Assuming Rate of depreciation = 15%].
Answer: As per section 43(1), expression "actual cost" would mean the actual cost of asset to the assessee.
Purchase price of Rs. 5,25,000 is, therefore, the actual cost of car to Dr. Soman. Market value (i.e. Rs. 2,50,000) on the date when the asset is brought into professional use is not relevant.
Thus, amount of depreciation on car u/s 32 for A.Y. 22-23 is Rs. 78,750, being Rs. 5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use & later brought into professional use. It is not applicable i.r.o. other assets.

Q3. A newly qualified Chartered Accountant Mr. Dhaval, commenced practice & has acquired the following assets in his office during P.Y. 2021-22 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for AY 2022-23. Assume that all the assets were purchased by way of account payee cheque.

SN	Description	Acquisition Date	Put to use	Amount Rs.
1	Computer including computer software	27 Sept 21	1 Oct., 21	Rs. 35,000
2	Computer UPS	2 Oct 21	8 Oct., 21	Rs. 8,500
3	Computer printer	1 Oct 21	1 Oct., 21	Rs. 12,500
4	Books (other than annual publications are of Rs. 12,000)	1 Apr 21	1 Apr., 21	Rs. 13,000
5	Office furniture (Acquired from a practicing C.A.)	1 Apr 21	1 Apr., 21	Rs. 3,00,000
6	Laptop	26 Sep 21	8 Oct., 21	Rs. 43,000

Answer: **Computation of depreciation allowable for AY 2022-23**

Asset		Rate	Depreciation (Rs.)
Block 1	Furniture [See working note below]	10%	Rs. 30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers & Books) [See working note below]	40%	Rs. 34,500
Total depreciation allowable			Rs. 64,500

Working Note: Computation of depreciation

Block of Assets	
Block 1: Furniture – [Rate of depreciation - 10%]	
Put to use for more than 180 days [Rs. 3,00,000@10%]	Rs. 30,000
Block 2: Plant [Rate of depreciation- 40%]	
(a) Computer including computer software (put to use > 180 days) Rs. 35,000 @40%	Rs. 14,000
(b) Computer UPS (put to use < 180 days) [Rs. 8,500@ 20%] [See note below]	Rs. 1,700
(c) Computer Printer (put to use for more than 180 days) [Rs. 12,500 @ 40%]	Rs. 5,000
(d) Laptop (put to use for less than 180 days) [Rs. 43,000 @ 20%] [See note below]	Rs. 8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [Rs. 13,000 @ 40%]	Rs. 5,200
	34,500

Note - Where an asset is acquired by the assessee during the PY & is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the PY 2021-22 & acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use < 180 days in that year, namely, laptop & computer UPS.

Q4. Mr. Gamma, a proprietor started a business of manufacture of tyres & tubes for motor vehicles on 1.1.2021. Manufacturing unit was set up on 1.5.2021. He commenced his manufacturing operations on 1.6.2021. Total cost of P&M installed in the unit is Rs. 120 Cr. The said P&M included second hand P&M bought for Rs. 20 crores & new P&M for scientific research relating to the business of the assessee acquired at a cost of Rs. 15 crores. Compute depreciation allowable u/s 32 i.r.o. AY 2022-23. Assume that all the assets were purchased A/c payee cheque & Mr. Gamma has not opted for the provisions of section 115BAC.

Answer:

Particulars		In Crore
Total cost of P&M – P&M used for Scientific Research (Note 1) = 120 – 15 Cr = Rs. 105		
Normal Depreciation at 15% on Rs. 105 crores		15.75
Additional Depreciation:		
Cost of P&M	120.00	
Less: Second hand P&M (Note 2)	(20.00)	
Less: P&M used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) r/w section 35(2)(ia) (Note 2)	(15.00)	85.00
Additional Depreciation at 20% on 85 Crores		17.00
Depreciation allowable for AY 2022-23		**32.75**

Notes:

(1) As per section 35(2)(iv), no depreciation shall be allowed i.r.o. P&M purchased for scientific research relating to assessee's business, since deduction is allowable u/s 35 i.r.o. such capital expenditure.

(2) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired & installed after 31.03.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed i.r.o.

- any P&M which was used either within or outside India by any other person;
- any P&M, the whole of the actual cost of which is allowed as a deduction.

In view of the above provisions, additional depreciation cannot be claimed i.r.o.

- Second hand P&M;
- New P&M purchased for scientific research relating to assessee's business i.r.o. which the whole of the capital expenditure can be claimed as deduction u/s 35(1)(iv) read with section 35(2)(ia) & (iv).

Q5. Mr. A, furnishes the following particulars for PY 2021-22. Compute the deduction allowable u/s 35 for AY 2022-23, while computing his income u/h "PGBP".

	Particulars	Rs.
1	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3	Amount paid to X Ltd., a company registered in India which has as its main object scientific R&D, as is approved by the prescribed authority	4,00,000
4	Expenditure incurred on in-house research & development facility as approved by prescribed authority	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including COA of land Rs. 5,00,000) on scientific research	7,50,000

Answer:

Computation of deduction u/s 35 for AY 2022-23

Particulars	Rs.	Section	% deduction	Deduction
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000

Expenditure incurred on in-house research & development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land Rs. 5,00,000)	2,50,000	35(1)(iv) r/w 35(2)(ia)	100%	2,50,000
Deduction allowable u/s 35			**13,00,000**	

Note: Only company assessees are entitled to deduction @ 100% u/s 35(2AB) i.r.o. in-house R&D expenditure incurred. However, in this case, assessee is an individual. Therefore, he would be entitled to deduction @ 100% of revenue expenditure incurred u/s 35(1)(i) & 100% of capital expenditure incurred u/s 35(1)(iv) r/w 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

Q6. Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar & edible oil on 1.4.2021. He incurred capital expenditure of Rs. 80 Lacs, Rs. 60 Lacs & Rs. 50 Lacs, respectively, on purchase of land & building during the period January, 2021 to March, 2021 exclusively for the above businesses, & capitalized the same in its books of account as on 1st April, 2021. The cost of land included in the above figures is Rs. 50 Lacs, Rs. 40 Lacs & Rs. 30 Lacs, respectively. During PY 2021-22, he incurred capital expenditure of Rs. 20 Lacs, 15 Lacs & Rs. 10 Lacs, respectively, for extension/ reconstruction of building purchased & used exclusively for above businesses. Compute the income u/h "PGBP" for the AY 2022-23 & the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified u/s 35AD & wants to claim deduction u/s 35AD & has not claimed any deduction under Chapter VI-A u/hing "C – Deductions i.r.o. certain incomes".
The profits from the business of setting up a warehousing facility for storage of food grains, sugar & edible oil (before claiming deduction u/s 35AD & sec. 32) for A.Y. 2022-23 is Rs. 16 lakhs, Rs. 14 lakhs & Rs. 31 lakhs, respectively. Also, assume i.r.o. expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Answer: **Computation of profits & gains of business or profession for AY 2022-23**

Particulars	Rs.
Profit from business of setting up of warehouse for storage of edible oil (before providing for dep u/s 32)	31 Lacs
Less: Depreciation u/s 32 [10% of Rs. 30 Lacs] being (Rs. 50 Lacs – Rs. 30 Lacs + Rs. 10 Lacs)	(3 Lacs)
Income chargeable under "Profits & gains from business or profession"	**28 Lacs**

Computation of income/loss from specified business u/s 35AD

	Particulars	Foodgrain	Sugar	Total
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
Less: Deduction u/s 35AD				
(B)	Capital expenditure incurred prior to 1.4.2020 (i.e., prior to commencement of business) & capitalized in the books of account as on 1.4.2020 (excluding the expenditure incurred on acquisition of land) = Rs. 30 Lacs (Rs. 80 Lacs – Rs. 50 Lacs) & Rs. 20 Lacs (Rs. 60 Lacs – Rs. 40 Lacs)	30	20	50
(C)	Capital expenditure incurred during the PY 2020-21	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction u/s 35AD [100% of capital expenditure]	50	35	85
	Total deduction u/s 35AD for AY 2021-22	**50**	**35**	**85**
(F)	Loss from the specified business of setting up & operating a warehousing facility (after providing for deduction u/s 35AD) to be C/F as per section 73A (A-E)	(34)	(21)	(55)

Notes:

(1) Deduction of 100% of the capital expenditure is available u/s 35AD for AY 2022-23 i.r.o. specified business of setting up & operating a warehousing facility for storage of sugar & setting up & operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.

(2) However, since setting up & operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction u/s 35AD i.r.o. capital expenditure incurred i.r.o. such business.
(3) Mr. A can, however, claim depreciation@10% u/s 32 i.r.o. the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during PY 2021-22.
(4) Loss from a specified business can be set-off only against profits from another specified business. Therefore, loss of Rs. 55 Lacs from specified businesses can't be set-off against the profits of 28 Lacs from non-specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of same or any other specified business.

Q7. Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2021. He incurred capital expenditure of Rs. 50 Lacs during the period January, 2021 to March, 2021 exclusively for above business, & capitalized same in his books of account as on 1st April, 2021. Further, during PY 2021-22, he incurred capital expenditure of Rs. 2 crores (out of which Rs. 1.50 crore was for acquisition of land) exclusively for above business. Compute the income u/h "PGBP" for AY 2022-23, assuming that he has fulfilled all the conditions specified u/s 35AD & opted for claiming deduction u/s 35AD; & he has not claimed any deduction under Chapter VI-A under heading "C – Deductions i.r.o. certain incomes".
Profits from the business of running this hotel (before claiming deduction u/s 35AD for AY 2022-23 is Rs. 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are Rs. 120 lakhs for the A.Y.2022- 23. Also, assume that payments for capital expenditure were made by net banking.

Answer: **Computation of profits & gains of business or profession for AY 2022-23**

Particulars	**Rs.**
Profit from specified business of new hotel in Madurai (before deduction u/s 35AD)	25 Lacs
Less: Deduction u/s 35AD	
▪ Capital expenditure during PY 2020-21 (excluding cost of land) = 200 Lacs - Rs. 150 Lacs	(50 Lacs)
▪ Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) & capitalized in the books of account as on 1.4.2021	(50 Lacs)
Loss from specified business of new hotel in Madhurai	**(75 Lacs)**
Profit from the existing business of running a hotel in coimbatore	**120 Lacs**
Net profit from business after set off of lossed of specified business against profit of non-specified business u/s 73A	**45 Lacs**

Q8. Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up & operating a warehousing facility for storage of sugar; Unit B carries on non- specified business of operating a warehousing facility for storage of edible oil.
Unit A commenced operations on 1.4.2020 & it claimed deduction of Rs. 100 lacs incurred on purchase of two buildings for Rs. 50 lacs each (for operating a warehousing facility for storage of sugar) u/s 35AD for AY 2021-22. However, in February, 2022, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav.
Answer: Since the capital asset, i.r.o which deduction of Rs. 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in PY 2021-22, the deeming provision u/s 35AD(7B) is attracted during the AY 2022-23.

Particulars	**Amount**
Deduction allowed u/s 35AD for AY 2022-23	Rs. 50,00,000
Less: Depreciation allowable u/s 32 for AY 2021-22 [10% of Rs. 50 lacs]	(Rs. 5,00,000)
Deemed income u/s 35AD(7B)	Rs. 45,00,000

By virtue of section 43(1), Mr. Arnav can claim depreciation u/s 32 on building in Unit B for AY 22-23.
For the purpose of claiming depreciation on building in Unit B, actual cost of the building would be:
Actual cost - Depreciation allowable u/s 32 for AY 2021-22 = Rs. 50 L – Rs. 5 L = Rs. 45 Lacs.

Q9. X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary & it forms part of pay of the employees.
Compute the amount of deduction allowable u/s 36(1)(iva), if the basic salary of the employees aggregate to 10 Lacs. Would disallowance u/s 40A(9) be attracted, & if so, to what extent?

Answer: **Computation of deduction u/s 36(1)(iva) & disallowance u/s 40A(9)**

Particulars	Rs.
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of Rs. 10 lacs)	2,00,000
Less: Permissible deduction (10% of basic salary + DA) = 10% of Rs. 14,00,000 = Rs. 1,40,000)	(1,40,000)
Excess contribution disallowed u/s 40A(9)	**60,000**

Q10. Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2022 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the PY 2021-22, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in Rs.
(1)	Salary to its employees (credited & paid in March, 2022)	12,00,000
(2)	Directors' remuneration (credited in March, 2022 & paid in April, 2022)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2022 at the time of payment & remitted the same in July, 2022?

Answer: Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.

Therefore, in both the cases i.e., salary & directors' remuneration, tax is deductible in PY 2021-22, since salary was paid in that year & directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for AY 2022-23 is as follows:

	Particulars	Amount paid	Disallowance u/s 40(a)(ia) @ 30%
(1)	Salary [tax is deductible u/s 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible u/s 194J without any threshold limit]	28,000	8,400
	Disallowance u/s 40(a)(ia)		**3,68,400**

Q11. During PY 2021-22, the following payments/expenditure were made/ incurred by Mr. Yuvan Raja, a resident individual (whose turnover during year ended 31.3.2020 was Rs. 99 lacs):

(a) Interest of Rs. 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
(b) 3,00,000 was paid as salary to a resident individual without deduction of tax at source;
(c) Commission of Rs. 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2021 without TDS.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees have not paid the tax which was required to be deducted by Mr. Raja?

Answer:

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

(a) Obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding PY, i.e., PY2019-20 exceeds Rs. 1 crore.

Thus, in present case, since the turnover of the assessee is less than Rs. 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.

(b) Disallowance of 30% of the sums payable u/s 40(a)(ia) would be attracted i.r.o. all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B.

The obligation to deduct tax at source u/s 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed Rs. 1 crore in the immediately preceding PY.

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

(c) Obligation to deduct tax at source u/s 194-H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding PY, i.e., PY2019-20 exceeds Rs. 1 crore.

Thus, in present case, since the turnover of the assessee is less than Rs. 1 crore, he is not liable to deduct tax at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed Rs. 50 Lacs during the PY 2021-22. Therefore, disallowance u/s 40(a)(ia) is not attracted in this case.

Q12. A firm has paid Rs. 7,50,000 as remuneration to its partners for PY 2021-22, in accordance with its partnership deed, & it has a book profit of Rs. 10 Lacs. What is the remuneration allowable as deduction?

Answer: **Allowable remuneration calculated as per the limits specified in section 40(b)(v)**

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

Excess amount of Rs. 60,000 (i.e., Rs. 7,50,000 – Rs. 6,90,000) is disallowed u/s 40(b)(v) to firm.

Q13. Rao & Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:

- Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- Depreciation on P&M u/s 32 (computed) Rs. 1,50,000.
- Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is Rs. 5,00,000.

Compute:

(a) Book-profit of the firm u/s 40(b) of the Income-tax Act, 1961.

(b) Allowable working partner salary for the AY 2022-23 as per section 40(b).

Answer:

(a) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit & loss account for the relevant PY computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on P&M, interest on capital of partners & salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm u/s 40(b)

Particulars	Rs.	Rs.
Net Profit (before deduction of depreciation, salary & interest)		7,00,000
Less: Depreciation u/s 32	(1,50,000)	
Less: Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	(60,000)	(2,10,000)
Book Profit		**4,90,000**

(b) Salary actually paid to working partners = Rs. 20,000 × 2 × 12 = Rs. 4,80,000. As per Sec. 40(b)(v), the salary paid to the working partners is allowed subject to following limits:

On first Rs. 3 Lac of book profit or book loss	Higher of (i) Rs. 1,50,000 or (ii) 90% of book profit
On the balance of book profit	60% of the balance book profit

❖ **Maximum allowable working partners' salary for AY 2022-23 in this case would be:**

Particulars	Rs.
On first Rs. 3 Lacs of book profit [(Higher of (i) Rs. 1,50,000 or (ii) 90% of Rs. 3 Lacs)]	2,70,000
On the balance of book profit [60% of (Rs. 4,90,000 - Rs. 3,00,000)]	1,14,000
Maximum allowable partners' salary	**3,84,000**

❖ **Hence, allowable working partners' salary for AY 2022-23 as per section 40(b)(v) = Rs. 3,84,000.**

Q14. Hari, an individual, carried on the business of purchase & sale of agricultural commodities like paddy, wheat, etc. He borrowed the following loans & has not paid interest as detailed hereunder:

- Andhra Pradesh State Financial Corporation (PY 2020-21 & 2021-22): Rs. 15 Lacs.
- Indian Bank (PY 2021-22): Rs. 30 Lacs.

Both APSFC & Indian Bank, while restructuring the loan facilities of Hari during the year 2021-22, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2022, Hari paid 5 installments to APSFC & 3 installments to Indian Bank.

Hari claimed entire interest of Rs. 45 Lacs as an expenditure while computing business income of purchase & sale of agricultural commodities. Examine whether his claim is valid & what is the amount of interest allowable.

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

In this case, unpaid interest of Rs. 15 Lacs due to APSFC & of Rs. 30 Lacs due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest & would not be eligible for deduction in the year of such conversion. Hence, claim of Hari that entire interest of Rs. 45 Lacs is to be allowed as deduction in the year of conversion is not tenable. Deduction shall be allowed only to the extent of repayment made during FY. Accordingly, amount of interest eligible for deduction for AY 2022-23 shall be calculated as follows:

Banks	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable
APSFC	15 lacs	60	25,000	5	1,25,000
Indian Bank	30 lacs	60	50,000	3	1,50,000
Total amount eligible for deduction					**2,75,000**

Q15. Vinod is a film artist. His gross receipts from profession are as under:

PY 2018-19 – Rs. 1,15,000	PY 2019-20 – Rs. 1,80,000	PY 2020-21 : Rs. 2,10,000

What is his obligation regarding maintenance of books of accounts for AY 2022-23 u/s 44AA?

Answer: Section 44AA(1) requires every person carrying on any specified profession to maintain such books of A/c & other documents as may enable AO to compute his total income in accordance with the provisions of the Income-tax Act. Person carrying on notified profession shall be required to maintain specified books of accounts [Rule 6F]:

(1) if his gross receipts in all the three years immediately preceding the relevant PY has exceeded Rs. 1,50,000; or

(2) if it is a new profession which is setup in the relevant PY, it is likely to exceed Rs. 1,50,000 in that PY.

Vinod is a person carrying on profession as film artist, which is a notified profession. Since his GR have not exceeded Rs. 1,50,000 in FY 2018-19, requirement u/s 44AA to compulsorily maintain prescribed books of account is not applicable to him. However, Vinod is required to maintain such books of A/cs as would enable AO to compute his total income.

Q16. Mr. Praveen engaged in retail trade, reports a turnover of Rs. 1,98,50,000 for PY 2021-22. His income from the said business as per books of account is Rs. 13,20,000 computed as per the provisions of Chapter IV-D "PGBP" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2022-23 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

(a) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the AY 2022-23?
(b) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
(c) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
(d) What is the due date for filing his return of income under both the options?

Answer:

(a) Yes. Since his total turnover for PY 2021-22 is below Rs. 200 lacs, he is eligible to opt for presumptive taxation scheme u/s 44AD i.r.o. his retail trade business.
(b) His income from retail trade, applying the presumptive tax provisions u/s 44AD, would be Rs. 15,88,000, being 8% of Rs. 1,98,50,000.
(c) Mr. Praveen had declared profit for PY 2020-21 in accordance with the presumptive provisions & if he does not opt for presumptive provisions for any of the 5 consecutive AYs i.e., AY 2022-23 to AY 2026-27, he would not be eligible to claim the benefit of presumptive taxation for five AYs subsequent to the AY relevant to the PY in which the profit has not been declared in accordance the presumptive provisions i.e. if he does not opt for presumptive taxation in (say) PY 2020-21, then he would not be eligible to claim the benefit of presumptive taxation for AY- 2022-23 to AY 2026-27.

   Consequently, Mr. Praveen is required to maintain the books of accounts & get them audited u/s 44AB, since his income exceeds the basic exemption limit.
(d) In case he opts for the presumptive taxation scheme u/s 44AD, the due date would be 31st July, 2022.

   In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2022.

Q17. Mr. X commenced the business of operating goods vehicles on 1.4.2021. He purchased the following vehicles during PY 2021-22. Compute his income u/s 44AE for AY 2022-23.

	Gross Vehicle Weight (in kilograms)	**Number**	**Date of purchase**
(1)	7,000 Kgs	2	10.04.2020
(2)	6,500 Kgs	1	15.03.2021
(3)	10,000 Kgs	3	16.07.2020
(4)	11,000 Kgs	1	02.01.2021
(5)	15,000 Kgs	2	29.08.2020
(6)	15,000 Kgs	1	23.02.2021

Would your answer change if goods vehicle purchased in April 21 were put to use only in July 21?

Answer:

Since Mr. X does not own more than 10 vehicles at any time during PY 2021-22, he is eligible to opt for presumptive taxation scheme u/s 44AE.

Rs. 1,000 per ton of gross vehicle weight/unladen weight per month (or part) for each heavy goods vehicle.

Rs. 7,500 per month (or part) for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits & gains from such goods carriage.

Heavy goods vehicle is any goods carriage, gross vehicle weight of which exceeds 12000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2020	8	16
1	23.02.2021	2	2
			18

For goods vehicle other than heavy goods vehicle			
2	10.4.2020	12	24
1	15.3.2021	1	1
3	16.7.2020	9	27
1	02.1.2021	3	3
			55

Presumptive income of Mr. X u/s 44AE for AY 2022-23 = Rs. 6,82,500 (55 × Rs. 7,500) being for other than heavy goods vehicle + 18 x Rs. 1,000 x 15 ton being for heavy goods vehicle.

Answer would remain the same even if 2 vehicles purchased in April, 2021 were put to use only in July, 2021, since presumptive income has to be calculated per month (or part) for which vehicle is owned by Mr. X.

Q18. Miss Vivitha, a resident & ordinarily resident in India, has derived the following income from various operations (relating to plantations & estates owned by her) during the year ended 31.03.2022:

SN	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown & cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted & grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown & manufactured in Shimla.	4,00,000
(v)	Income from sapling & seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income & agricultural income of Miss Vivitha for AY 2022-23.

Answer: **Computation of business & agricultural income of Ms. Vivitha for the AY 2022-23**

	Source of income	Gross (Rs.)	Business income		Agri income
			%	Rs.	Rs.
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown & cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted & grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown & manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings & seedlings grown in nursery in India (See Note 2)	80,000		Nil	80,000
	Total			**5,40,000**	**5,90,000**

Notes:

(1) Where income is derived from sale of coffee grown, cured, roasted & grounded by the seller in India, 40% of such income is taken as business income & the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri lanka. Hence, there is no question of such apportionment & the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident & ordinarily resident, the income arising outside India is also chargeable to tax.

(2) Explanation 3 to section 2(1A) provides that income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not basic operations were carried out on land.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Vidyasagar, Resident Individual (age 64) is a Partner in Oscar Musicals & Co, a Partnership Firm. He also runs wholesale business in medical products. Following details are made available for PY 2021-22:

	Particulars	Rs.	Rs.
1	Interest on Capital received from Oscar Musicals & Co.		1,50,000
2	Interest from Bank on Fixed Deposit (Net of TDS of Rs. 1,500)		13,500
3	Income Tax Refund received relating to AY 2021-22		34,500
4	Net Profit from Wholesale Business		5,60,000
	Amount debited to P&L A/c includes the following:		
	▪ Depreciation as per books of A/c	34,000	
	▪ Motor Car Expenses	40,000	
	▪ Municipal Taxes for Shop (For 2 half years, payment for one half year made on 12.06.2022 & for other on 14.11.2022)	7,000	
	▪ Salary to Manager	21,000	
5	**WDV of Assets (as on 1.4.2022 used in above business)**		
	▪ Computers	1,20,000	
	▪ Motor Car (20% used for personal use)	3,20,000	
6	LIP paid for major son		60,000
7	PPF of his wife		70,000
8	NSC		30,000

Other Points:

1. Income Tax refund includes interest of Rs. 2,300.
2. Salary to manager was paid in cash.
3. Rate of Interest on Capital received from Oscar Musicals & Co was 15%.

Compute his Total Income for AY 2022-23. Compute WDV of Blocks of Assets as on 31.03.2022. **[MAY 11]**

Answer: **Computation of Total Income of Mr. Vidyasagar**

	Particulars	Rs.	Rs.	Rs.
1	**Income u/h 'PGBP'**			
	Net profit as per P&L A/c		5,60,000	
	Add: Expenses not deductible u/h 'PGBP' but debited to P&L A/c			
	▪ Depreciation as per books of A/c		34,000	
	▪ Muncipal taxes paid on 14.11.2020 (Disallowed u/s 43B since paid after DD of RoI)		3,500	
	▪ Motor Car expenses used for personal purpose [40,000 × 20%]		8,000	
	▪ Salary paid to manager in cash [Disallowed u/s 40A(3)]		21,000	
	Add: Income taxable u/h 'PGBP' but not credited in P&L A/c			
	Interest on capital (Rs. 1,50,000 x 12% ÷ 15%) [Note 1]		1,20,000	
	Less: Expense deductible but not debited to P&L A/c			
	Depreciation as per Income Tax Act [WN 2]		(86,400)	**6,60,100**
2	**Income u/h 'IFOS'**			
	▪ Interest from Fixed Deposits (after grossing up) (13,500 + 1,500)		15,000	
	▪ Interest on Income Tax Refund		2,300	**17,300**
	Gross Total Income			**6,77,400**
	Section 80C: LIP for Major Son Section 80C: NSC Section 80C: Contribution to PPF for his wife	60,000 30,000 70,000	1,60,000	**(1,50,000)**
	Total (taxable) Income			**5,27,400**

Working Notes:

1) Interest upto 12% is deductible in the hands of firm. Interest above 12% is disallowed in the hands of firm u/s 40(b).
   As per sec 28, Remuneration/Interest is taxable in the hands of Partner to the extent it is deductible to firm.
2) **Computation of WDV**

Particulars	Computer (40%)	Motor Car (15%)
Opening WDV as on 01.04.2021 **Less:** Depreciation for PY	1,20,000 (1,20,000 x 40%) = Rs. 48,000	3,20,000 (3,20,000 x 15%) = Rs. 48,000
Closing WDV as on 31.03.2022	Rs. 72,000	Rs. 2,72,000

   Total Depreciation for PY = Rs. 48,000 (computer)+ 80% of Rs. 48,000 (Car)= Rs. 86,400. 20% of Depreciation on Motor Car used for Personal Purpose is not allowed as deduction.
   PC Note: Depreciation Rate of 30% is available only if motor car is acquired during 23.8.2021 - 31.3.2022 & put to use on/before 31.3.2022. In this case, since it was purchased earlier, depreciation will be available @ 15% only.
3) **Income Tax Refund:** It is not taxable. However, Interest on Income Tax Refund is taxable u/h "IFOS".

Q2. Mr. Raghu, a Resident Individual (age 35 years), furnished following information from his P&L A/c for PY 21-22:

❖ Net Profit as per books of A/c was Rs. 6,50,000.
❖ Following Incomes were credited in the P&L A/c:
  - Interest on Government Securities: Rs. 25,000.
  - Dividend from a Foreign Company: Rs. 50,000.
  - Gold Coins worth Rs. 55,000 received as Gift from his father.
❖ Interest on Loan amounting to Rs. 68,000 was paid i.r.o Capital borrowed for purchase of New Asset which has not been put to use till 31st March 2022.
❖ General Expenses includes: Compensation of Rs. 4,500 paid to an Employee while terminating his services.
❖ He contributed the following amounts by Cheque:
  - Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
  - Rs. 28,000 towards Premium for Health Insurance & Rs. 2,500 for Preventive Health Check up for Self & his wife.
  - Rs. 35,000 on Medical Expenses of his father (Age 82 yrs) [No Insurance had been taken on health of his father]

You are required to compute the Total Income of Mr. Raghu for AY 2022-23 **[Nov 2016]**

Answer: **Computation of Taxable Income & Tax Liability of Mr. Raghu**

I	**Income u/h 'PGBP'**			
	Net profit as per P&L A/c		**6,50,000**	
	Add: Expenses not deductible u/h 'PGBP' but debited to P&L A/c 1. Interest on Loan [Disallowed u/s 36(1)(iii)] [Note 1]	68,000	**68,000**	
	Less: Income which are taxable under other heads or Exempt Incomes but credited to P&L A/c 1. Interest on Government Securities (considered u/h 'IFOS') 2. Dividend from Foreign Company (considered u/h 'IFOS') 3. Gold Coins from Father (considered u/h 'IFOS')	(25,000) (50,000) (55,000)	**(1,30,000)**	**5,88,000**
II	**Income u/h 'IFOS'**			
	1. Interest on Government Securities 2. Dividend from Foreign Company (Taxable since received from foregin company) 3. Gold Coin from Father (not taxable since received from Relative)		25,000 50,000 Nil	75,000
Gross Total Income				**6,63,000**
Section 80D: Health Insurance Premium for Assessee & Spouse [Max. of Rs. 25,000]			(25,000)	
Section 80D: Medical Expense of his Father (82 Yr) [Senior & Max. Limit is Rs. 50,000]			(35,000)	
Section 80G: Swach Bharat Kosh [100% deduction allowed without restriction]			(20,000)	**(80,000)**
Total (taxable) Income				**5,83,000**

Notes:

1) As per Sec. 36(1)(iii), Interest on Capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
2) Compensation to Employees for Termination is incurred for business & thus allowed u/s 37.

Q3. Mr. X, a Chartered Accountant & has prepared the following income & expenditure account for PY 2021-22:

Expenditure	Amount	Income	Amount
Office expenses	12,000	Professional fee	65,00,000
Employee's salary	20,000	Consultancy Fee	55,000
Magazines & newspapers	800	Dividend from Indian co.	8,500
Entertainment Expenses (Personal)	17,500	Profit on sale of debentures (STCG)	8,450
Donation for a charity show	600	Gift from father in-law	6,050
Interest on loan for professional purpose	800		
Income Tax (advance tax)	5,000		
Car Expenses	2,500		
Purchase of books	2,000		
Stationery	21,000		
Diwali gift to employees	1,000		
Rent of own building	60,000		
Municipal tax	1,000		
White washing & Painting of building	2,000		
Expenses incurred on opening ceremony	3,000		

You are required to compute his Total Income for AY 2022-23 considering the following points -

1) The car is used equally for official & personal purposes.
2) Rs. 1,500 for domestic servant's salary is included in employee's salary.
3) Books were purchased on 01.09.2021 & were put to use on the same date.
4) Payment of stationery Rs. 20,500 was made by a bearer cheque & Rs. 500 was paid in cash.
5) Mr. X is owner of a building. Opening WDV = Rs. 90,000. Building is used for official purposes. No depreciation is claimed.
6) Furniture having WDV of Rs. 30,000 as on 1.4.2021 is also used for profession. Office chairs & tables were purchased & put to use on 30.03.2022 for the purpose of a new office which has been inaugurated on 31.03.2022. No depreciation has been debited to the profit & loss account. Actual cost: Rs. 20,000.
7) Employee's salary includes bonus of Rs. 5,000 which was paid to one of the employees on 1.7.2021.

Answer: **Computation of professional income as per Income & Expenditure A/c**

1	Profits & Gains from Business or Profession [Receipts – Expenditures]		
	A. Receipts Taxable u/h 'PGBP'		
	Fees from Professional Services	**65,00,000**	
	Consultancy Fee	**55,000**	
	B. Expenditures deductible u/h 'PGBP'		
	Office expenses	(12,000)	
	Employee's salary [20,000 – 1500]	(18,500)	
	Magazines & newspapers	(800)	
	Interest on loan for professional purpose	(800)	
	Car Expenses [Rs. 2,500 x ½]	(1250)	
	Diwali gift to employees	(1,000)	
	Municipal tax	(1,000)	
	White washing & Painting of building	(2,000)	
	Expenses incurred on opening ceremony	(3,000)	
	Depreciation on building (Rs. 90,000 @ 10%)	**(9,000)**	

	Depreciation on books (2,000 @ 40%) Depreciation on furniture (Rs. 30,000 @ 10%) + (Rs. 20,000 @ 5%)	**(800)** **(4,000)**	**65,00,850**
2	**Income from other sources** Dividend from Indian company – Exempt u/s 10(34) Gift from father in-law – Not taxable since received from Relative	 **Nil** **Nil**	 **Nil**
3	**Income u/h 'Capital Gains': STCG on** sale of debentures		**8,450**
	Gross Total Income		65,09,300

Note: Expenses on opening ceremony are allowed u/s 37(1).

Q4. From the following P & L A/c of Mr. X for PY 2021-22, compute his gross total income for AY 2022-23:

Debits	Rs.	Credits	Rs.
Opening Stock	9,50,000	Sales	101,06,000
Purchases	80,50,000	Closing Stock	3,60,000
Salaries	7,00,000	LTCG on sale of house property	36,000
Rent, rates & taxes	1,25,000	Dividends from foreign company	12,000
Miscellaneous Expenses	21,000	Winnings of a lottery (gross)	5,00,000
Provision for Income Tax	31,000		
Provision for gratuity	24,000		
Provision for GST	45,000		
Deposit in NSC	42,000		
Salary to Mrs. X	48,000		
Purchased a computer on 1.11.2020	40,000		
Net Profit	9,38,000		

Additional information:

(1) Purchases include:

(a) Purchase of Rs. 1,00,000 from a relative (market price Rs. 80,000) & payment was made in cash.

(b) Purchase of Rs. 25,000 being the products manufactured without aid of power in a cottage industry & payment was made to its producer & payment was made in cash.

(c) Purchases of Rs. 35,000 from a person residing in village having no bank & payment was made in cash.

(2) Opening & closing stock were overvalued by 10%.

(3) Salary includes Rs. 25,000 being bonus paid to the staff on 1.11.2021 on the occasion of Diwali.

(4) Rent, rates & taxes include Municipal tax paid on 1.11.2021: Rs. 30,000.

(5) Provision for Gratuity is on actuarial basis.

(6) Mrs. X is a housewife & payment is excessive by Rs. 48,000.

Note: Mr. X has not opted for presumptive taxation of Income u/s 44AD.

Answer:

Net profit as per profit & loss A/c		9,38,000	
Add: Expenses debited to P & L A/c but not allowable			
Deposit in NSC (not an expenditure)	42,000		
Provision for income tax	31,000		
Provision for GST	45,000		
Salary to Mrs. X [Sec 40A(2)]	48,000		
Purchase of computer (capital expenditure)	40,000		
Purchase from relative [Sec 40A(2)]	20,000		
Payment in cash [Sec 40A(3)]	80,000		
Adjustment for overvalued Opening stock (9,50,000 x 10/110)	86,363		
Bonus paid after due date (Sec 43B)	25,000		

Municipal tax paid after due date (Sec 43B)	30,000	4,47,363	
Less: Permissible Expenses			
Depreciation on computer (40,000 x 40% x ½)	(8,000)		
Closing stock overvalued (3,60,000 x 10/110)	(32,727)	(40,727)	
Less: Incomes taxable under other head but not u/h PGBP			
Long term capital gain	(36,000)		
Dividend from foreign company	(12,000)		
Winnings of lottery	(5,00,000)	(5,48,000)	
Income u/h 'PGBP			**7,96,636**
Income from Other Sources			
Dividend from foreign company		12,000	
Winnings from lottery		5,00,000	5,12,000
Income u/h 'Capital Gains': LTCG on sale of House (taxable @ 20%)			**36,000**
Gross Total Income			**13,44,636**

Q5. Mr. PC submits the profit & loss A/c for PY 2021-22:

Debits	Rs.	Credits	Rs.
Household expense	20,000	Gross Profit	5,28,500
Interest on loan taken from Mrs. PC	2,000	Income tax refund	3,000
Income tax	12,000	Interest on income tax refund	300
Interest on loan for payment of income tax	1,200	GST refund	1,000
Contribution to Unrecognised Provident Fund	4,000	Interest on GST refund	400
Expenditure on advertisement (revenue)	25,000	Bad debts recovered	5,000
Public provident fund contribution	7,000	Dividends from foreign company	3,000
Investment in post-office saving bank account	12,000		
Purchase of car (A/c payee cheque)	2,45,000		
Purchase of Computer (By A/c payee cheque)	35,000		
Purchase of plant (By A/c payee cheque)	23,000		
Net Profit	1,55,000		

Note: Car, Computer, P&M were purchased on 1.10.2021 & were put to use on same date. Compute TI of PC for AY22-23.

Answer: **Computation of Total Income of Mr. PC for AY 2022-23**

1	**Profits & gains from business & profession**		
	Net Profit as per profit & loss account	**1,55,000**	
	Add: Inadmissible Expenses debited to P&L A/c		
	Household expenses	20,000	
	Income tax	12,000	
	Interest on loan for payment of income tax	1,200	
	Contribution to Unrecognised provident fund	4,000	
	Contribution to public provident fund	7,000	
	Investment in post office saving bank account	12,000	
	Purchase of car	2,45,000	
	Purchase of computer	35,000	
	Purchase of plant	23,000	
	Less: Inadmissible Expenses		
	Income tax refund	(3,000)	

	Interest on Income tax Refund	(300)	
	Dividends	(3,000)	
	Depreciation on car (2,45,000 x 15% x ½) [Used for < 180 days]	(18,375)	
	Depreciation on computer (35,000 x 40% x ½) [Used for < 180 days]	(7,000)	
	Depreciation (23,000 x 15% x ½) on plant [Used for < 180 days]	(1,725)	
	Income under the head Business/Profession	**4,80,800**	
2	**Income under the head Other Sources**		
	Interest on Income tax Refund	300	
	Dividends from foreign company	3,000	
3	**Gross Total Income**	**4,84,100**	
	Less: Deduction u/s 80C – Contribution to PPF	(7,000)	
4	**Total Income**		**4,77,100**

Q6. Mr. X is engaged in the business of generation & distribution of electric power. He always claims depreciation on WDV. From the following details, compute depreciation allowable for AY 2022-23: **[Nov 2013]**

(a) Opening WDV of block (15% rate)	Rs. 42 Lacs
(b) New machinery purchased on 12.10.2021	Rs. 10 Lacs
(c) Machinery imported from Colombo on 12.04.2021. This machine had been used only in Colombo earlier & assessee is the first user in India.	Rs. 9 lacs
(d) New computer installed in generation wing of the unit on 15.07.2021	Rs. 2 lacs

Answer:

Computation of Depreciation allowable u/s 32 for AY 2021-22	
Opening WDV as on 01.04.2021	Rs. 42 Lacs
Add: New Machinery purchased & put to use on 12.10.2021	Rs. 10 Lacs
Add: Machinery imported from Colombo purchased & put to use on 12.04.2021	Rs. 9 Lacs
WDV as on 31.03.2022	**Rs. 61 Lacs**
Normal Depreciation @ 7.5% on Rs. 10,00,000	Rs. 75,000
Normal Depreciation @ 15% on Rs. 51,00,000	Rs. 7,65,000
Total Normal Depreciation	**Rs. 8,40,000**
Additional depreciation on machinery purchased on 12.10.2021 @ 10% on Rs. 10 Lacs	**Rs. 1 Lacs**
Total Depreciation	**Rs. 9,40,000**

Block 40%	
New Computer in Generation wing purchased & put to use on 15.07.2021	2,00,000
Normal Depreciation @ 40% on Rs. 2,00,000	80,000
Additional depreciation @ 20% on Rs. 2,00,000	40,000

Q7. Mr. X engaged in Retails Trade, reports a turnover of Rs. 1,98,50,000 (all payments received in account payee cheque) for PY 2021-22. His income from the said business as per books of account is computed at Rs. 13,20,000. Retail trade is the only source of income for Mr. X.

(a) Is Mr. X eligible to opt for presumptive determination of his income chargeable to tax for AY 2022-23?
(b) Is so, determine his income from retail trade as per the applicable presumptive provision.
(c) In case, Mr. X has not opted for presumptive taxation of income from retail trade, what are his obligations?
(d) What is the 'due date' for filing his return of income, under both the options? **[MAY 2011]**

Answer:

(a) Yes. Since his total turnover for PY 2021-22 is below Rs. 2 crores, he is eligible to opt for presumptive taxation scheme u/s 44AD in respect of his retail trade business.

(b) His income from retail trade, applying provisions u/s 44AD = Rs. 15,88,000 [6% of Rs. 1,98,50,000].

(c) If he has not opted for presumptive taxation scheme u/s 44AD, & claims that his income is Rs. 13,20,000 (which is lower than the presumptive business income of Rs. 15,88,000), he has to maintain books of account as required u/s 44AA & also get them audited & furnish a report of such audit u/s 44AB, since his total income > BEL of Rs. 2,50,000 & he will not be eligible to claim the benefit of presumptive taxation for 5 AYs.

(d) If he opts for the presumptive taxation scheme u/s 44AD, due date would be 31st July, 2022.
If he has not opted for presumptive scheme, he has to get his books of account audited u/s 44AB. In that case, due date for filing of return would be 31st October 2022.

Q8. Rajan Ltd. has 2 machines [S&M] in the block as on 1.4.2021 [WDV = Rs. 3 Lacs]. Machine L was acquired on 12.11.2022 for Rs. 1,50,000 & put to use on the same date. The same machine L is sold on 24.03.2022 for Rs. 2 Lacs.
(a) Compute the depreciation allowable u/s 32 for AY 2022-23 on the block.
(b) What will be the depreciation allowed, if machine S is sold instead of machine L.
(c) What will be the depreciation allowed if both the machineries S & M are sold instead of machine L.
(d) What will be the depreciation allowed, if machine S is sold at Rs. 3,20,000 instead of machine L.

Answer:

(a)	Opening WDV of the block as on 01.04.2021		3,00,000
	Add: Actual cost of Machine L (Acquired & put to use for less than 180 days)		1,50,000
	Less: Sale consideration of machine L (sold in this same year)		(2,00,000)
	WDV as on 31.03.2022		2,50,000
	Depreciation on Rs. 2,50,000 @ 15% [Since No asset used for < 180 days exist on 31.3.2021]		(37,500)
	WDV as on 01.04.2022		2,12,500
	Note: Depreciation @ 15% has been charged on total WDV, as machine L which was put to use for < 180 days during PY, ceases to exist on 31.03.2022. If machine L would have been in the block on 31.03.2022, then actual cost of Machine L to the extent of WDV of the block would be eligible to only 50% of the normal depreciation.		
(b)	WDV of the block as on 1.4.2021		3,00,000
	Add: Actual cost of Machine L (Acquired & put to use for less than 180 days)		1,50,000
	Less: Sale consideration of machine S		(2,00,000)
	WDV as on 31.3.2022		2,50,000
	Depreciation on Rs. 1,00,000 @ 15%	(15,000)	
	Depreciation on Rs. 1,50,000 @ 7.5% (half of Normal Depreciation)	(11,250)	(26,250)
	WDV as on 1.4.2022		2,23,750
(c)	WDV of the block as on 1.4.2021		3,00,000
	Add: Actual cost of Machine L (Acquired & put to use for less than 180 days)		1,50,000
	Less: Sale consideration of machine S & M sold during the year		(2,00,000)
	WDV as on 31.3.2022 for the purpose of charging depreciation		2,50,000
	Depreciation on Rs. 1,00,000 @ 15%	15,000	
	Depreciation on Rs. 1,50,000 @ 7.5%	11,250	26,250
	WDV as on 1.4.2022		2,23,750
	*Although only one asset L is left in the block whose cost is Rs.1,50,000, still depreciation will be allowed on the balance amount Rs. 1,00,000 @15% as the block has not ceased to exist.		
(d)	WDV of the block as on 1.4.2021		3,00,000
	Add: Actual cost of Machine L (Acquired & put to use for less than 180 days)		1,50,000
	Less: Sale consideration of machine L (sold in this same year)		(3,20,000)
	WDV as on 31.03.2022		1,30,000
	Depreciation on Rs. 1,30,000 @ 7.5%		9,750
	WDV as on 1.4.2022		1,20,250
	As machine L is in the block on 31.03.2022, **actual cost of Machine L to the extent of the WDV of the block** would be eligible to only 50% of normal depreciation, as machine L was put to use for < 180 days during PY.		

Q9. Calculate Depreciation of the following assets for PY 2021-22:

Particulars	WDV on 1.4.2021	Rate of Dep.
Building A	5,40,000	5%
Building B	4,15,000	10%
Building C	5,20,000	10%
Furniture	24,500	10%
Plant & Machinery A	5,60,000	30%
Plant & Machinery B	3,20,000	15%

Following assets have been purchased on 5.4.2021 & put to use on following dates during the PY.

Particulars	Date put to use	Rs.	Rate of Dep.
Plant C	01.08.2021	1,60,000	10%
Plant D	18.11.2021	2,80,000	30%
Plant E	10.09.2021	4,00,000	15%
Building D	01.12.2021	3,00,000	10%
Building E	11.04.2021	1,60,000	5%

Following assets have been sold during the PY.

Particulars	Date of sale	Sale consideration
Building B	25.10.2021	6,40,000
Plant A	08.05.2021	5,80,000

Rs. 90,000 were also spent to renovate & modify Building A. Rs. 1,20,000 also been spent in June 2021 on Machinery B to make it suitable for the new system of production.

Answer:

Calculation of Depreciation

Block of Assets	WDV/Cost	Depreciation
1. Building Block 1 [Rate 5%]		
Building A: WDV on 1.4.2021	5,40,000	
Add: New addition (Cost) building E [Put to use for more than 180 days]	1,60,000	
Add: Capital expenditure to renovate building A	90,000	
Depreciation = 5% on Rs. 7,90,000		**39,500**
2. Building Block II [Rate 10%]		
Building B: WDV on 1.4.2021 Building C: WDV on 1.4.2021	4,15,000 5,20,000	
Add: New building D (Cost) put to use for less than 180 days	3,00,000	
Less: Sale consideration of building B	(6,40,000)	
WDV	5,95,000	
Depreciation: (i) On new 3,00,000 @ 5%	15,000	
(ii) On Rs. 2,95,000 @ 10%	29,500	**44,500**
3. Furniture Block III [Rate 10%]		
WDV on 1.4.2021	24,500	
Depreciation: On Rs. 24,500 @ 10%		**2,450**
4. Plant & Machinery Block IV [Rate 15%]		
WDV on 1.4.2021	3,20,000	
Add: Capital Expenditure on Modernization	1,20,000	
Add: New Plant E put to use for more than 180 days	4,00,000	
WDV before claiming depreciation	8,40,000	
Depreciation: 15% of Rs. 8,40,000		**1,26,000**

5. Plant & Machinery Block V [Rate 30%]		
WDV on 1.4.2021	5,60,000	
Add: New addition of Machine D (less than 180 days)	2,80,000	
Less: Sale consideration of Machine A	(5,80,000)	
WDV on 31.3.2022	2,60,000	
Less: Depreciation (30% of 2,60,000 x ½)		**39,000**
6. Plant & Machinery Block VI [Rate 100%]		
Cost of Purchase	1,60,000	
Less: Depreciation	1,60,000	**1,60,000**

Q10. Rama Ltd. has started a new business of manufacturing paints on 01.04.2021. The company has purchased the following assets during PY 2021-22.

Asset	Actual COA	ROD	Date when it is put to use
Furniture	6,00,000	10%	20.04.2021
AC installed in office	3,00,000	15%	22.06. 2021
Motor Car	24,00,000	15%	16.07. 2021
Plant A	1,50,00,000	15%	25.04.2021
Plant B	60,00,000	15%	14.11.2021
Plant C	2,40,000	100%	18.09.2021
Computer installed in office	3,00,000	60%	09.07.2021
Computer for factory	4,50,000	60%	12.07.2021

Compute normal & additional depreciation allowable for AY 2022-23 to Rama Ltd.

Answer: **Computation of Normal & Additional Depreciation for AY 2022-23**

Asset	Furniture (10%)	Plant (60%)	Plant & Car (15%)	Plant (100%)
Opening WDV as on 1.4.2021	NIL	NIL	NIL	NIL
Add: Cost of assets acquired during PY	6,00,000	7,50,000	2,37,00,000	2,40,000
WDV as on 31.03.2022	6,00,000	7,50,000	2,37,00,000	2,40,000
Less: Normal Depreciation	60,000	4,50,000 (WN 2)	31,05,000 (WN 3)	2,40,000
Additional Depreciation	NIL (WN 1)	90,000 (WN 2)	36,00,000 (WN 3)	Nil
WDV as on 01.04.2022 [Closing WDV]	5,40,000	2,10,000	1,69,95,000	Nil

Working Note:

1) Additional depreciation is not available on furniture as the same is not covered u/s 32 (1)(iia).
2) Plant also consists of computer. Further computer installed in office is not eligible for additional depreciation.

Normal depreciation @ 60% on Rs. 7,50,000	Rs. 4,50,000
Additional Depreciation @ 20% on Rs. 4,50,000	Rs. 90,000

3) Normal Depreciation on Plant (inclusive of Motor-Car) has been calculated as under:

Depreciation @ 15% on Rs. 1,77,00,000	Rs. 26,55,000
Depreciation @ 7.5% on Rs. 60,00,000 (as put to use for less than 180 days)	Rs. 4,50,000
Total Depreciation	Rs. 31,05,000

Additional Depreciation on Plant (inclusive of Motor-Car)

Asset	Plant A (20%)	Plant B (10%)	Plant C (Nil)
Actual cost	Rs. 1,50,00,000	Rs. 60,00,000	-
Additional Depreciation	Rs. 30,00,000	Rs. 6,00,000	Nil

Note: Balance of Additional depreciation of Rs. 6 Lacs [50% of Rs. 12 lacs] (20% of Rs. 60 lacs) would be allowed as deduction in AY 2022-23.

Q11. Mr. A acquired an assets on 15.4.2020 for Rs. 2 Lacs on which depreciation is charged @ 10%. He sold the asset to Mr. B for Rs. 2 Lacs on 1.4.2021. Again on 16.9.2021, it was reacquired by Mr. A for Rs. 2 Lacs. Compute the actual cost in the hands of Mr. A for AY 2022-23.

Answer:

Cost of Asset as on 15.4.2019	2,00,000
Less: Depreciation for PY 2019-20	(20,000)
WDV on the date transfer of asset (a)	1,80,000
Value of Reacquisition (b)	2,00,000
Cost to be adopted – as per Explanation 4 Sec. 43(1) [(a) or (b) whichever is less)]	**1,80,000**

Q12. Mr. A Converted the following assets used for personal purposes into his business assets on 1.4.2021:

Particulars	COA	DOA	FMV on 1.4.2021	Value recorded in books on 1.4.2021
Building	20,00,000	1.4.2018	30,00,000	30,00,000
Land	10,00,000	1.4.2017	50,00,000	10,00,000

Answer: **Computation of Actual Cost of the asset of Mr. A**

Particulars	Rs.
Cost of asset as on 1.4.2019 **Less:** Notional depreciation @ 5% for the year 2019-20	20,00,000 (1,00,000)
WDV as on 31.03.2020 **Less:** Notional depreciation @ 5% for the year 2020-21	19,00,000 (95,000)
Cost to be capitalized as per Explanation 5 Sec. 43(1)	**18,05,000**

Explanation 5 to Sec. 43 requires the notional deprecation to be computed **only in the case of building** & **not in case of any other asset.** Therefore, the value of other fixed assets namely Land shall get recorded at Rs. 10 Lacs.
In case of building, cost to be adopted for computing depreciation shall be Rs. 18,05,000 & not at Rs. 30 Lacs.

Q13. Dr. X purchased a house property on 1.12.2020 for Rs. 10 lacs. Till 1.5.2021, the same was self-occupied as a residence. On this date, the said building was brought into use for the purpose of his medical profession. What would be the depreciation allowable for AY 2022-23 assuming that he owns no other building & ROD is 10%.
(b) What if house property had been gifted by his mother, who had purchased the same on 01.05.2019 for Rs 9 lacs?
(c) What if the asset would have been a car?

Answer: As per Explanation 5 to Sec. 43(1), depreciation of Rs. 50,000 for PY 2019-20 & Rs. 95,000 for PY 2020-21 will be notionally computed & deducted from the cost of Rs. 10 Lacs. Dr. Binu can claim depreciation at 10% on Rs. 8.55 Lacs which works out to Rs. 85,500 for AY 2022-23.

(b) Yes, the answer would differ has the building been gifted by his mother.

Explanation 2 to Sec. 43(1) provided that where an asset is acquired by way of gift or inheritance, actual cost of asset to the assessee will be the WDV to the previous owner.
Deprecation thereafter shall be allowed assuming the asset as the only asset remaining in the block.
Depreciation on the building that would have been allowed/ allowable as under:

Year ending 31.03.2019	Year ending 31.03.2020	Year ending 31.03.2021
Rs. 90,000	Rs. 81,000	Rs. 72,900

Cost = Rs. 6,56,100 (Rs. 9 Lacs - Rs. 2,43,900). Assessee can avail Rs. 65,610 as deprecation for AY 2022-23.

(c) Actual cost of car would be taken as cost of acquisition for charging depreciation.

Q14. Mr. X has furnished following particulars relating to payments made towards scientific research for PY 21-22:

SN	Particulars	(Rs. In Lacs)
(i)	Payments made to K Research Ltd.	20
(ii)	Payment made to LMN College	15

(iii)	Payment made to OPQ College	10
(iv)	Payment made to National Laboratory	8
(v)	Machinery purchased for in-house scientific research	25
(vi)	Salaries to research staff engaged in in-house scientific	12

Note: K Research Ltd. & LMN College are approved research institutions & these payments are to be used for the purposes of scientific research. Compute the amount of deduction available u/s 35.

Answer:

Particulars	Amount	Sec	% of Deduction	Deduction
Payment for scientific Research				
K Research Ltd (WN 2)	20	35(1)(ii)	150%	30.00
LMN College	15	35(1)(ii)	150%	22.50
OPQ College	10	-	Nil	Nil
National Laboratory	8	35(2AA)	150%	12.00
In-house Research [WN 2]				
Capital expenditure	25	35(1)(iv) r.w. 35(2)	100%	25.00
Revenue expenditure	12	35(1)(i)	100%	12.00
Deduction allowable u/s 35				**101.50**

Notes:

(1) Only company are entitled to weighted deduction @ 150% u/s 35(2AB) i.r.o in-house research expenditure incurred. However, assessee is an individual. Thus he would be entitled to deduction @100% of revenue expenditure incurred u/s 35(1)(i) & 100% of the capital expenditure incurred u/s 35(1)(iv) r/w section 35(2).

(2) **Payment to K Research Ltd. (Alternative Answer):** Any sum paid to a company registered in India which has as its main object scientific research qualifies for a weighted deduction of 100% u/s 35(1)(iia). Therefore, it is also possible to take a view that payment of Rs. 20 lacs to K Research Ltd. qualifies for a weighted deduction of 100% u/s 35(1)(iia) since K Research Ltd. is a company. Weighted deduction u/s 35(1)(iia) would be Rs. 20 lacs (i.e., 100% of Rs. 20 lacs). In such case, total deduction u/s 35 = Rs. 91.50lacs.

Q15. Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up & operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehouse for storage of edible oil. Unit A commenced operation on 1.4.2020 & it claimed deduction of Rs. 100 lacs incurred on purchase of 2 buildings for Rs. 50 lacs each (for operating a warehouse for storage of sugar) u/s 35AD for AY 2021-22. However, in Feb. 2022, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer to Mr. Arnav.

Answer: Since the capital asset, i.r.o which deduction of Rs. 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in PY 2021-22, the deeming provision u/s 35AD(7B) is attracted during the AY 2022-23.

Particulars	Amount
Deduction allowed u/s 35AD for AY 2021-222	Rs. 50,00,000
Less: Depreciation allowable u/s 32 for AY 2021-22 [10% of Rs. 50 lacs]	Rs. 5,00,000
Deemed income u/s 35AD(7B)	Rs. 45,00,000

By virtue of section 43(1), Mr. Arnav can claim depreciation u/s 32 on building in Unit B for AY 22-23.

For the purpose of claiming depreciation on building in Unit B, actual cost of the building would be:

Actual cost to the assessee - Depreciation allowable u/s 32 for AY 2021-22 = Rs. 50 L – Rs. 5 L = Rs. 45 Lac.

Q16. An assessee, who is already in the business of trading in textiles, commences the business of cold chain facility w.e.f. 1.7.2021 & has incurred the following expenditure:

Machinery purchased on 26.2.2021 & capitalized in the books of accounts	4,00,000
LAND purchased on 1.4.2020 & capitalized	6,00,000
Building constructed on 30.6.2021	10,00,000

Goodwill purchased on 5.6.2021	2,00,000
Machinery purchased on 20.1.2022	3,00,000

Calculate the deduction allowed u/s 35AD for PY 2021-2022.

Answer:

- Deduction of 100% of capital expenditure incurred wholly for cold chain business shall be allowed during the year in which the expenditure is incurred.
- All capital expenditures are eligible for 100% deduction (except LAND, GW & any financial instrument).
- Land, Goodwill will not qualify for deduction.
- Capital expenditure incurred before commencement shall be deductible in the year of commencement, if expenditure is capitalized in books of account on date of commencement.
- Total deduction allowed for PY 2021-22 = 100% of [Rs. 4L (machinery purchased before commencement of business since capitalized) + Rs. 10 L (building) + Rs. 3 L(machinery) = Rs. 17,00,000.

Q17. Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar & edible oil on 1.4.2021. He incurred capital expenditure of Rs. 80 lacs, Rs. 60 lacs & Rs. 50 lacs, respectively, on purchase of land & building during Jan. 2021 to March 2022 exclusively for the above businesses, and capitalized the same in its books of A/c as on 1st April, 2021. Cost of land included in above figures is Rs. 50 lacs, Rs. 40 lacs & Rs. 30 lacs respectively. During PY 2021-22, he incurred capital expenditure of Rs. 20 lacs, Rs. 15 lacs & Rs. 10 lacs, respectively, for extension/reconstruction of the building purchased & used exclusively for the above businesses.

Compute the income u/h "PGBP" for AY 2022-23 & the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction u/s 35AD & has not claimed any deduction under Chapter VI-A under the heading "C – Deductions i.r.o certain incomes".

Profits from the business of setting up a warehousing facility for storage of food grains, sugar & edible oil (before claiming deduction u/s 35AD & section 32) for AY 2022-23 is Rs. 16 lacs, Rs. 14 lacs & Rs. 31 lacs, respectively. Also, assume i.r.o expenditure incurred, the payments are made by A/c payee cheque or use of ECS through bank.

Answer: **Computation of profits and gains of business or profession for AY 2022-23**

Particulars	Amount
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation u/s 32)	Rs. 31 Lacs
Less: Depreciation u/s 32 [10% of Rs. 30 lacs, being (Rs. 50 lacs – Rs. 30 lacs + Rs. 10 lacs)	(Rs. 3 Lacs)
Income chargeable under "Profits and gains from business or profession"	Rs. 28 Lacs

Computation of income/loss from specified business u/s 35AD

Particulars	Food Grains	Sugar	Total
(a) Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
Less: Deduction u/s 35AD			
(b) Capital expenditure incurred prior to 1.4.2020 (commencement of business) & capitalized in books of A/c as on 1.4.2020 (excluding expenditure incurred on acquisition of land) = Rs. 30 lacs (Rs. 80 lacs – Rs. 50 lacs) & Rs. 20 lacs (60 L – 40 L)	30	20	50
(c) Capital expenditure incurred during the PY 2021-22	20	15	35
(d) Total capital expenditure (B + C)	50	35	85
(e) Deduction u/s 35AD [100% of capital expenditure]	**50**	**35**	**85**
(f) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction u/s 35AD) to be carried forward as per section 73A **[A-E]**	(34)	(21)	(55)

Notes:

(1) Deduction of 100% of capital expenditure is available u/s 35AD for AY 2022-23 i.r.o specified business of setting up & operating a warehousing facility for storage of sugar & setting up and operating a warehousing facility for storage of agricultural produce.

(2) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction u/s 35AD i.r.o capital expenditure incurred i.r.o such business.

(3) Mr. A can, however, claim depreciation @ 10% u/s 32 i.r.o the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the PY 2021-22.

(4) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs. 55 lacs from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of Rs. 28 lacs from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Q18. X Ltd. is incorporated in Mumbai on 6 September 2021. It commences production on 15 March 2022. Following expenses are incurred by the company before commencement of business. Determine deduction u/s 35D.

(a) Expenses on incorporation, issue of shares: Rs. 92,000.

(b) Preparation of feasibility report & conducting market survey: Rs. 1,40,000.

(c) Engineering services (work is carried on by a concern which is unapproved by Board): Rs. 1,30,000.

Particulars as on last day of PY in which business is commenced are: Cost of fixed asset – Rs. 55 Lacs; Share capital - Rs. 40 Lacs; Debentures - Rs. 12 Lacs; Long-term borrowing from FIs (repayable for not less than 7 years) - Rs. 8 Lacs

Answer:

Cost of Project	Rs. 55,00,000
Capital Employed (i.e. Rs. 40 lacs + Rs. 12 lacs + Rs. 8 lacs)	Rs. 60,00,000
1. Eligible Expenditure	
(a) Expenses on incorporation (Included even if work is undertaken by unapproved person)	Rs. 92,000
(b) Preparation of feasibility report, project report & conducting market survey (these are included only if work is done by the taxpayer or it is undertaken by an approved concern)	Rs. 1,40,000
(c) Engineering services (included only if work is done by taxpayer or it is undertaken by approved concern; since it is completed by a concern not approved by Board, it is not included)	Nil
Total Eligible Expenditure	**Rs. 2,32,000**
2. Maximum Limit (5% of Rs. 55 lacs or Rs. 60 lacs, whichever is higher)	Rs. 3,00,000
Qualifying Amount for Deduction Lower of (i) or (ii)	Rs. 2,32,000
Amount deductible in 5 years for AY 2022-23 to 2026-27	**Rs. 46,400**

Q19. X Ltd. made payment of VRS to its employee Y as under:

PY 2021-22: Rs. 4,00,000; **PY 2022-23:** Rs. 3,00,000; **PY 2023-24:** Rs. 1,40,000

How deduction of above expense will be claimed by X Ltd. as per Income Tax Act?

Also calculate how much deduction will be allowed to X Ltd. for AY 2022-23 & 2023-24 in respect of the VRS?

Answer: **Deduction of VRS Expenditure**

AY	Payment	1/5th Deduction from PY of payment	Period of 5 years from year of payment
2022-23	4,00,000	80,000	AY 2021-22 to 2025-26
2023-24	3,00,000	60,000	AY 2022-23 to 2026-27
2024-25	1,40,000	28,000	AY 2023-24 to 2027-28

(1) Total Deduction u/s 35DDA for **AY 2022-23** = **Rs. 80,000.**

(2) Total Deduction u/s 35DDA for **AY 2023-24** = Rs. 80,000 + Rs. 60,000 = **Rs. 1,40,000.**

Q20. The profit & loss account for the year ending March 31, 2022 is as follows:

Cost of goods sold Salary to employees Other expenses Net profit	75,000 99,000 10,000 46,000	Sale proceeds of goods	2,30,000

Salary of Rs. 99,000 comprises Rs. 9,000 as employee's contribution towards RPF. Out of Rs. 9,000, Rs. 6,000 is credited in employees' PF within Due Date & Rs. 3,000 is credited after the Due Date. Compute net income of X for AY 2022-23.

Answer:

Net profit	46,000
Add: Employees contribution towards PF [it is first included in income - Section 2(24)(x)]	9,000
Total	**55,000**
Less: Employees contribution towards PF if credited on a date before DD [Section 36(1)(va)]	(6,000)
Net income	**49,000**

Q21. X & Y, a partnership firm consisting of 2 partners, reports net profit of 7,00,000 before deduction of following:
(1) Salary of Rs. 20,000 each p.m payable to 2 working partners of firm (as authorized by the deed of partnership).
(2) Depreciation on plant & machinery u/s 32 (computed): Rs. 1,50,000.
(3) Interest on capital at 15% p.a (as per p'ship deed). Amount of capital eligible for interest is Rs. 5,00,000.
Compute:
(i) Book-profit of the firm u/s 40(b) of the Income-Tax Act 1961.
(ii) Allowable working partner salary for AY 2022-23 as per section 40(b).

Answer	**(i) Computation of Book- Profits u/s 40(b) of Income Tax Act 1961**	
Net Profit		7,00,000
Less: Depreciation u/s 32		(1,50,000)
Less: Interest on capital (5,00,000 x 12%)		(60,000)
Book Profit as per section 40(b)		**4,90,000**
(ii) Calculation of allowable salary to partners		
Allowable Salary		
On first 3,00,000 of book profit: 90% of book profits or 1,50,000 whichever is higher		2,70,000
On balance book profit: 60% on balance book profit (1,90,000 x 60/100)		1,14,000
Hence, salary as per section 40(b) would be		**3,84,000**

Q22. Determine the amount of disallowance in following cases:

(1) Salary of Dec. 2021 is paid to A, B & C by Bearer cheque (Rs. 6,000, Rs. 10,000 & Rs. 12,500, respectively).
(2) X ltd. Purchases goods on credit from Y Ltd. on 6.5.2021 for Rs. 76,000 which is paid as follows:
(a) Rs. 5,000 in cash on 11.5.2021 (b) Rs. 30,000 by a bearer cheque on 5.6.2021 & remaining with netbanking.
(3) Z Ltd. Purchases goods on credit from A Ltd. on 10.5.2021 for Rs. 6,000 & on 30.5.2021 for Rs. 5,000. The total amount is paid on 1.7.2021 in cash.
(4) A Ltd. purchases goods on credit from a relative of a director on 20.6.2021 for Rs. 50,000 (Market value; Rs. 42,000). The amount is paid in cash on 25.6.2021.
(5) A Ltd purchase raw material on credit from B ltd. in which A Ltd. holds 20% equity shares, (amount of bill being Rs. 26,000, market price being Rs. 9,000). It is paid in cash on 26.07.2021. [PC Note: Beneficial to assessee approach]

Answer:

(1) Rs. 12,500, being 100% of salary paid by bearer cheque to C, will be disallowed.
(2) Nothing will be disallowed out of the payment of Rs. 5,000 cash on 11.05.2021, as the payment does not exceed Rs. 10,000. 100% of Rs. 30,000 will be disallowed. Nothing will be disallowed in case of Netbanking.
(3) Though the amount of payment exceeds Rs. 10,000, nothing shall be disallowed. To attract disallowance, the amount of bill as well as the amount of payment should be more than Rs. 10,000.
(4) Out of the payment of Rs. 50,000 Rs. 8,000 (being excess payment to relative) shall be disallowed u/s 40(A)(2). As payment is made in cash & remaining amount exceeds Rs. 10,000, 100% (i.e. Rs. 42,000) is disallowed u/s 40A(3).

(5) Out of the payment of Rs. 26,000, Rs. 17,000 (being the excess payment to person holding a substantial interest) shall be disallowed u/s 40A(2). Remaining amount (i.e. Rs. 9,000) does not exceed Rs. 10,000. Nothing shall be disallowed u/s 40A(3) even if the payment is made in cash.

Q23. Please advise whether sec. 40A(3) will apply to cases given as below
(a) Advance for purchase of material was paid in cash Rs. 60,000 on 15.6.2021. Material was delivered on 7.8.2021 Balance payment of Rs. 2,00,000 was made by crossed cheque.
(b) Donations paid in cash Rs. 35,000.
(c) Cash payment of Rs. 80,000 made to a farmer for purchase of agriculture produce in a village served by bank.
(d) Purchase of Raw Material of Rs. 40,000 was made on 10.10.2021 from nephew, market price is rated Rs. 30,000.*
(e) Mode & date of payment:
(a) 1.11.2021: Cash - Rs. 5,000. (b) 1.12.2021: by bearer cheque - Rs. 10,000. (c) 15.01.2022 – Cash - Rs. 25,000.
(f) Cash purchase of land Rs. 10,00,000 held as stock-in-trade by an estate dealer.*
(g) Cash payment of Rs. 70,000 made by the consignee for the goods received on consignment.
(h) Cash payment of Rs. 5,00,000 made by an authorized dealer against travelers cheque.

Answer:
(a) Cash advance given against purchase of raw material is also an outgoing expenditure. 100% of Rs. 60,000 will be disallowed. Also, 100% of Rs. 2,00,000 is disallowed as payment is made by crossed cheque.
(b) Section 40A(3) does not apply to cash donations as it is not deductible u/s 30 to 37. [Check 80G conditions]
(c) Cash Payment > Rs. 10,000 for the purchase of agriculture produce to the cultivator has been excluded from the ambit of Sec. 40A(3) vide rule 6DD. Hence, there will be no disallowance.
(d) Section 40A(2) does not apply as nephew is not relative. Brother's son is not included in the definition of relative.
(e) Cash payment of Rs. 25,000 on 15.1.2022 shall be covered by the disallowance u/s 40A(3).
(f) Rs. 10,00,000 will be disallowed as purchase of stock-in-trade is a business revenue expenditure.
(g) Section 40A(3) is not applicable to consignee as he has not purchased the goods on his account.
(h) Section 40A(3) does not apply to an authorised dealer or money changer.

Q24. X Ltd. contributes 20% of basic salary to the account of each employee under pension scheme referred in sec. 80CCD. DA = 40% of basic salary & it forms part of pay of the employees. Compute deduction allowable u/s 36(1)(iva) if basic salary is Rs. 10 lacs. Would disallowance u/s 40A(9) be attracted? **[ICAI Module Q12]**

Answer: **Computation of deduction u/s 36(1)(iva) & disallowance u/s 40A(9)**

Particulars	Rs.
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of Rs. 10 lacs)	2,00,000
Less: Permissible deduction (10% of basic salary + DA) = 10% of Rs. 14,00,000 = Rs. 1,40,000)	1,40,000
Excess contribution disallowed u/s 40A(9)	60,000

Q25. A business (not speculative) is discontinued on 10th Dec 1988. There was unadjusted business loss of Rs. 35,000 (i.e. Rs. 10,000 of PY 1987-88 & Rs. 25,000 pertaining to the period 1 April 1988 – 10 Dec 1988). On 20th May 2021, assessee recovers a debt of Rs. 48,000 from a debtor which was allowed as bad debt in PY 1987-88 (or may be in some other year). Find out taxable notional profit for PY 2021-22 u/s 41.
Answer:
- Bad debt recovered in PY 2021-22 will be taxable u/s 41(4).
- However, such deemed income can be set off (adjusted) against the ubabsorbed loss of the year of discontinuance.
- Thus, loss of Rs. 25,000 can be set off against such deemed Income.
- Thus, taxable income for PY 2021-22 = Rs. 48,000 – Rs. 25,000 = Rs. 21,000.

It is to be noted that loss of the earlier years of discontinuance cannot be adjusted against such deemed income.

Q26. Hari, an individual, carried on the business of purchase & sale of agricultural commodities like paddy, wheat, etc. He borrowed the following loans & has not paid interest as detailed hereunder: **[New Question]**

- Andhra Pradesh State Financial Corporation (PY 2021-22 & 2022-23): Rs. 15 Lacs.
- Indian Bank (PY 2022-23): Rs. 30 Lacs.

Both APSFC & Indian Bank, while restructuring the loan facilities of Hari during the year 2021-22, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2022, Hari paid 5 installments to APSFC & 3 installments to Indian Bank.

Hari claimed entire interest of Rs. 45 Lacs as an expenditure while computing business income of purchase & sale of agricultural commodities. Examine whether his claim is valid & what is the amount of interest allowable.

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

In this case, unpaid interest of Rs. 15 Lacs due to APSFC & of Rs. 30 Lacs due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest & would not be eligible for deduction in the year of such conversion. Hence, claim of Hari that entire interest of Rs. 45 Lacs is to be allowed as deduction in the year of conversion is not tenable. Deduction shall be allowed only to the extent of repayment made during FY. Accordingly, amount of interest eligible for deduction for AY 2022-23 shall be calculated as follows:

Banks	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable
APSFC	15 lacs	60	25,000	5	1,25,000
Indian Bank	30 lacs	60	50,000	3	1,50,000
Total amount eligible for deduction					**2,75,000**

Q27. An analysis of the P & L A/c & balance sheet of X as on 31.03.2022 reveal that the following expenses which were due, were debited to P&L A/c but have been paid after 31.03.2022.

Service Tax	Rs. 1,00,000	Rs. 80,000 paid on 1.4.2022 & Rs. 20,000 paid on 25.4.2023
Interest on loan taken from PFI	Rs. 80,000	Rs. 70,000 paid on 30.6.2022 & Rs. 10,000 paid on 8.7.2023
Commission to staff	Rs. 40,000	Paid on 1.8.2022
Employer's contribution to ESI	Rs. 15,000	Rs. 10,000 paid on 28.6.2022 & Rs. 5,000 paid on 8.9.2022

Due date of filing ROI is 31.7.2022. In which AYs can the above payments be claimed as a deduction?

Answer:

Nature of Payment	AY 2022-23	AY 2023-24	AY 2024-25
Service Tax	Rs. 80,000	----	Rs. 20,000
Interest on loan taken from PFI	Rs. 70,000 & Rs. 10,000	----	-----
Commission to Staff	----	Rs. 40,000	-----
Employer's contribution to ESI	Rs. 10,000	Rs. 5,000	-----
Total deduction allowed	**Rs. 1,70,000**	**Rs. 45,000**	**Rs. 20,000**

Q28. Mr. X carrying on profession as film artist gives the details of his gross receipts from profession:
(i) PY 2018-19: Rs. 1,15,000; (ii) PY 2019-20: Rs. 1,80,000; (iii) PY 2020-21: Rs. 2,10,000.
Is he required to maintain any books of account u/s. 44AA? If so, what are these books?

Answer: Gross receipts from profession should be > Rs. 1,50,000 in all 3 immediately preceding PYs.

Since in PY 2018-19, GRs has not exceeded Rs. 1,50,000, Mr. X is not required to maintain books of A/cs u/s. 44AA. He will maintain such books of account so as to enable AO to compute his income.

Q29. Mr. Ram is having three businesses. State whether he has to get his books of account audited u/s 44AB?

Particulars	Turnover during PY 2021-22
Business 1	60 Lacs
Business 2	35 Lacs
Business 3 (44AE)	8 Lacs

Answer:

- Though Aggregate turnover of all the three businesses exceeds Rs. 1 Crore, according to Sec 44AE, for the purpose of computing monetary limit, the gross receipts from the business referred to in Sec. 44AE shall be excluded.
- Accordingly, Rs. 8 lacs shall not form part of the computation of limits for the purpose of Sec. 44AB.
- Aggregate turnover of other two businesses is < Rs. 1 Crore (Rs. 95 lacs). Books of A/c of Mr. Ram is not subject to tax audit u/s 44 AB.

Q30. Mr. Ramanshu is an eligible assessee business u/s 44AD. Particulars are as under:

Gross receipt	Rs. 80,00,000
Expenditure deductible u/s 30 to 37	Rs. 76,60,000
Net Profit	Rs. 3,40,000
Deduction u/s 80C	Rs. 1,00,000

Calculate total taxable income if he opts for sec 44AD. Can the assessee claim lower profits.

Answer:

- If an assessee opts for Section 44AD, profit from his business whose turnover does not exceed Rs. 2 crores shall be presumed to be 8% of the turnover.
- Thus, 8% of Rs. 80,00,000 i.e. Rs. 6,40,000 shall be presumed to be his profit from his business & no further deduction shall be allowed to him u/s 30 to 38.
- His total taxable income will be Rs. 5,40,000 (Rs. 6,40,000 - Rs. 1,00,000 80C Deduction) & assessee is not required to maintain books of account.
- However, if the assessee wants to claim the lower profit of Rs. 3,40,000 from PGBP, then he can do so without maintaining the books of accounts as required u/s 44AA & without getting his accounts audited u/s 44AB, since in that case his total taxable income shall be Rs. 2,40,000 (Rs. 3,40,000 - Rs. 1,00,000 80C Deduction) which is < BEL.

Note:

(i) In above case, if deduction was not available to assessee & he wants to claim lower profit, then he is required to maintain the books of accounts & others document referred to in sec 44AA & get his accounts audited u/s 44AB.

(ii) Also, as per the amendment made by the Finance Act, 2016, if Mr. Ramenshu wants to claim profits lower than the presumptive profits within the period of 5 years from the year he was first covered u/s 44AD, then shall not be eligible for claiming presumptive income u/s 44AD for next five A.Y & required to maintain books of A/cs & other document & get his accounts audited in the years in which his total income exceeds the BEL.

Q31. Mr. A, an eligible assessee u/s 44AD whose GR don't exceed Rs. 2 cr in any of AYs bet^{n} AY 2022-23 to AY 2024-25

Particulars	AY 202-23	AY 2023-24	AY 2024-25
Gross receipts	Rs. 1,80,00,000	Rs. 1,90,00,000	Rs. 2,00,00,000
Income offered for taxation	Rs. 14,40,000	Rs. 15,20,000	Rs. 10,00,000
% of gross receipts	8%	8%	5%
Income offered as per 44AD	Yes	Yes	No

- In above case, Mr. A opts for presumptive taxation u/s 44AD for AY 2022-23 & AY 2023-24 & offers income of Rs. 14.40 lacs & Rs. 15.20 lacs on GR of Rs. 1.80 crore & Rs. 1.90 crore respectively.
- However, for AY 2022-23, he offers income of only Rs. 10 lacs on GR of Rs. 2 crores, which amounts to 5% of his GR. He maintains books of accounts u/s 44AA & gets the same audited u/s 44AB.
- Since he has not offered income on presumptive basis as per section 44AD(1) for 5 consecutive AYs after AY 2022-23, he will not be eligible to opt sec. 44AD for next 5 AYs succeeding AY 2023-24 i.e., for AY 2024-25 to AY 2028-29.

Q32. AB & Co. a partnership firm engaged in the manufacturing business has a gross receipt of Rs. 59 Lacs. The partnership deed provides for the salary of Rs. 20,000 p.m to each of the partners A & B. Firm uses machinery for business & WDV of the Machinery as on 1.4.2021 is 2 lacs. Machinery is eligible for depreciation @ 15%. Compute the profits from business for AY 2022-23, if firm opts for scheme u/s 44AD & has received the following amount by A/c payee cheques: (i) 25 Lacs till 31.03.2022; (ii) 6 Lacs b/w 31.3.2022 & 31.7.2022; (iii) 5 Lacs after 31.7.2022.

Answer: As per Sec. 44AD profits will be computed as under:

6% of Gross receipts of 31 Lacs [amount received by A/c Payee Cheque till DD of filing ROI u/s 139(1)]	1,86,000
8% of gross receipts of 28 Lacs [Rs. 59 Lacs – Rs. 31 Lacs]	2,24,000
Total Income as per section 44AD	4,10,000

Note:

(1)No Deduction will be allowed on account of depreciation.

(2)WDV of Machinery for next year shall be taken as Rs.1,70,000 (2,00,000- 15% of 2,00,000) assuming as if depreciation has been allowed.

(3)No deduction shall be allowed on account of salary paid to partners even if it is provided in partnership deed.

Q33. Mr. X commenced the business of operating goods vehicles on 1.4.2021. He purchased the following vehicles during the PY 2021-22. Compute his income u/s 44AE for AY 2022-23.

SN	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021
(6)	15,000	1	23.02.2022

(b) Would your answer change if the goods vehicles purchased in April, 2020 were put to use only in July, 2020?

Answer: Since Mr. X does not own more than 10 vehicles at any time during PY 2020-21, he is eligible to opt for presumptive taxation scheme u/s 44AE.

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

(1) No. of Vehicles	(2) Purchase Date	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2020	8	16
1	23.02.2021	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2020	**12**	**24**
1	15.3.2021	**1**	**1**
3	16.7.2020	**9**	**27**
1	2.1.2021	**3**	**3**
			55

Presumptive income of Mr. X u/s 44AE for AY 2021-22 = Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 x Rs. 1,000 x 15 ton being for heavy goods vehicle.

(b) The answer would remain the same even if the two vehicles purchased in April, 2021 were put to use only in July, 2021, since the presumptive income has to be calculated p.m or part for which vehicle is owned by Mr. X.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31.03.2022:

Opening WDV of P&M	**20 Lacs**
New machinery purchased on 1-9-2021	**10 Lacs**
New machinery purchased on 1-12-2021	**8 Lacs**
Computer purchased on 3-1-2022	**4 Lacs**

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2021 & computer have been installed in the office.
- During PY 2020-21, a new machinery had been purchased on 31.10.2020 for Rs. 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute depreciation available to the assessee & WDV of different blocks of assets as on 31-3-2022.

Answer: Computation of written down value of block of assets of Venus Ltd. as on 31.3.2022

Particulars	P&M (Rs. in lacs)	Computer (Rs.in lacs)
Opening written down value (as on 01.04.2021)	20	Nil
Add: Actual cost of new assets acquired during the year New machinery purchased on 1.9.2021	10	-
Add: New machinery purchased on 1.12.2021	8	-
Add: Computer purchased on 3.1.2022	-	4
Less: Assets sold/discarded/destroyed	Nil	Nil
Closing Written Down Value (as on 31.03.2021)	**38**	**4**

Computation of Depreciation for AY 2022-23

	Particulars	P&M	Computer
I.	**Assets put to use for > 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation & additional depreciation**		
	Normal Depreciation		
	▪ Opening WDV of P&M (Rs. 20 lacs x 15%)	3.00	-
	▪ New Machinery purchased on 1.9.2021 (Rs. 10 lacs x 15%)	1.50	-
	(A)	4.50	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2021 (Rs. 10 lakhs x 20%)	2.00	-
	Balance additional depreciation i.r.o. new machinery purchased on 31.10.2020 & put to use for less than 180 days in PY 2020-21 (Rs. 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
II.	**Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation & additional depreciation, if any**		
	Normal Depreciation		
	New machinery purchased on 1.12.2021 [Rs. 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2022 [Rs. 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	**0.60**	**0.80**
	Total Depreciation (A+B+C)	**8.10**	**0.80**

Notes:

1. As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired &

installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed i.r.o. any office appliances or road transport vehicles & any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed i.r.o. Machinery purchased on 1.12.2021, installed in office & Computer purchased on 3.1.2022, installed in office.

2. Balance additional depreciation@10% on new plant or machinery acquired & put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding PY.

   Hence, in this case, the balance additional depreciation@10% (i.e., Rs. 1 lakhs, being 10% of Rs. 10 lakhs) i.r.o. new machinery which had been purchased during the PY 2020-21 & put to use for less than 180 days in that year can be claimed in PY 2021-22 being immediately succeeding PY.

Q2. Mr. Abhimanyu is engaged in the business of generation & distribution of electric power. He opts to claim depreciation on WDV for income-tax purposes. Compute depreciation for AY 2022-23:

	Particulars	Rs.
(i)	Opening WDV of block (15% rate)	42 Lacs
(ii)	New machinery purchased on 12-10-2021	10 Lacs
(iii)	Machinery imported from Colombo on 12-4-2021. This machine had been used only in Colombo earlier & the assessee is the first user in India.	9 Lacs
(iv)	New computer installed in generation wing unit on 15-7-2021	2 Lacs

All assets were purchased by A/c payee cheque.

Answer: **Computation of depreciation u/s 32 for AY 2022-23**

Particulars	Rs.	Rs.
Normal Depreciation		
Depreciation @ 15% on Rs. 51,00,000, being machinery put to use for more than 180 days [Opening WDV of 42,00,000 + Purchase cost of imported machinery of 9,00,000]	7,65,000	
Depreciation @ 7.5% on Rs. 10,00,000, being new machinery put to use for less than 180 days	75,000	
Depreciation @ 40% on computers purchased 2,00,000	80,000	**9,20,000**
Additional Depreciation (Refer Note below)		
Additional Depreciation @ 10% of 10,00,000 [being actual cost of new machinery purchased on 12-10-2021]	1,00,000	
Additional Depreciation @ 20% on new computer installed in generation wing of the unit [20% of Rs. 2,00,000]	40,000	1,40,000
Depreciation on P&M		**10,60,000**

Note:

Benefit of additional depreciation is available to new P&M acquired & installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired & installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2021, it was put to use < 180 days during the PY, & hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the AY 2022-23. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed i.r.o., inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable i.r.o. imported machinery, since it was used in Colombo, before its installation by assessee.

Q3. Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities while computing profit & gains from business or profession for AY 2022-23.

(a) Construction of school building in compliance with CSR activities amounting to Rs. 5,60,000.

(b) Purchase of building for the purpose of specified business of setting up & operating a warehousing facility for storage of food grains amounting to Rs. 4,50,000.

(c) Interest on loan paid to Mr. X (a resident) Rs. 50,000 on which tax has not been deducted. The sales for the PY 2020-21 was Rs. 202 lakhs. Mr. X has not paid the tax, if any, on such interest.

(d) Commodities transaction tax paid Rs. 20,000 on sale of bullion.

Answer: Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing income from PGBP:

(a) Construction of school building in compliance with CSR activities

U/s 37(1), only expenditure not being in the nature of capital expenditure or personal expense & not covered u/ss 30 to 36, & incurred wholly & 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 Sec. 135 of Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business & hence, shall not be allowed as deduction u/s 37. Accordingly, the amount of Rs. 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction u/s 37.

(b) Purchase of building for setting up & operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction u/s 35AD @100% i.r.o. amount of Rs. 4,50,000 invested in purchase of building for setting up & operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (PY 2021- 22, in this case).

Therefore, the deduction u/s 35AD while computing business income of such specified business would be Rs. 4,50,000, if Mr. Manav opts for section 35AD.

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

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

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

The balance Rs. 35,000 would be allowed as deduction u/s 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(d) Commodities transaction tax of Rs. 20,000 paid on sale of bullion

Commodities transaction tax paid i.r.o. taxable commodities transactions entered into in the course of business during the PY is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed u/h "Profits & 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 Rs. 20,000 paid is allowable as deduction u/s 36(1)(xvi).

Q4. 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:

(a) For a dealer in shares & securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

(b) Where a person follows mercantile system of accounting, an expenditure of Rs. 25,000 has been allowed on accrual basis & in a later year, i.r.o. the said expenditure, assessee makes the payment of Rs. 25,000 through a cheque crossed as "& Co., Rs. 25,000 can be the profits & gains of business u/s 40A(3A) in the year of payment.

(c) It is mandatory to provide for depreciation u/s 32 of the Income-tax Act, 1961, while computing income u/h "Profits & Gains from Business & Profession".

(d) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2020 is a deductible expenditure u/s 36.

(e) U/s 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.

(f) An existing assessee engaged in trading activities, can claim additional depreciation u/s 32(1)(iia) i.r.o. new plant acquired & installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Answer:

(a) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee i.r.o. taxable securities transactions entered into in the course of business during the PY as deduction from the business income of a dealer in shares & securities.

(b) **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 PY on due basis, & payment exceeding Rs. 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, debit card, net banking, IMPS, UPI, RTGS, NEFT, & 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.

(c) **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.

(d) **True:** Section 36(1)(ib) provides deduction i.r.o. 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 u/s 36(1)(ib).

(e) **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.

(f) **False:** Additional depreciation can be claimed only i.r.o. eligible P&M acquired & 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 & the new plant has been acquired & installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation u/s 32(1)(iia).

Q5. Examine, with reasons, the allowability of the following expenses under the Income- tax Act, 1961 while computing income from business or profession for the AY 2022-23:

(a) Provision made on the basis of actuarial valuation for payment of gratuity Rs. 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(b) Purchase of oil seeds of Rs. 50,000 in cash from a farmer on a banking day.

(c) Tax on non-monetary perquisite provided to an employee Rs. 20,000.

(d) Payment of Rs. 50,000 by using credit card for fire insurance.

(e) Salary payment of Rs. 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.

(f) Payment made in cash Rs. 30,000 to a transporter in a day for carriage of goods.

Answer:

(a) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income i.r.o. 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:
   (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;
   (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the PY.

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

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

(b) **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 u/s 40A(3) is attracted even though the cash payment for the expense exceeds Rs. 10,000. Therefore, disallowance u/s 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(c) **Not allowable as deduction:** Income tax of Rs. 20,000 paid by employer i.r.o. non-monetary perquisites provided to its employees is exempt in the hands of the employee u/s 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(d) **Allowable as deduction:** Payment for fire insurance is allowable as deduction u/s 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance u/s 40A(3) is not attracted.

(e) **Not allowable as deduction:** Disallowance u/s 40(a)(iii) is attracted i.r.o. salary payment of Rs. 2,00,000 outside India by a company without deduction of tax at source.

(f) **Allowable as deduction:** The limit for attracting disallowance u/s 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 Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance u/s 40A(3) is not attracted for payment of Rs. 30,000 made in cash to a transporter for carriage of goods.

Q6. Examine with reasons, whether the following statements are true or false:

(a) Payment made i.r.o. a business expenditure incurred on 16th February, 2022 for Rs. 25,000 through a cheque duly crossed as "& Co." is hit by the provisions of section 40A(3).

(b) It is a condition precedent to write off in books of account, amount due from debtor to claim deduction for bad debt.

(c) Failure to deduct tax at source in accordance with the provisions 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.

Answer:

(a) **True.** In order to escape the disallowance specified in section 40A(3), payment i.r.o. the business expenditure ought to have been made through an account payee cheque. Payment through a cheque crossed as "& Co." will attract disallowance u/s 40A(3).

(b) **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 u/s 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 u/s 145(2), without recording the same in the accounts, then, such debt shall be allowed in the PY in which such debt becomes irrecoverable & it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

(c) **True.** Section 40(a)(i) provides that failure to deduct tax at source from rent or royalty payable to a NR will result in disallowance of such expenditure if NR payee has not paid the tax due on such income.

Q7. Mr. Sivam, a retail trader of Cochin gives the following Trading & P&L A/c for AY 2022-23:

Trading & Profit & Loss Account for PY 2021-22

Particulars	Rs.	Particulars	Rs.
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 & 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:

(1) It was found that some stocks were omitted to be included in both the Opening & Closing Stock, the values of which were: Opening stock: Rs. 9,000; Closing stock: Rs. 18,000

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

(3) Whole amount of printing & stationery was paid in cash by way of one-time payment to Mr. Ramesh.

(4) Depreciation provided in the Profit & Loss Account Rs. 1,05,000 was based on the following information:
WDV of P&M is Rs. 4,20,000 as on 01.04.2021. A new plant falling under the same block of depreciation was bought on 01.7.2021 for Rs. 70,000. Two old plants were sold on 1.10.2021 for Rs. 50,000.

(5) Rent & rates includes GST liability of Rs. 3,400 paid on 7.4.2021.

(6) Other general expenses include Rs. 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits & gains of Mr. Sivam under presumptive taxation u/s 44AD & profits & 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 A/c payee cheque during the PY.

Answer: **Computation of business income of Mr. Sivam for AY 2022-23**

Particulars		Rs.	Rs.
Net Profit as per profit & loss account		**50,000**	
Add:	**Inadmissible expenses/losses**		
	Under valuation of closing stock	18,000	
	Salary paid to brother – Unreasonable Disallowed [Section40A(2)]	2,000	
	Printing & stationery - Whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds Rs. 10,000 [Section 40A(3)]	23,200	
	Depreciation (considered separately)	1,05,000	
	Short term capital loss on shares	8,100	
	Donation to public charitable trust	2,000	
Less:	Under valuation of opening stock	9,000	
	Income from UTI [Chargeable u/h "IFOS"]	2,400	
Less:	**Depreciation (See Note 1)**		**(66,000)**
Income u/h PGBP as per the normal provisions of Income Tax Act			**1,30,900**

Computation of business income as per section 44AD: As per section 44AD, where the amount of turnover is received by way of account payee cheque or use of ECS through bank account or prescribed electronic modes, presumptive business income would be 6% of turnover, i.e., Rs. 1,12,11,500 x 6 /100 = Rs. 6,72,690

1) Calculation of depreciation

Particulars	Rs.
WDV of the block of P&M as on 1.4.2021	4,20,000
Add: Cost of new P&M	70,000
Less: Sale proceeds of assets sold	Rs. 50,000
WDV of the block of P&M as on 31.3.2022	4,40,000
Depreciation @ 15%	Rs. 66,000
No additional depreciation as assessee is not engaged in manufacture or production.	

2) Since GST liability has been paid before due date of filing ROI u/s 139(1), the same is deductible.

Q8. 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 & 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 AY 2022-23, taking note of the following data:

Freight charges collected	Rs. 12,70,000
Less: Operational expenses	(Rs. 6,25,000)
Less: Depreciation as per section 32	(Rs. 1,85,000)

Less: Other office expenses	(Rs. 15,000)
Net Profit	**Rs. 4,45,000**
Other business & non- business income	Rs. 70,000

Answer:

- Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages & owns not more than ten goods carriages at any time during the PY.
- Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is Rs. 13,72,500 (See Notes 1 & 2 below) & his total income would be Rs. 14,42,500.
- However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits & gains if he keeps & maintains proper books of account as per section 44AA & gets the same audited & furnishes a report of such audit as required u/s 44AB.
- If he does so, then his income for tax purposes from goods carriages would be Rs. 4,45,000 instead of Rs. 13,72,500 & his total income would be Rs. 5,15,000.

Notes:

1) Computation of total income of Mr. Sukhvinder for AY 2022-23

Particulars	Presumptive income	Where books are maintained
Income from business of plying goods carriages	Rs. 13,72,500	Rs. 4,45,000
Other business & non-business income	Rs. 70,000	Rs. 70,000
Total Income	**Rs. 14,42,500**	**Rs. 5,15,000**

2) Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton p.m.	Ton	Amount
(1)	**(2)**		**(3)**	**(4)**
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout year	12	7,500	-	3,60,000
Total				**13,72,500**

Q9. Mr. Raju, a manufacturer at Chennai, gives following Manufacturing, Trading & P&L A/c for PY 2021-22:

Manufacturing, Trading & Profit & Loss Account for PY 2020-21			
Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock	Rs. 71,000	By Sales	Rs. 2,32,00,000
To Purchase of Raw Materials	Rs. 2,16,99,000	By Closing stock	Rs. 2,00,000
To Manufacturing Wages & Expenses	Rs. 5,70,000		
To Gross Profit	Rs. 10,60,000		
	Rs. 2,34,00,000		**Rs. 2,34,00,000**
To Administrative charges	Rs. 3,26,000	By Gross Profit	Rs. 10,60,000
To SGST penalty	Rs. 5,000	By Dividend from domestic companies	Rs. 15,000
To GST paid	Rs. 1,10,000		
To General Expenses	Rs. 54,000	By Income from agriculture (net)	Rs. 1,80,000
To Interest to Bank (Machinery loan)	Rs. 60,000		
To Depreciation	Rs. 2,00,000		

To Net Profit	**Rs. 5,00,000**		
	Rs. 12,55,000		Rs. 12,55,000

Following are the further information relating to PY 2021-22:

(1) Administrative charges include Rs. 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is Rs. 36,000.

(2) Assessee paid Rs. 33,000 in cash to a transport carrier on 29.12.2021. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)

(3) A sum of Rs. 4,000 per month was paid as salary to a staff throughout the year & this has not been recorded in the books of account.

(4) Bank term loan interest actually paid upto 31.03.2021 was Rs. 20,000 & the balance was paid in November 2022.

(5) Housing loan principal repaid during the PY was Rs. 50,000 & it relates to residential property acquired by him in PY 2020-21 for self-occupation. Interest on housing loan was Rs. 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit & loss account given above.

(6) Depreciation allowable under the Act is to be computed on the basis of following information:

P&M (Depreciation rate @ 15%)	
Opening WDV (as on 01.04.2021)	12,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Note: Ignore additional depreciation u/s 32(1)(iia)

Compute the total income of Mr. Raju for AY 2022-23 assuming he has not opted for the provisions of sec. 115BAC. [Note: Ignore application of section 14A for disallowance of expenditures i.r.o. any exempt incomes]

Answer: **Computation of total income of Mr. Raju for AY 2022-23**

	Particulars	**Rs.**	**Rs.**
1	**Profits & gains of business or profession**		
	Net profit as per profit & loss account	5,00,000	
	Add: Excess commission paid to brother disallowed u/s 40A(2)	10,000	
	Add: Disallowance u/s 40A(3) is not attracted since the limit for one time cash payment is Rs. 35,000 i.r.o. payment to transport operators. Therefore, Rs. 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Add: Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure & hence, is deemed to be income as per section 69C & would be taxable @ 60% u/s 115BBE - No deduction allowable i.r.o. such expenditure) [See Note 1 below]	48,000	
	Add: Bank term loan interest paid after due date of filing ROI u/s 139(1) - disallowed as per section 43B	40,000	
	Add: State GST penalty paid disallowed [See Note 2 below]	5,000	
	Add: Depreciation debited to profit & loss account	2,00,000	
	Less: Dividend from domestic companies [taxable u/h 'IFOS']	(15,000)	
	Less: Income from agriculture [Exempt u/s 10(1)]	(1,80,000)	
	Less: Depreciation under the Income-tax Act, 1961 (As per working note)	(2,25,000)	**3,83,000**
2	**Income from house property**		
	Annual value of self-occupied property	Nil	
	Less: Deduction u/s 24(b) – interest on housing loan	(23,000)	(23,000)
3	**Income from Other Sources**		
	Dividend from domestic companies	15,000	**15,000**
4	**Gross Total Income**		**3,75,000**
	Less: Deduction u/s 80C i.r.o. Principal repayment of housing loan		(50,000)
5	**Total Income**		3,25,000

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

@ 15% on Rs. 14 Lacs (Opening WDV: Rs. 12 Lacs + Assets purchased during PY: Rs. 2 Lacs)	Rs. 2,10,000
@ 7.5% on Rs. 2 Lacs (Assets used for less than 180 days)	Rs. 15,000
Total Depreciation	**2,25,000**

Notes (Alternate views):

(1) It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission & that assessee has offered satisfactory explanation. In such case, it should not be added back as unexplained expenditure, but would be allowable as deduction while computing income u/h 'PGBP'.

(2) Where imposition of penalty is not for delay in payment of sales tax/VAT/GST but for contravention of provisions of the Sales Tax Act/VAT/GST Law, the levy is not compensatory & therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable & that portion which is penal is to be disallowed.

Since the question only mentions "GST penalty paid" & the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory & therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature & hence, allowable as deduction.

Q10. Mr. Tenzingh is engaged in composite business of growing & curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to PY 2021-22 are given below:

Particulars	Rs.
WDV of car as on 1.4.2021	3,00,000
WDV of machinery as on 1.4.2021 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running & maintenance are Rs. 50,000. The machines were used in coffee curing business operations.

(a) Compute the income arising from the above activities for AY 2022-23.

(b) Show the WDV of the assets as on 1.4.2022.

Answer:

- Where an assessee is engaged in the composite business of growing & curing of coffee, income will be segregated between agricultural income & business income, as per Rule 7B.
- As per the above Rule, income derived from sale of coffee grown & cured by the seller in India shall be computed as if it were income derived from business, & 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

	Particulars	Rs.	Rs.	Rs.
1	Sale value of cured coffee			22,00,000
2	Expenses for growing coffee		(3,10,000)	
	Car expenses (80% of Rs. 50,000)		(40,000)	
	Depreciation on car (80% of 15% of Rs. 3,00,000) [See Computation below]		(36,000)	
	Total cost of agricultural operations (a)		**(3,86,000)**	
	Expenditure for coffee curing operations		3,00,000	
	Add: Depreciation on machinery (15% of Rs. 15,00,000) [Computation below]		2,25,000	
	Total cost of the curing operations **(b)**		**5,25,000**	
	Total cost of composite operations **[(a) + (b)]**		**9,11,000**	
3	Total profits from composite activities **[1 – 2] [Rs. 22,00,000 – Rs. 9,11,000]**			**12,89,000**
4	Business income (25% of above)			**3,22,250**
	Agricultural income (75% of above)			**9,66,750**

(b) Computation of WDV of depreciable assets as on 31.3.2021

- Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the PY, the total amount of depreciation shall be computed as if the entire composite income of the assessee (& not just 25%) is chargeable u/h 'PGBP'.
- Depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

	Computation of value of depreciable assets as on 31.3.2021	**Rs.**	**Rs.**	**Rs.**
1	**Car**			
	Opening value as on 1.4.2021		3,00,000	
	Depreciation thereon at 15%	45,000		
	Less: Disallowance @20% for personal use	9,000		
	Depreciation actually allowed		36,000	
	WDV as on 1.4.2022			2,64,000
2	**Machinery**			
	Opening value as on 1.4.2021		15,00,000	
	Less: Depreciation @ 15%		2,25,000	
	WDV as on 1.4.2022			12,75,000

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. Mr. Abhay has furnished the following particulars relating to payments made & expenditure incurred towards scientific research for the year ended 31.3.2022:

SN	Particulars	Rs (in lacs)
(i)	Payments made to an approved Agro Research Association	25
(ii)	Payment made to RR University, an approved University	15
(iii)	Payment made to XY College	17
(iv)	Payment made to IIT, Madras (under approved scientific research)	10
(v)	Machinery purchased for in-house scientific research	20
(vi)	Salaries to research staff engaged in in-house scientific research	14

Compute the deduction available u/s 35 of the Income-tax Act, 1961 for AY 2022-23 while computing his income u/h "Profits & gains of business or profession".

Answer:

Computation of deduction allowable u/s 35 for AY 2022-23

Particulars	Sec.	Ded. (%)	Amount
Payment for scientific research			
Approved Agro Research Association	35(1)(ii)	100%	25
RR University, an approved University	35(1)(ii)	100%	15
XY College **[See Note 1]**	-	Nil	Nil
IIT Madras (under approved programme)	35(2AA)	100%	15
In-house research [See Note 2]			
Capital expenditure - Purchase of Machinery	35(1)(iv) r/w 35(2)	100%	20
Revenue expenditure - Salaries to research staff engaged in in-house scientific research	35(1)(i)	100%	14
Deduction allowable u/s 35			**89 Lacs**

Notes:

(1) **Payment to XY College:** Since question clearly mentions that only Agro Research Association & RR University (mentioned in item (i) & (ii) respectively) are approved research institutions, it is logical to conclude that XY College mentioned in item (iii) is not an approved research institution. Therefore, payment to XY College would not qualify for deduction u/s 35.

(2) **Deduction for in-house research & development:** Only company assessees are entitled to deduction @ 100% u/s 35(2AB) i.r.o. expenditure on scientific research on in-house research & development facility. However, the assessee is an individual.
Therefore, he would be entitled to deduction @ 100% of the revenue expenditure incurred u/s 35(1)(i) & 100% of capital expenditure incurred u/s 35(1)(iv) r/w 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

Nov 18

Q2. Mr. Chauhan is having a trading business & his Trading & P&L A/c for PY 2021-22 is as under:

Particulars	Amount	Particulars	Amount
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	**2,71,00,000**	**Total**	**2,71,00,000**
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to PM Relief Fund	1,00,000		
Provision for bad debts	50,000		

Bonus to employees	50,000		
Interest on bank loan	50,000		
Expenditure on Family Planning of Employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	**20,50,000**	**Total**	**20,50,000**

Other information:

(1) He incurred expenditure on furniture & fixtures of Rs. 35,000, which is paid in cash on 25.07.2021 to M/s Décor World.

(2) Depreciation allowable is Rs. 40,000 [excluding depreciation on furniture & fixtures refer in (1) above] as per Income-tax Rules, 1962.

(3) No deduction of tax at source on payment of interest on bank loan has been made.

(4) Out of salary, Rs. 25,000 pertains to his contributions to RPF which was deposited after the due date of filing return of income. Further, employees' contribution of Rs. 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for AY 2022-23.

Answer:

Computation of Business Income of Mr. Chauhan for AY 2022-23

Particulars	Rs.	Rs.
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
Donation to Prime Minister Relief Fund (Note 1)	1,00,000	
Provision for bad debts (Note 2)	50,000	
Family Planning Expenditure (Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income tax (Note 4)	1,00,000	
Employer's contribution to RPF (Note 5)	25,000	3,25,000
Less: Expense allowed		
Depreciation as per Income-tax Rules, 1962 (Note 6)	(40,000)	
Add: Employee's contribution included in income (Note 7)	25,000	
Business Income		**14,60,000**

Notes:

1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction u/s 80G.
2) Provisions for bad debts is allowable as deduction u/s 36(1)(viia) (subject to specified limits) only in case of banks, public financial institutions, State Financial Corporation & State Industrial Investment Corporation. Therefore, it is not allowable as deduction to Mr. Chauhan.
3) Expenditure on family planning is allowed as deduction u/s 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction to Mr. Chauhan.
4) Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
5) Since Mr. Chauhan's contribution (Employer's Contribution) to RPF is deposited after DD of filing ROI, it is disallowed as per section 43B, in computing business income of AY 2021-22.
6) As per second proviso to section 43(1), the expenditure for acquisition of asset, i.r.o. which payment to a person in a day exceeds Rs. 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding Rs. 10,000 (Rs. 35,000 in this case)

	is made in cash. Therefore, no adjustment is required to be made in depreciation computed as per Income-tax Rules, since such amount does not include depreciation on furniture & fixtures. 7) Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). Deduction for the same is not provided as it was deposited after DD. 8) TDS provisions u/s 194A are not attracted i.r.o. payment of interest on bank loan. Therefore, disallowance u/s 40(a)(ia) is not attracted in this case.
May 19	**Q3.** M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business u/s 44AD provides the following details: Total turnover for PY 2021-22 is Rs. 130 lacs. Out of the above: ▪ Rs. 25 lacs received by A/c payee cheque during PY 2021-22; ▪ Rs. 50 lacs received by cash during PY 2021-22; ▪ Rs. 25 lacs received by A/c payee bank draft before the due date of filing ROI of PY 2021-22; ▪ Rs. 30 lacs not received till due date of filing of return. Compute the amount of deemed profits of M/s ABC u/s 44AD(1) for AY 2022-23. (a) 10.4 lacs (b) 7.0 lacs (c) 5.5 lacs **(d) 9.4 lacs**

Q4. Mr. Jai Prakash commenced the business of operating goods vehicles on 1.4.2020. He purchased the following vehicles during PY 2021-22. Compute his income u/s 44AE.

SN	Gross Vehicle Weight (in kilograms)	Quantity	Date of Purchase
1	8,500	3	11.05.2020
2	9,500	1	16.03.2021
3	10,000	1	21.09.2020
4	11,500	2	12.01.2021
5	15,000	1	21.07.2020
6	15,000	2	23.01.2021

What if the goods vehicles purchased in Jan 2022 were put to use only in July, 2022?

Answer:

- Heavy goods vehicle means any goods carriage whose gross vehicle weight > 12,000 kg.
- Since Mr. Jai Prakash does not own more than 10 vehicles at any time during PY 2021-22, he is eligible to opt for presumptive taxation scheme u/s 44AE.
- Rs. 1,000 per ton of gross vehicle weight per month (or part) for each heavy goods vehicle &
- Rs. 7,500 per month (or part) for each goods carriage other than heavy goods vehicle, owned by him.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
1	21.07.2021	9	9
2	23.01.2022	3	6
			15
For goods vehicle other than heavy goods vehicle			
3	11.5.2021	11	33
1	16.3.2022	1	1
1	21.9.2021	7	7
2	12.1.2022	3	6
			47

- Presumptive income of Mr. Jai Prakash u/s 44AE for AY 2022-23 = Rs. 5,77,500 [Rs. 3,52,500 (47 × Rs. 7,500, being for other than heavy goods vehicle) + Rs. 2,25,000 (15 x Rs. 1,000 x 15 ton, being for heavy goods vehicle).

- Answer would remain the same even if the two vehicles purchased in January, 2022 were put to use only in July 2022, since the presumptive income has to be calculated per month or part of the month **for which the vehicle is owned by Mr. Jai Prakash.**

Nov 19

Q5. Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of Andhra Pradesh on 18th May, 2021. Following machineries (15% block) purchased by him during PY 2021-22.

SN	Particulars	Amount
(i)	Machinery X, Machinery Y & Machinery Z from Sahaj Limited on credit (installed & usage started on 18th July 2021, 25th July 2021 & 1st August 2021, respectively). Payment is made on 15th April 2022 to Sahaj Limited by net banking.	58 Lacs
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2021). The Invoice was paid through a cash payment on the same day.	35 Lacs
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December 2021 (Payment for purchase invoice was made through NEFT on 5th Jan 2022)	15 Lacs

Compute the depreciation allowance u/s 32 of the Income-tax Act, 1961 for AY 2022-23.

Answer:

Computation of depreciation u/s 32 for AY 2022-23

Particulars		Amount
Machinery X, Machinery Y & Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @ 15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash & installed on 8.8.2021 [Since payment of Rs. 35 lacs is made otherwise than by A/c payee cheque/bank draft or use of ECS, said amount will not be included in actual cost & hence no depreciation]		Nil
Second hand Machinery M from Sunshine Ltd on 18.12.2021 assuming it is installed & put to use in PY 2021-22. [Since payment is made to Sunshine Ltd by ECS]		15,00,000
Actual Cost		**73,00,000**
Depreciation for PY 2021-22		
Depreciation @ 15% on Machinery X, Y & Z on Rs. 58 lacs	8,70,000	
Depreciation @ 7.5% (50% of 15%) on Rs. 15 lacs for Machinery M since it is put to use for less than 180 days	1,12,500	9,82,500
Additional Depreciation @ 20% on Rs. 58 lakhs, since the machinery is acquired & installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh		11,60,000
Additional depreciation is not allowable on 2nd hand machinery	-	Nil
Depreciation u/s 32 for AY 2022-23		**21,42,500**

May 20

Q6. Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25.09.2021, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	**19,20,000**

He put his car to use from 25.9.2021 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using car immediately after purchase.

Determine the depreciation allowable on car for the AY 2022-23, if this is the only asset in the block. If this car would also be used in the subsequent AY 2023-24 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

	Answer: Computation of depreciation allowance Since the car was put to use for more than 180 days in the P.Y.2020-21, full depreciation@30% (higher rate of depreciation is allowable on the actual cost, since car is purchased during the period 23.8.2020 to 31.3.2021] of Rs. 19,20,000, which is the total price (inclusive of GST) would be allowable. However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable **Depreciation for PY 2020-21 = 30% x Rs. 19,20,000 x 75% = Rs. 4,32,000.** **Written Down Value as on 1.4.2021 = Rs. 19,20,000 – Rs.4,32,000 = Rs.14,88,000.** **Depreciation for PY 2021-22 = 30% x Rs.14,88,000 x 75% = Rs. 3,34,800.** **PC Note:** As per section 17(5), ITC would not be available i.r.o. motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the taxable supplies, namely, further supply of such motor vehicles; or transportation of passengers; or imparting training on driving such motor vehicles. Since Dr. Arjun used the car for his professional purpose and not for any purpose stated in exception cases, ITC would not be available & hence, both CGST & SGST would form part of actual cost of car.
Nov 20	**No Direct Question was asked. It has been updated in Total Computation.**
May 21	**No Direct Question was asked. It has been updated in Total Computation.**
Nov 21	**No Direct Question was asked. It has been updated in Total Computation.**

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15	**No Direct Question was asked.**
N15	**Q1.** State with reasons, the allowability of following expenses incurred by MN Limited, a wholesale dealer of commodities, under the Income Tax Act, 1961 while computing PGBP Income for AY 2022-23. (i) Construction of school building in compliance with CSR activities amounting to 5,60,000. (ii) Purchase of building for setting up 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. (iv) Commodity transaction tax paid 20,000 on sale of bullion. **Answer:** (i) Expenses relating to CSR shall not be allowed as deduction as per Explanation 2 to section 37(1). (ii) 100% of capital expenses is allowed as deduction u/s 35 AD. Thus, 100% of 4,50,000 will be allowed as deduction. (iii) For any payment to a resident on which tax is deductible but tax has not been deducted, 30% of expenditure will be disallowed u/s 40(a)(ia). So allowable deduction is 70% of 50,000 = 35,000 & balance 15,000 will be disallowed. (iv) Commodities transaction tax of 20,000 is allowed as deduction since assessee is a commodity dealer.
M16	**Q2.** Venus Ltd., engaged in manufacture of pesticides, furnishes following particulars relating to its manufacturing unit at Chennai (for year ending 31.3.2022)

Particulars	Amount (In lac)
Opening WDV of P&M	20
New machinery purchased on 1.9.2021	10
New car purchased on 1.12.2021	8
Computer purchased on 3.1.2022	4

Additional information:
- All assets were put to use immediately.
- Computer has been installed in the office.
- During the year ended 31-3-2021, a new machinery had been purchased on 31-10-2020, for 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute depreciation available to assessee as per provisions of Income-tax Act, 1961 & the WDV of different blocks of assets as on 31.3.2022.

Answer: **Computation of depreciation for AY 2022-23**

Block 1 (P&M 15%)

Particulars	Amount	Amount
Opening WDV as on 1.4.2021		20,00,000
Add: New assets acquired during the year		
— used for 180 days or more	10,00,000	
— used for less than 180 days	8,00,000	18,00,000
WDV as on 31.3.2022 on which depreciation is to be claimed		38,00,000
Depreciation @ 15% on 30,00,000 (Opening WDV 20,00,000 + addition 10,00,000)	4,50,000	
Depreciation @ 7.5% on 8,00,000	60,000	
Additional depreciation on machinery acquired during year 20% of 10,00,000	2,00,000	
Additional depreciation on new machinery purchased during 2020-21 as only 50% would have been allowed in that year (50% of 2,00,000)	1,00,000	8,10,000
WDV as on 1.4.2022		29,90,000
Additional depreciation on car is not allowed		

Block 2 (P&M 40%)

Particulars	Amount
Opening WDV	Nil
Add: New assets acquired during the year	
— used for less than 180 days	4,00,000
WDV on which depreciation is to be claimed	4,00,000
Depreciation @ 50% of (40% of 4,00,000)	80,000
WDV on 31.3.2022	3,20,000

Note: Additional depreciation is not allowed as computer has been installed in office.

N16

Q3. Mr. Kamal grows paddy & uses same for purpose of manufacturing of rice in his own Rice Mill. Cost of cultivation of 40% of paddy produce is 7,00,000 which is sold for 15,00,000; & cost of cultivation of balance 60% of paddy is 12,00,000 & market value of such paddy is 24,00,000. To manufacture rice, he incurred 2,00,000 in manufacturing process on the balance (60%) paddy. The rice was sold for 30,00,000.

Compute Business income & Agriculture Income of Mr. Kamal.

Answer: **Computation of Business Income & Agriculture Income of Mr. Kamal**

Particulars	Amount	Amount
Business income from sale of rice:		
Sale Proceeds of Rice		30,00,000
Less: Market Value of paddy (60%)	(24,00,000)	
Less: Manufacturing expenses	(2,00,000)	(26,00,000)
		4,00,000
Agricultural Income:		
Market value of paddy used for manufacturing rice (60%)	24,00,000	

	Less: Cost of cultivation — (12,00,000) — 12,00,000

Particulars		
Less: Cost of cultivation	(12,00,000)	12,00,000
Sale of Paddy		
Sale proceeds of 40% paddy produce	15,00,000	
Less: Cost of cultivation	(7,00,000)	8,00,000
		20,00,000

M17	**No Direct Question was asked.**
N17	**No Direct Question was asked.**
M18	**No Direct Question was asked.**
N18	**Q4.** Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in city only on alternate days.

He has purchased a car on 21.9.2021, for purpose of his business as per following details:

Particulars	Amount
Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates usage of car for personal purposes will be 25%.
He is advised that since car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed.
He has started using car immediately after purchase.
Determine depreciation allowable on car for AY 2022-23, if this is the only asset in the block. Rate of depreciation may be taken at 15%
If this car were to be used in subsequent AY 2023-24 on same terms & conditions above, what will be the depreciation allowable? Assume that there is no change in legal position under Income-Tax Act, 1961.

Answer: **Computation of depreciation for AY 2022-23**

Particulars	**Amount**
Opening WDV of block as on 1.4.2021	Nil
Add: Actual cost of asset purchased & put to use during the year	15,36,000
Less: Depreciation @ 15% as asset has been put to use for more than 180 days	(2,30,400)
WDV of block as on 31.03.2022	13,05,600
Depreciation allowable as deduction to Mr. Rangamannar in his business [75% of total depreciation] [Refer Note 2]	1,72,800

Computation of depreciation for the AY 2023-24

Particulars	**Amount**
Opening WDV of block on 1.4.2022	13,05,600
Add: Actual cost of asset purchased & put to use during year	—
Less: Depreciation @ 15% as asset has been put to use for more than 180 days	1,95,840
Closing WDV of block as on 31.03.2023	11,09,760
Depreciation allowable as deduction to Mr. Rangamannar in his business [75% of total depreciation] [Refer Note 2]	1,46,880

Notes:

(i) As per section 32, depreciation is allowable once asset has been put to use in business of assesse. Usage of asset on daily/altemate day basis, would not have any impact on mechanism to compute depreciation.

(ii) As per section 38(2), where any P&M has not been used by assessee exclusively for purpose of his business, then deduction on A/c of depreciation shall be allowed proportionately. Accordingly, in present case, as motor vehicle in gross block is used partly for business & partly for personal use of Mr. Rangamannar, depreciation only to extent of 75% (proportion being used for business purposes) shall be allowed as deduction.

M19 — **No Direct Question was asked.**

N19

Q5. Mr. Prakash is in the business of operating goods vehicles. As on 1.4.2021, he had following vehicles:

Vehicle	Gross Vehicle Weight (Kgs)	Date of Purchase	Put to use during FY 2021-22
A	8500	2.4.2020	Yes
B	13000	15.5.2020	Yes
C	12000	4.8.2020	No (as under repairs)

During PY 2021-22, he purchased following vehicles:

Vehicle	Gross Vehicle Weight (Kgs)	Date of Purchase	Date on which put to use
D	11000	30.4.2021	10.5.2021
E	15000	15.5.2021	18.5.2021

Compute his income u/s 44 AE of the Income Tax Act, 1961 for AY 2022-23.

Answer:

Since Mr. Prakash does not own more than 10 vehicles at any time during PY 2021-22, he is eligible to opt for presumptive taxation scheme u/s 44AE. 1,000 per ton of gross vehicle weight or unladen weight p.m. or part of the month for each heavy goods vehicle & 7,500 p.m. or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits & gains from such goods carriage.

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

(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Name of Vehicles	**Date of purchase**	**No. of months for which vehicle is owned**	**Gross vehicle weight (Kgs)**	**Presumptive income**	**Total taxable presumptive income**
For Heavy goods vehicle:					
B	15.5.2020	12	13,000	1,56,000 (13 x 1,000 x 12)	1,56,000
E	15.5.2021	11	15,000	1,65,000 (15 x 1,000 x 11)	1,65,000
For goods vehicle other than heavy goods vehicle:					
A	2.4.2020	12	8,500	90,000 (7,500 x 12)	90,000
C	4.8.2020	12	12,000	90,000 (7,500 x 12)	90,000
D	30.4.2021	12	11,000	90,000 (7,500 x 12)	90,000
Total					**5,91,000**

CHAPTER 6. CAPITAL GAINS

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. How will you calculate the period of holding in case of the following assets?
(a) Shares held in a company in liquidation
(b) Bonus shares
(c) Flat in a co-operative society

Answer:

(a) **Shares held in a company in liquidation -** The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, period of holding shall commence from the date of acquisition & end with the date on which the company goes into liquidation.
(b) **Bonus shares - The period of holding shall be reckoned from the date of allotment of bonus shares & will end with the date of transfer.**
(c) **Flat in a co-operative society -** The period of holding shall be reckoned from the date of allotment of shares in the society & will end with the date of transfer.
Note: Any **transaction** whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a 'transfer' as per section 2(47)(vi).
Hence, it is possible to take a view that any date from which such right is obtained may be taken as DOA.

Q2. A is the owner of a car. On 1-4-2021, he starts a business of purchase & sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2022 & gets a profit of 1 lakh. Discuss the tax implication in his hands u/ h "Capital gains".

Answer: Since car is a personal asset, conversion or treatment of the same as the stock-in- trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

Q3. X converts his capital asset (acquired on June 10, 2003 for Rs. 60,000) into stock-in-trade on 10.3.2021. Fair market value on the date of conversion was Rs. 5,50,000. He subsequently sells the stock-in-trade so converted for Rs. 6,00,000 on 10.6.2021. Discuss the year of chargeability of capital gain.

Answer: Since the capital asset is converted into stock-in-trade during the PY relevant to the AY 2021-22, it will be a transfer u/s 2(47) during PY 2020-21. However, profits or gains arising from the above conversion will be chargeable to tax during the AY 2022-23, since the stock-in-trade has been sold only on 10.6.2021. For this purpose, the fair market value on the date of such conversion (i.e. 10.3. 2021) will be the full value of consideration.

Q4. M held 2000 shares in a company ABC Ltd. This company amalgamated with another company during the PY ending 31-3-2022. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs. 50,000 than the value of holding in ABC Ltd. AO proposes to treat the transaction as an exchange & to tax Rs. 50,000 as capital gain. Is he justified?

Answer: Assuming that amalgamated company is an Indian company, transaction is squarely covered by the exemption explained above & proposal of AO to treat the transaction as a transfer is not justified.

Q5. In which of the following situations capital gains tax liability does not arise?
(a) Mr. A purchased gold in 1970 for Rs. 25,000. In the PY 2021-22, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs. 1,00,000.
(b) A house property is purchased by a HUF in 1945 for Rs. 20,000. It is given to one of the family members in PY 2021-22 at the time of partition of the family. FMV on the day of partition was Rs. 12,00,000.
(c) Mr. B purchased Rs. 50 convertible debentures for Rs. 40,000 in 1995 which are converted into 500 shares worth Rs. 85,000 in November 2021 by the company.

Answer: We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:
(a) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise.
(b) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of

HUF is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise.

(c) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise.

Q6. Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly instalments. Mr. Abhishek did not repay the loan on maturity & hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain (LTCG) be on such reverse mortgage transaction?

Answer: Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made & notified by CG shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in instalment, in a transaction of reverse mortgagewould be exempt from income-tax. Therefore, the monthly instalment amounts received by Mr. Abhishek would not be taxable.

Q7. Examine, with reasons, whether the following statements are True or False.

(a) Alienation of a residential house in a transaction of reverse mortgage under a scheme made & notified by the CG is treated as "transfer" for the purpose of capital gains.

(b) Zero coupon bonds of eligible corporation, held for 14 months, will be long- term capital assets.

(c) ZCB means bond on which no payment & benefit are received/receivable before maturity/redemption.

Answer:

(a) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made & notified by the CG is not regarded as "transfer" for the purpose of capital gains.

(b) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

(c) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company, or Scheduled Bank on or after 1st June 2005, i.r.o. which no payment & benefit is received or receivable before maturity or redemption from such issuing entity & which the CG may notify in this behalf.

Q8. Mr. A converts his capital asset acquired for an amount of Rs. 50,000 in June, 2003 into stock-in-trade in November, 2019. FMV of the asset on the date of conversion is Rs. 4,50,000. The stock-in-trade was sold for an amount of Rs. 6,50,000 in September, 2021. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2019-20	289

Answer: The capital gains on the sale of the capital asset converted to stock-in-trade is taxablein the given case. It arises in the year of conversion (i.e. PY 2019-20) but will be taxable only in the year in which the stock-in-trade is sold (i.e. PY 2021-22). Profits from business will also be taxable in the year of sale of the stock-in-trade (PY 2021-22).

Long-term capital gains & business income for the AY 2022-23 are calculated as under:

	Particulars	Rs.	Rs.
A	**Profits & Gains from Business or Profession**		
	Sale proceeds of the stock-in-trade	Rs. 6,50,000	
	Less: Cost of the stock-in-trade (FMV on the date of conversion)	Rs. 4,50,000	Rs. 2,00,000
B	**Long Term Capital Gains**		
	Full value of the consideration (FMV on the date of the conversion)	Rs. 4,50,000	
	Less: Indexed cost of acquisition (Rs. 50,000 x 289/109)	Rs. 1,32,569	Rs. 3,17,431

Note: For the purpose of indexation, CII of PY of conversion of asset into stock-in-trade is considered.

Q9. Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2020. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for PY 2020-21 was Rs. 8,50,000. Three of the old machines were sold on 10th June, 2021 for Rs. 11,00,000. A second-hand plant was bought for Rs. 8,50,000 on 30th November, 2021.

You are required to:

(a) Determine the claim of depreciation for AY 2022-23.

(b) Compute the capital gains liable to tax for AY 2022-23.

(c) If Singhania & Co. had sold three machines in June, 2021 for 21,00,000, will there be any difference in your above workings? Explain.

Answer:

(a) Computation of depreciation for AY 2022-23	
Particulars	**Rs.**
W.D.V. of the block as on 1.4.2021	Rs. 8,50,000
Add: Purchase of second-hand plant during the year	Rs. 8,50,000
Less: Sale consideration of old machinery during the year	(Rs. 11,00,000)
W.D.V of the block as on 31.03.2022	Rs. 6,00,000

Since the value of the block as on 31.3.2022 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7.5%. Therefore, depreciation allowable for the year is Rs. 45,000 (7.5% of Rs. 6,00,000).

(b) Provisions of section 50 for computation of capital gains in case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

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

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

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

(c) If 3 machines are sold in June 20201 for Rs. 21,00,000, then STCG would arise, since the sale consideration is more than aggregate of WDV of the block at the beginning of the year & additions made during the PY.

Particulars		
Sale consideration		Rs. 21,00,000
Less: W.D.V. of the machines as on 1.4.2021	Rs. 8,50,000	
Purchase of second plant during the year	Rs. 8,50,000	Rs. 17,00,000
Short term capital gains		Rs. 4,00,000

Q10. Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2021 his Unit 1 by way of slump sale for a total consideration of 25 lacs. FMV of unit on 1.4.2021 is 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were Rs. 28,000. His Balance Sheet as on 31.3.2021 is as under:

Liabilities	**Total**	**Assets**	**Unit 1 (U1)**	**Unit 2 (U2)**	**Total**
Own Capital	Rs.15,00,000	Building	Rs.12,00,000	Rs. 2,00,000	Rs. 14,00,000
Revaluation Reserve (for building of unit 1)	Rs. 3,00,000	Machinery	Rs. 3,00,000	Rs. 1,00,000	Rs. 4,00,000
Bank loan (70% for U1)	Rs. 2,00,000	Debtors	Rs. 1,00,000	Rs. 40,000	Rs. 1,40,000
Creditors (25% for U1)	Rs. 1,50,000	Other assets	Rs. 1,50,000	Rs. 60,000	Rs. 2,10,000
Total	Rs.**21,50,000**	**Total**	Rs.**17,50,000**	Rs. **4,00,000**	Rs. **21,50,000**

Other information:

Revaluation reserve is created by revising upward the value of the building of Unit 1.

- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2019 for Rs. 50,000 on which no depreciation has charged.

Compute the capital gain for AY 2022-23.

Answer: **Computation of capital gains on slump sale of Unit 1**

Particulars	Rs.
Sale value (FMV on 1.4.2021)	Rs. 30,00,000
Less: Expenses on sale	Rs. 28,000
Net sale consideration	Rs. 29,72,000
Less: Net worth (See Note 1 below)	Rs. 12,50,625
Long-term capital gain	Rs. 17,21,375

Notes:

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

Particulars	Rs.	Rs.
Building (excluding Rs. 3 Lacs on account of revaluation)		Rs. 9,00,000
Machinery		Rs. 3,00,000
Debtors		Rs. 1,00,000
Patents (See Note 2 below)		Rs. 28,125
Other assets (Rs. 1,50,000 – Rs. 50,000)		Rs. 1,00,000
Total assets		Rs. 14,28,125
Less: Creditors (25% of Rs. 1,50,000)	Rs. 37,500	
Bank Loan (70% of Rs. 2,00,000)	Rs. 1,40,000	Rs. 1,77,500
Net worth		Rs. 12,50,625

2. **WDV of patents as on 1.4.2021**

Value of patents	Rs.
Cost as on 1.7.2019	Rs. 50,000
Less: Depreciation @ 25% for FY 2019-20	Rs. 12,500
WDV as on 1.4.2020	Rs. 37,500
Less: Depreciation for FY 2020-21	Rs. 9,375
WDV as on 1.4.2021	Rs. 28,125

For the purposes of computation of net worth, WDV has to be considered in case of depreciable assets.

Problem has been solved assuming that the Balance Sheet values of Rs. 3 lacs & Rs. 9 lacs (Rs. 12 lacs - Rs. 3 lacs) represent the WDV of machinery & building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be LTCG. Indexation is not available.

Q11. Mr. Cee purchased a residential house on July 20, 2019 for Rs. 10,00,000 & made some additions to the house incurring Rs. 2,00,000 in August 2019. He sold the house property in April 2021 for Rs. 20,00,000. Out of the sale proceeds, he spent Rs. 5,00,000 to purchase another house property in September 2021.

What is the amount of capital gains taxable in the hands of Mr. Cee for AY 2022-23?

Answer: House is sold before 24 months from the date of purchase. Hence, it is a STCA & & no indexation.

Particulars	Rs.
Sale consideration	Rs. 20,00,000
Less: Cost of acquisition	Rs. 10,00,000
Cost of improvement	Rs. 2,00,000
STCG	Rs. 8,00,000

Note: Exemption u/s 54 is available only in case of LTCA. As house is STCA, exemption u/s 54 is not available.

Q12. LTCG of Rs. 75 lacs arising from transfer of building on 1.5.2021 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI u/s 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Act.

Answer:

False: Exemption u/s 54 EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by CG in this behalf, redeemable after 5 years) to 50 lakh, whether such investment is made during the relevant PY or the subsequent PY, or both. Therefore, in this case, the exemption u/s 54EC can be availed only to the extent of Rs. 50 lacs, provided the investment is made before 1.11.2021 (i.e., within six months from the date of transfer)

Q13. Calculate the income-tax liability for AY 2022-23 in the following cases:

	Mr. A (age 45)	**Mrs. B (age 62)**	**Mr. C (age 81)**	**Mr. D (age 82)**
Status	Resident	NR	Resident	NR
Total income other than LTCG	2,40,000	2,80,000	5,90,000	4,80,000
LTCG	15,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale & purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

Note: Assume that Mr. A, Mrs. B, Mr. C and Mr. D do not opt for section 115BAC.

Answer: **Computation of income-tax liability for the AY 2022-23**

Particulars	**Mr. A (age 45)**	**Mrs. B (age 62)**	**Mr. C (age 81)**	**Mr. D (age 82)**
Residential Status	Resident	NR	Resident	NR
Basic exemption limit	2,50,000	2,50,000	5,00,000	2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on sale & purchase of shares)	Rural agricultural land	Nil
LTCG	15,000 (Taxable @ 20% u/s 112)	10,000 (Exempt u/s 112A since it is less than 1,00,000)	60,000 (Exempt as not a capital asset)	Nil
Other income	2,40,000	2,80,000	5,90,000	4,80,000
Tax liability				
▪ **On LTCG**	1,000	-	-	-
▪ **On Other Income**	-	1,500	18,000	11,500
Total Tax	**1,000**	**1,500**	**18,000**	**11,500**
Less: Rebate u/s 87A	1,000	-	-	-
Tax Payable	**Nil**	**1,500**	**18,000**	**11,500**
Add: HEC @ 4%	Nil	60	720	460
Total tax liability	**Nil**	**1,560**	**18,720**	**11,960**

Notes:

1. Since Mrs. B and Mr. D are NR, they cannot avail the higher basic exemption limit of 3 Lacs & 5 Lacs for persons over the age of 60 years and 80 years, respectively.
2. Since Mr. A is a resident whose total income does not exceed 5 Lacs, he is eligible for rebate of 12,500 or the actual tax payable, whichever is lower, under section 87A.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Discuss the Tax treatment in the following cases: [CA - Capital Asset & SIT - Stock in Trade]

Cases	Whether Capital Asset or not ?
Sale of Flats by a construction company	Not a CA since flat is a SIT for construction company.
Sale of Flats held by Mr. X as an investment	CA since Mr. X has held it as an investment.
Sale of Securities in Indian Company held by FIIs as investment	CA since specifically included in definition of Capital Asset u/s sec 2(14).
Sale of Securities in Indian Company held by FIIs as SIT	CA since specifically included in definition of Capital Asset u/s sec 2(14) even if held as SIT.
Sale of car by Mr. AC for Rs. 10 lacs which was used for his business purpose	CA used for business is not excluded u/s 2(14) & thus it is a CA.
Sale of Personal Jewels (Diamond) for Rs. 3 cr	CA since it is included u/s 2(14) even if movable PE.
Sale of Painting by Miss Jacqueline for Rs. 10 cr	CA since it is included u/s 2(14) even if movable PE.
House property used for personal purpose	CA since PE does not include immovable property.
Agricultural Land situated in Urban Area	Capital Asset
Non-Agricultural Land situated in Rural Area	Capital Asset
Agricultural Land situated in Rural Area used for non-agricultural purpose permanently	Capital Asset
Rural Agricultural land used permanently for agricultural purpose situated in Europe	Capital Asset since situated Outside India.

Q2. Determine which of the lands will be Capital Assets:

Land	Population	Shortest aerial Distance	Rural Land?	CA?
A	9,000	1 km	Yes	No
B	12,000	1.5 kms	No	Yes
C	11,00,000	2 kms	No	Yes
D	80,000	3 kms	Yes	No
E	3,00,000	4 kms	No	Yes
F	12,00,000	5 kms	No	Yes
G	8,000	6 kms	Yes	No
H	4,00,000	7 kms	Yes	No
I	10,50,000	8 kms	No	Yes
J	15,00,000	9 kms	Yes	No

Q3. During PY 2021-22, Mr. Ramesh sells the following capital assets: **[Contains V. IMP Amendment]**

Capital Assets	Sold for	COA	Date of Acquisition	FMV on 1.04.2001	SDV on 1.04.2001
Land	50,00,000	10,00,000	31.05.1999	14,00,000	12,00,000
Gold	12,00,000	5,00,000	1.04.2010	NA	NA
Debenture (Listed)	3,50,000	90,000	12.09.1999	80,000	NA

Compute the taxable Capital Gains for AY 2022-23. [CII: FY 2007-08: 129; FY 2021-22: 317]

Answer:

Particulars	Land	Gold	Listed Debentures
Full Value of Consideration	50,00,000	12,00,000	3,50,000
Less: COA/Indexed COA	(38,04,000) [12L × 317/100] (Note 1)	(12,28,682) [5L × 317/129]	(90,000) (Note 2)
LTCG/(LTCL)	11,96,000	(28,682)	2,60,000

Note:

1. Since FMV on 1.4.2001 > Original COA, FMV is taken as COA for computing Capital Gain.
   However, in case of capital asset, being Land or building or both, FMV of such asset on 1.04.2001 shall not exceed

SDV of such asset as on 1.4.2001. Since FMV on 1.04.2001 > SDV on 1.04.2001, COA = SDV on 1.4.2001.

2. No indexation is allowed in case of debentures. Since COA > FMV on 1.4.2001, option will not be exercised.

Q4. Mr. PC purchases a HP for Rs. 1,06,000 on 15th May 1995. The following expenses are incurred by him for making addition/alternation to the HP:

Cost of construction of first floor in 1997-98	Rs. 3,10,000
Cost of construction of second floor in 2002-03	Rs. 7,35,000
Reconstruction of the property in PY 2019-20	Rs. 5,50,000

FMV of the property on 1.4.2001 is Rs. 8,50,000. House property is sold by Mr. PC on 10th August 2021 for Rs. 68 lacs. Expenses incurred on transfer: Rs. 50,000. Compute the Capital Gain for AY 2022-23.
[CII: FY 2002-03: 105; 2019-20: 289; FY 2021-22: 317]

Answer: **Computation of capital gain of Mr. C for AY 2022-23**

Particulars	Rs.	Rs.
Gross Sale Consideration	68,00,000	
Less: Expenses on transfer	(50,000)	
Net sale consideration		**67,50,000**
Less: Indexed COA [Rs. 8,50,000 × 317/100]		(26,94,500)
Less: Indexed COI		
(i) Construction of 1st Floor in 1997-98 → Ignored Since incurred before 1.4.2001 (ii) Construction of 2nd floor in 2002-03 → (Rs. 7,35,000 × 317/105) (iii) Alternation/reconstruction in 2019-20 → (Rs. 5,50,000 × 317/289)	(Nil) (22,19,000) (6,03,287)	(28,22,287)
LTCG		**12,33,213**

Q5. Miss Disha transferred a house to her friend Ms. Teju for Rs. 40 lacs on 1.11.2021. The sub-registrar valued the house @ Rs. 50 Lacs. Miss Disha contested the valuation & matter was referred to divisional revenue officer who valued the house @ Rs. 45 lacs. Ms. Disha had purchased the house on 15th May, 2011 for Rs. 20 lacs & registration expenses were Rs. 2,00,000. [CII: FY 2011-12: 184; FY 2021-22: 317]

Answer: **Computation of Capital Gain in the hands of Miss Disha for AY 2022-23**

Full Value of Consideration [Refer Note Below]	45,00,000
Less: Cost of acquisition [(20 Lacs + 2 Lacs) × 317/184]	(37,90,217)
LTCG – Taxable @ 20%	**7,09,783**

Note:
1. If Value by VO > Actual Sale Consideration but < SDV, then FVC = Value by Valuation officer.
2. Registration expenses paid at the time of purchase shall be added to cost of acquisition of asset.

Q6. A house was purchased on 1.05.2001 for Rs. 2 Lacs & was used as a residence by Mr. Lalla. Mr. Lalla had contracted to sell this property in June 2012 for Rs. 8 lacs to Miss. Shona & received an advance of Rs. 50,000 towards sale. The deal was not finalized & hence the amount was forfeited by Mr. Lalla on 15.08.2012. He again contracted to sell this property & received an advance on 24.02.2015. However, this deal was also not finalized & hence the amount was forfeited on 30.04.2015. The property was sold in June 2021 to Miss. Jina for Rs. 10 Lacs. Mr. Lalla paid 2% brokerage on sale of the house. Calculate capital gains. [CII: FY 2001-02: 100; FY 2021-22: 317]

Answer: **Computation of Capital Gain in the hands of Mr. Lalla for AY 2022-23**

Full Value of consideration	10,00,000
Less: Expenses on transfer [Brokerage @ 2% of Sale Value]	(20,000)
Net Sale Consideration	**9,80,000**
Less: (Cost of acquisition - Forfeited Advance) = [(2L – 50,000) × 317/100]	(4,75,500)
LTCG	**5,04,500**

Note: Advance forfeited on or after 1.4.2014 shall be taxed u/h "IFOS" u/s 56(2)(ix).

Q7. Mr. Raj owns a House purchased by him on 1.5.1999 for Rs. 5 lacs. House was destroyed by fire on 3.4.2021 & Mr. Raj received Rs. 50 lacs on 5.5.2022 from the Insurance Company. FMV of house on 1.4.2001 = Rs. 12 lacs. SDV on 3.4.2021 = Rs. 60 lacs & SDV on 1.04.2001 = Rs. 15 Lacs. Calculate Capital Gain of Mr. Raj for AY 2022-23.

Answer: POH: 1.5.1999 – 3.4.2021 > 24 Months & Thus, it is a LTCA & Indexation will be available.

Sale Consideration [Insurance compensation as per section 45(1A)]		50,00,000
Less: Indexed COA [Rs. 12,00,000 × 317/100]	[Refer Note 1 & 2]	38,04,000
LTCG		**11,96,000**

Note:
1. In case of deemed sale u/s 45(1A), SDV on the date of sale is not relevant.
2. Since FMV on 1.4.2001 > Actual COA, FMV on 1.4.2001 shall be taken as COA. Since FMV on 1.4.2001 does not exceeds SDV on 1.04.2001, FMV shall be taken as COA.
3. Sale Consideration = Insurance compensation & Capital Gain is chargeable to tax in the PY in which Insurance money is received. Indexation of COI will be done till the year of destruction of capital asset.

Q8. X purchased Gold ornaments of Rs. 1 Lac on 4.1.2009 for investment. On 12.01.2015, he started a business of dealing in Jewellery & converts the gold into SIT. FMV of the gold ornaments on date of conversion was Rs. 5 Lacs. These gold ornaments were sold in PY 2021-22 for Rs. 6 Lacs. **(a)** Compute Capital Gain & Business Income. **(b)** What would be the answer if the gold ornaments are held by the assessee till 31.3.2021?

Answer:

(a) Conversion of Capital Asset into SIT is treated as a transfer u/s 2(47).
In this case, conversion took place on 12.01.2015. Therefore, it will be treated as transfer of PY 2014-15. But Capital Gain will be taxable in PY in which such asset is sold i.e. PY 2021-22.

Capital Gain of AY 2022-23	
Full Value of Consideration	Rs. 5,00,000
Less: Indexed cost of acquisition [1,00,000 × 240/137]	Rs. (1,75,180)
LTCG	**Rs. 3,24,820**
Business Income for AY 2022-23	
Sale Price	Rs. 6,00,000
Less: FMV on the date of conversion	Rs. (5,00,000)
Business Income	**Rs. 1,00,000**

(b) **There will neither be business income nor capital gain because converted asset has not yet been sold.**

Q9. A & B formed a partnership firm during PY 2021-22. Mr. A brings following assets as his capital contribution.

Particulars	**Gold**	**Building**
FMV on the date of transfer	4,40,000	12,00,000
Amount recorded in the books of the firm	6,00,000	9,50000
Actual cost	80,000	2,40,000
Year of acquisition	PY 2000-01	PY 2010-11
FMV on 1.4.2001	1,50,000	2,50,000

Answer: **Computation of Capital Gain in the hands of Mr. A**

Gold	Sale consideration [Value recorded in the books of firm]	6,00,000
	Less: Indexed COA [1,50,000 × 317/100]	(4,75,500)
	LTCG	**1,24,500**
Building	Sale Price [Value recorded in the books of firm]	9,50,000
	Less: Indexed COA [2,40,000 × 317/167]	(4,55,569)
	LTCG	**4,94,431**

Q10. Mr. X acquired a house for Rs. 20,000 in 1997-98. On his death in Oct. 2006, house was acquired by his son Mr. Y. FMV of the house on 1.4.2001 was Rs. 80,000. This house was acquired by the Government on 15.3.2010 for Rs. 3 Lacs & a compensation of Rs. 2,20,000 is paid to him on 25.03.2022 & balance Rs. 80,000 on 15.04.2022.

Mr. Y filed a suit against Government challenging the quantum of compensation & court ordered additional compensation of Rs. 1 Lacs. He incurred an expenditure of Rs. 2,000. 50% of the enhanced compensation is received on 14.2.2024 & other 50% is received in PY 2025-26. Compute taxable capital gains in the hands of Mr. X.

Answer:

(a)	Capital gain on Initial Compensation [Taxable in PY 2021-22 (AY 2022-23)] during which part of the compensation was actually received by him, although the balance of Rs. 80,000 was received in PY 2022-23. POH (Including POH of previous owner): PY 1997-98 to PY 2009-10. Indexation only upto PY 2009-10.	
	Sale Consideration [Total Initial Compensation]	Rs. 3,00,000
	Less: Indexed cost of acquisition: [Rs. 80,000 × 148/100]	(Rs. 1,18,400)
	LTCG	**Rs. 1,81,600**
(b)	Capital Gain for PY 2023-24 (AY 2024-25) as half of enhanced compensation was received on 14.2.2024.	
	Sale Consideration	Rs. 1,00,000
	Less: Expenses of transfer i.e., Litigation Expenses	(Rs. 2,000)
	LTCG	**Rs. 98,000**
	PC Note: In AY 2024-25, capital gain tax on half of enhanced compensation only shall be payable. Remaining tax shall be payable in AY 2026-27 when the other half is received.	

Q11. Mr. X has acquired 20,000 equity share of ABC Ltd on 1.04.2007 @ Rs. 350 per share. The company buybacks 20,000 shares on 30.1.2022 @ 900 per share. Compute the capital gain taxable in his hands.

Answer: **Capital Gains on buyback in the hands of Mr. X**

Sale Consideration [Buyback price] (20,000 × 900 per share]	Rs. 1,80,00,000
Less: Indexed COA [20,000 shares × Rs. 350 per share × 317/129]	(Rs. 1,72,01,550)
LTCG	**Rs. 7,98,450**

Q12. Singhania & Co., a sole proprietorship owns 6 machines, put in use for business in March 2021. Rate of Depreciation is 15%. WDV of these machines as on 1st April 2021 was Rs. 8,50,000. Three of the old machines were sold on 10th June 2021 for Rs. 11,00,000. A second-hand plant was bought for Rs. 8,50,000 on 30th November 2021. You are required to: **(i)** Determine depreciation for AY 2022-23; **(ii)** Compute Capital Gains for AY 2022-23.

(iii) If 3 machines are sold in June 2021 for Rs. 21 lacs, will there be any difference in your above workings?

Answer:

(i) Computation of depreciation for AY 2022-23

Particulars	Rs.
W.D.V. of the block as on 1.4.2021	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
Less: Sale consideration of old machinery during the year	11,00,000
WDV of the block as on 31.03.2022	**6,00,000**

Note: Since, Second-hand machinery was put to use for less than 180 days, depreciation is restricted to 50% of 15%. Therefore, depreciation for the year = Rs. 45,000, being 7.5 % of Rs. 6,00,000.

(ii) Section 50 on Capital Gains in case of depreciable assets is applicable only in the following circumstances:

(a) When one or some of the assets in the block are sold for consideration more than the value of the block.

(b) When all the assets are transferred for a consideration more than the value of the block.

(c) When all the assets are transferred for a consideration less than the value of the block.

In (a) & (b), SC > WDV of the block, STCG would arise. In (c), Since SC < WDV of block, STCL would arise.

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

(iii) If 3 machines are sold in June 2021 for Rs. 21,00,000, STCG would arise since SC > aggregate of opening WDV of the block + Additions made during the year.

Particulars	Rs.	Rs.
Sale consideration		21,00,000
Less: WDV of the machines as on 1.4.2021	8,50,000	
Less: Purchase of second plant during the year	8,50,000	(17,00,000)
STCG		**4,00,000**

Q13. X Ltd. has several undertakings carrying on several businesses. During PY 2021-22, company sold one of its undertakings (as it was continuously generating loss since last 5 years) for a lump sum value of Rs. 300 lacs without assigning value to individual asset & liabilities. Brokerage on transfer paid @ 5%. Compute taxable capital gain.

Book value of sundry assets & liabilities of the undertaking as on the date of sale is as under:

Items	Book Value	FMV
Land	Rs. 50 lacs (SDV = Rs. 70 Lacs)	Rs. 100 lacs
Machinery	Rs. 30 lacs (WDV as per IT Act Rs.60 lacs)	Rs. 100 lacs
Furniture	Rs. 50 lacs (WDV as per IT Act Rs.90 lacs)	Rs. 75 lacs
Stock	Rs. 30 lacs	Rs. 35 lacs
Debtors	Rs. 40 lacs	Rs. 40 lacs
Creditors	Rs. 50 lacs	-

Answer: Since the undertaking is owned by the company for > 3 years, LTCG shall arise.

Calculation of Net Worth			
A. Value of Assets taken over:			**B. Value of liabilities taken over:**
Asset	**Value**	**Basis**	(i) Creditors = Rs. 50 Lacs – Basis of Book Value.
Land	Rs. 50 Lacs	Book Value	
Machinery	Rs. 60 Lacs	WDV	**Net Worth = Assets – Liabilities = A - B = 270 Lacs – R50 Lacs = Rs. 220 Lacs**
Furniture	Rs. 90 Lacs	WDV	
Stock	Rs. 30 Lacs	Book Value	
Debtors	Rs. 40 Lacs	Book Value	
Total	**Rs. 270 lacs**		

Computation of Capital Gains in the hands of X Ltd. for AY 2022-23	
Sale consideration	Rs. 300 lacs
Less: Expenses on transfer = (5% of Rs.300 lacs)	(Rs. 15 Lacs)
Net sale consideration	Rs. 285 lacs
Less: Cost of acquisition i.e. Net Worth: Calculated above	(Rs. 220 lacs)
Less: Cost of improvement	(Rs. Nil)
LTCG	**Rs. 65 Lacs**

Q14. Mr. R, a NRI, remits $40,000 to India on 16.9.2009. The amount is partly utilized on 3.10.2009 for purchasing 10,000 shares in A Ltd., an Indian company @ Rs. 12 per share. These shares are sold for Rs. 36 per share on 30.3.2022. Telegraphic transfer buying & selling rate of US dollars adopted by SBI is:

Date	TT Buying Rate	TT Selling Rate	Average TT Rate [Buying + Selling]/2
16.9.2009	18	20	19.5
3.10.2009	19	21	20
30.3.2022	44	46	45

Compute capital gain for AY 2022-23 on the assumption that these shares have not been sold through RSE.

Answer:

Sale consideration (Rs. 3,60,000/45)	$ 8,000
Less: Cost of acquisition (Rs. 1,20,000/20)	($ 6,000)

LTCG	$ 2,000
LTCG covered into Rupees (US$ 2,000 x Rs. 44/US$)	Rs. 88,000

Q15. Raju acquired & transferred shares of X Ltd in his demat A/c as given below. Compute Capital Gains. **[CMA Inter]**

Details of DEMAT A/c					
Acquisitions			**Transfers**		
Entry in Demat A/c	**No of shares**	**Cost**	**Transfer date**	**No. of shares**	**Sale Price**
1.1.2007	1000 shares	120/share	1.04.2011	2,500 shares	189/share
1.12.2009	3000 shares	136/share	1.08.2015	5,000 shares	260/share
1.4.2013 (Acquired on 1.1.2002)	5000 shares	45/share	1.10.2019	1,500 shares	340/share

Answer:

Capital Gain on Transfer of 2,500 shares on 1.4.2011		
Sale Consideration	(2500 shares × Rs. 189)	4,72,500
Less: Indexed COA	(1000 shares × Rs. 120 × 184/122) = (1,80,980) (1500 shares × Rs. 136 × 184/148) = (2,53,620)	(4,34,600)
LTCG		**Rs. 37,900**
Capital Gain on Transfer of 5,000 shares on 1.8.2015		
Sale Consideration	(5,000 shares × Rs. 260)	13,00,0000
Less: Indexed COA	(1500 shares × Rs. 136 × 254/148) = Rs. (3,50,110) (3500 shares × Rs. 45 × 254/100) = Rs. (1,57,500)	(5,07,610)
LTCG		**Rs. 7,92,390**
Capital Gain on Transfer of 1500 shares on 1.10.2019		
Sale Consideration	(1500 shares × Rs. 340)	5,10,000
Less: Indexed COA	(1500 shares × Rs. 45 × 289/100)	(1,95,075)
LTCG		**Rs. 3,14,925**

Q16. Mr. PC purchased 10,000 equity shares of XYZ Co. Pvt. Ltd on 28.2.2007 for Rs. 1,20,000. The company was wound up on 31.7.2021. The following is the summarized financial position of the company as on 31.7.2021:

Liabilities	**Rs.**	**Assets**	**Rs.**
60,000 Equity shares General Reserve Provision for taxation	6,00,000 40,00,000 2,50,000	Agricultural lands Cash at bank	42,00,000 6,50,000
	48,50,000		48,50,000

- Tax liability (towards DDT) was ascertained at Rs. 3 Lacs, after considering refund due to the company.
- The remaining assets were distributed to the shareholders in the proportion of their shareholding.
- The market value of the 6 acres of the agriculture land (in an urban area) as on 31.7.2021 is Rs. 10 Lacs per acre.
- Agriculture land received above was sold by Mr. PC on 29.2.2022 for Rs. 15 Lacs. Discuss tax treatment.

Answer:

(1) CG arising in hands of company on distribution of asset in kind to shareholders on liquidation is exempt u/s 46.

(2) Computation of CG in the hands of Mr. PC

Sale consideration [See Note 1]	4,00,000
Less: Indexed cost of acquisition [1,20,000 × 317/122]	(3,11,803)
LTCG	**88,197**

(3) **CG arising on Sale of URBAN Agricultural land** received **in the hands Mr. PC**

Sale consideration	Rs. 15 Lacs
Less: COA [deemed to be FMV on date of distribution]	Rs. 10 Lacs
STCG	**Rs. 5 Lacs**

Working Note:

1. Calculation of Sale Consideration of Shares: Mr. PC holds 1/6th of shareholding of the company, so

Agriculture land received	(60 Lacs/6)		Rs. 10,00,000
Cash at bank	(6,50,000 – 3 Lacs)/6		Rs. 58,333
Less: Deemed dividend u/s 2 (22)(c)	(40 Lacs - 50,000)/6	[Taxable u/h IFOS]	(6,58,333)
Sale consideration			Rs. 4,00,000

2. Dividend u/s 2 (22)(c) i.e. Rs. 6,58,333 will be taxable u/h IFOS in the hands of Mr. PC.
3. Tax liability has been ascertained at Rs. 3 Lacs as against the provision of Rs. 2,50,000. Therefore Rs. 50,000 (Rs. 3 Lacs - Rs. 2,50,000) has to be reduced from general reserve for calculating deemed dividend u/s 2(22)(c).

Q17. On 18.8.2005, Ramu acquired 1000 debentures of X Ltd. & house on partition of its HUF. House was acquired by HUF on 1.4.1995 for Rs. 3 lacs & Debentures were acquired on 1.4.2002 for Rs. 2 lacs. FMV of the house on 1.4.2001 is Rs. 4 lacs. COI incurred by HUF on 15.3.2002 was Rs. 2 lacs. On 17.7.2021, Ramu sold the house for Rs. 20 lacs & its debentures are taken by the company at Rs. 2,50,000. Compute capital gain of Ramu for AY 2022-23.

Answer: **Computation of capital gain in the hands of Ramu for AY 2022-23**

1. HOUSE → POH: 1.4.1995 – 17.7.2021

Sale Consideration	20,00,000
Less: Indexed cost of acquisition [4,00,000 × 317/100]	(12,68,000)
Less: Indexed cost of improvement [2,00,000 × 317/100]	(6,34,000)
Long-term capital gain	**98,000**

2. Debenture → POH: 1.4.2002 – 17.7.2021

Sale Consideration	2,50,000
Less: Cost of acquisition [No indexation is available]	(2,00,000)
LTCG	**50,000**

PC Note: COA = Cost to Previous owner in case of Gift.

Q18. Mr. A purchased gold in 1970 for Rs. 25,000. FMV on 1.4.2001 was Rs. 1,30,000. In PY 2017-18, he gifted it to his son. FMV on the date of receipt of gift was Rs. 2,00,000. His son sold it PY 2021-22 for Rs. 5,00,000. Discuss the tax implications in the hands of Mr. A & his son.

Solution: Gift is exempt by virtue of Section 47 & thus NO capital gain arises in the hands of Mr. A.

Computation of Capital Gains in the hands of Son of Mr. A

Sale Consideration	5,00,000
Less: Indexed cost of acquisition [1,30,000 × 317/100]	(4,12,100)
LTCG	**1,08,700**

Note: COA = Cost to Previous owner in case of Gift.

Q19. Mr. B purchased convertible debentures for Rs. 5,00,000 during August 2001. The debentures were converted into shares in September 2012. These shares were sold for Rs. 20,00,000 in August 2021. The brokerage expenses are Rs. 50,000. You are required to compute the CG in case of Mr. B for AY 2022-23.

Answer: **Computation of Capital Gains of Mr. B for AY 2022-23**

Particulars	Rs.
Sale consideration	20,00,000
Less: Expenses on transfer (Brokerage paid)	(50,000)
Net sale consideration	19,50,000
Less: Indexed cost of acquisition (Rs. 5,00,000 × 317/100)	(15,85,000)
LTCG	**3,65,000**

Q20. Mr. X a senior citizen, pledged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly instalments. Mr. X did not repay the loan on maturity & hence gave possession of the house to the bank to discharge his loan. How will the treatment of LTCG be on such reverse mortgage transaction?

Answer:

- Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made & notified by CG shall not be considered as a transfer for the purpose of capital gain.
- Accordingly pledging of residential house with bank by Mr. X will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.
- Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in instalment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly instalment amounts received by Mr. X would not be taxable.
- However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

Q21. Mr. Kumar has agricultural land (costing Rs. 6 lacs) in Lucknow & has been using it for agricultural purposes since 1.4.2000 till 1.8.2011 when the Government took over compulsory acquisition of this land. Compensation of Rs. 10 lacs was settled. The compensation was received by Mr. Kumar on 1.7.2021. Compute capital gains for AY 2022-23.

Answer:

- Compulsory acquisition of an urban agricultural land has taken place & the compensation is received after 1.4.2004. This land had also been used for at least 2 years by the assessee himself for agricultural purposes.
- Thus, as per section 10(37), entire capital gains arising on such compulsory acquisition will be fully exempt & nothing is taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e. AY 2022-23.

Q22. Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma?

Answer:

- As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place.
- Since the sale is out of own will & desire, the provisions of this section are not attracted & the capital gains arising on such sale will be taxable in the hands of Mr. Kumar.

Q23. Will your answer be different if Mr. Kumar had not used this land for agricultural activities? Explain.

Answer:

- As per section 10(37), exemption is available only when such land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such HUF.
- Since the assessee has not used it for agricultural activities, the provisions of this section are not attracted & the capital gains arising on such compulsory acquisition will be taxable in the hands of Mr. Kumar.

Q24. Will your answer be different if the land belonged to ABC Ltd. & not Mr. Kumar & compensation on compulsory acquisition was received by the company? Explain.

Answer: Section 10(37) exempts capital gains arising to an individual/HUF from transfer of agricultural land by way of compulsory acquisition. If land belongs to ABC Ltd. & capital gains will be taxable in the hands of ABC Ltd.

Q25. Mr. Cee purchased a residential house on 20th July 2020 for Rs. 10,00,000 & made some additions to the house incurring Rs. 2,00,000 in August 2020. He sold the house property in April 2021 for Rs. 20 Lacs. Out of the sale proceeds, he spent Rs. 5,00,000 to purchase another house property in September 2021. Find the amount of capital gains taxable in the hands of Mr. Cee for AY 2022-23?

Answer: House is sold before 24 months from the date of purchase. Hence, the house is a STCA.

Particulars	Rs.
Sale consideration	20,00,000
Less: Cost of acquisition	(10,00,000)
Less: Cost of improvement	(2,00,000)
STCG	**8,00,000**

PC Note: The exemption of capital gains u/s 54 is available only in case of LTCA. As the house is STCA. Mr. Cee cannot claim exemption u/s 54. Thus, the amount of taxable STCA is Rs. 8,00,000.

Q26. Compute the taxable capital gains of Mr. D for AY 2022-23. CII are as follows: FY 2004-05: 113

Cost of jewellery [Purchased in FY 2001-2002]	Rs. 5,00,000
Sale price of jewellery sold in January 2022	Rs. 20,20,000
Expenses on transfer	Rs. 15,000
Residential house purchased in March 2022	Rs. 6,00,000

Answer: **Computation of taxable capital gains for AY 2022-23**

Particulars	Rs.
Gross consideration	Rs. 20,20,000
Less: Expenses on transfer	(Rs. 15,000)
Net consideration	**Rs. 20,05,000**
Less: Indexed COA (Rs. 5,00,000 × 317/100)	(Rs. 15,85,000)
LTCG	**Rs. 4,20,000**
Less: Exemption u/s 54F (Rs. 6,00,000 × Rs. 5,00,000/ Rs. 20,05,000)	(Rs. 1,49,626)
Taxable LTCG	**2,70,374**

Q27. Calculate the Income Tax Liability for AY 2022-23 in following cases:

Particulars	A (Age 45)	B (Age 62)	C (Age 81)	D (Age 82)
Status	**Resident**	**NR**	**Resident**	**NR**
Income other than LTCG	2,40,000	2,80,000	5,90,000	4,80,000
LTCG	15,000 [Sale of Vacant site]	10,000 [Sale of listed Shares (STT paid)]	60,000 [Sale of Rural Agricultural land]	Nil

Answer: **Computation of Income Tax Liability for AY 2022-23**

Particulars	A (Age 45)	B (Age 62)	C (Age 81)	D (Age 82)
Residential Status	Resident	NR	Resident	NR
BEL	Rs. 2,50,000	Rs. 2,50,000	Rs. 5,00,000	Rs. 2,50,000
Asset sold	Vacant site	Listed shares	Rural Agro. land	-
LTCG	Rs. 15,000 [Taxable @ 20%]	Rs. 10,000 [Not taxable since < 1 L]	Rs. 60,000 [Exempt – Not CA]	-
Other income	Rs. 2,40,000	Rs. 2,80,000	Rs. 5,90,000	Rs. 4,80,000
Tax on LTCG (After Adjusting BEL)	Rs. 1,000 (15,000 – 10,000) ×20%	-	-	-
On Other Income	Nil	Rs. 1,500	Rs. 18,000	Rs. 11,500
Less: Rebate u/s 87A	Rs. 1,000	NA (since NR)	-	NA (since NR)
Tax Payable	Nil	Rs. 1,500	Rs. 18,000	Rs. 11,500
Add: HEC @ 4%	Nil	Rs. 60	Rs. 720	Rs. 460
Tax Liability	**Nil**	**Rs. 1,560**	**Rs. 18,720**	**Rs. 11,960**

Notes:

1. Since Mrs. B & Mr. D are NR, they cannot avail the higher basic exemption limit of Rs. 3,00,000 & Rs. 5,00,000 for persons over the age of 60 years & 80 years, respectively.
2. Since Mr. A is a resident whose total income does not exceed Rs. 5,00,000, he is eligible for rebate of Rs. 12,500 or the actual tax payable, whichever is lower, u/s 87A.
3. No rebate u/s 87A is availalbe to NR (Mr. D).

Q28. Compute capital gains of Mr. X in the following Individual situations for AY 2022-23:

Asset	Gold	Land	Residential House
Date of purchase	1.7.1990	1.4.1992	1.7.1994
Cost price	4,00,000	6,00,000	8,00,000
Cost of improvement	1,00,000	2,00,000	4,00,000
Year of improvement	1999-2000	2000-01	2005-06
Fair market value on 1.4.2001	30,00,000	60,00,000	5,00,000
Date of Sale	01.01.2022	01.01.2022	01.01.2022
Full value of consideration	95 Lacs	190 Lacs	50 Lacs

Answer:

Asset	Gold	Land	Residential House
Full value of consideration	95 Lacs	190 Lacs	50 Lacs
Less: Indexed COA	95,10,000 (30 L x 317/100)	190,20,000 (60L x 317/100)	(25,36,000) (8L x 317/100)
Less: Indexed COI	-	-	(10,83,761) (4L x 317/117)
LTCG/(LTCL)	**(10,000)**	**(20,000)**	**13,80,239**

Q29. Mr. X owns a plot of land acquired on 1.6.2002 for Rs. 2 Lacs. He enters into an agreement to sell the property on 15.3.2022 for Rs. 20 Lacs. In part-performance of the contract, he handed over the possession of land on 21.03.2022 & he received the full consideration. As on 31st March 2022, sale was not registered. Calculate Capital gain for AY 2022-23.

Answer: Transfer includes Giving possession of IMMOVABLE PROPERTY under part performance of a contract. Thus, it is treated as transfer in PY 2021-22 & capital gain will be attracted.

Full value of consideration	Rs. 20,00,000
Less: Indexed cost of acquisition [2,00,000 x 317/105]	(Rs.6,03,810)
LTCG	**Rs. 13,96,190**

Q30. Mr. X purchased one house on 1.7.2002 for Rs. 3,50,000. He constructed its first floor on 1.10.2011 by incurring Rs. 4 lacs & constructed its second floor on 1.10.2012 by incurring Rs. 6,00,000 & third floor on 1.10.2014 by incurring Rs. 7,00,000. Finally, sold the building on 1.1.2022 for Rs. 120 Lacs & selling expenses were 2% of the sale price. Compute taxable capital gains for AY 2022-23.

Answer:

Full value of consideration	120 Lacs
Less: Selling Expenses = 2% of Rs. 120,00,000	(2,40,000)
Net Sale Consideration	**1,17,60,000**
Less: Indexed cost of acquisition [3,50,000 x 317/105]	(10,56,667)
Less: Indexed COI - Cost of constructing 1st floor [4,00,000 x 317/184]	(6,89,130)
Less: Indexed COI - Cost of constructing 2nd floor [6,00,000 x 317/200]	(9,51,000)
Less: Indexed COI - Cost of constructing third floor [7,00,000 x 317/240]	(9,24,583)
LTCG	**81,38,620**

Q31. Where an urban agricultural land owned by an individual, continuously used by him for agricultural purposes for a period of two years prior to the date of transfer, is compulsorily acquired under law & the compensation is fixed by the State Government, resultant capital gain is exempt. State True or False.

Answer: False: As per section 10(37), where an individual owns urban agricultural land which has been used for agricultural purposes for 2 years immediately preceding the date of transfer, & same is compulsorily acquired under any law & compensation is determined or approved by CG/RBI, capital gain is exempt.

Q32. Mrs. Padmini owned 2 motor cars, which were mainly used for business purposes. WDV on 1.4.2021 of the Block of Assets comprising of only these two cars, both of which were purchased in May 2008 was Rs. 1,81,000. These two cars were sold in June 2021 for Rs. 1,50,000. A Plot purchased in March 2008 for Rs. 2,73,000 was sold by her for Rs. 6,50,000 on 18.01.2022. Compute Capital Gains for AY 2022-23. **[Nov 1993]**

Answer: **Computation of Capital Gain on Sale of Assets**

Particulars	Motor cars	House plot
Sale Consideration	1,50,000	6,50,000
Less: WDV/Indexed CoA	(1,81,000)	(5,84,736) [2,73,000 × 317/148]
Capital Gains	**STCL of (31,000)**	**LTCG of 65,264**

Notes:

1. Gain/Loss on Sale of Depreciable Assets will be treated as Short Term Capital Gain/Loss Only.
2. Current Year Short Term Capital Loss can be adjusted against any Capital Gain. (Section 70)

Q33. Mr. X owned a Residential House in Ghaziabad. It was acquired by Mr. X on 10.10.2006 for 6 lacs. He sold it for 53 lacs on 04.11.2021. SDV = Rs. 70 Lacs. Assessee paid 2% of sale consideration as brokerage on the sale of the said property. Mr. X Acquired a Residential House property at Kolkata on 10.12.2021 for Rs. 10,00,000 & deposited Rs. 4,00,000 on 10.04.2022 & Rs. 5,00,000 on 15.06.2022 in capital gains bonds of RECL Ltd. He deposited 4 lacs on 06.07.2022 & 3 lacs on 01.11.2022 in capital gain deposit scheme in Nationalized Bank for construction of additional floor on house property in Kolkata. Compute Capital Gain for AY 2022-23. [CII for FY 2006-07 = 122] **[May 2014]**

Answer: **Computation of Capital Gains in the hands of Mr. X for AY 2022-23**

Full value of Consideration [If ASC < SDV & such SDV > 110% of ASC, then FVC = SDV]	70,00,000
Less: Brokerage @ 2% of ASC	(1,06,000)
Less: Indexed cost of acquisition [Rs. 6,00,000 x 317/122]	(15,59,016)
LTCG	**53,34,984**
Less: Exemption u/s 54: Acquisition of residential house property at Kolkata (10.12.2021)	(10,00,000)
Less: Amount deposited in capital gains accounts scheme (6.7.2022)	(4,00,000)
Less: Exemption u/s 54EC: Amount deposited in capital gains bonds of RECL on 10.04.2022	(4,00,000)
Taxable LTCG	**35,34,984**

Note:

- Rs. 5,00,000 invested on 15.06.2022 in capital gains bonds of RECL Ltd will not be eligible for deduction u/s 54EC since the limit limit of 6 months has expired.
- As per the decision of Gauhati High Court in CIT vs Rajesh Kumar Jalan (2006) & Punjab & Haryana High Court in CIT vs Jagriti Aggarwal (2011), exemption u/s 54 is allowable even if amount of capital gain is deposited in CGAS after due date u/s 139(1) but before DD for filing belated return u/s 139(4). If we apply the above interpretation in this case, Mr. X would be eligible for exemption u/s 54 i.r.o. Rs. 3,00,000 deposited in Capital Gains Accounts Scheme on 01.11.2022 also, since the said date falls within the time specified u/s 139(4). On the basis of this interpretation, taxable LTCG in hands of Mr. X = Rs. **32,34,984.**

Q34. Mr. X, a resident individual, purchased 10 Plots in PY 2003-04 for Rs. 12 Lac. On 1.4.2004, he started a business of property dealing & converted all 10 plots into SIT of his business & recorded Rs. 40 Lacs in his books being FMV the said date. On 31st March 2011, he sold all 10 Plots for Rs. 55 Lacs & purchased a residential house property for Rs. 50 Lacs. He has constructed 2 rooms in this residential house in June 2011 & has spent 8 Lacs. He sold the above residential house on 05.02.2022 for 80 Lacs. SDV was 105 Lacs. On the request of Mr. X, AO made a reference to valuation officer. Valuation Officer determined the value at 108 Lacs. Mr. X paid brokerage 1%. Compute Capital gains of Mr. X for AY 2022-23. (CII: 2003-04: 109; 2004-05: 113; 2010-11: 167; 2011-12: 184) **[Nov 2016]**

Answer:

Full value of consideration [If SC < SDV & SDV < Value by VO, then FVC = SDV]	105 Lacs
Less: Brokerage @ 1% of Actual sale consideration	(80,000)
Less: Indexed cost of acquisition (Rs. 50,00,000 x 317/167)	(94,91,018)
Less: Indexed cost of improvement (Rs. 8,00,000 x 317/184)	(13,78,261)
LTCL	**(4,49,279)**

Q35. Mr. Rakesh purchased HP on 14.4.1996 for Rs. 2,50,000. He entered into an agreement with Mr. B for sale of house on 15.09.1999 & received an Advance of Rs. 25,000. However, since Mr. B did not remit the balance amount, Mr. Rakesh forfeited the advance. Later on, he gifted house to his friend Mr. A on 15.06.2001. Following renovations were carried out by Mr. Rakesh & Mr. A to the House Property:

Particulars	Amount
By Mr. Rakesh during FY 1996-97	1,00,000
By Mr. A during FY 2005-06	1,00,000
By Mr. A during FY 2009-10	2,50,000

FMV of the Property on 1.4.2001 is Rs. 2,50,000. Mr. A entered into an agreement with Mr. C for sale of the House on 1st June 2015 & received an Advance of Rs. 1,00,000. The said amount was forfeited by Mr. A, since Mr. C could not fulfil the terms of the agreement. Finally, the House was sold by Mr. A to Mr. Sanjay on 2nd Jan 2022 for Rs. 20 lacs. Compute taxable Capital Gains in hands of Mr. A for AY 2022-23. **[May 2011]**

Answer:

Particulars	Rs.
Sale Consideration	Rs. 20,00,000
Less: Indexed Cost of Acquisition = (2,50,000 x 317/100)	(Rs. 7,92,500)
Less: Indexed Cost of Improvement [(1,00,000 x 317/117) + (2,50,000x 317/148)]	(Rs. 8,06,413)
LTCG	**Rs. 4,01,087**
Income from Other Sources: Advance Forfeited [Sec. 56(2)(ix)]	Rs. 1,00,000

Notes:

1. As per Sec. 51, any Advance Money or any other sum received & retained by the Assessee will be treated as IFOS. The Cost of Acquisition shall not be reduced by that amount.
2. Advance Money received & forfeited by the previous owner shall not be considered u/s 51.
3. Improvement done by the previous owner is also considered if it is done after 1.4.2001.

Q36. Ms Gunjan purchased a land at Rs. 50 Lacs in PY 2008-09 & held the same as her capital asset till 31st Aug 2014. She started her Real Estate Business on 1st Sep 2014 & converted the said Land into SIT of her business on the said date when FMV of the Land was Rs. 320 Lacs. She constructed 8 Flats of equal size, quality & dimension. Cost of Construction of each Flat is Rs. 36 Lacs. Construction was completed in Jan 2018. She sold 5 Flats at Rs. 90 Lacs per Flat in April 2021. She invested Rs. 50 Lacs in Bonds issued by National Highways Authority of India on 31st May 2021. She also invested another Rs. 50 Lacs in bonds of Rural Electrification Corporation Ltd. in June, 2022.

Compute Capital Gains & Business Income arising from the above transactions in the hands of Ms. Gunjan for AY 2022-23. [CII: FY 2008-09: 137; FY 2014-15: 240; FY 2015-16: 254; FY 2021-22: 317] **[RTP + Similar to ICAI Ex. Q3]**

Answer: **Computation of Capital Gain & business income of Ms. Gunjan**

Full Value of Consideration [FMV of Land on date of conversion]	320 Lacs
Less: Indexed Cost of Acquisition [Rs. 50,00,000 x 240/137]	(87,59,124)
Capital Gains	**2,32,40,876**
Proportionate LTCG taxable in AY 2022-23 [Rs. 2,32,40,876 × 5/8]	1,45,25,548
Less: Exemption u/s 54EC (restricted to Rs. 50 Lacs)	(50 Lacs)
Taxable LTCG	**95,25,548**
Business Income	
Sale Price of Flats (5x Rs.90 Lacs)	450 Lacs
Less: Cost of Flats: (a) FMV of Land on the date of conversion (Rs. 3,20 Lacs x 5/8)	(200 Lacs)
(b) Cost of Construction of Flats (5 × Rs. 36 Lacs)	(180 Lacs)
Business Income	**70 Lacs**

Note:

1. Conversion of Capital Asset into SIT is transfer u/s 2(47) in PY in which Capital Asset is converted into SIT. But Capital Gains will be taxable only in PY in which SIT is sold.
2. Indexation is available only upto PY of conversion of Capital Asset to SIT & not upto year of sale of SIT
3. 5 flats out of 8 Flats are sold in PY 2021-22. So, only proportionate Capital Gains (5/8th) is taxable in AY 2022-23.

4. In case of conversion of Capital Asset into SIT & subsequent sale of SIT, period of 6 months, for the purpose of exemption u/s 54EC, is to be reckoned from the date of sale of SIT. In this case, since investment in bonds of NHAI has been made within 6 months of sale of flats, exemption u/s 54EC is available.
5. W.r.t LTCG arising on land or building or both in any FY, maximum deduction u/s 54EC would be Rs. 50 lacs, whether the investment in bonds of NHAI or RECL are made in same FY or next FY.
   Therefore, even though investment of Rs. 50 lacs have been made in bonds of NHAI during the PY 2021-22 & investment of Rs. 50 lacs have been made in bonds of RECL during PY 2022-23, both within the stipulated 6-month period, maximum deduction allowable for AY 2022-23 i.r.o LTCG arising on sale of LTCA(s) during PY 2021-22 is only Rs. 50 lacs.

Q37. Star Enterprises has transferred its unit R to A Ltd by way of slump sale on 23rd Feb 2022. Compute the Capital Gains arising from slump sale of Unit R for AY 2022-23.

Liabilities	Amount (Rs. in Lacs)	Assets	Amount (in Lacs)
Own Capital	1,750	Fixed Assets:	
Accumulated P & L Balance	670	(i) Unit P	200
Liabilities:		(ii) Unit Q	150
(i) Unit P	90	(iii) Unit R	600
(ii) Unit Q	160	Other Assets:	
(iii) Unit R	140	(i) Unit P	570
		(ii) Unit Q	850
		(iii) Unit R	440

- Slump Sale consideration on transfer of Unit R was Rs. 930 Lacs.
- Fixed Assets of Unit R includes land which was purchased at Rs. 110 Lacs in 2009 & was revalued at 140 Lacs.
- Other Fixed Assets are reflected at Rs. 460 Lacs, (i.e. Rs. 600 Lacs less value of land) which represents WDV of those assets as per books. The WDV of these asset is Rs. 430 Lacs.
- Unit R was set up by Star Enterprises in 2007. **[May 2018]**

Answer: **Computation of Capital Gains**

Particulars	(In Lacs)
Sale Consideration	930
Less: Expenses on transfer	(Nil)
Net Sale consideration	930
Less: COA = Net Worth [Refer Note below]	(840)
LTCG	**90**

Note: Computation of Net Worth

Particulars	(in Lacs)
Fixed Assets [Cost of land Rs.110 + Other depreciable assets @ WDV as per IT Act Rs. 430]	540
Other Assets	440
Total Assets taken over	980
Less: Liabilities of Unit R	(140)
Net Worth	840

Notes:
1. No Indexation is available on Slump Sale transaction.
2. Revaluation effect shall be ignored for the purpose of computing Cost of Acquisition u/s 50B.

Q38. Mr. X (age 82) purchased urban agricultural land on 1.10.2001 for Rs. 3 Lacs & it was being used for agricultural purposes by him. It was sold on 01.01.2022 for Rs. 59,03,000. Mr. X purchased 1 agricultural land in rural area on 10.01.2022 for Rs. 10 Lacs & this land was sold by him on 11.02.2022 for Rs. 11 Lacs & has invested Rs. 30,000 in NSC. Compute taxable Capital gains for AY 2022-23.
(b) What if the land was purchased in urban area instead of rural area.

Answer:

(a)	**Computation of Capital Gains**	
	Full value of consideration	59,03,000
	Less: Indexed cost of acquisition [3,00,000 x 317/100]	(9,51,000)
	LTCG	**49,52,000**
	Less: Exemption u/s 54B	(10,00,000)
	LTCG	**39,52,000**
	Note: If land is purchased in rural area, exemption will be allowed u/s 54B. On sale of rural agricultural land, no capital gains will arise since rural agricultural land is not a capital asset.	
(b)	If newly acquired land is a urban land & it is sold, exemption granted u/s 54B will be withdrawn. In such case, assessee will have 2 options. **Option 1: Not to take exemption u/s 54B; Option 2: Take exemption u/s 54B.**	
	Option 1: Exemption is not availed	▪ LTCG = Rs. 49,52,000; ▪ STCG on sale of urban agri. Land = Rs. 11 Lacs - Rs. 10 Lacs = Rs. 1 Lac.
	Option 2: Exemption is availed	▪ LTCG = Rs. 39,52,000; ▪ STCG on sale of urban agri. Land = Rs. 11 Lacs – Rs. 0 Lacs = Rs. 11 Lacs.
	Assessee should opt for option I & his tax liability shall be Rs. 9,20,000 + 4% HEC = Rs. 9,56,800.	

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01.04.2005 @ Rs. 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in ratio of 1:1 on 01.12.2020. He has also received dividend of 10 per share on 01.05.2021.

He has sold all the shares on 01.10.2021 @ Rs. 4,000 per share through a recognized stock exchange & paid brokerage of 1% & securities transaction tax of 0.02% to celebrate his 75th birthday.

Compute his total income & tax liability for AY 20212-23 assuming that he is having no income other than given above. FMV of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is Rs. 2,000.

Answer: **Computation of total income & tax liability of Mr. Mithun for AY 2022-23**

1	**LTCG on sale of original shares**	
	Gross sale consideration (100 x Rs. 4,000)	Rs. 4,00,000
	Less: Brokerage@1%	Rs. 4,000
	Net sale consideration	Rs. 3,96,000
	Less: Cost of acquisition (100 x Rs. 2,000) (Refer Note 2)	Rs. 2,00,000
	LTCG	Rs. 1,96,000
2	**STCG on sale of bonus shares**	
	Gross sale consideration (100 x Rs. 4,000)	Rs. 4,00,000
	Less: Brokerage@1%	Rs. 4,000
	Net sale consideration	Rs. 3,96,000
	Less: Cost of acquisition of bonus shares	Nil
	STCG	Rs. 3,96,000
3	**Income from other sources**	
	Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	Rs. 2,000
4	**Total Income**	Rs. 5,94,000
5	**Tax Liability**	
	Tax on dividend	Nil
	15% of (Rs. 3,96,000- Rs. 2,98,000, being unexhausted Basic Exemption Limit)	Rs. 14,700
	10% of (Rs. 1,96,000 - Rs. 1,00,000)	Rs. 9,600
	Add: Health & education cess @4% (on Rs. 24,300)	Rs. 972
6	**Tax payable**	Rs. 25,272

Notes:
1. Rate of Tax on LTCG on sale of original shares through RSE (STT paid) → Taxable u/s 112A @ 10% (exceeding Rs. 1 lacs) (without indexation).
2. Cost of acquisition of such equity shares acquired before 1.2.2018 is **higher of:**
   (a) Cost of acquisition i.e., 1,000 per share &
   (b) Lower of (a) FMV of such asset (Rs. 2,000) or (b) Full value of consideration i.e., Rs. 4,000 per share.
   So, **Cost of acquisition of original share is Rs. 2,000 per share.**
3. Since POH of bonus shares < 12 months, it is STCG taxable @ 15% u/s 111A after adjusting unexhausted BEL (Rs. 3 Lacs - Rs. 2,000 being dividend). Mithun is a senior citizen, he is entitled for BEL of Rs. 3 Lacs.
4. Brokerage is allowed as expenditure as it is incurred wholly & exclusively in connection with transfer.
5. Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
6. STT is not allowable as deduction.

Q2. Aarav converts his plot of land purchased in July 2003 for Rs. 80,000 into SIT on 31st March 2021. FMV as on 31.3.2021 was Rs. 3 Lacs. SIT was sold for Rs. 3,25,000 in Jan. 2022. Find out the taxable income, if any, & if so under which head of income & for which AY? CII – PY: 2003-04:109; PY 2020-21: 301.

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

Cost inflation index of FY in which conversion took place should be considered for computing indexed cost of acquisition. Further, FMV on the date of conversion would be deemed to be full value of consideration for transfer of the asset as per section 45(2). Sale price less FMV on the date of conversion would be treated as the business income of the year in which the SIT is sold.

Therefore, in this problem, both capital gains & business income would be charged to tax in AY 2022-23.

1	**Capital Gains**	
	Full value of consideration (FMV on the date of conversion)	Rs. 3,00,000
	Less: Indexed cost of acquisition (Rs. 80,000 × 301/109)	Rs. 2,20,917
	LTCG	Rs. **79,083**
2	**PGBP**	
	Sale price of stock-in-trade	Rs. 3,25,000
	Less: FMV on the date of conversion	Rs. 3,00,000
		Rs. **25,000**

Q3. Mrs. Harshita purchased a land at Rs. 35 lacs in PY 2003-04 & held the same as her capital asset till 31.03.2021. She started her real estate business on 21st March, 2021 & converted the said land into SIT of her business on the said date, when FMV of the land was Rs. 210 Lacs.

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

She invested Rs. 50 Lacs in bonds issued by NHAI on 31st March, 2022 & another 50 Lacs in bonds of Rural Electrification Corporation Ltd. in April, 2022.

Compute taxable capital gain & business income in the hands of Mrs. Harshita for AY 2022-23 indicating clearly the reasons for treatment for each item. **[CII - FY 2003-04: 109; FY 2020-21: 301]**

Answer: **Computation of capital gains & business income of Harshita for AY 2022-23**

1	**Capital Gains**	
	Full value of consideration (FMV of land on the date of conversion)	Rs. 2,10,00,000
	Less: Indexed cost of acquisition [Rs. 35,00,000 × 301/109]	(Rs. 96,65,138)
		Rs. 1,13,34,862
	Proportionate capital gains arising during AY 2022-23 [Rs. 1,13,34,862 x 2/3]	Rs. 75,56,575
	Less: Exemption u/s 54EC	Rs. 50,00,000
	Capital gains chargeable to tax for AY 2022-23	Rs. 25,56,575
2	**Business Income**	

	Sale price of flats [10 × 30 Lacs]	Rs. 3,00,00,000
	Less: Cost of flats	
	FMV of land on the date of conversion [210 lacs × 2/3]	Rs. 1,40,00,000
	Cost of construction of flats [10 × 10 Lacs]	Rs. 1,00,00,000
	Business income chargeable to tax for AY 2022-23	Rs. 60,00,000

Notes:

1. Conversion of a capital asset into SIT is treated as a transfer u/s 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
2. However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into SIT will be chargeable to tax only in the year in which the SIT is sold.
3. Indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into SIT & not up to the year of sale of SIT.
4. For the purpose of computing capital gains, FMV of capital asset on the date on which it was converted into SIT shall be deemed to be full value of consideration received or accruing as a result of the transfer.
   In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the PY 2021-22, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the AY 2022-23.
5. On sale of such SIT, business income would arise. Business income taxable would be difference b/w the price at which SIT is sold & FMV on the date of conversion of the capital asset into SIT.
6. In case of conversion of capital asset into SIT & subsequent sale of SIT, period of 6 months is to be reckoned from the date of sale of SIT for exemption u/s 54EC. In this case, since investment in bonds of NHAI has been made within 6 months of sale of flats, it qualifies for exemption u/s 54EC. W.r.t. LTCG arising on L&B in any FY, maximum deduction u/s 54EC would be Rs. 50 Lacs, whether the investment in bonds of NHAI/RECL are made in same FY or next FY or partly in same FY & partly in next FY.
   Therefore, even though investment of Rs. 50 lacs have been made in bonds of NHAI during PY 2021-22 & investment of Rs. 50 Lacs have been made in bonds of RECL during PY 2022-23 within 6-month, maximum deduction allowable for AY 2022-23 i.r.o. LTCG arising on sale of LTCA during PY 2021-22 is Rs. 50 lacs.

Q4. Mr. A is carrying on business. His stock & machinery were damaged & destroyed in fire accident.
Value of stock lost (total damaged) was Rs. 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2021 was Rs. 10,80,000.
During the process of safeguarding machinery & in the firefighting operations, Mr. A lost his gold chain & a diamond ring, which he had purchased in April, 2004 for Rs. 1,20,000. FMV of these two items as on the date of fire accident was Rs. 1,80,000. Mr. A received the following amounts from the insurance company:

Towards loss of stock	Towards damage of machinery	Towards gold chain & diamond ring
Rs. 4,80,000	Rs. 6,00,000	Rs. 1,80,000

You are requested to briefly comment on tax treatment under the provisions of the Act.

Answer:

(a) **Compensation towards loss of stock:** Any compensation received from insurance company towards loss or damage to SIT is to be construed as a **trading receipt**. Hence, Rs. 4,80,000 received as insurance claim for loss of stock has to be assessed u/h 'PGBP'.
Note: Assessee can claim value of stock destroyed by fire as revenue loss eligible for deduction u/h PGBP.

(b) **Compensation towards damage to machinery:** Question does not mention whether salvaged machinery is taken over by Insurance company or whether there was any replacement of machinery during PY. Assuming that salvaged machinery is taken over by Insurance company, & there was no fresh addition of machinery during PY, block will cease to exist. STCL = Rs. 4,80,000 (WDV - Insurance compensation).
Note: If new **machinery** is purchased in next year, it will constitute new block of machinery, on which depreciation can be claimed for that year.

(c) **Compensation towards loss of gold chain & diamond ring:** Gold chain & diamond ring are capital assets. If any profit/gain arises in PY owing to receipt of insurance claim, it is taxable as capital gains. Capital gains has to be computed by reducing indexed COA of jewellery from insurance compensation.

Q5. Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2021 for Rs. 1,50,00,000.

- Sale proceeds were to be paid in the following manner:
  - 20% through A/c payee bank draft on date of agreement;
  - 60% on the date of the possession of the property.
  - 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 & registration process was completed on 14.01.2022. He paid the sale proceeds as per the sale agreement.
- Value determined by Stamp Duty Authority on:
  (a) 16.08.2021 was Rs. 170 Lacs; (b) 15.12.2021 was Rs. 171 Lacs; & (c) 14.01.2022 was Rs. 171.5 Lacs.
- Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for Rs. 30 Lacs. After recovering the sale proceeds from Jaikumar, he purchased 2 residential house properties (one in Kanpur for Rs. 20 Lacs on 24.3.2022 & another in Delhi for Rs. 35 Lacs on 28.5.2022).

Compute 'Capital Gains' of Mr. Sarthak for AY 2022-23. [CII - FY 2001-02: 100; FY 2021-22: 317]

Answer: **Computation of 'Capital Gains' of Mr. Sarthak for AY 2022-23**

Capital Gains on sale of residential house	
Actual sale consideration	1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	1,70,00,000
▪ As per section 50C, where ASC < SDV & such SDV > 110% of ASC, then FVC = SDV. ▪ In a case where DOA is different from DOR, SDV on DOA can be considered provided the whole/part of consideration is paid by way of A/c payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on/before DOA. ▪ In this case, since 20% of 150 Lacs is paid through A/c payee bank draft on the date of agreement, SDV on DOA would be considered for determining FVC]	
Full value of consideration [SDV on date of agreement since it exceeds 110% of ASC]	1,70,00,000
Less: Indexed cost of acquisition of residential house [30 Lacs x 317/100]	(95,10,000)
Long Term Capital Gains [Since POH of residential HP > 24 months]	74,90,000
Less: Exemption u/s 54	(55,00,000)
Since LTCG does not exceed 2 crores, he would be eligible for exemption i.r.o. both residential house properties purchased in India. Capital gain arising on transfer of a LTCA residential property shall not be taxable to the extent such capital gain is invested in the purchase of these residential HP in India within 1 year before or 2 years after the date of transfer of original asset. Thus, he would be eligible for exemption of Rs. 55,00,000 being Rs. 20,00,000 & Rs. 35,00,000 invested on acquisition of residential HP in Kanpur & Delhi, respectively.	
LTCG chargeable to tax	**19,90,000**

Q6. Mrs. Yuvika bought a vacant land for 80 lacs in May 2004. Registration & other expenses were 10% of cost of land. She constructed a residential building on the said land for 100 lacs during PY 2006-07. She entered into an agreement for sale of the above said residential house with Mr. Ram (not a relative) in April 2015. Sale consideration was fixed at Rs. 700 lacs & on 23.04.2015, Mrs. Yuvika received Rs. 20 lacs as advance in cash by executing agreement. However, due to failure on part of Mr. Ram, said negotiation could not materialise & hence, advance was forfeited by Mrs. Yuvika. Mrs. Yuvika, again entered into an agreement on 01.08.2021 for sale of this house at Rs. 810 Lacs. She received 80 Lacs as advance by RTGS. The SDV on the date of agreement was Rs. 890 Lacs. The sale deed was executed & registered on 14.01.2022 for the agreed consideration. However, State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was Rs. 900 Lacs. Mrs. Yuvika paid 1% as brokerage.

Subsequent to sale, Mrs. Yuvika made following investments:

- Acquired two residential houses at Delhi for Rs. 130 Lacs & Rs. 50 Lacs on 31.1.2022 & 15.5.2022
- Acquired a residential house at UK for Rs. 180 Lacs on 23.3.2022.
- Subscribed to NHAI bond (u/s 54EC) for Rs. 50 lacs on 29.03.2022 & for Rs. 40 lacs on 12.05.2022.

Compute 'Capital Gains' of Yuvika for AY 2022-23. [CII – FY 2004-05: 113; FY 2006-07: 122; FY 2021-22: 317]

Answer: **Computation of 'Capital Gains' of Mrs. Yuvika for AY 2022-23.**

Particulars	(in Lacs)	(in Lacs)
Capital Gains on sale of residential building		
Actual sale consideration	**Rs. 810**	
Value adopted by Stamp Valuation Authority	**Rs. 890**	
If ASC < SDV & such SDV > 110% of ASC, then FVC = SDV. However, where the date of agreement is different from the date of registration, SDV on date of agreement can be considered provided the whole/part of consideration is received by way of A/C payee cheque/bank draft or by way of ECS through bank A/C or through prescribed electronic modes on/before date of agreement. In this case, since advance of Rs. 80 lacs is received by RTGS, i.e., one of prescribed modes, FVC = SDV on date of agreement. However, since SDV on date of agreement does not exceed 110% of ASC, FVC = ASC.		
Sale consideration (= ASC since SDV on DOA does not exceed 110% of ASC)		Rs. 810.00
Less: Brokerage @1% of sale consideration (1% of Rs. 810 Lacs)		Rs. 8.10
Net Sale consideration		Rs. 801.90
Less: Indexed COA [Cost of vacant land (Rs. 80 lacs) + Registration & other expenses i.e., Rs. 8 Lacs, being 10% of cost of land [Rs. 88 Lacs × 317/113]	Rs. 246.87	
Less: Construction cost of residential building (Rs. 100 lacs x 317/122)	Rs. 259.84	Rs. 506.71
LTCG [Since residential HP was held by Mrs. Yuvika for > 24 months immediately preceding the date of its transfer]		Rs. 295.19
Less: Exemption u/s 54		Rs. 130.00
Where LTCG > 2 Cr, 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 1 residential house property in India, 1 year before or 2 years after date of transfer. Therefore, exemption would be available only i.r.o. the one residential house acquired in India & not i.r.o. 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., Rs. 130 lacs as exemption.		
Less: Exemption u/s 54EC		Rs. 50.00
Amount invested in NHAI bonds within 6 months after the date of transfer (on/before 13.07.2022) of LTCG (being L&B) would qualify for exemption, to the maximum extent of Rs. 50 lacs, whether such investment is made in current FY or subsequent FY. Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lacs out of Rs. 90 lacs, even if the both the investments are made on or before 13.7.2022(i.e., within six months after the date of transfer).		
LTCG		Rs. 115.19

Note: Advance of Rs. 20 lacs received from Mr. Ram would have been taxable u/h 'IFOS' in AY 2016-17, as per section 56(2)(ix), since the same was forfeited on/after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

Q7. Mr. Shiva purchased a HP on February 15, 1979 for Rs. 3,24,000. In addition, he has also paid SDV @10% on the SDV of Rs. 3,50,000.

In April, 2007, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for 14,35,000 & received an amount of Rs. 1,11,000 as advance. However, the sale consideration did not materialize & 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 & received Rs. 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 Rs. 3,90,000.

On 15th Nov 2021, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for 30.5 Lacs & received an amount of 1,50,000 as advance through A/C payee cheque. Mr. Manish paid the balance entire sum & 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, FMV of house property was 11,85,000 & SDV was Rs. 10,70,000. Valuation as per Stamp duty Authority of such house on 15th Nov 2021 was Rs. 39 Lacs & on 20th Feb 2022 was Rs. 41 Lacs. Compute the capital gains for AY 2022-23. [CII - FY 2001-02: 100; FY 2007-08: 129; FY 2014-15: 240; FY 2021-22: 317]

Answer: Computation of Capital gains in hands of Mr. Shiva for AY 2022-23

Particulars	Rs
Full value of consideration [If SDC < SDV & SDV > 110% of ASC, then FVC = SDV]	39,00,000
Less: Expenses on transfer (Brokerage @1% of Rs. 30,50,000)	(30,500)
Net sale consideration	**38,69,500**
Less: Indexed cost of acquisition (Note 1)	(30,40,030)
Less: Indexed cost of improvement (Note 2)	(5,15,125)
Long term capital gain	**3,14,345**

Note:

1. **Computation of indexed Cost of Acquisition**

Particulars	Rs.
Cost of acquisition [Higher of (a) Lower of FMV & SDV or (b) Actual COA]	Rs. 10,70,000
Less: Advance money taken from Mr. Mohan & forfeited	(Rs. 1,11,000)
Cost of acquisition for indexation	Rs. 9,59,000
Indexed cost of acquisition (Rs. 9,59,000 x 317/100)	**Rs. 30,40,030**

2. **Computation of indexed cost of improvement**

Particulars	Amount
Cost of construction of first floor in August, 2014	Rs. 3,90,000
Indexed cost of improvement (Rs. 3,90,000 x 317/240)	Rs. 5,15,125

3. Where advance money has been received by the assessee, & retained by him, as a result of failure of the negotiations, section 51 will apply.
   Advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. Rs. 10,70,000 – Rs. 1,11,000 = Rs. 9,59,000.
   However, where the advance money is forfeited during the PY 2014-15 or thereafter, amount forfeited would be taxable u/h IFOS & such amount will not be deducted from COA while calculating capital gains. Hence, Rs. 1,51,000, being the advance received from Ms. Deepshikha & retained by him, is taxable u/s 'IFOS' in the hands of Mr. Shiva.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18 [IMP]

Q1. Mr. Arjun bought a vacant land for Rs. 80 lacs in March 2005. Registration & other expenses were 10% of cost of land. He constructed a residential building on land for Rs. 100 Lacs during FY 2006-07.

He entered into an agreement for sale of above said residential house with Mr. Jerry (not a relative) on 9th April 2017 & received Rs. 20 lacs as advance in cash on that date.

SDV on that date was Rs. 740 lacs. Actual sale consideration was fixed at Rs. 700 lacs.

Sale deed was executed & registered on 10.06.2020 for the agreed consideration.

However, State stamp valuation authority had revised the values & hence, value of property for stamp duty purposes was Rs. 770 Lacs. Mr. Arjun paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Arjun made following investments:

- Acquired a residential house at Mumbai for Rs. 110 Lacs.
- Acquired a residential house at London for Rs. 150 Lacs.
- Subscribed to NHAI bond: Rs. 45 Lacs on 29.08.2020 & Rs. 50 Lacs on 12.10.2020.

Compute the income chargeable u/h "Capital Gains" for AY 2021-22.

Note: The choice of exemption must be in the manner most beneficial to the assessee.

[CII: FY 2004-05: 113; FY 2006-07: 112; FY 2020-21: 301]

Answer: **Computation of 'Capital Gains' for AY 2021-22**

Particulars	In Lacs
Full Value of Consideration [ASC since SDV does not exceed 110% of ASC]	700
Less: Brokerage@1% of sale consideration (1% of Rs. 700 Lacs)	(7)
Net Sale consideration	693
Less: Indexed cost of acquisition – (88 Lacs x 301/113) [Cost of Vacant land (80 Lacs) + Registration Expenses (10% of 80 lacs)]	(234.407)
Less: Indexed COI (Construction Cost of building) (Rs. 100 lacs x 301/122)	(246.721)
Long-term capital gains	**211.872**
Less: Exemption u/s 54 [Note 3]	110
Less: Exemption u/s 54EC [Max. 50 Lacs]	50
Taxable Long Term Capital Gain	**61.872**

Note:

1. Where ASC < SDV & such SDV exceeds 110% of ASC, FVC = SDV. But in this case, SDV = 110% of ASC & SDV does not exceed 110% of ASC, **FVC = ASC**.
2. If DOA is different from DOR, SDV on DOA can be considered provided whole/part of consideration is paid by way of A/c payee cheque/bank draft/ECS through bank A/c on/before DOA. In this case, since advance of Rs. 20 lacs is paid by cash, SDV of Rs. 740 lacs on DOA cannot be adopted as full value of consideration. SDV on DOR would be the full value of consideration.
3. In case of capital gain > Rs. 2 crores arising on transfer of LT residential property shall not be taxable to the extent such capital gain is invested in the purchase of **1 residential house property in India** one year before or two years after date of transfer of original asset. Therefore, exemption would be available only i.r.o. residential house acquired at Mumbai & not i.r.o. residential house in London.

Nov 18

Q2. Mr. Sahu entered into an agreement with Mr. Devansh to sell his residential house located at New Delhi on 27.07.2021 for Rs. 82 Lacs. Mr. Devansh was handed over the possession of property on 16.12.2021 & registration process was completed on 24.02.2022.

Mr. Devansh had paid the sale proceeds in the following manner;

- 25% through account payee bank draft on the date of agreement.
- 50% on the date of the possession of the property.
- Balance after the completion of the registration of the title of the property.

Value determined by the Stamp Duty Authority on 27.07.2021 was Rs. 92,00,000 whereas on 24.02.2022, it was Rs. 94,50,000.

Mr. Sahu had acquired the property on 01.04.2002 for Rs. 21 Lacs. After recovering sale proceeds from Devansh, he purchased another residential house property in Mumbai for Rs. 35 Lacs. [CII for FY 2001-02: 100; FY 2002-03: 105; FY 2021-22: 317]

Compute the total income of Mr. Sahu for AY 2022-23 & his net tax liability/refund due for that year, assuming that he has earned income of Rs. 12,000 from Savings Bank A/c & received income of Rs. 84,000 (Net of TDS) from lotteries.

Assume that TDS, if any, on consideration for sale of residential house has been deducted.

Answer: **Computation of "Capital Gains" for AY 2022-23**

Particulars	Rs.
Full value of sale consideration [Since SDV > 110% of ASC]	92,00,000
Less: Indexed COA of residential house [Rs. 21 lacs x 317/105]	(63,40,000)
LTCG [Since POH of residential house property > 24 months]	28,60,000
Less: Exemption u/s 54 [Lower of investment or Capital Gain] [Note 3]	28,60,000
Taxable LTCG	**Nil**
Income from Other Sources	
▪ Interest on Savings Bank A/c	12,000
▪ Income from lotteries [Rs. 84,000/70%]	1,20,000
Gross Total Income	1,32,000
Less: Chapter VI-A Deductions	
▪ Section 80TTA, i.r.o. interest on Savings bank a/c, restricted to	10,000
Total Income	**1,22,000**

Calculation of Tax Liability	
Tax on Lottery Income = Rs. 1,20,000 x 30% {Other income < BEL]	Rs. 36,000
Less: Rebate u/s 87A	(Rs. 12,500)
Balance Tax	Rs. 23,500
Add: 4% HEC	Rs. 940
Tax liability	**Rs. 24,440**
Less: Tax deducted at source	
▪ u/s 194B on income from lotteries	Rs. 36,000
▪ u/s 194-IA on transfer of residential house (1% of Rs. 82,00,000)	Rs. 82,000
Tax refundable	**Rs. 93,560**

May 19

Q3. Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on 7th Dec 2021. Summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	Amount (in lacs)	Assets	Amount (in lacs)
Own Capital	1,850	**Fixed Assets:**	
Accumulated P&L A/c	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	**Other Assets:**	
Unit RS	340	Unit PT	790
		Unit QL	860
		Unit RS	490
Total	**3,510**	**Total**	**3,510**

Other information:
1. Slump sale consideration on transfer of Unit RS was Rs. 1540 lacs.
2. Fixed Assets of Unit RS includes land which was purchased at Rs. 90 Lacs in 2008 & was revalued at Rs. 180 lacs.
3. Other fixed assets are reflected at Rs. 770 lacs, (Rs. 950 lacs - Value of land) which represents WDV of those assets as per books. WDV of these assets is Rs. 630 lacs.
4. Unit RS was set up by Mr. Pratap in December, 2007.

Compute Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for AY 2022-23. [Note: CII for FY 2006-07 & FY 2021-22 are 122 & 317]

Answer: **Computation of Capital Gain on Slump Sale of Unit RS for AY 2022-23**

Particulars	Rs.
Full value of consideration	15,40,00,000
Less: Cost of acquisition (Net worth) [Refer Working Note below]	8,70,00,000
LTCG [Since the Unit is held for more than 36 months]	**6,70,00,000**

Working Note: Net worth of Unit RS	Rs.
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
Less: Liabilities	3,40,00,000
Net worth	**8,70,00,000**

Notes:
1. Any change in the value of assets on account of revaluation shall not be considered.
2. For calculating aggregate value of total assets of undertaking/division in case of depreciable assets, WDV of block of assets is to be considered & for all other assets, book value is to be considered.
3. Indexation benefit is not available in case of slump sale.

Nov 19

Q4. Mr. Rana is a resident of India residing in Meerut. During PY 2010-11, he purchased agricultural land situated in Bahadurpur for Rs. 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During PY 2021-22, Mr. Rana sold this land to Mr. Jeet for Rs. 25 lacs on 29.01.2022. Mr. Rana invested Rs. 5 lacs in bonds of NHAI on 31.7.2022. CII for FY 2010-11 & 2021-22 is 167 & 317. Compute taxable capital gain taxable in the hands of Mr. Rana for AY 2022-23.

Answer: Same type of Questions are given above. Please solve it Yourself. It will be discussed in Discussion Session on YouTube Channel of "Pranav Chandak Academy".

Q5. Same Question as Q6 Given in ICAI TEST YOUR KNOWLEDGE [Mrs. Yuvika]

May 20 **FY not changed to retain the relevancy of the question**	Mr. Sarthak (age 37 years) a share broker, sold a building to his friend Anay, who is a dealer in automobile spare parts, for Rs. 120 Lacs on 10.11.2019, when the SDV was Rs. 150 Lacs. The agreement was, however, entered into on 1.9.2019 when the SDV was Rs. 140 Lacs. Mr. Sarthak had received a down payment of Rs. 15 Lacs by a crossed cheque from Anay on the date of agreement. Mr. Sarthak purchased the building for Rs. 95 Lacs on 10.5.2017. Further, Mr. Sarthak also sold an agricultural land (situated in a village which has a population of 5,800) for Rs. 60 Lacs to Mr. Vivek on 01.03.2020, which he acquired on 15.06.2014 for Rs. 45 Lacs. SDV of agricultural land as on 1.3.2020 is Rs. 75 lacs. [CII for FY 2014-15: 240; FY 2017-18: 272; FY 2019-20: 289] In the light of the above facts, you are required to answer the following: **Q6.** Is there any requirement to deduct TDS on consideration paid or payable on transfer of building & agricultural land? (a) No; no tax is required to be deducted at source on transfer of any capital asset **(b) Yes; Mr. Anay is required to deduct tax at source u/s 194-IA.** (c) Yes; Mr. Vivek is required to deduct tax at source u/s 194-IA. (d) Yes; Mr. Sarthak is required to deduct tax at source u/s 194-IA. **Q7.** I.r.o. transfer of building, capital gains taxable in the hands of Mr. Sarthak would be: **(a)** LTCG **of Rs. 49,06,250** (b) LTCG of Rs. 39,06,250 (c) STCG of Rs. 45,00,000 (d) STCG of Rs. 55,00,000 **Q8.** Assuming that Mr. Sarthak has other income exceeding basic exemption limit, the tax payable (excluding surcharge & HEC) on transfer of building & agricultural land, would be: (a) Rs. 7,81,250 (b) Rs. 13,97,500 **(c) Rs. 9,81,250** (d) Rs. 10,97,500 **Q9.** I.r.o. purchase of building from Mr. Sarthak, income taxable in the hands of Mr. Anay: (a) Rs. 20 Lacs **(b) Rs. 30 Lacs** (c) Rs. 15 Lacs (d) Nil
Nov 20	**Q10.** Mr. A, aged 45 years sold an agricultural land for 52 Lacs on 04.10.2019 acquired at a cost of 49.25 Lacs on 13.09.2018 situated at 7 kms from the jurisdiction of Municipality having population of 4,00,000 & also sold another agricultural land for 53 Lacs on 12.12.2019 acquired at a cost of 46 Lacs on 15.02.2018 situated at 1.5 kms from the jurisdiction of Municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for AY 2020-21? Cost inflation index for FY 2017-18: 272; 2018-19: 280; 2019-20:289. (a) STCG of 9.75 Lacs **(b) STCG of 7 Lacs** (c) LTCG of 4,12,500 (d) LTCG of` 5,29,196
May 21	**Q11.** Mr. Vikas transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.12.2021 for 3,50,000 when market price was 5,15,000. Indexed cost of acquisition of shares for Mr. Vikas was computed at 4,25,000. Determine income chargeable to tax in the hands of Mr. Vikas & ABC (P) Ltd. i.r.o. above transaction. (a) 90,000 taxable in hands of Mr. Vikas as LTCG & nothing is taxable in hands of ABC (P) Ltd. (b) 75,000 taxable in hands of Mr. Vikas as LTCG & nothing is taxable in hands of ABC (P) Ltd. (c) **90,000 taxable to Mr. Vikas as LTCG & 1,65,000 is taxable u/h "IFOS" to ABC (P) Ltd.** (d) 75,000 taxable in hands of Mr. Vikas as LTCG & 1,65,000 is taxable u/h "IFOS" to ABC (P) Ltd.
Nov 21	**Q12.** A building was acquired on 1.4.1995 for Rs. 20 Lacs & sold for Rs. 80 Lacs on 1.06.2020. SDV on date of transfer was 85,00,000. FMV of building on 1.4.2001 was 25 Lacs. Its SDV on same date was 22,00,000. Determine capital gains for AY 2021-22? [CII - FY 2020-21: 301] **(a) 13,78,000** (b) 18,78,000 (c) 9,75,000 (d) 4,75,000

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15

Q1. Ms. Mohini transferred a house to her friend Ms. Ragini for 35,00,000 on 01.10.2021. Sub Registrar valued the land at Rs. 48 Lacs. Ms. Mohini contested the valuation & the matter was referred to Divisional Revenue Officer, who valued the house at Rs. 43 Lacs. Accepting the said value, differential stamp duty was also paid & the transferred was completed.

Total income of Mohini & Ragini for AY 2022-23, before considering the transfer of said house are Rs. 2,80,000 & Rs. 3,45,000, respectively.

Ms. Mohini had purchased the house on 15.5.2012 for 25,00,000 & registration expenses were 1,50,000.

You are required to explain provisions of Income-tax Act, 1961 applicable to present case & also determine total income of both Ms. Mohini & Ms. Ragini taking into A/c the above said transactions.

CII for: FY 2012-13: 200; FY 2021-22: 317

Answer: **Computation of total income of Ms. Mohini**

Income u/h Capital Gains	
Full Value of Consideration	**43,00,000**
Less: Indexed cost of acquisition [Rs. 26,50,000 x 317/200]	(42,00,250)
Long Term Capital Gains	**Rs. 99,750**
Other Income	**2,80,000**
Gross Total Income	**3,79,750**
Less: Deductions	Nil
Total income (rounded off)	**3,79,750**

Computation of total income of Ms. Rajini

Income u/h IFOS	
Purchase of a house for inadequate consideration [Gift u/s 56(2)(x)] Rs. 43 Lacs – Rs. 35 Lacs	**8,00,000**
Other income	**3,45,000**
Gross total income	**11,45,000**
Less: Deductions	Nil
Total income	**11,45,000**

N15

Q2. Mr. Martin sold his residential HP on 8.6.2021 for 70 Lacs which was purchased by him for 20 Lacs on 5.5.2006. He paid 1 lakh as brokerage for sale of said property. SDV assessed by sub registrar was 86 Lacs. He bought another HP on 25.12.2021 for 15 Lacs. He deposited 10 Lacs on 10.11.2021 in capital gain bond of National Highway Authority of India (NHAI). He deposited another 10 Lacs on 10.7.2022 in CGAS with SBI for construction of additional floor of HP. Compute income u/h "Capital Gains" for AY 2022-23 & Income tax payable. [CII: FY 2006-07 – 122, FY 2021-22 - 317]

Answer:

Particulars	Amount	Amount
Sales consideration (SDV as per section 50C)		88,00,000
Less: Expenses of Transfer (Brokerage)	(1,00,000)	
Less: Indexed cost of acquisition (20,00,000 x 317/122)	(51,96,721)	(52,96,721)
Long Term Capital Gains		**35,03,279**
Less: Exemption u/s 54 (15,00,000 + ₹ 10,00,000)	(25,00,000)	
Less: Exemption u/s 54EC	(10,00,000)	(35,00,000)
Taxable LTCG		**3,279**

Tax on 3,279 is Nil as he can shift the LTCG to other income to claim the full exemption limit.

M16 **No Direct Question was asked**

N16

Q3. R, a resident individual, aged 55 years, purchased 10 Plots in FY 2003-04 for 22.5 Lakh. On 1.4.2004, he started a business of property dealing & converted all 10 plots as stock in trade of his business & recorded the cost at 40 Lacs in his books being the FMV on 1.4.2004.

On 31.3.2010, he sold all 10 Plots for 55 Lacs & purchased a residential HP for 50 Lacs on 5.4.2010. He has constructed 2 rooms in this residential house in June 2011 & has spent 8 Lacs.

He sold the above residential house on 5.2.2022, for 70 Lacs. The valuation adopted by Stamp valuation authority for payment of stamp duty was 107 Lacs. On request of R, AO made a reference to Valuation Officer. The Valuation Officer determined the value at 115 Lacs. R paid brokerage @ 1% of sale consideration.

Compute total income & total tax liability of R for AY 2022-23.

(Cost Inflation Index: 2003-04: 109; 2004-05: 113; 2010-11: 167; 2011-12: 184; 2021-22:317)

Answer: **Computation of total income & tax liability of R for AY 2022-23**

Capital Gains on Sale of Residential HP		
Deemed sale consideration (Gross) (See Note below)		1,13,00,000
Less: Brokerage @ 1% of actual sale consideration of 70,00,000		(70,000)
Net Sale consideration		1,12,30,000
Less: Indexed cost of acquisition (50,00,000 x 317/167)	94,91,018	
Less: Indexed cost of improvement (8,00,000 x 317/184)	13,78,261	(1,08,69,279)
LTCG (Total Income assuming he does not have any other income)		3,60,721
Total Income (rounded off)		3,60,720
Tax on total income		
LTCG @ 20% of 1,10,720 (3,60,720 - 2,50,000) (Exemption limit)		22,144
Less: Rebate u/s 87 A (100% of tax or 12,500 whichever is less)		(12,500)
Balance tax payable		9,644
Add: Surcharge @4%		386
Total tax payable		10,030

M17

Q4. Y bought a vacant land for 80 Lacs in May 2004. Registration & other expenses were 10% of cost of land. He constructed a residential building on said land for 100 Lacs during FY 2006-07.

He entered into an agreement for sale of above said residential house with J (not a relative) in April 2020. The sale consideration was fixed at 700 Lacs & on 23.4.2020, Y received 20 Lacs as advance in cash by executing an agreement. Sale deed was executed & registered on 14.1.2022 for agreed consideration. However, State Stamp Valuation Authority had revised the values, hence value of property for stamp duty purposes was Rs. 770 Lacs. Y paid 1 % as brokerage on sale consideration received. Subsequent to sale, Y made following Investments:

- Acquired a residential house at Delhi for 110 Lacs.
- Acquired a residential house at London for 190 Lacs.
- Subscribed to NHAI bond (approved u/s 54EC) for 45 Lacs on 29.03.2022 & for 50 Lacs on 12.05.2022.

Compute income u/h 'Capital Gains'. Choice of exemption must be in the manner most beneficial to assessee.

Cost Inflation Index: FY 2004-05 = 113; FY 2006-07 = 122; FY 2021-22 = 317.

Answer: **Computation of capital gains**

Particulars	Amount (Lacs)	
Full value of consideration	770	
Less: Expenses on transfer - brokerage @ 1%	(7)	**763**
Less: Indexed COA (80 Lacs + 10% on 80 Lacs = 88 Lacs) x 317/113	(246.867)	
Less: Indexed cost of improvement (100 Lacs x 317/122)	(259.836)	(506.703)
Long Term Capital Gains		**256.297**
Less: Exemption u/s 54: Investment in residential house in Delhi (Note Below)	(110.00)	
Less: Exemption u/s 54 EC: Investment in NHAI Bonds maximum 50 Lacs	(50.00)	(160.00)
Taxable Long Term Capital Gains		96.297

Note: Exemption u/s is available only for HP in India. Thus, House in London is not eligible for exemption.

N17

Q5. Mr. Sunil entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16.8.2021 for 80,00,000. Sale proceeds were to be paid in the following manner;
(i) 20% through A/c payee bank draft on date of agreement (ii) 60% on the date of possession of property.
(iii) Balance after completion of registration of the title of the property.
Mr. Dhaval was handed over possession of property on 15.12.2021 & registration process was completed on 14.1.2022. He paid sale proceeds as per the sale agreement. Value determined by Stamp Duty Authority on 16.8.2021 was 94,00,000 whereas, on 14.1.2022 it was 96,00,000. Mr. Sunil had acquired the property on 1.4.2001 for 20,00,000. After recovering sale proceeds from Dhaval, he purchased another residential HP for 32,00,000. Compute income u/h "Capital Gains" for AY 2022-23. CII for FY: 2001-02: 100; 2021-22: 317

Answer: **Computation of Capital Gains**

Particulars	Amount
Consideration price SDV on date of agreement	97,00,000
Less: Index cost of acquisition (Rs. 20 Lacs x 317/100)	(63,40,000)
Long Term Capital Gains	**33,60,000**
Less: Exempt u/s 54	(32,00,000)
Taxable Long Term Capital Gains	**1,60,000**

M18

Q6. Star Enterprises has transferred its unit R to A Ltd. by way of Slump Sale on 23.1.2022. The summarized Balance Sheet of Star Enterprises as on that date is given below:

Liabilities	Amount (in lac)	Assets	Amount (in lac)
Own Capital	1,750	Fixed Assets:	
Accumulated P & L balance	670	- Unit P	200
Liabilities:		- Unit Q	150
- Unit P	90	- Unit R	600
- Unit Q	160	Other Assets:	
- Unit R	140	- Unit P	570
		- Unit Q	850
		- Unit R	440
Total	**2,810**	**Total**	**2,810**

Using information below, compute Capital Gains arising from slump sale of Unit R for AY 2022- 23.

1. Slump sale consideration on transfer of Unit R was 930 lacs.
2. Fixed Assets of Unit R includes land which was purchased at 110 lacs in the year 2008 & was revalued at 140 lacs. Stamp duty value of land as on 31.03.2021 is Rs. 150 lacs.
3. Other fixed assets are reflected at Rs. 460 lacs. (i.e. ₹ 600 lacs - value of land) which represents WDV of those assets as per books. Written down value of these asset is 430 lacs.
4. Unit R was set up by Star Enterprises in Oct, 2006.
   Note: Cost of Inflation Indices for FY 2006-07 & FY 2021-22 are 122 & 317 respectively.

M18 **Answer:** **Computation of net worth of Unit R**

Unit R	Amount (in lacs)
Fixed assets	
- Land (valued at book value ignoring any change due to revaluation)	110
- Other depreciable Assets (valued at WDV)	430
Other assets (valued at book value)	440
Total Assets (A)	**980**
Less: Liabilities (B)	(140)
Net worth = (A) - (B)	**840**

Particulars	Amount (in lacs)
Sale Consideration [Higher of Actual Consideration or FMV – Amendment] [ASC = Rs. 930 Lacs or FMV = 610 Lacs (460 + 150)]	930
Less: Cost of acquisition = Net worth	(840)
Long Term Capital Gains	90

Q7. Mrs. Mahalakshmi an individual, aged 68 years, mortgaged her Residential Property purchased for 3 Lacs on 01.10.2004, with a bank under a notified reverse mortgage scheme & was sanctioned a loan of 20 Lacs. As per said scheme she was receiving loan amount in equal monthly instalments of 30,000 p.m. from the bank. Mrs. Mahalakshmi was not able to repay loan on maturity & in lieu of settlement of loan surrenders residential property to bank. Bank sold the property for 25 Lacs on 22.02.2022. She had no other income. Discuss Tax consequences & compute tax for AY 2022-23. [CII for: 2004-05:113; 2021-22:317] Assume Mrs. Mahalakshmi: (a) does not opt to be taxed u/s 115BAC; (b) opts to be taxed u/s 115B AC

Answer: Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made & notified by CG shall not be regarded as transfer. Any amount received by an individual as a loan, either in lump sum or in instalment, in a transaction of reverse mortgage shall not treated as transfer & hence shall be exempt. Thus, Receipt of equal monthly instalment of 30,000 by Mrs. Mahalakshmi is exempted from tax.

When Mrs Mahalakshmi surrenders residential HP to bank, it would amount to transfer & shall be taxable.

Computation of Total Income	Amount
Full Value of consideration	25,00,000
Less: Indexed Cost of Acquisition (3,00,000 x 317/113)	(8,41,593)
Capital Gain Chargeable to Tax	**16,58,407**
Gross Total Income/Total Income (as no deductions)	16,58,410

Computation of Tax

Particulars	115BAC not opted	Opts 115BAC
Total Income (without LTCG)	Nil	
Tax on other Incomes	Nil	Nil
Tax on Long Term Capital Gains [20% of 13,58,410 i.e. (16,58,410 - 3,00,000)] [20% of 14,08,410 i.e. (16,58,410 - 2,50,000)]	2,71,682	2,81,682
Add: Health & education cess @ 4%	10,867	11,267
Total Tax Payable (rounded off)	**2,82,550**	**2,92,950**

N18

Q8. Mr. Subramani sold a house plot to Mrs. Vimala for 45 Lacs on 12.5.2021. The valuation determined by stamp valuation authority was 53 Lacs. Discuss tax consequences of above, in hands of each one of them, viz, Mr. Subramani & Mrs. Vimala. Mrs. Vimala has sold this plot to Ms. Padmaja on 21.3.2022 for 55 Lacs. The valuation as per stamp valuation authority remains same at 53 Lacs. Compute capital gains arising on sale of house plot by Mrs. Vimala. [**Note:** None of the parties are related to each other]

Answer:

- **Taxability in hands of Mr. Subramani:**

  As per section 50C, where consideration received as a result of transfer of capital asset being land or building or both is less than SDV & the SDV exceeds 110% of consideration so received, then SDV shall be deemed to be the full value of consideration.

  Sales consideration of house sold = 45 Lacs; SDV = 53 Lacs

  Hence, as per provisions of section 50C, full value of consideration of house in hands of Mr. Subramani shall be 53 Lacs & capital gains, if any, on such sale would be computed after reducing the cost of acquisition & cost of improvement, if any.

- **Taxability in hands of Mrs. Vimala**

  As per section 56(2)(x), if any person receives any immovable property for a consideration which is less than SDV, & difference between sales consideration & SDV exceeds higher of the following:

  - 50,000; &
  - 10% of consideration,

  then such excess amount shall be considered to be gift in the hands of the receiver.

  In the given case, Mrs. Vimala purchased house which is less than SDV by the prescribed threshold. Hence, difference amount of 8 Lacs (53 Lacs - 45 Lacs) shall be taxable u/h IFOS in hands of Mrs. Vimala.

  Further, since said immovable property is held for less than 2 years, capital gains arising from sale of such property shall be taxable in hands of Mrs. Vimala as STCG.

  Computation of capital gains in the hands of Mrs. Vimala:

Particulars	Amount
Full Value of consideration	55,00,000
Less: Cost of Acquisition [Section 50(4)]	(53,00,000)
Short term capital Gains	2,00,000

M19

Q9. Mr. Roy owned a residential house in Noida. It was acquired on 9.9.2009 for 30,00,000. He sold it for 1,57,00,000 on 7.1.2018. Mr. Roy utilized sale proceeds of above property to acquire a residential house in Panchkula for 2,05,00,000 on 20.7.2018. The said HP was sold on 31.5.2021 & he purchased another residential house in Delhi for 2,57,00,000 on 2.3.2021. The property at Panchkula was sold for 3,25,00,000. Calculate capital gains chargeable to tax for AY 2018-19 & 2022-23.

Cost inflation index for FY: 2009-10: 148; 2017-18: 272; 2018-19:280; 2021-22:317

Answer:

Computation of Capital Gains for AY 2017-18	**Amount**
Full value of consideration	1,57,00,000
Less: Indexed cost of acquisition (30,00,000 x 272/148)	55,13,514
Long Term Capital Gains	1,01,86,486
Less: Exemption u/s 54	1,01,86,486
Taxable Long Term Capital Gains	Nil
Computation of Capital Gains for the AY 2022-23	**Amount**
Full value of consideration	3,25,00,000
Less: Indexation of Net COA [i.e., 2,05,00,000 - 1,01,86,486] = 1,03,13,514 x 317/280	1,16,76,371
Long Term Capital Gains	2,08,23,629
Less: Exemption u/s 54 (amount invested 2,57,00,000 but limited to LTCG)	2,08,23,629
Taxable Long Term Capital Gains	Nil

N19

Q10. Mr. Rajan provides you following details with regard to sale of certain securities by him during FY 2021-22:

1. Sold 10000 shares of A Ltd, on 5.4.2021 @ 650 per share A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 5.4.2016 @ 100 per share. STT was paid both at time of acquisition as well as at time of transfer of such shares which was affected through a recognized stock exchange. On 31.1.2018, shares of A Ltd. were traded on a recognized stock exchange as under:
   Highest price - 300 per share; Average price - 290 per share; Lowest price - 280 per share
2. Sold 1000 units of B Mutual Fund on 20.4.2021 @ 50 per unit. B Mutual Fund is an equity-oriented fund. These units were acquired by Mr. Rajan on 15.4.2017 @ 10 per unit. STT was paid only at time of transfer of such units. On 31.1.2018, Net Asset Value of units of B Mutual Fund was 55 per unit.
3. Sold 100 shares of C Ltd, on 25.4.2021 @ 200 per share. C Ltd. is an un-listed company. These shares were issued by company as bonus shares on 30.09.1998. FMV of these shares as on 1.4.2001 was 50 per share.
   Cost Inflation Index for various FY are: 2001-02:100; 2016-17:264; 2017-18: 272; 2021-22:317

Calculate amount taxable u/h 'Capital Gains' & also calculate tax on such gains for AY 2022-23 assuming that other incomes of Mr. Rajan exceed maximum amount not chargeable to tax. (Ignore surcharge & cess).

Answer: **Computation of capital gains for AY 2022-23**

	Particular	Amount
1	**1000 Original shares of A Ltd (Listed company)**	
	Sale proceeds (10,000 x 650)	65,00,000
	Less: Cost of acquisition (See Note 1) (indexation not allowed)	30,00,000
	LTCG (1)	**35,00,000**
2	**1000 units of B Mutual Fund**	
	Sale proceeds (1000 x 50)	50,000
	Less: Cost of acquisition (See Note 2)	50,000
	LTCG (2)	Nil
3	**100 Bonus shares**	
	Sale proceeds (100 x 200)	20,000
	Less: Indexed cost of acquisition [FMV 50 x 100 x 317/100] [See Note 3]	15,850
	LTCG (3)	4,150
LTCG (1) + (2) + (3) = Rs. 35,00,000 + Nil + ₹ 4,750		35,04,150

Computation of Tax Liability

On 1000 Original shares of A Ltd. 35,00,000 - 1,00,000 = 34,00,000 @ 10% u/s 112A	3,40,000
Tax on 100 bonus shares of C Ltd. [Rs. 4,150 x 20%]	830
Tax payable excluding surcharge & cess	**3,40,830**

Notes:

1. **Determination of cost of acquisition:** Higher of following-
   (a) Cost of acquisition (10 Lacs) or (b) Lower of (i) FMV on 31.1.2018 (30 Lacs) or (ii) ASC (Rs. 65 Lacs)
2. **Determination of cost of acquisition:** Higher of following-
   (a) Cost of acquisition (10,000) or (b) Lower of (i) FMV on 31.1.2018 (55,000) or (ii) ASC (50,000)
3. Cost of acquisition of bonus shares acquired before 1.4.2001 is the FMV as on 1.4.2001 (higher of cost or FMV as on 1.4.2001 i.e., 50).

N20

Q11. Mr. Govind purchased 600 shares of "Y" limited at 130 per share on 26.2.1979. "Y" limited issued him, 1,200 bonus shares on 20.2.1984. FMV of these shares at Mumbai Stock Exchange as on 1.4.2001 was 900 per share & 2,000 per share as on 31.1.2018. On 31.1.2021 he converted 1000 shares as his stock in trade. The shares were traded at Mumbai Stock Exchange on that date at a high of 2,200 per share & closed for the day at 2,100 per share.

On 7.7.2021 Mr. Govind sold all 1800 shares @ 2,400 per share at Mumbai Stock Exchange & STT was paid. Compute total income of Mr. Govind for AY 2022-23.

Answer:

	Particulars	Amount	Amount
1	**Capital gain on 800 shares held as investment**		
	Full value of consideration price (800 x 24,000)	19,20,000	
	Less: Cost of acquisition (800 x 2,000) (See Note 1)	(16,00,000)	
	LTCG u/s 112A		3,20,000
2	**Capital gain on conversion of 1000 shares into stock-in-trade**		
	Full value of consideration (1000 x 2,200) being FMV	22,00,000	
	Less: Cost of acquisition (See Note 2)	(20,00,000)	
	LTCG u/s 112A		2,00,000
3	**Business income**		
	Sale price (1000 x 2,400)	24,00,000	
	Less: Cost of acquisition (FMV on date of conversion)	(22,00,000)	
	Income from business		2,00,000
4	**Total income**		**7,20,000**

Notes:

1. **Determination of cost of acquisition:** Higher of following-
   (a) Cost of acquisition (900 x 800 = 7,20,000) or
   (b) Lower of (i) FMV on 31.1.2018 (2,000 x 800 = 16,00,000) or (ii) ASC (2,400 x 800 = 19,20,000)
2. **Determination of cost of acquisition i.e., FMV as on 31.1.2021:** Higher of the following:
   (a) Cost of acquisition (900 x 1000 = 9,00,000) or
   (b) Lower of (i) FMV on 31.1.2018 (2,000 x 1000 = 20,00,000) or (ii) ASC (2200 x 1000 = 22,00,000)

CHAPTER 7. INCOME FROM OTHER SOURCES

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Rahul holding 28% of equity shares in a company, took a loan of Rs. 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of Rs. 4,00,000. The company is engaged in some manufacturing activity.

(a) Is amount of loan taxable as deemed dividend, if company is a company in which public are substantially interested?

(b) What would be your answer, if the lending company is a private limited company (i.e. a company in which the public are not substantially interested)?

Solution: Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend u/s 2(22)(e), to the extent the company possesses accumulated profits.

(a) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(b) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company & not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

Amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., Rs. 4,00,000 & not the amount of loan which is Rs. 5,00,000.

Q2. Mr. A (dealer in shares) received following without consideration during PY 2021-21 from his friend Mr. B:

(a) Cash gift of Rs. 75,000 on his anniversary, 15th April, 2021.

(b) Bullion, the fair market value of which was Rs. 60,000, on his birthday, 19th June, 2021.

(c) A plot of land at Faridabad on 1st July, 2021, the stamp value of which is 5 Lacs on that date. Mr. B had purchased the land in April, 2010.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, Rs.1000 shares of X Ltd. @ Rs. 400 each on 19th June, 2021, the fair market value of which was Rs. 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2021.

Further, on 1st November, 2021, Mr. A took possession of property (building) booked by him two years back at 20 lacs. The SDV of the property as on 1st November, 2021 was 32 Lacs & on the date of booking was 23 lacs. He had paid 1 Lacs by account payee cheque as down payment on the date of booking.

On 1st March, 2021, he sold the plot of land at Faridabad for 7 lacs.

Compute the income of Mr. A u/h 'Income from other sources' & 'Capital Gains' for AY 2022-23.

Solution: **Computation of "Income from other sources" of Mr. A for AY 2022-23**

Particulars	Rs.
Cash gift is taxable u/s 56(2)(x), since it exceeds Rs. 50,000	Rs. 75,000
Since bullion is included in definition of property, therefore, when bullion is received without consideration, same is taxable, since aggregate fair market value exceeds Rs. 50,000	Rs. 60,000
Stamp value of plot of land at Faridabad, received without consideration, is taxable u/s 56(2)(x)	Rs. 5,00,000
Difference of 2 lacs in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares & it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
Difference between the SDV of 23 Lacs on the date of booking & the actual consideration of 20 Lacs paid is taxable u/s 56(2)(x) since the difference exceeds 1,00,000, being the higher of Rs. 50,000 & 10% of consideration	Rs. 3,00,000
Income from Other Sources	**Rs. 9,35,000**

Computation of "Capital Gains" of Mr. A for the AY 2022-23

Particulars	Rs.
Sale Consideration	Rs. 7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax u/s 56(2)(x) as per section 49(4)]	Rs. 5,00,000
Short-term capital gains	**Rs. 2,00,000**

Note: Resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Q3. Discuss the taxability or otherwise of the following in the hands of the recipient u/s 56(2)(x) the Income-tax Act, 1961 -

1. Akhil HUF received Rs. 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is Karta of the HUF.
2. Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The SDV of the house property is Rs. Rs. 9,00,000.
3. Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was Rs. 100 per share. He also received jewellery worth Rs. 45,000 (FMV) from his nephew on the same day.
4. Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is Rs. 5,25,000.

Solution:

SN	Taxable	Amount	Reason
1	Taxable	Rs. 75,000	Sum of money exceeding Rs. 50,000 received without consideration from a non-relative is taxable u/s 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
2	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable u/s 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
3	Taxable	Rs. 55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs. 10,000) & jewellery (Rs. 45,000) exceeds Rs. 50,000. Hence, the entire amount of Rs. 55,000 shall be taxable.
4	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Q4. Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for 90 Lacs on 1.1.2021, when the SDV was 150 Lacs. The agreement was, however, entered into on 1.9.2021 when the SDV was 140 Lacs. Mr. Hari had received a down payment of 15 Lacs by a crossed cheque from Rajesh on the DOA. Discuss the tax implications in the hands of Hari & Rajesh, assuming that Mr. Hari has purchased the building for 75 Lacs on 12th July, 2020.

Would your answer be different if Hari was a share broker instead of a property dealer?

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

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in- trade & he has transferred the same for a consideration less than the SDV; & the SDV exceeds 110% of consideration. U/s 43CA, the option to adopt the SDV on the DOA can be exercised only if whole or part of the consideration	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration & the difference between the consideration & SDV exceeds Rs. 9,00,000, being the higher of Rs. 50,000

has been received on or before the DOA by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), & BHIM (Bharat Interface for Money) Aadhar Pay on or before the DOA. In this case, since the down payment of Rs. 15 Lacs is received on the DOA by crossed cheque & not account payee cheque, the option cannot be exercised. Therefore, Rs. 75 Lacs, being the difference between the SDV on the date of transfer i.e., Rs. 150 Lacs, & the purchase price i.e., Rs. 75 Lacs, would be chargeable as business income in the hands of Mr. Hari, since SDV exceeds 110% of the consideration.	& 10% of consideration. Therefore, 60 Lacs, being the difference between the SDV of the property on DOR (i.e., 150 Lacs) & the actual consideration (i.e., 90 Lacs) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the DOA is made by crossed cheque & not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), & BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock- in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than SDV; & SDV exceeds 110% of consideration. Thus, Rs. 75 Lacs, being the difference b/w SDV on DOR (i.e., 150 Lacs) & purchase price (i.e., 75 Lacs) would be taxable as STCG. It may be noted that u/s 50C, option to adopt the SDV on the DOA can be exercised only if whole or part of the consideration has been received on or before the DOA by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS etc. on or before the DOA. In this case, since down payment of 15 lakhs has been received on DOA by crossed cheque & not account payee cheque, the option cannot be exercised.	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration & the difference between the consideration & SDV exceeds Rs. 9,00,000, being the higher of Rs. 50,000 & 10% of consideration. Therefore, Rs. 60 Lacs, being the difference between the SDV of the property on DOR (i.e., Rs. 150 Lacs) & the actual consideration (i.e., Rs. 90 Lacs) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since payment on the DOA is made by crossed cheque & not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS etc..

Q5. Interest on enhanced compensation received by Mr. G during the PY 2021-22 is Rs. 5,00,000. Out of this interest, Rs. 1,50,000 relates to the PY 2018-19, Rs. 1,65,000 relates to PY & Rs. 1,85,000 relates to PY 2020-21. Discuss the tax implication, if any, of such interest income for AY 2023-24.

Solution: The entire interest of Rs. 5,00,000 would be taxable in the year of receipt, namely, PY 2021-22

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	Rs. 5,00,000
Less: Deduction u/s 57(iv) @50%	Rs. 2,50,000
Interest chargeable under the head "Income from other sources"	Rs. 2,50,000

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Discuss the taxability of the above transactions in case of the company assessee: **[May 2015]**

1. Balaji Pvt. Ltd. issued 26,000 equity shares of Rs. 10 each at a premium of 7. FMV on the date of issue is Rs. 13.
2. RAU Pvt. Ltd. issued 30,000 equity shares of 10 @ Rs. 9. FMV of each share on the date of issue is Rs. 5.

Solution:

1. Provisions of section 56(2)(viib) are attracted since the shares of a closely held company are issued at a premium & issue price exceeds the FMV of such shares.
   Consideration received by the company in excess of FMV of the shares would be taxable u/s 56(2)(viib).
   Therefore, Rs. 1,04,000 [Rs.17 – Rs.13) x 26,000 shares] shall be taxable u/s 56(2)(viib) in the hands of Balaji ltd.
2. Section 56(2)(viib) are not attracted since shares of a closely held company are not issued at a premium. Thus even if issue price > FMV of the shares, nothing shall be taxable since section 56(2)(viib) is not attracted.

Q2. Mr X has the following income for AY 2022-23. Compute the tax payable by Mr. X. **[Drafted by PC]**

Salary: Rs 6,00,000 (computed)	House Property: Rs. 3,00,000
Dividends from domestic company: Rs. 14 Lacs	LTCG (STT paid): Rs. 50,000
LTCG (STT not paid): Rs. 3 Lacs.	STCG: 2,00,000

Solution: **Computation of total income of X for AY 2022-23**

1. Income under the head salary (computed)		6,00,000
2. Income under the head house property (computed)		3,00,000
3. IFOS (Dividend) {Fully Taxable from AY 2021-22]	14,00,000	14,00,000
~~**Less:** Exemption u/s 10(34)/ Section 115BBDA~~	(10,00,000)	
4. Capital Gains		
LTCG (STT paid) - Not Taxable since < Rs. 1,00,000	Nil	
LTCG (STT not paid)	3 Lacs	
STCG (Normal)	2 Lacs	5,00,000
Gross total income		**28,00,000**

Computation of Tax payable

Tax on LTCG @ 20% = (3 lacs x 20%)	60,000
Tax on balance total income of Rs. 25 Lacs @ Slab Rate	8,32,500
Tax payable	8,92,500
Add: 4% HEC	35700
Total Tax Payable	**9,28,200**

Q3. Following is the P&L A/c of Mr. A, a Dealer in Shares & Securities for PY 2021-22:

Particulars	Rs.	Particulars	Rs.
To Trading Expenses	1,87,80,000	By Sales	2,17,62,000
To Administrative Expenses	3,15,000	By Interest on FD with Bank	49,500
To Financial Expenses	1,44,795	By Dividend from Indian Company	1,93,080
To Demat & Delivery Charges	13,050	By Interest on IT Refund (AY 2012-13)	690
To Securities Transaction Tax	16,500		
To Net Profit before Depreciation	27,35,925		

Compute the Tax Liability of Mr. A for AY 2022-23. **[Nov 2006]**

Solution: **Computation of Total Income & Tax Liability of Mr. A for AY 2022-23**

Particulars	Rs.	Rs.	Rs.
1. Profits & Gains from Business or Profession			
Net Profit before Depreciation		27,35,925	

Less: Items to be considered u/h "IFOS"			
Interest on FD	(49,500)		
Dividend from Indian Company	(1,93,080)		
Interest on IT Refund	(690)	(2,43,270)	24,92,655
2. Income from Other Sources			
(i) Income from Dividend – Taxable w.e.f. AY 2022-23 (ii) Interest on FD (iii) Interest on IT Refund		1,93,080 49,500 690	2,43,270
Gross Total Income			**27,35,925**
Less: Deduction under Chapter VI-A			Nil
Total Income (Rounded off)			27,35,930
Tax on Total Income [1,12,500 + (27,35930 - 10,00,000) x 30%]			18,48,430
Add: HEC at 4%			73,937
Net Tax Payable (Rounded off)			**19,22,370**

Note: Securities Transaction Tax is allowed as a deduction u/s 36(1)(xv).

Q4. Bharat Hurkat, a resident individual, submits the following particulars of his income for PY 2021-22.

(i) Royalty from a coal mine	Rs. 15,000
(iii) Salary as a member of Parliament	Rs. 5,00,000
(iv) Daily allowance as a member of Parliament	Rs. 2,50,000
(v) Dividend received from a cooperative society	Rs. 50,000
(vi) He has incurred the following expenses	
(a) Paid collection charges for collecting dividends	Rs. 1,000
(b) Amount spent for earning & collecting royalty income	Rs. 4,000

Compute his "Income from other sources" for AY 2022-23.

Solution:

Royalty from coal mine	Rs. 15,000	
Less: Collection charges	(Rs. 4,000)	Rs. 11,000
Salary as a member of Parliament		Rs. 5,00,000
Daily allowance as a member of Parliament – Exempt		Nil
Dividend from a Co-operative Society	Rs. 50,000	
Less: Collection charge	(Rs. 1,000)	Rs. 49,000
Total Income u/h IFOS		**Rs. 5,60,000**

Q5. Ms. Chhaya transferred a vacant site to Ms. Dayama for Rs. 4,25,000. The Stamp Valuation Authority fixed the value of vacant site for Stamp Duty purpose at Rs. 6,00,000. Total Income of Chhaya & Dayama before considering the transfer of vacant site are Rs. 50,000 & Rs. 2,05,000 respectively. Indexed Cost of Acquisition for Ms. Chhaya i.r.o vacant site is Rs. 4,00,000 (computed). Determine Total Income of both Ms. Chhaya & Ms. Dayama. **[May 2011]**

Solution: **Computation of Total Income of Ms. Chayya**

1.	**Long Term Capital Gains:**	
	Sale Consideration - Indexed Cost of Acquisition	2,00,000
2.	**Other income**	50,000
	Total income	**2,50,000**
	Computation of Total Income of Ms. Dayama	

Income from Other Sources: Gift (See Note) [6,00,000 – 4,25,000]	1,75,000
Other Income	2,05,000
Total Income	**3,80,000**

Note: If Immovable Property is received for inadequate consideration, & shortfall/inadequacy > Rs. 50,000, then Taxable Value of Gift is the difference between the SDV & Consideration paid.

Q6. Mr. Y submits the following information pertaining to the year ended 31.03.2021:
(a) On 30.11.2021, when he attained the age of 60, his friends in India gave a flat at Surat as a gift, each contributing a sum of Rs. 20,000 in cash. The cost of the flat purchased using the various gifts was Rs. 3.4 Lacs.
(b) His close friend in abroad sent him a Cash Gift of Rs. 75,000 through his relative, for the above occasion.
(c) Mr. Y sold the above flat on 30.01.2022 for Rs. 3 Lacs. The Registrar's valuation for stamp duty purposes was Rs. 3.7 Lacs. Neither Mr. Y nor the buyer, questioned the value fixed by the Registrar.
(d) He purchased some Equity Shares in X Pvt Ltd (unlisted) on 5.2.2022 for Rs. 3.5 Lacs, which were sold on 15.03.2021 for Rs. 3.20 Lacs. You are requested to calculate the Total Income of Y for AY 2022-23. **[MAY 2005]**

Solution: **Computation of Total Income of Mr. Y for AY 2022-23**

1	**STCG on sale of Flat at surat: [For being LTCA, POH for immovable property should be > 24 months**		
	Full Value of consideration [SDV using Section 50C]	3,70,000	
	Less: COA (Cost to Previous Owner since the asset is received by Gift)	(3,40,000)	30,000
2	**STCL on sale of unlisted shares: [For being LTCA, POH for unlisted shares should be > 24 months]**		
	Full Value of Consideration	3,20,000	
	Less: Cost of Acquisition	(3,50,000)	(30,000)
3	Income from Other Sources		
	Gift Received by way of Flat (Gift received in Kind or Cash is taxable)	3,40,000	
	Gift from Friend (Fully taxable as aggregate amount exceeds Rs. 50,000)	75,000	4,15,000
Gross Total Income			4,15,000
Less: Deduction under Chapter VI-A			Nil
Total Income			**4,15,000**

Note: STCL can be set-off against STCG/LTCG.

Q7. Discuss the taxability of the following in the hands of the recipient u/s 56(2)(x): **[Nov 2013]**
(a) Mr. Tejpal received a painting by M. F. Hussain worth 2 Lac from his nephew on his 10th wedding anniversary.
(b) Mrs. Maya received Cash Gift of Rs. 51,000 from her friend on the occasion of her 'Shastiaptha Poorthi', a wedding function celebrated on her husband completing 60 years of age. This was also her 25th Wedding Anniversary.
(c) Mrs. Maya also received a diamond necklace of Rs. 2 Lacs from her sister living in Dubai on the above occasion.
(d) When Mrs. Maya celebrated her daughter's wedding on 21.02.2022, her friend Miss. Saanj assigned in Mrs. Maya's favour a FD held in a Bank, (value of the Fixed Deposit & the accrued interest on the said date was Rs. 51,000).

Solution:
(a) Paintings are included in the definition of "property". Thus, when paintings are received without consideration & aggregate FMV of paintings exceed Rs. 50,000, FMV shall be taxable u/s 56(2)(x). Therefore, Rs. 2,00,000, being the value of painting gifted by his nephew, would be taxable u/s 56(2)(x) in the hands of Mr. Tejpal, since "nephew" is not included in the definition of "relative".
(b) Gift received from any other person other than a Relative is taxable. So, gift received from friend is taxable. (Shastiaptha Poorthi is not a marriage occasion). Rs. 51,000 is taxable.
(c) Sister is a relative & thus, gift received from sister is not taxable in the hands of Mrs. Maya.
(d) Gift received on marriage of an individual is not taxable. But, in this case, gift is received on marriage occasion of Assessee's daughter. Hence Rs. 51,000 is taxable in the hands of Assessee.

Q8. Mr. Chezian is employed in a Company with Taxable Salary Income of Rs. 5,00,000. He received a Cash Gift of Rs. 1 lac from Atma Chartiable Trust (registered u/s 12AA) in Dec, 2019 for meeting his Medical Expenses. Is the Cash Gift so received from the Trust chargeable to Tax in the hands of Mr. Chezian? **[May 2011]**

Solution:
- Amount received as Gift from any Trust / Institution registered u/s 12AA is exempt u/s 56.
- So, the amount of Rs. 1,00,000 is exempt from tax.

Q9. PCA Educator Ltd. has accumulated profits of Rs. 9 Lacs excluding capitalized profits i.e. bonus shares of Rs. 6 Lac issued in the past. It distributed assets of Rs. 15 Lacs to the shareholders during PY 2020-21. Compute taxable dividend if market value of the asset on the date of the distribution is Rs. 10 Lacs. What will be your answer if market value of the distributed assets is (ii) Rs. 14,00,000; (iii) Rs. 17,00,000.

Solution: Deemed dividend shall be taxable in hands of shareholders proportionate to their shareholding. Shareholders shall be liable to pay tax on FMV of asset on date of distribution subject to the maximum extent of accumulated profits, whether capitalized or not. Thus, deemed dividend to be taxed proportionately in hands of shareholders = Rs. 10 Lacs. (ii) Rs. 14 Lacs; (iii) Rs. 15 Lacs (accumulated profits including capitalized profit i.e bonus shares).

Q10. PCA Educators Pvt. Ltd gave a loan of Rs. 5,00,000 to Mr. Shubham who had 10% shares in the company. Loan is still outstanding. Thereafter, company declared dividend & has to pay a dividend of Rs. 1,00,000 to Mr. Shubham & such dividend is set off against such loan. In such case, Rs. 5,00,000 shall be deemed dividend as per section 2(22)(e). However, dividend of Rs. 1,00,000 which has been set off against such loan would not be liable to tax in hands of Mr. Shubham.

If amount distributed as dividend is not set off against the loan, shareholder shall be liable to pay tax on such amount paid also.

Further, if such dividend has been declared after the loan is refunded by Mr. Shubham, then he would be liable to pay tax on dividend of Rs. 1,00,000.

Q11. During PY 2021-22, Mr. Gagan received Rs. 5,32,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during FY 2013-14. The above amount of interest include interest relating to the following financial years:

FY 2015 – 16: Rs. 1,58,000	FY 2016-17: Rs. 1,78,000	FY 2017-18: Rs. 1,96,000

He incurred legal expenses of Rs. 75,000 in FY 2017-18 to receive interest on such enhanced compensation. Determine how much Interest on enhanced compensation would be taxable for AY 2022-23? Can he claim deduction i.r.o legal expenses from the amount of interest on enhanced compensation? **[N14/M17 &M14]**

Solution:
- Section 145A provides that interest received on enhanced compensation shall be deemed to be the income of the PY of receipt, irrespective of method of accounting followed & irrespective of FY to which it relates.
- 50% of such income shall be allowed as deduction by virtue of section 57(iv). Therefore, he cannot claim deduction i.r.o. legal expenses incurred to receive interest on enhanced compensation from such income.

Computation of interest on enhanced compensation taxable u/h 'IFOS' for AY 2022-23

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,32,000
Less: Deduction u/s 57(iv) (50% x Rs. 5,32,000)	2,66,000
Taxable interest on enhanced compensation	2,66,000

MASTER QUESTION ON "INCOME FROM OTHER SOURCES"

MQ1. Mr. PC furnishes the following particulars of his incomes for PY 2021-22. Compute his IFOS for AY 2022-23.

1	Dividend on equity shares	Rs. 6,000
2	Dividend on preference shares	Rs. 5,000
3	Dividend from a foreign company	Rs. 10,000
4	Dividends received from Assam Tea Ltd. (60% of the income is agricultural Income)	Rs. 25,000
5	Income from agricultural land in India	Rs. 12,000
6	Income from agricultural land in Pakistan	Rs. 10,000
7	Interest on Securities (Net)	Rs. 18,000
8	Winning from Horse-Race (Gross)	Rs. 13,000
9	Rent from sub-letting a house	Rs. 40,000
10	Rent payable by Mr. Mohan for the sub-let house	Rs. 25,000
11	Other expenses on sub-let-house	Rs. 5,000
12	Income from letting on hire of building & machinery under one composite lease	Rs. 22,000
13	Interest on Bank Deposits	Rs. 4,000
14	Directors sitting fees received	Rs. 10,000
15	Ground rent received from Land in Pathankot	Rs. 6,000
16	Income from undisclosed sources	Rs. 65,000
17	Amount received on account of winnings from lotteries	Rs. 25,000
Following deductions are claimed by him		
(a)	Allowable depreciation on Building & Machinery	Rs. 6,000
(b)	Fire Insurance on Building & Machinery	Rs. 1,000
(c)	Amount spent for buying lottery ticket	Rs. 5,000

Solution: **Computation of Income u/h IFOS in the hands of Mr. PC**

Dividend on equity shares	Rs. 6,000
Dividend on preference shares	Rs. 5,000
Dividend from a foreign company	Rs. 10,000
Dividends received from Assam Tea Ltd. (Since it is Indian company)	Rs. 25,000
Income from agricultural land in India	Exempt
Income from agricultural land in Pakistan	Rs. 10,000
Interest on Securities (after grossing up @ 10%) [18000/90%]	Rs. 20,000
Winning from Horse-Race [Gross amount is given, so no need to gross up again]	Rs. 13,000
Rent from sub-letting a house [Rs. 40,000 – 25,000 – 5,000]	Rs. 10,000
Income from letting of machinery & building after Expense [Rs. 22,000 - (Rs. 6,000 + Rs. 1000)]	Rs. 15,000
Interest on Bank Deposits	Rs. 4,000
Directors sitting fees received	Rs. 10,000
Ground rent received from Land in Pathankot	Rs. 6,000
Income from undisclosed sources – Taxable @ 78%	Rs. 65,000
Amount received on account of winnings from lotteries	Rs. 25,000

Notes:
(a) Amount spent for buying lottery ticket is not deductible. (Winning from lottery is taxable @ 30%)
(b) Agricultural income from land situated in India is exempt u/s 10.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Examine under which heads the following incomes are taxable:
(a) Rental income in case property held as stock-in-trade for 3 years
(b) Dividend on shares in case of a dealer in shares
(c) Salary received by a partner from his partnership firm
(d) Rental income of machinery
(e) Winnings from lotteries by a person having the same as business activity
(f) Salaries payable to a Member of Parliament
(g) Receipts without consideration
(h) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
(i) Rental income in case of a person engaged in the business of letting out of properties.

Solution:

	Particulars	Head of Income
(a)	Rental income in case property held as SIT for 3 years	HP
(b)	Dividend on shares in case of a dealer in shares	IFOS
(c)	Salary by partner from his partnership firm	PGBP
(d)	Rental income of machinery (See Note below)	PGBP/IFOS
(e)	Winnings from lotteries by a person having the same as business activity	IFOS
(f)	Salaries payable to a Memberof Parliament	IFOS
(g)	Receipts without consideration	IFOS
(h)	In case of retirement, interest on employee's contribution if it is unrecognized PF	IFOS
(i)	Rental income in case of a person engaged in the business of letting out of properties	PGBP

Note: As per section 56(2)(ii), rental income of machinery would be taxable u/h 'Income from Other Sources', if it is not taxable u/h 'Profits & gains of business or profession'.

Q2. Examine whether the following are chargeable to tax & the amount liable to tax:
A sum of Rs. 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
Interest on enhanced compensation of Rs. 96,000 received on 12-3-2022 for acquisition of urban land, of which 40% relates to PY 2020-21.

Solution:

SN	Taxable	Amount	Reason
(i)	Taxable	Rs. 1,20,000	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 u/s 56(2)(x).
(ii)	Taxable	Rs. 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 Rs. 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. PY 2020-21 u/s 56(2)(viii) after providing deduction of 50% u/s 57(iv). Therefore, Rs. 48,000 is chargeable to tax under the head "Income from other sources".

Q3. On 10.10.2021, Mr. Govind (a bank employee) received Rs. 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.
Out of this interest, Rs. 1,50,000 relates to the financial year 2016-17; Rs. 1,65,000 to the financial year 2017-18; & Rs. 1,85,000 to the financial year 2018-19. He incurred Rs. 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 AY 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 & 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) & 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 for the AY 2022-23:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	Rs. 5,00,000
Less: Deduction u/s 57(iv) (50% x Rs. 5,00,000)	Rs. 2,50,000
Taxable interest on enhanced compensation	**Rs. 2,50,000**

Q4. The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2022:

(a) Cash gift of Rs. 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husb& completing 60 years of age. This was also her 25th wedding anniversary.

(b) On the above occasion, a diamond necklace worth 2 lacs was presented by her sister living in Dubai.

(c) 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 & the accrued interest on the said date was Rs. 52,000. **Compute the income, if any, assessable as income from other sources.**

Solution:

(a) Any sum of money received by an individual on the occasion of 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.
Gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax u/s 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs. 50,000.

(b) 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 sister is not taxable u/s 56(2)(x), even though jewellery falls within the definition of "property".

(c) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of 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 u/s 56(2)(x), if the aggregate value exceeds Rs. 50,000 in a year. "Sum of money" has, however, not been defined u/s 56(2)(x).
Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali:
 (1) First view is that fixed deposit does not fall within the meaning of "sum of money" & therefore, 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 Rs. 51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

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

Q5. Examine the following transactions in the context of Income-tax Act, 1961:

(a) Mr. B transferred Rs. 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2020 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs. 4,45,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mr. B & M/s. B Co. (P) Ltd. because of the above said transaction.

(b) Mr. Chezian is employed in a company with taxable salary income of Rs. 5,00,000. He received a cash gift of Rs. 1,00,000 from Atma Charitable Trust (registered u/s 12AB) in December 2020 for meeting his medical expenses.
Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

Answer

(a) Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property & consideration exceeds 50,000.
Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax u/s 56(2)(x) to the extent of Rs. 2,00,000.
As per section 50CA, since, the consideration is less than FMV f 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. LTCG = FVC – Indexed COA [Rs. 5,00,000 - Rs. 4,55,000] = Rs. 55,000 in the hands of Mr. B.

(b) Section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered u/s 12AB. Therefore, the cash gift of 1 Lacs received from Atma Charitable Trust, being a trust registered u/s 12AB, for meeting medical expenses would not be chargeable to tax u/s 56(2)(x) in the hands of Mr. Chezian.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18	**Q1.** From the following transactions relating to Mrs. Sonu, determine taxable amount in her hands for AY 2022-23. Your answer should be supported by reasons: (a) Received cash gifts on the occasion of her marriage on 19.11.2021 of Rs. 2,10,000. It includes gift of Rs. 55,000 received from non-relatives. (b) On 1.01.2022, being her birthday, she received a gift of Rs. 45,000 by means of cheque from her father's maternal uncle. (c) On 12.02.2022, she acquired a vacant site from her friend for Rs. 1,12,000. The State stamp valuation authority fixed the value of site at Rs. 1,92,000 for stamp duty purpose. (d) She bought 50 equity shares of a private company from another friend for Rs. 75,000. Fair market value of such shares on the date of purchase was Rs. 1,33,000. **Solution:** (a) **Nil.** Cash gift of Rs. 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax u/s 56(2)(x), even if the same are from non-relatives. (b) **Nil.** Even though father's maternal uncle does not fall within the definition of "relative" u/s 56(2)(x), gift of Rs. 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during PY 2021-22 does not exceed Rs. 50,000. (c) **Rs. 80,000.** Purchase of vacant site for inadequate consideration on 12.2.2019 would attract the provisions of section 56(2)(x). As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the SDV on the DOA or DOR as the case may be, & the difference between actual consideration & SDV so considered is more than the higher of Rs. 50,000 or 5% of the consideration so received, then the difference between such value & actual consideration of such property is chargeable to tax as income from other sources. Therefore, in the given case Rs. 80,000 (Rs. 1,92,000 - Rs. 1,12,000) is taxable in the hands of Mrs. Sonu. (d) **Rs. 58,000.** Since shares are included in the definition of "property" & difference b/w purchase value & FMV of shares is Rs. 58,000 (Rs. 1,33,000 - Rs. 75,000) i.e. it exceeds Rs. 50,000, difference would be taxable u/s 56(2)(x).
Nov 18	**Q2.** Mr. Pranav has 15% shareholding in TRP (P) Ltd. (engaged in trading business of toys) & has also 50% share in Pranav & Sons, a partnership firm. Accumulated profit of TRP(P) Ltd. is Rs. 30 lacs. Pranav & Sons had taken a loan of Rs. 35 lacs from TRP(P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961. **Solution:** Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern) is deemed as dividend, to the extent the company possesses accumulated profits. In present case, loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is beneficial owner of 15% shareholding in TRP(P) Ltd. & also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of income of the firm).

	However, amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of Rs. 35 lakhs given to Pranav & Sons, only Rs. 30 lacs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend. **Q3.** Discuss the taxability in the hands of the recipients: (a) MNS Private Limited, a closely held company, issued 12,000 shares at Rs. 125 per share. (Face value of the share is Rs. 80 per share & FMV of the share is Rs. 110 per share). (b) Mr. Arun received advance of Rs. 56,000 on 11.9.2019 against the sale of his house. However, due to non-payment of instalment in time, contract has cancelled & Rs. 56,000 was forfeited. (c) Mr. Nitin, transferred a house to his son Mr. Raj without consideration. SDV is Rs. 12 lacs. (d) Mr. Tanmay gifted a refrigerator to his sister's daughter on her marriage. FMV = Rs. 75,000. **Solution:** (a) **Taxable.** Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium, 'Issue price – FMV' would be taxable u/s 56(2)(viib) in its hands u/h 'IFOS'. Therefore, Rs. 1,80,000 [12,000 × Rs. 15 (Rs. 125 – Rs. 110)] shall be taxable as income in the hands of MNS Private Limited u/h "Income from other sources". (b) **Taxable.** Any sum of money received as an advance in the course of negotiations for transfer of a capital asset would be chargeable to tax u/h "IFOS", if such amount is forfeited & negotiations do not result in transfer of such capital asset [Sec. 56(2)(ix)]. Therefore, the amount of Rs. 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun u/h "IFOS", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time. (c) **Not Taxable.** As per section 56(2)(x), immovable property received without consideration by any person from his relative is **not** taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, Rs. 12 lacs, being the SDV of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj. (d) **Not Taxable.** Refrigerator is **not** included in the definition of "property", for the purpose of taxability u/s 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, Rs. 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of her marriage is not taxable in the hands of Tannu, even though its value exceeds Rs. 50,000.
May 19 [IMP]	**Q4.** Mr. Suraj sold a house to his friend Mr. Ganesh on 18th Sep 2021 for Rs. 42 Lacs. On DOR, SDV of the said property is Rs. 45 Lacs. However, on the DOA SDV of the said property was Rs. 44 Lacs. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of total value of the property. What are the tax implications in the hands of Mr. Suraj & Mr. Ganesh for AY 2022-23? Mr. Suraj had purchased the land on 19th February, 2014 for Rs. 9,20,000 & completed the construction of house on 18th January 2020 for Rs. 15,50,000. **[CII:** FY 2012-13: 200; FY 2016-17: 264; FY 2018-19: 289; FY 2019-20: 301] **Solution:** **In the hands of the seller, Mr. Suraj** ▪ As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than SDV, SDV shall be deemed to be the full value of consideration. ▪ However, where DOR & DOA are not the same & part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the DOA, then SDV on the DOA may be taken to be the full value of consideration. ▪ Further, where the SDV on the DOA or registration, as the case may be, does not exceed 110% of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration. ▪ In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the DOA, the SDV of Rs. 44,00,000 on the DOA would be taken for the purpose of computing FVC.

- Further, since SDV of land & building of Rs. 44,00,000 does not exceed Rs. 46,20,000 i.e., 110% of Rs. 42,00,000, the consideration received i.e., Rs. 42,00,000 i.r.o. land & building would be deemed to be the full value of consideration.
- In the given problem, land has been held for a period exceeding 24 months & building for a period less than 24 months immediately preceding the date of transfer. So, Land is a long-term capital asset, while building is a short-term capital asset.
- Accordingly, capital gains would be determined in the following manner:

Particulars	Rs.
Long term capital gain on sale of land	
Consideration received/accruing for transfer of land [70% of Rs. 42 Lacs]	29,40,000
Less: Indexed cost of acquisition [Rs. 9,20,000 x 301/200]	13,84,600
Long-term capital gain (A)	**15,55,400**
Short-term capital loss on sale of building	
Consideration received from transfer of building [30% of Rs. 42 Lacs]	12,60,000
Less: Cost of acquisition	15,50,000
Short term capital loss (B)	**(2,90,000)**

STCL can be set-off against LTCG. Therefore, net taxable LTCG = Rs. 13,20,600 (Rs. 16,10,600 – Rs. 2,90,000). It is taxable @ 20% u/s 112, after adjusting unexhausted BEL against such LTCG.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the SDV on the DOA or DOR as the case may be, & the difference between actual consideration & SDV so considered is more than higher of Rs. 50,000 or 10% of actual consideration, then difference between such value & actual consideration of such property is chargeable to tax as income from other sources.

Where DOR & DOA are not the same & part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the DOA, then SDV on the DOA may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the SDV on the DOA has to be taken. Further, since difference of Rs. 2,00,000 is not more than Rs. 4,20,000 being higher of Rs. 50,000 & Rs. 4,20,000 (10% of Rs. 42,00,000), no income would be chargeable to tax as income from other sources in hands of Mr. Ganesh.

Nov 19

Q5. APM Ltd. is a pioneer company in textile industry. At the end of PY 2021-22, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was Rs. 25 lacs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During PY 2021-22, Mr. A received deposit certificate (without interest) valuing Rs. 5,00,000 from APM Ltd. Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

[Updated after abolisition of DDT]

(a) Deposit Receipts (without interest) are taxable to the extent of Rs. 2,50,000 u/h "IFOS".
(b) Deposit Receipts (without interest) are fully taxable under Income from other sources.
(c) Deposit Receipts (without interest) are exempt since DDT is payable by the company.
(d) Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A.

May 20 — **No Direct Question was asked.**

Nov 20 — **No Direct Question was asked.**

May 21 — **No Direct Question was asked.**

Nov 21

Q6. Mr. Vikas received a gold ring worth 60,000 on occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth 80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas & Ms. Kavya?

(a) Yes, the gift of gold ring & gold chain is taxable in the hands of Mr. Vikas & Ms. Kavya, respectively.
(b) Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya.

	(c) Value of gold ring is taxable in hands of Mr. Vikas but value of gold chain is not taxable in hands of Ms. Kavya. (d) Value of gold chain is taxable in hands of Ms. Kavya but value of gold ring is not taxable in hands of Mr. Vikas.

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15	**No Direct Question was asked.**
N15	**No Direct Question was asked.**
M16	**Q1.** Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961: (i) ABC Private Limited, a closely held company, issued 10,000 shares at 130 per share. (Face value of share is 100 per share & fair market value of share is 120 per share). (ii) Mr. A received an advance of 50,000 on 1.9.2021 against the sale of his house. However, due to non-payment of instalment in time, the contract was cancelled & amount of 50,000 was forfeited. (iii) Mr. N, a member of his father's HUF, transferred HP to HUF without consideration. Value of the house is 10 lacs as per the Registrar of stamp duty. (iv) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving good marks in CA Final exam. Fair market value of the car is 5,00,000. **Solution:** (i) As per section 56(2) (viib), where a company, not being a company in which the public are substantially interested, receives, in any PY, from any person being a resident, any consideration for issue of shares & if the consideration received for issue of shares exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares shall be chargeable to income-tax u/h "IFOS sources". Therefore, 10 per share i.e. Rs. 1,00,000 shall be chargeable to income-tax u/h IFOS. (ii) According to section 56(2) (/x), any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset shall be taxable u/h IFOS if: (a) such sum is forfeited; & (b) the negotiations do not result in transfer of such capital asset. Therefore, 50,000 shall be taxable u/h IFOS. (iii) As per section 56(2), where any immovable property is received by any person from any person(s) without consideration & the SDV of which exceeds 50,000, SDV of such property shall be taxable in the hands of the recipient. However, this provision is not applicable if the property is received from a relative. In case of HUF, any member of the HUF is a relative. Hence, nothing shall be taxable in this case. (iv) Where a person receives any property from any unrelated person or persons, it shall be taxable u/h "IFOS" as per section 56(2)(x). However, any property received from a relative is not covered under this provision. Sunil has received the car from the brother of his mother who is a relative & therefore this section is not attracted. Further, for the purpose of this section "property" means immovable property being land or building or both; shares & securities; jewellery; archaeological collections; drawings; paintings; sculptures; or any work of art; bullion. Car is not covered within this meaning. **Q2.** Dividend received by a dealer in shares or one engaged in buying/ selling of shares, is chargeable u/h "IFOS". State True or False. **Answer:** True. Dividend is taxable u/h IFOS. As it is specifically taxable u/h IFOS although the assessee may be a dealer & may be engaged in the business of buying/selling of shares.
N16	**Q3.** R has 15% shareholding in RSL (P) Ltd. & has also 50% share in Rakesh & Sons, a partnership firm. Accumulated profit of RSL (P) Ltd. is 20 Lakhs. Rakesh & Sons had taken a loan of 25 Lakhs from RSL (P) Ltd. Explain whether above loan is treated as dividend as per provisions of Income-tax Act, 1961. **Answer:** As per section 2(22) (e), any payment by a closely held company (i.e., a company in which public are not substantially interested), of any sum by way of advance or loan - to a shareholder, being a person who is beneficial owner of shares holding not less than 10% of voting power, or

- to any concern in which such shareholder is a partner & in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of income of such concern)

  is deemed as dividend, to the extent to which company possesses accumulated profits.

Hence, loan given by RSL (P) Ltd. to Rakesh & Sons, a partnership firm would be deemed as dividend, as R is beneficial owner of 15% shareholding in RSL (P) Ltd. & also has substantial interest in Rakesh & Sons (as he is entitled to 50% share of profit of the firm).

However, amount of loan would be deemed as dividend only to the extent RSL (P) Ltd. possesses accumulated profits. Hence, 20 lakhs, being amount of accumulated profit of RSL (P) Ltd., would be deemed as dividend on which shareholder i.e., R shall include such income in his total income.

M17 — **No Direct Question was asked.**

N17 — **No Direct Question was asked.**

M18

Q4. Discuss taxability of following receipts in hands of Mr. Sanjay Kamboj for AY 2022-23:

(i) 51,000 received from his sister living in US on 1.6.2021.

(ii) Received a car from his friend on payment of Rs. 2,50,000, FMV of which was Rs. 5,50,000. Provisions of taxability or non-taxability must be discussed.

Answer:

(i) Any sum received without consideration, aggregate value of which exceeds 50,000, the whole of the aggregate value of such sum is chargeable to income tax. However, this provision is not applicable for receipt from relatives. Assuming receipt of money from relative is without any consideration (i.e., gift), it is not chargeable to tax in hands of Mr Sanjay Kamboj.

(ii) As car is not a property within meaning of section 56(2)(x) of the Act. Therefore, the difference between FMV & consideration paid cannot be treated as income chargeable to tax.

N18 — **No Direct Question was asked.**

M19 — **No Direct Question was asked.**

N19

Q5. MLX Investments (P) Ltd. was incorporated during PY 2017-18 having a paid-up capital of 10 Lakhs. In order to increase its capital, company further issues, 1,00,000 shares (having FV of 100 each) during the year at par as on 1.8.2021. FMV of such share as on 1.8.2021 was 85.

(i) Determine the tax implications of above transaction in hands of company, assuming it is the only transaction made during the year.

(ii) Will your answer change, if shares were issued at 105 each?

(iii) What will be your answer, if shares were issued at 105 & FMV of share was 120 as on 1.8.2021?

Answer:

SN	No. of shares	FV of shares	FMV of shares	Issue price of shares	Applicability of section 56(2)(viib)
(i)	100,000	100	85	100	Section 56(2)(viib) is not attracted since , shares are issued at face value, though issue price > FMV.
(ii)	100,000	100	85	105	Provisions of section 56(2) (viib) are attracted in this case since, shares are issued at a premium (i.e., issue price exceeds face value of shares). Excess of issue price of shares over FMV would be taxable u/s 56(2)(viib). Rs. 20,00,000 [Rs. 100,000 x Rs. 20 (105 - 85)] shall be treated as income in hands of MLX Investments (P) Ltd.
(iii)	100,000	100	120	105	Provisions of section 56(2)(viib) are, though attracted since shares are issued at a premium, but no sum shall be chargeable to tax in hands of MLX Investments (P) Ltd. under said section as shares are issued at a price less than FMV of shares.

N20	**Q6.** Ms. Julie received following amounts during PY 2021-22. (1) Received loan of 5,00,000 from ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of equity share capital in said company. Accumulated profit of company was 2,00,000 on the date of loan. (2) Received Interest on enhanced compensation of 5,00,000. Out of this interest 1,50,000 relates to PY 2018-19, 1,90,000 relates to PY 2019-20 & 1,60,000 relates to PY 2020-21. She paid 1 Lacs to her advocate for his efforts in the matter. Discuss tax implications, if any, arising from these transactions in her hand with reference to AY 2022-23. **Answer:** (1) Ms. Julie is a shareholder having substantial interest in the closely held company ABC Pvt. Ltd. As per section 2(22)(e), any loan received from a closely held company by a shareholder having substantial interest is deemed to be dividend in hands of the shareholder to the extent company possesses accumulated profits on date of loan. Hence, 2,00,000 shall be taxable as dividend in hands of Ms. Julie. (2) As per section 145B (1), any interest received by an assessee on compensation or enhanced compensation, as the case may be, shall be deemed to be income of year in which it is received. Further, as per section 56(2)(viii), income by way of interest received on compensation or on enhanced compensation referred to in section 145B(1) above shall be taxable u/h IFOS in PY in which such interest is received. Further, as per section 57(iv), in case of above interest, a deduction of a sum equal to 50% of such income shall be allowed to assessee & no deduction shall be allowed under any other clause of section 57.

Particulars	Amounts
Interest on enhanced compensation received	5,00,000
Less: Deduction @ 50%	(2,50,000)
Balance taxable	2,50,000

CHAPTER 8. CLUBBING OF INCOME QB

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will rental income from godown be charged?

Answer:

- Section 60 expressly states that where there is transfer of income from an asset without transfer of asset itself, such income shall be included in the total income of the transferor.
- Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Q2. Mr. A holds shares carrying 25% voting power in X Ltd. Mrs. A is working as a computer software programmer in X Ltd. at a salary of Rs. 30,000 p.m. She is, however, not qualified for the job. Other income of Mr. A & Mrs. A are Rs. 7,00,000 & Rs. 4,00,000, respectively. Compute the gross total income of Mr. A & Mrs. A for AY 2022-23.

Answer:

- Mr. A holds shares carrying 25% voting power in X Ltd i.e. a substantial interest in the company.
- His wife is working in the same company without any professional qualifications for the same.
- Thus, salary received by Mrs. A from X Ltd. Will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A		
Particulars	**Rs.**	**Rs.**
Salary received by Mrs. A (Rs. 30,000 × Rs. 12)	Rs. 3,60,000	
Less: Standard deduction u/s 16(ia)	Rs. 50,000	Rs. 3,10,000
Other Income		Rs. 7,00,000
Gross total income		Rs. **10,10,000**

Note: Gross total income of Mrs. A is Rs. 4,00,000.

Q3. Will your answer be different if Mrs. A was qualified for the job?

Answer:

- If Mrs. A possesses professional qualifications for job, clubbing provisions shall not be applicable.
- Gross total income of Mr. A = Rs. 7,00,000 [other income].
- Gross total income of Mrs. A = Salary received by Mrs. A [Rs. 30,000×12] - Rs. 50,000 [SD u/s 16(ia)] + other income [Rs. 4,00,000] = Rs. 7,10,000.

Q4. Mr. B holds shares carrying 30% voting power in Y Ltd. Mrs. B is working as accountant in Y Ltd. getting income under the head salary (computed) of Rs. 3,44,000 without any qualification in accountancy. Mr. B also receives Rs. 30,000 as interest on securities. Mrs. B owns a HP which she has let out. Rent received from tenants is Rs. 6,000 p.m. Compute GTI of Mr. B & Mrs. B for AY 2022-23.

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

Computation of Gross total income of Mr. B	
Income from Salary of Mrs. B (Computed)	Rs. 3,44,000
IFOS - Interest on securities	Rs. 30,000
GTI of Mr. B	**Rs. 3,74,000**

Computation of Gross total income of Mrs. B		
Income from Salary [clubbed in the hands of Mr. B]		Nil
Income from HP: GAV [Rs. 6,000 × 12] = NAV since MT not given	Rs. 72,000	
Less: Standard deduction u/s 24(a): 30% of NAV i.e., 30% of Rs. 72,000	(Rs. 21,600)	
Less: Deduction u/s 24(b): Interest on loan	-	Rs. 50,400
GTI		**Rs. 50,400**

Q5. Mr. Vaibhav started a proprietary business on 01.04.2020 with a capital of Rs. 5,00,000. He incurred a loss of Rs. 2,00,000 during the year 2020-21. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of Rs. 5,00,000 on 01.04.2021, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs. 4,00,000 during the year 2021-22. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for AY 2022-23. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

Answer:

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

Particulars	Mr. Vaibhav's capital contribution	Capital contributionout of gift from Mrs. Vaishaly	Total
Capital as on 1.4.2021	Rs. 3,00,000 [5L – 2L]	Rs. 5,00,000	Rs. 8,00,000
Profit for PY 2021-22 to be apportioned on the basis of capital employed on the first day of PY i.e. as on 1.4.2021 (3:5)	Rs. 1,50,000 $\left(4{,}00{,}000 \times \frac{3}{8}\right)$	Rs. 2,50,000 $\left(4{,}00{,}000 \times \frac{5}{8}\right)$	Rs. 4,00,000

- Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the AY 2022-23 is Rs. 2,50,000.
- Mrs. Vaishaly gave said amount of Rs. 5 Lacs as a bonafide loan, then, clubbing provisions would not be attracted.

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

Q6. Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of Rs. 36,000 p.a. shall be utilized for the benefit of her son's wife. Mrs. Kasturi claims that the amount of Rs. 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

Answer: Clubbing provisions u/s 64(1)(viii) are attracted in case of transfer of any asset, directly/indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual. Therefore, income of Rs. 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi. The contention of Mrs. Kasturi is, hence, **not valid** in law.

Note:

- In order to attract the clubbing provisions u/s 64(1)(viii), the transfer should be otherwise than for adequate consideration.
- In this case, it is presumed that the transfer is otherwise than for adequate consideration & therefore, clubbing provisions are attracted.
- Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.
- If it is presumed that transfer was for adequate consideration, section 64(1)(viii) would not be attracted.

Q7. Mr. A has three minor children – two twin daughters & one son. Income of the twin daughters is Rs. 2,000 p.a. each & that of the son is Rs. 1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. A.

Answer: **Taxable income in respect of minor children, in the hands of Mr. A is:**

Particulars	Rs.	Rs.
Twin minor daughters [Rs. 2,000 × Rs. 2]	Rs. 4,000	Rs. 1,000
Less: Exempt u/s 10(32) [Rs. 1,500 × Rs. 2]	Rs. 3,000	
Minor son	Rs. 1,200	Nil
Less: Exempt u/s 10(32)	Rs. 1,200	
Income to be clubbed in the hands of Mr. A		**Rs. 1,000**

Q8. Compute the gross total income of Mr. & Mrs. A from the following information:

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

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

Answer:

- As per section 64(1A), all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater.
- Income of Mr. A is Rs. 3,90,000 & income of Mrs. A is Rs. 2,30,000. Since income of Mr. A is greater than that of Mrs. A, income of the minor children have to be clubbed in the hands of Mr. A.
- Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge & experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.
- However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.
- Gross Total Income of Mrs. A is Rs. 2,30,000.

Computation of GTI of Mr. A for AY 2022-23			
1.	Income from profession		Rs. 3,90,000
2.	Income of minor son B from company deposit	Rs. 15,000	
	Less: Exemption u/s 10(32)	(Rs. 1,500)	Rs. 13,500
3.	Income of minor daughter C		
	▪ From special talent – not to be clubbed	-	
	▪ Interest from bank	Rs. 3,000	
	▪ Gift of Rs. 2,500 received from a non-relative is not taxable u/s 56(2)(x)	Nil	
	Less: Exemption u/s 10(32)	(Rs. 1,500)	Rs. 1,500
	GTI		**Rs. 4,05,000**

Q9. Mr. Vasudevan gifted a sum of 6 lakhs to his brother's wife on 14.06.2021. On 12.07.2021, his brother gifted a sum of 5 lacs to Mr. Vasudevan's wife. Gifted amounts were invested as FD in banks by Mrs. Vasudevan & wife of Mr. Vasudevan's brother on 01.08.2021 at 9% p.a. Examine the consequences of the above in hands of Mr. Vasudevan & his brother.

Answer:

- In the given case, Mr. Vasudevan gifted a sum of 6 lakhs to his brother's wife on 14.06.2021 & simultaneously, his brother gifted 5 lacs to Mr. Vasudevan's wife on 12.07.2021. Gifted amounts were invested as FD in banks by Mrs. Vasudevan & his brother's wife. These transfers are in the nature of cross transfers.
- Accordingly, income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction & each transfer constitutes consideration for other by being mutual or otherwise.
- If two transactions are inter-connected & are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. (CIT vs. Keshavji Morarji (1967) 66 ITR 142).
- Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on FD would be included in the total income of Mr. Vasudevan & interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., Rs. 5 lakhs. This is because both Mr. Vasudevan & his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.
- However, the interest income earned by his spouse on FD of 5 lacs alone would be included in the hands of Mr. Vasudevan's brother & not interest income on entire FD of 6 lacs, since cross transfer is only to the extent of 5 lakhs.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. A & Mrs. A, whose other incomes are Rs. 5,60,000 & Rs. 5,80,000 respectively are both employed in X Ltd & getting remuneration of Rs. 20,000 p.m. & Rs. 18,000 p.m. respectively. Their shareholding in the company along with relatives are Mr. A- l0%, Mrs. A - 5%, Mr. A's brother - 6%, Mrs. A's brother - 8%.

Answer:

In this case A & Mrs. A both have substantial interest determined as:

Mr. A: His own share 10% + 5% (Mrs. A's share) + 6% (A's brother's share) = 21%.

Mrs. A: Her own share 5% + 10% (Mr. A's share) + 8% (Mrs. A's brother's share) = 23%.

Thus, the income of Mr. A from X Ltd. will be clubbed in the hands of Mrs. A.

Mrs. A's Total Income

Salary Income (18,000x 12)	2,16,000	
A's Salary Income (20,000 x 12 = 1,20,000)	2,40,000	4,56,000
Other Income		5,80,000
Gross total income		**10,36,000**

A's Total Income

Other incomes		5,60,000
Gross Total Income		**5,60,000**

Q2. X & Y form a partnership from 1.4.2021 (PSR - 2: 3) by investing Rs.10 lacs & Rs.15 lacs respectively. The investment has been financed from the following sources.

Particulars	X	Y
Gift from Mrs. X	6,60,000	-
Gift from Mrs. Y	-	8,00,000
Past savings of X & Y	3,40,000	7,00,000
For the year ending 31.3.2022, share of profit from the firm is as follows:		
Interest on Capital @ 12%	1,20,000	1,80,000
Salary as working partner	24,000	24,000
Share of Profit	1,08,000	1,62,000

Find out the Income chargeable to tax in the hands of X & Mrs. X

Answer:

Particulars	Mr. X	Mrs. X
Share of profit [Exempt u/s 10(2A)]	Nil	-
Salary from Firm	24,000	-
Interest on Capital [*(Rs. 1,20,000 × Rs.6.6 lacs)/Rs. 10 lacs]	40,800	79,200*
Total Business income	64,800	79,200

Q3. The following details are furnished in respect of Mr. X & his family members. Determine their GTI:

Particulars	Mr. X	Mrs. X	Minor Child
Income as child Artist in films	-	-	60,000
Business Income (Own)	(40,000)	-	-
Salary from X Ltd. in which Mr. X holds 25% Voting power	-	30000	-
Share of profit from Firm AB & Co.	80,000 (40%)	-	20,000 (10%)
Commission from AB & Co.	-	20,000	--
Interest Income	8000	5000	4000

Note:

1) Mrs. X possesses B. Com degree & works as accountant of X Ltd. She does not render any services to M/s AB & Co.
2) Interest received by Mrs. X is from investment of Rs. 40,000 gifted by Mr. X & Rs. 40,000 from her own resource.

Answer: **Computation of Gross Total Income for AY 2022-23**

Particulars	Mr. X	Mrs. X	Minor Child
Salaries: Salary from X Ltd	-	30,000	--
PGBP: Income/(Loss)	(40,000)	--	60,000
IFOS			
(i) Interest income Own (Mr. X) = 8,000		2,500	
Add: Spouse -Sec 64(1) [5000 x 40,000/80,000] = 2,500	10,500	--	--
Total Income for Clubbing of Minor's Income	**(29500)**	**32,500**	**-**
Interest Income of Minor Child =Rs. 4,000 **Less:** Exempt u/s 10(32) =(Rs. 1,500) **Rs. 2,500**	--	2,500	--
Commission income of spouse u/s 64(1)	20,000	--	--
GTI	**(9,500)**	**35,000**	**60,000**

Notes:
1. Share of profit from firm is exempt from tax u/s 10(2A).
2. Income of the minor child will be clubbed in the hands of the parent whose income before such clubbing is greater. Thus, the interest income of minor child is clubbed in the hands of Mrs. X.

Q4. Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16.4.2021. On 18.4.2021, his brother gifted debentures worth Rs. 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in FD with Bank of India @ 9% p.a. ROI & Mrs. Ramesh received interest of Rs. 45,000 on debentures received by her. Discuss.

Answer:
- In the given case, Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16.4.2021 & simultaneously, his brother gifted debentures worth Rs. 6 lacs to Mr. Ramesh's wife on 18.4.2021.
- Mr. Ramesh's brother's minor son invested the gifted amount of Rs. 5 lacs in FD with Bank of India.
- These transfers are in the nature of cross transfers.
- Accordingly, income from assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction & each transfer constitutes consideration for the other by being mutual or otherwise.
- If two transactions are inter-connected & are part of same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, implication of clubbing provisions would be attracted.
- Accordingly, the interest income arising to Mr. Ramesh's brother's son from FD would be included in total income of Mr. Ramesh's brother, assuming that Mr. Ramesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of Rs. 1,500.
- Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh.
- This is because both Mr. Ramesh & his brother are the indirect transferors of the income to their spouse & minor son, respectively, with an intention to reduce their burden of taxation.
- In the hands of Mr. Ramesh, interest received by his spouse on debentures of Rs. 5 lacs alone would be included & not entire interest income on debentures of 6 lacs, since the cross transfer is only to the extent of Rs. 5 lacs.
- Hence, only proportional interest (5/6th of interest) Rs. 37,500 would be includible in the hands of Mr. Ramesh.

Q5. Mr. Madhav made a gift of Rs. 2,50,000 to his handicapped son, Master Tapan (age 12 years) which he deposited in a FD A/c @ 10% interest p.a. compounded annually. Balance in this A/c as on 1.4.2021 was Rs. 2,75,000 & bank credited Rs. 27,500 as interest on 31.3.2022. Madhav's father gifted equity shares worth Rs. 50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of Birth: 10.4.2012) in July 2012 which were purchased by him on 8.12.2005 for Rs. 80,000. Manan received a dividend of Rs. 5,000 on these shares in Oct 2021. He sold these shares on 1.11.2021 for Rs. 5 Lacs & deposited Rs. 3 Lacs in a company at 15% interest p.a. Mr. Madhav has a taxable income of Rs. 3,50,000 from his profession during PY 2021-22.
Compute his GTI for AY 2022-23. [CII: FY 2005-06: 117; FY 2011-12: 184; FY 2021-22: 317] **[May 2018]**

Answer: **Computation of Total Income**

Particulars	Rs
Income from Profession	3,50,000
Interest Income of Master Tapan [No clubbing since suffering from disability u/s 80U]	Nil
Dividend Income of Master Manan [Dividend is now taxable & thus will be clubbed]	5,000
Capital Gain Income of Manan [Refer Note]	2,83,248
Interest Income of Manan (Rs. 3,00,000 x 15% × 5/12)	18,750
Less: Exemption u/s 10(32)	(1,500)
GTI	**6,55,498**

Note: Computation of Capital gains [It is assumed that shares are not transacted in RSE & no STT is paid]

Full value of Consideration	5,00,000
Less: Indexed Cost of Acquisition (80,000 x 317/117)	(2,16,752)
LTCG	2,83,248

Q6. Kamal gifted Rs. 10 Lacs to his wife, Sulochana on her birthday on, 1.1.2021. Sulochana lent Rs. 5,00,000 out of gifted amount to Krishna on 1.4.2021 for 6 months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15.10.2021 which were sold for Rs. 75,000 on 30.12.2021. STT was paid on such sale. Balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of Rs. 15,000 in the business in PY 2021-22. In whose hands the above income & loss shall be included in AY 2022-23 **[Nov 2017]**

Answer: As per section 64(1),

- If any person has transferred any asset to his or her spouse without adequate consideration in such case Income shall be clubbed in the income of transferor, hence Interest income of Rs. 50,000 shall be clubbed in income of Mr. Kamal.
- If asset received by the spouse has been invested in the proprietor business, income from the business shall be clubbed in the income of transferor & if there is any loss, it will also be clubbed. Thus, loss of Rs. 15,000 shall also be clubbed.
- If any person has transferred the asset to the spouse, income from the asset shall be clubbed but if same income is invested further, any subsequent income shall not be clubbed.
- In the given case, Mrs. Sulochana has invested interest income in the shares & there was capital gain on the sale of shares, such capital gain shall not be clubbed rather it will be taxable in the hands of Mrs. Sulochana.

Q7. Mr. X transferred 2,000 debentures of Rs. 100 each of Wild Fox Ltd. to Mrs. X on 03.04.2021 without consideration. The company paid interest of Rs. 30,000 in September 2021 which was deposited by Mrs. X with Kartar Finance Co. in Oct. 2021. Kartar Finance Co. paid interest of Rs. 3,000 upto March, 2022. State the taxability for AY 2022-23.

Answer:

- Income arising from assets transferred without adequate consideration by an individual to his spouse shall be clubbed in the hands of the individual [Sec 64(1)] but if there is any further income from such income, it will not be clubbed.
- Therefore, Rs. 30,000, being the interest on debentures received by Mrs. X in September, 2021 will be clubbed with the income of Mr. X, since he had transferred the debentures of the company without consideration to her.
- However, interest of Rs. 3,000 upto March 2022 earned by Mrs. X on interest of the debentures deposited by her with Kartar Finance Company shall be taxable in her individual capacity & will not be clubbed with income of Mr. X.

Q8. Mr. X gifts Rs. 1 Lac to his wife Mrs. X on 1.4.2021 which she invests in a firm on interest rate of 14% p.a. On 1.1.2022, Mrs. X withdraws the money & gift it to her son's wife. She claims that interest which has accrued to the daughter-in-law, from 1.1.2022 to 31.3.2022 on investment made by her is not assessable in her hands but in the hands of Mr. X. Is this correct? What would be the position, if Mrs. X has gifted the money to minor grandson, instead of the daughter-in- law.

Answer:

- Section 64(1) provides that in computing the total income of any individual, there shall be clubbed all such income as arises directly/ indirectly to the son's wife, of such individual, from assets transferred directly/ indirectly to the son's wife by such individual otherwise than for adequate consideration.
- There is indirect transfer by Mr. X to daughter-in-law & thus interest income shall be clubbed with income of Mr. X.
- If Mrs. X had gifted the money to her minor grandson, interest income arising to minor shall be clubbed u/s 64(1A) in total income of that parent (son/daughter-in-law) whose total income (before including such income) is higher.

Q9. Mr. X is a trader. Particulars of his income & those of the members of his family are given below. These incomes relate to the PY ended 31.3.2022. **[Nov 1998 & Nov 1999]**

(i) Income from business of Mr. X	9,00,000
(ii) Salary derived from an educational institution by Mrs. X. (She is the principal)	5,00,000
(iii) Interest on company deposits derived by master Deep Singh (minor son). These deposits were made in the name of master Deep Singh by his father's father about 6 years ago (Gross)	12,000
(iv) Receipts from sale of paintings & drawings made by minor Dipali Singh (minor daughter & noted child artist)	60,000
(v) Income by way of lottery earnings by Master Dipindar Singh (minor son)	6,000

Discuss whether they will form part of assessable income of any individual & also compute assessable income of Mr. X.

Answer: Since income of Mr. X is higher, income shall be clubbed in the income of Mr. X & such incomes shall be

Interest income of master Deep Singh (12,000 - 1,500)	10,500
Income of minor daughter Dipali Singh shall not be clubbed	Nil
Lottery income of master Dipindar Singh (6,000 - 1,500)	4,500
Total income of Mr. X shall be (9,00,000 + 10,500 + 4,500)	9,15,000

Q10. Mr. B is the Karta of a HUF whose members derive income as given below:

(a) Income from B's profession	4,50,000
(b) Mrs. B's salary as fashion designer	7,60,000
(c) Minor son D (interest on FD with a bank which were gifted to him by his uncle)	10,000
(d) Minor daughter P's earnings from sports	95,000
(e) D's winnings from lottery (gross)	1,95,000

Discuss the tax implications in the hands of Mr. & Mrs. B. **[Nov 2012]**

Answer:

(a) Income of Rs. 4,50,000 from Mr. B's profession shall be taxable in the hands of Mr. B u/h PGBP.

(b) Salary of Rs. 7,60,000 received by Mrs. B as a fashion designer shall be taxable as salaries in hands of Mrs. B.

(c) Income from FD of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of mother, Mrs. B as Income u/h IFOS, since her income is greater than income of Mr. B before including the income of the minor child. As per Section 10(32), income of a minor child is exempt upto Rs. 1,500 per child (if clubbed).

(d) Income of Rs. 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen on account of an activity involving application of her skill.

(e) Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mrs. B as "IFOS", since her income is greater than the income of Mr. B before including the income of minor child.
Note: She can reduce the TDS from such lottery income while computing her net tax liability.

Computation of income of Mr. B & Mrs. B

Particulars	Mr. B	Mrs. B
Income from X's Business	4,50,000	
Salary as fashion designer	-	7,60,000
Bank Interest to Minor Son D (10,000 - 1,500) [Rs. 1,500 exempt u/s 10(32)]	-	8,500
Income of Minor Daughter from Sports (since she is earning income from her own talent, sports income is not to be clubbed)	-	-
Lottery income to minor son D	-	1,95,000
Total	**4,50,000**	**9,63,500**

Q11. Mr. Dhaval & his wife Mrs. Hetal furnish the following information:

(i)	Salary income (computed) of Mrs. Hetal	4,60,000
(ii)	Income of minor son 'B' who suffers from disability specified in Section 80U	1,08,000
(iii)	Income of minor daughter 'C' from singing	86,000
(iv)	Income from profession of Mr Dhaval	750,000

(v)	Cash gift received by C on 2.10.2021 from a friend of Mrs. Hetal on winning the competition	48,000
(vi)	Income of minor married daughter 'A' from company deposit.	30,000

Compute total income of Mr. Dhaval & Mrs. Hetal for AY 2022-23.

Answer:

Particulars	Mr. Dhaval	Mrs. Hetal
Salary income	-	4,60,000
Income from profession of Mr. Dhaval	7,50,000	-
Income of minor married daughter 'A' from company deposits	Rs. 30,000	-
Less: Exemption U/s 10(32)	(1500)	-
Total income	**7,78,500**	**4,60,000**

Note:

(a) u/s 56(2)(vi), cash gifts received from any person/persons exceeding Rs. 50,000 during the year in aggregate is taxable. Since the cash gift in this case does not exceed Rs. 50,000 the same is not taxable.

(b) Clubbing provisions are attracted even in respect of income of minor married daughter. Hence, income of minor married daughter 'A' from company deposit shall be clubbed in the hands of the Mr. Dhaval.

Q12. Mr. X has 4 minor children consisting of three daughters & a son. Their annual income for AY 2022-23 are:

First daughter (including Scholarship received Rs. 5,000)	Rs. 10,000
Second Daughter	Rs. 8,500
Third Daughter (Suffering from disability specified U/s 80U)	Rs. 4,500
Minor Son	Rs. 40,000

Mr. X gifted 2 lacs to his minor Son who invested them in the business & derived income of 20,000 which is included above. Compute the Income earned by Minor Children to be clubbed in the hands of Mr. X. **[Nov 2014] + May 2012]**

Answer: **Computation of Income of minor children to be clubbed in income of Mr. X**

(i) Income of First Daughter	10,000	
Less: Scholarship received exempt u/s 10(16) (assumed received for education)	(5,000)	
Less: Exempt u/s 10(32)	(1,500)	
Income to be clubbed		**3,500**
(ii) Income of Second Daughter	8,500	
Less: Exempt u/s 10(32)	(1,500)	
Income to be clubbed		**7,000**
(iii) Income of Third Daughter who is suffering from disability shall not be clubbed		**Nil**
(iv) Income of Son Less: Exempt u/s 10(32) [40,000 – 1,500]		**38,500**
Total Income to be clubbed (3,500 + 7,000 + 38,500)		**49,000**

Q13. Determine GTI of Mr. X & his wife from the following particulars for PY 2021-22:

1) X & his wife are partners in a firm carrying on cloth business, their shares of profit being 78,000 & 60,000.
2) Their 16 years old son has been admitted to the benefits of another firm, from which he received Rs. 80,000 as his share of profit & Rs. 90,000 as interest on capital. Capital was invested out of minor's own funds of Rs. 9,00,000.
3) HP in the name of X was transferred to his wife on 1.12.2021 for adequate consideration. The property has been let at a rent of 30,000 p.m.
4) Debentures of a company of 1,40,000 & 1,12,000 purchased 2 years ago are in the names of X & his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred 70,000 out of her income to X for the purchase of the debentures in X's name.
5) X had transferred 50,000 to his wife in the year 2009 without any consideration which she gave as a loan to Y. She earned 20,000 as interest during the earlier PYs which was also given on loan to Y. During PY 2021-22, she received interest at 10% p.a. on Rs. 70,000.
6) X transferred 75,000 to a trust, the income accruing from its investment as interest amounted to 7,500, out of which 5,000 shall be utilized for the benefit of his son's wife & 2,500 for the benefit of his son's minor child.

Answer: **Computation of GTI of X for AY 2022-23**

Income from House Property:		
Rental value for 8 months (i.e., before transfer) (8 x 30,000)	2,40,000	
Less: Deduction u/s 24(a) @ 30%	72,000	**1,68,000**
Profit from Business:		
(i) Share from firm (Exempt)	Nil	
(ii) Minor Son's share in another firm (Exempt)	Nil	
(iii) Interest on minor's capital with firm (90,000 - 1,500)	88,500	**88,500**
Income from other Sources:		
(i) Interest @ 10% on 70,000 (only half of 1,40,000 were bought by own funds)	7,000	
(ii) Interest received by his wife @ 10% on 50,000 (without any consideration)	5,000	
(iii) Interest on 50,000 from trust (Interest utilized for benefit of son's wife)	5,000	**17,000**
GTI		**2,73,500**

Computation of GTI of Mrs. X for AY 2022-23

Income from House Property:		
Rental value for 4 months (i.e. after transfer) (30,000 x 4)	1,20,000	
Less: Deduction u/s 24(a) @ 30%	36,000	**84,000**
Income from business: Share from firm (Exempt)	Nil	
Income from Other Sources: (i) Interest on 1,120,000 10% Debentures	11,200	
(ii) Interest on 10% 70,000 debentures in husband's name but funds invested by her	7,000	
(iii) Interest on 20,000 @ 10%	2,000	**20,200**
(This interest is on accrued income of 50,000, which have been transferred to her by the husband & interest on such accrued income is treated as the income of the transferee, although the income on the transferred amounts is treated as income of transferor as it was transferred without any consideration).		
GTI		**1,04,200**

Notes:

1) Shares of profit from a firm is fully exempt u/s 10(2A) in the hands of the partners. Even in a case where one spouse gifts some amount to the other spouse to be invested as capital in the firm, the clubbing provisions though applicable, it will not affect the Total Income since the share of the profit is itself exempt. However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of the transfer made without adequate consideration.
2) Minor son's income though clubbed, but as share of profit from firm is exempt, will not affect the Total Income.
3) If asset is transferred to a Trust for benefit of son's wife, income from such asset is taxable in hands of transferor. However, income utilized for the benefit of son's minor son shall be clubbed in the hands of that parent of the son's minor son, whose income is greater. Therefore, it shall not be clubbed in the hands of transferor (i.e. X).

Q14. Shri Madan (age 67 years) gifted a building owned by him to his son's wife Smt. Hema on 1.10.2021. The building fetched a rental income of Rs. 10,000 p.m. throughout the year. Municipal tax for the first half-year of Rs. 5,000 was paid in June 2021 & municipal tax for the second half-year was not paid till 30.9.2022. Incomes of Shri Madan & Smt. Hema other than income from HP are given below:

Name	Business income	Capital gain	Other sources
Shri. Madan	1,00,000	50,000 (long-term)	1,50,000
Smt. Hema	-75000	2,00,000 (short-term)	50,000

Compute the total income of Shri. Madan & Smt. Hema for AY 2022-23. **[Nov 2011]**

Note: Capital gain does not relate to gain from shares & securities.

Answer: **Computation of Total Income of Shri Madan for AY 2022-23**

Income from house property (Refer Note 1)	80,500
Business Income	1,00,000

Long-term Capital Gains	50,000
Income from Other Sources	1,50,000
Total Income	**3,80,500**

Computation of Total Income of Smt. Hema for AY 2022-23

Particulars	Rs.	Rs.
Short-term Capital Gains	2,00,000	
Less: Business loss	(75,000)	1,25,000
Income from Other Sources		50,000
Total Income		**1,75,000**

Working Note:

1) As per section 64(1)(vi), the income arising to the son's wife of an individual, directly/indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual. Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 1.10.2021 is includible in the hands of Shri Madan.

Computation of Income from HP

Particulars	Madan (1.4.2021 -30.9.2021)	Hema (1.10.2021 - 31.3.2022)
Gross Annual value (Rs. 10,000 x 6 months)	60,000	60,000
Less: Municipal taxes paid	5000	Nil
Net Annual Value (NAV)	55,000	60,000
Less: Deduction u/s 24(a), 30% of NAV	16,500	18,000
Income from HP	38,500	42,000
Income of Hema clubbed in hands of Madan - Sec 64(1)(vi)	42,000	
Income from HP of Mr. Madan	**80,500**	

Q15. During PY 2021-22, following transactions occurred in respect of Mr. X.

(a) Mr. X had a FD of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2021 to 31.03.2022 to the savings bank A/c of Mr. B, son of his brother, to help him in his education.

(b) Mr. X holds 75% share in a partnership firm. Mrs. X received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. Mrs. X possesses no technical/ professional qualification.

(c) Mr. X gifted a flat to Mrs. X on 1.4.2021. During PY 2021-22, flat had income u/h HP Rs. 52,000 to Mrs. X.

(d) Mr. X gifted Rs. 2,00,000 to his minor son who invested the same in a business & he got a share income of Rs. 20,000 from the investment.

(e) Mr. X's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill & talent.

During the year Mr. X had no other income. Mrs. X received salary of Rs. 20,000 p.m from a part time job. Discuss the tax implications of each transaction & compute the total income of Mr. X, Mrs. X & their minor child. **[May 2012]**

Answer:

(a) As per Section 60, if any person has transferred any income without transferring the asset in such case clubbing provision shall be applicable. In given case, Mr. X transferred interest on FD to Mr. B (son of his brother) without transferring the FD, such income shall be clubbed in the hands of Mr. X as per section 60. Amount to be clubbed = Rs. 5,00,000 x 9% = Rs. 45,000.

(b) As per Section 64(1), if any person is getting salary, commission etc. from a concern in which his/ her spouse has substantial interest & further salary etc. is received without any professional/ technical qualification, in such case, salary etc. so received shall be clubbed in the income of the spouse having substantial interest.

(c) In the given case Mr. X is having substantial interest in the partnership firm & Mrs. X received commission of Rs. 25,000 from firm for promoting the sales of the firm without any technical/ professional qualification. So the commission shall be clubbed in the hands of Mr. X

(d) As per section 27, An individual who transfers otherwise than for adequate consideration any HP to his/ her spouse, not being a transfer in connection with an agreement to live apart shall be deemed to be the owner of the HP so transferred. In the given case Mr. X transfers flat to Mrs. A without adequate consideration on 1.4.2021.

So, Mr. X shall be deemed to be the owner of HP & income Rs. 52,000 shall be considered as income of Mr. X.

(e) As per section 64(1A), if any income accrues or arises to a minor child, such income shall be clubbed in the income of mother or father whosoever has higher income before taking in to consideration the income to be clubbed. So, in the given case, income of Rs. 20,000 shall be clubbed in the income of mother or father whosoever has higher income before taking in to consideration the income to be clubbed. Amount to be clubbed = 20,000 - 1500 = Rs. 18,500.

(f) As per section 64(1A), if any minor child has income from manual labour or through activity involving application of his skill, talent or specialized knowledge and experience, such income shall not be clubbed but if such income has been invested further, any new income shall be clubbed in the income of mother or father.
In the given case clubbing provision is not applicable as Mr. X's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent.

Q16. Mr. A has 3 children of 19 years, 15 years & 5 years respectively. The first child derives Rs. 100000 incomes every year. The income details of Mr. A, his second & third child are as follows:

Particulars	Mr. A	Second child	Third child
Business Income	50,000	--	--
Interest on FD invested out of gifts	--	15,000	--
Bank Interest	7,000	8,000	1,000
Salary earned on application of skills	48,000	24,000	--
Interest on salary income saved & invested	8,000	2,000	--

Determine the Gross total income.

Answer: **Computation of Gross Total Income of Mr. A & 2nd Child for AY 2022-23.**

Particulars	Mr. A		Second Child
1. Salary		48,000	24,000
2. Income from business		50,000	
3. Income from other sources			
(i) Bank interest	7,000		
(ii) Interest on Investment	8,000	15,000	
4. Income to be clubbed			
(a) Second child's income			
(i) Interest On FD	15,000		
(ii) Bank interest	8,000		
(iii) Interest on Investment	2,000		
Less: Exempt u/s 10(32)	(1,500)	23,500	
(b) Third child's Income			
(i) Bank interest	1,000		
Less: Exemption Restricted to Rs. 1,000	(1,000)	Nil	
Gross Total Income		**1,36,500**	**24,000**

Note:
- Income of minor child is clubbed even if it is earned on investment made out of salary.
- First child is a major & thus, income not clubbed.

Q17. Mr. A is an employee of Larsen Ltd & has substantial interest in it. His salary is Rs. 25,000 p.m.
Mrs. A also is working in that company at a salary of Rs. 10,000 p.m. without any professional qualification.
Mr. A also receives Rs. 30,000 as income from securities.
Mrs. A owns a HP which she has let out. Rent income from HP is Rs. 12,000 p.m.
Mr. & Mrs. A have three minor children-two twin daughters & one son. Income of each twin daughters is Rs. 2,000 p.a. & that of his son is Rs. 1,200 p.a. Compute the income of Mr. A & Mrs. A. **[May 2013]**

Answer: **Computation of Total Income of Mr. A & Mrs. A for AY 2022-23**

Particulars		Mr. A	Mrs. A
Income from Salaries			
Salary income of Mr. A (Rs. 25,000 x 12)		3,00,000	
Salary income of Mrs. A (Rs. 10,000 x 12) **[Note 1]**		1,20,000	-
Income from House Property: Rent received (Rs.12,000 x 12)	1,44,000		
Less: Deduction u/s 24 @ 30%	(43,200)		1,00,800
Income from other sources			
Income from securities		30,000	
Income before including income of minor children u/s 64(1A) [Note 2]		**4,50,000**	**1,00,800**
Income of twin daughters (Rs. 2,000 per child x 2)	Rs. 4,000		
Less: Exempt u/s 10(32) (Rs.1,500 x 2)	(Rs. 3,000)	1,000	
Income of the minor son	Rs. 1,200		
Less: Exempt u/s 10(32)	Rs. 1,200	Nil	
Total Income		4,51,000	1,00,800

Note:
1. As per section 64(1), the salary of Rs. 10,000 p.m. received by Mrs. X from the company has to be included in the total income of Mr. X, as Mrs. X does not possess any technical or professional qualification for earning such income & Mr. X has substantial interest in the company.
2. As per section 64(1A), the income of a minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt upto Rs. 1,500 per child.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. Sharma has four children consisting 2 daughters & 2 sons. The annual income of 2 daughters were 9,000 & 4,500 & of sons were Rs. 6,200 & Rs. 4,300, respectively. Daughter who has income of Rs. 4,500 was suffering from a disability specified u/s 80U. Compute amount of income earned by minor children to be clubbed in hands of Mr. Sharma.

Answer: As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma. As per section 10(32), income of each minor child includible in the hands of the parent u/s 64(1A) would be exempt to the extent of the actual income or Rs. 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	Rs.
(i)	Income of one daughter	Rs. 9,000
	Less: Income exempt u/s 10(32)	Rs. 1,500
	Total (A)	Rs 7,500
(ii)	Income of two sons (Rs.6,200 + 4,300)	Rs. 10,500
	Less: Income exempt u/s 10(32) (1,500 + 1,500)	Rs. 3,000
	Total (B)	Rs. 7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	Rs. 15,000

Note: It has been assumed that:
1. All the four children are minor children;
2. The income does not accrue/ arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge & experience;

3. The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; &
4. This is the first year in which clubbing provisions are attracted.

Q2. During PY 2021-22, following transactions occurred in respect of Mr. A.

(a) Mr. A had a FD of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1.4.2021 to 31.3.2022 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical/ professional qualification.

(c) Mr. A gifted a flat to Mrs. A on 1.4.2021. During PY 2021- 22, Mrs. A's 'Income from HP' (computed) was Rs. 52,000 from such flat.

(d) Mr. A gifted Rs. 2,00,000 to his minor son who invested the same in a business & he derived income of Rs. 20,000 from the investment.

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

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

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

Answer: **Total income of Mr. A, Mrs. A & their minor son for AY 2022-23**

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

Notes:

1. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, FD interest of Rs. 45,000 transferred by Mr. A to Mr. B shall be included in total income of Mr. A.
2. As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. Only exception is in a case where the spouse possesses any technical or professional qualifications & income earned is solely attributable to the application of her technical/professional knowledge & experience, in which case, clubbing provisions would not apply. In this case, the commission income of Rs. 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional

qualification for earning such commission & Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

3. According to section 27(i), an individual who transfers any HP to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the HP so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A & hence, the income arising from the same shall be computed in the hands of Mr. A.
   Note: Provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.
4. As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child) is greater. Further, u/s 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.
5. Therefore, income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs. 1,500 u/s 10(32), be included in the income of Mr. A, since Mr. A's income of Rs. 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs. 1,90,000. Therefore, 18,500 (i.e., Rs. 20,000 – Rs. 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.
   Note: Provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding 50,000 without consideration from a relative i.e., his father.
6. In case, income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child. Therefore, income of Rs. 20,000 derived by Mr. A's minor son through a business activity involving application of his skill & talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

Q3. Mr. A has gifted a HP valued at Rs. 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at Rs. 25,000 p.m. throughout the year. Compute the total income of Mr. A & Mrs. C.

Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

Answer: As per section 27(i), an individual who transfers otherwise than for adequate consideration any HP to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the HP so transferred. Therefore, in this case, Mr. A would be the deemed owner of the HP transferred to his wife Mrs. B without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is Rs. 2,10,000 [i.e., Rs. 3,00,000 (actual rent @ Rs. 25,000 p.m.) - 90,000 (deduction u/ s 24 @ 30% of Rs. 3,00,000].

In this case, income of Rs. 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 27(i) & section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions u/s 64 would not apply, since the son is not a minor child. Thus, income of Rs. 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

Provisions of section 56(2)(x) would not be attracted in the hands of the recipient of HP, since the receipt of property in each case was from a relative of such individual. Therefore, the SDV of HP would not be chargeable to tax in the hands of the recipient of immovable property, even though HP was received by her or him without consideration.

Note: The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the HP transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of HP by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

Q4. A proprietary business was started by Rani in the year 2019. As on 1.4.2020 her capital in business was Rs. 3 Lacs. Her husband gifted Rs. 2 Lacs on 10.4.2020, such sum is invested by Rani in her business on the same date. Rani earned profits from her proprietary business for PY 2020-21 of Rs. 1,50,000 & for PY 2021-22 of Rs. 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for AY 2022-23 with reasons.

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

Particulars	Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
Capital as at 1.4.2020	Rs. 3,00,000	--	Rs. 3,00,000
Investment on 10.04.2020 out of gift received from her Husband		Rs. 2,00,000	Rs. 2,00,000
Total	Rs. 3,00,000	Rs. 2,00,000	Rs. 5,00,000
Profit for FY 2020-21 to be apportioned on the basis of capital employed on 1st day of PY i.e 1.4.2020	Rs. 1,50,000		Rs. 1,50,000
Capital employed as at 01.04.2021	**Rs. 4,50,000**	**Rs. 2,00,000**	**Rs. 6,50,000**
Profit for FY 2021-22 to be apportioned on the basis of capital employed as at 1.4.2021 (i.e. 45 : 20)	Rs. 2,70,000	Rs. 1,20,000	Rs. 3,90,000

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

Q5. Mr. B is the Karta of a HUF; whose members derive income as given below:

	Particulars	Rs.
(i)	Income from B' s profession	Rs. 45,000
(ii)	Mrs. B' s salary as fashion designer	Rs. 76,000
(iii)	Minor son D (interest on FD's with a bank which were gifted to him by his uncle)	Rs. 10,000
(iv)	Minor daughter P's earnings from sports	Rs. 95,000
(v)	D's winnings from lottery (gross)	Rs. 1,95,000

Examine tax implications in hands of Mr. & Mrs. B.

Answer:

Clubbing of income & other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this case, it has been assumed that the marriage of Mr. B & Mrs. B subsists.

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

Tax implications

1. Income of Rs. 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head PGBP.
2. Salary of Rs. 26,000 (Rs. 76,000 less standard deduction u/s 16(ia) of Rs. 50,000) shall be taxable as Salaries in the hands of Mrs. B.
3. Income from FD of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as IFOS, since his income is greater than income of Mrs. B before including the income of the minor child.
4. As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child. Balance income would be clubbed in the hands of the parent as IFOS.
5. Income of Rs. 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
6. Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as IFOS, since his income is greater than the income of Mrs. B before including the income of minor child.
   Note: Mr. B can reduce TDS from such lottery income while computing his net tax liability.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. Proprietary business was started by Mrs. Sharma in the year 2019. As on 1.4.2020, her capital in business was Rs. 5 Lacs. Her husband gifted Rs. 3 Lacs on 2.4.2020, which Mrs. Sharma invested in her business on the same date. Mrs. Sharma earned profits from her proprietary business for PY 2020-21: Rs. 2 Lacs & PY 2021-22: Rs. 4.2 Lacs. Compute the income to be included in the hands of Mr. Sharma for AY 2022-23.

Answer:

Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if income earned is from the assets transferred directly/indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mrs. Sharma received a gift of Rs. 3 Lacs from her husband which she invested in her business. In a case where gift from spouse has been invested in business, as per Explanation 3 to section 64(1), the income or loss from such business for any PY has to be apportioned between the spouses on the basis of the ratio of their capital employed as on 1st April of the relevant PY. Accordingly, income to be included in the hands of Mr. Sharma for AY 2022-23 has to be computed as under:

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

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

Nov 18

Q2. Saharsh gifted Rs. 12 lakhs to his wife, Sandhya on her birthday on 1.2.2021. Sandhya lent Rs. 6,00,000 out of the gifted amount to Karuna on 1.4.2021 for 6 months on which she received interest of Rs. 60,000. The said sum of Rs. 60,000 was invested in shares of a listed company on 3.10.2021 which were sold for Rs. 85,000 on 30.3.2022. STT was paid on such sale. The balance amount of gift was invested on 1.4.2021, as capital by Sandhya in her new business. She suffered loss of Rs. 25,000 in the business in the PY 2021-22. In whose hands the above income and loss shall be included in AY 2022-23, assume that capital invested in the business was entirely out of the funds gifted by her husband.

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

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

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

Thus, the entire loss of Rs. 25,000 from the business carried on by Mrs. Sandhya would be includible in the total income of Mr. Saharsh, since as on 1.4.2021, capital invested was entirely out of the funds gifted by her husband.

STCG: STCG of Rs. 25,000 [Rs. 85,000 (sale consideration) - Rs. 60,000 (COA)] arising in the hands of Mrs. Sandhya from sale of shares acquired by investing the interest income of Rs. 60,000 earned by her (from

	the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Saharsh. Since STT has been paid, such STCG on sale of listed shares is taxable @ 15% u/s 111A. **Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor & therefore, such income is taxable in the hands of Mrs. Sandhya.**
May 19	**Q3.** Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was declared on these debentures for PY 2021-22. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for AY 2022-23, Shyam showed Rs. 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income? (a) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income. **(b) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.** (c) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion. (d) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

Q4. On 10.4.2021, Mr. Mayur made a gift of Rs. 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a FD A/c in a Nationalised bank. Bank credited a sum of Rs. 42,500 as interest on FD on 31.3.2022. Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19.6.2013) in September 2012 which were purchased by him on 18.12.2004 for Rs. 95,000. Tejas received a dividend of Rs. 10,000 on these shares in Oct 2021. He sold those shares on 1.12.2021 for Rs. 4,80,000 & deposited Rs. 3,10,000 in company at 14% interest p.a. [CII of FY 2004-05: 113, 2011-12: 184; 2019-20: 289; 2020-21: 317]

Mr. Mayur has a taxable income of Rs. 4,50,000 from his profession during PY 2021-22. Compute his GTI for AY 2022-23.

Answer: **Computation of GTI of Mr. Mayur for AY 2022-23**

Particulars	Rs.	Rs.	Rs.
Income from profession			4,50,000
Income of Minor Son - Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed COA [Rs. 95,000 x 317/113]	(2,66, 504)	2,13,496	
Income from Other Sources			
Dividend on equity shares [Taxable w.e.f AY 2021-22]	10,000		
Interest on company deposit [Rs. 3,10,000 x 14% x 4/12]	14,467	24,467	
Less: Exemption u/s 10(32) i.r.o income of minor child		(1,500)	2,36,436
Gross Total Income			**6,86,436**

Notes:

1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified u/s 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of Rs. 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.
2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.
3) As per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner.

Nov 19	**No Direct Question was Asked. A Question based on combined provisions with Set off & C/f of losses was asked which is given in Set off & C/f Chapter.**
May 20	**Q5.** Rayaan gifted Rs. 15 lakhs to his wife, Sargam on her birthday on 23.2.2021. Sargam lent Rs. 8 lakhs out of the gifted amount to Karuna on 1.4.2021 for 6 months on which she received interest of Rs. 80,000. It was (Rs. 80,000) was invested in shares of a listed company on 5.10.2021, which were sold for Rs. 96,000 on 28.3.2022. STT was paid on purchase & sale of such shares. Balance amount of gift was invested on 1.4. 2021 as capital by Sargam in her new business. She suffered loss of Rs. 52,000 in the business in PY 2021-22. In whose hands the above income & loss shall be included in AY 2022-23, assuming that capital invested in the business was entirely out of the funds gifted by her husband. **[Same as Nov 2018]** **Answer:** **Interest on loan:** Accordingly, Rs. 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband. **Loss from business:** As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss & not income. Thus, the entire loss of Rs. 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1.4.2021, capital invested was entirely out of the funds gifted by her husband. **STCG:** Income from the accretion of transferred asset shall not be clubbed & therefore, STCG of Rs. 16,000 [Rs. 96,000 - Rs. 80,000 (COA)] arising in hands of Mrs. Sargam from sale of shares acquired by investing the interest income of Rs. 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in hands of Mr. Rayaan. Thus, such income is taxable in hands of Mrs. Sargam.
Nov 20	**Q6.** Mr. Karan gifted a sum of 9 lakhs to his brother's minor son on 1.5.2021. On the same date, his brother gifted debentures worth 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest & Mrs. Karan received interest of 81,000 on these debentures during PY 2021-22. Discuss tax implications under Act. **Answer:** In given case, Mr. Karan gifted a sum of 9 lakhs to his brother's minor son on 1.5.2021 & simultaneously, his brother gifted debentures worth 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested gifted amount of 9 lakhs in FD with Canara Bank. These transfers are in the nature of cross transfers. Accordingly, income from the assets transferred would be assessed in hands of deemed transferor because the transfers are so intimately connected to form part of a single transaction & each transfer constitutes consideration for the other by being mutual or otherwise. If two transactions are inter-connected & are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, interest income arising to Mr. Karan's brother's son from FD would be included in total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of 1,500 u/s 10(32). Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv). This is because both Mr. Karan & his brother are the indirect transferors of income to their spouse & minor son, respectively, with an intention to reduce their burden of taxation. In the hands of Mr. Karan, interest received by his spouse on debentures of 9 lakhs alone would be included & not the entire interest income on the debentures of 10 lakhs, since the cross transfer is only to the extent of 9 lakhs.Hence, only proportional interest (i.e., 9/10th of interest on debentures received) 72,900 would be includible in the hands of Mr. Karan. The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.
May 21	**No Direct Question was asked.**
Nov 21	**No Direct Question was asked.**

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15	**Q1.** Mr. Ramesh gifted a sum of 5 lacs to his brother's minor son on 16.4.2021. On 18.4.2021, his brother gifted debentures worth 6 lacs to Mrs, Ramesh. Son of Mr Ramesh's brother invested the amount in FD with Bank of India @ 9% p.a. interest & Mrs. Ramesh received interest of 45,000 on debentures received by her. Discuss the implications under provisions of the Income-tax Act, 1961. **Answer:** Interest on FD with Bank of India received by son of Mr. Ramesh's brother will be clubbed in the income of Mr. Ramesh's brother with exemption of 1500, as it is the case of cross transfer. It is assumed that income of wife of Ramesh's brother is less than the income of Ramesh's brother. Interest on debenture received by the spouse of Mr. Ramesh will be clubbed in the income of Mr. Ramesh as it is a case of cross transfer.
N15	**No Direct Question was asked.**
M16	**No Direct Question was asked.**
N16	**No Direct Question was asked.**
M17	**No Direct Question was asked.**
N17	**Q2.** Kamal gifted 10 lakhs to his wife, Sulochona on her birthday on 1.1.2021. Sulochona lent 5,00,000 out of gifted amount to Krishna on 1.4.2021 for 6 months on which she received interest of 50,000. The said sum of 50,000 was invested in shares of a listed company on 15.10.2021, which were sold for 75,000 on 30.12.2021. STT was paid on such sale. The balance amount of gift was invested as capital by Sulochona in a business. She suffered loss of 15.000 in business in FY 2021-22. In whose hands above income & loss shall be included in AY 2022-23? Support answer with reasons. **Answer:** Interest of 50,000 received by Sulochona, wife of Kamal shall be clubbed in his income u/h "IFOS". However, income on income i.e., STCG amounting to 25,000 from transfer of shares which have been acquired by investing interest amount shall not be clubbed & it shall be taxable in hands of Mrs. Sulochona at special rate of 15%. Further, loss from business shall be included in income of Kamal & it will be allowed to be set off as income includes loss.
M18	**No Direct Question was asked.**
N18	**Q3.** Mrs. & Mr. Vinod have 2 minor children M & N. Following receipts are of M & N during PY 2021-22: (i) M received a gift of 70,000 from her friend's father on occasion of her birthday. (ii) M won a prize money of 3,00,000 in National Quiz competition. This was invested in debentures of a company, from which interest of 19,000 (gross) accrued during the year. (iii) N won prize in lottery. Net amount received after deduction of TDS was 1,05,000. Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under provisions of Income Tax Act, 1961. Detailed computation of income is not required. **Answer:** As per section 64(1A), if any income accrues/arises to a minor child, such income shall be clubbed in income of mother/father whosoever has higher income before taking into consideration income to be clubbed. However, if any minor child has income through manual labour or has income through activity involving application of his skill, talent or specialized knowledge & experience, provisions of clubbing shall not apply. Such income will be considered to be the income of minor child & his tax liability shall be computed separately. Further, if the income of minor child is to be clubbed, exemption shall be allowed u/s 10(32) up to 1,500 p.a. per child, provided father does not opt to be taxed u/s 115BAC. In the given case, income of father is higher than mother. Hence, income of both minor children i.e. M & N shall be clubbed with the income of father. (i) Gift of 70,000 received by M from her friend is taxable as it is not received from any relative of M. The same would be clubbed in income of father. (ii) Prize money earned by M in National Quiz Competition shall not be clubbed as it is earned through application of her skill, talent or specialized knowledge & experience. However, interest income on debentures of 19,000 shall be clubbed in income of father. (iii) Prize Money earned by N shall be taxable on gross basis & same shall be clubbed with income of father i.e. 1,05,000/70% = 1,50,000 shall be clubbed. Exemption u/s 10(32) up to 1,500 p.a. per child (not allowed if the father opts to be taxed u/s 115BAC).
M19	**No Direct Question was asked.**

CHAPTER 9. SET OFF & C/F OF LOSSES QB

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. A (aged 35 years) submits the following particulars pertaining to the AY 2022-23.

Particulars	Rs.
Income from salary (computed)	Rs. 4,00,000
Loss from self-occupied property	(-) Rs. 70,000
Loss from let-out property	(-) Rs. 1,50,000
Business loss	(-) Rs. 1,00,000
Bank interest (FD) received	Rs. 80,000

Compute the total income of Mr. A for the AY 2022-23. He does not opt for Section 115BAC.

Answer: **Computation of total income of Mr. A for the AY 2022-23**

Particulars	Amount (Rs)	Amount (Rs)
Income from salary	Rs. 4,00,000	
Less: Loss from HP of Rs. 2,20,000 to be restricted to 2 lacs	(-) Rs. 2,00,000	Rs. 2,00,000
Balance loss of Rs. 20,000 from HP to be c/f to next AY.		
Income from other sources (interest on FD with bank)	Rs. 80,000	
Business loss set-off. Business loss of Rs. 20,000 to be c/f for set-off against business income of the next AY.	(-) Rs. 80,000	-
Gross total income [See Note]		Rs. 2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		**Rs. 2,00,000**

Note: GTI includes salary income of Rs. 2,00,000 after adjusting loss of Rs. 2,00,000 from HP. The balance loss of Rs. 20,000 from HP to be c/f to next AY for set-off against income from HP of that year.
Business loss of Rs. 1,00,000 is set off against bank interest of 80,000 & remaining business loss of Rs. 20,000 will be carried forward as it cannot be set off against salary income.

Q2. Mr. B, a resident individual, furnishes the following particulars for PY 2021-22:

Particulars	Rs.
Income from salary (computed)	Rs. 45,000
Income from HP	Rs. (24,000)
Income from non-speculative business	Rs. (22,000)
Income from speculative business	Rs. (4,000)
STCL	Rs. (25,000)
LTCG u/s 112	Rs. 19,000

What is the total income chargeable to tax for the AY 2022-23? He does not opt for Section 115BAC.

Answer: **Total income of Mr. B for AY 2022-23**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salaries	Rs. 45,000	
Income from HP	Rs. (24,000)	21,000
PGBP		
Business loss to be c/f [Note 1]	Rs. (22,000)	
Speculative loss to be c/f [Note 2]	Rs. (4,000)	
Capital Gains		
LTCG u/s 112	Rs. 19,000	
STCL	Rs. (25,000)	

STCL to be c/f [Note 3]		Rs. (6,000)	
Taxable income			**Rs. 21,000**

Notes:

1. Business loss cannot be set-off against salary income. Therefore, loss of Rs. 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be c/f to the next year for set- off against business profits, if any.
2. Loss of Rs. 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be c/f.
3. STCL can be set off against both STCG & LTCG. Therefore, STCL of Rs. 25,000 can be set-off against LTCG to the extent of 19,000. Balance STCL of Rs. 6,000 cannot be set-off against any other income & has to be c/f to the next year for set-off against capital gains, if any.

Q3. During the PY 2021-22, Mr. C has the following income & the b/f losses:

Particulars	Rs.
STCG on sale of shares	Rs. 1,50,000
LTCL of AY 2020-21	Rs. (96,000)
STCL of AY 2021-22	Rs. (37,000)
LTCG u/s 112	Rs. 75,000

What is the capital gain taxable in the hands of Mr. C for AY 2022-23?

Answer: **Taxable capital gains of Mr. C for AY 2022-23**

Particulars	Rs.	Rs.
STCG on sale of shares	Rs. 1,50,000	
Less: B/f STCL of the AY 2021-22	Rs. (37,000)	Rs.1,13,000
LTCG	Rs. 75,000	
Less: B/f LTCL of AY 2020-21 [See Note]	Rs. (75,000)	Nil
Taxable STCG		**1,13,000**

Note: LTCL cannot be set off against STCG. Hence, the unadjusted LTCL of AY 2020-21 of Rs. 21,000 (i.e. Rs. 96,000 – Rs. 75,000) can be c/f to the next year to be set-off against LTCG of that year.

Q4. Mr. D has the following income for the PY 2021-22:

Particulars	Rs.
Income from the activity of owning & maintaining the race horses	Rs. 75,000
Income from textile business	Rs. 85,000
B/f textile business loss (relating to AY 2021-22)	Rs. 50,000
B/f loss from the activity of owning & maintaining race horses (relating to AY 2019-20)	Rs. 96,000

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

Answer: **Total income of Mr. D for AY 2022-23**

Particulars	Rs.	Rs.
Income from the activity of owning & maintaining race horses	Rs. 75,000	
Less: B/f loss from the activity of owning & maintaining race horses	Rs. (96,000)	
Loss from the activity of owning & maintaining race horsesto be c/f to AY 2023-24	Rs. (21,000)	
Income from textile business	Rs.85,000	
Less: B/f business loss from textile business.	Rs. 50,000	Rs. 35,000
Total income		Rs. 35,000

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

Q5. Mr. E has furnished his details for the AY 2022-23 as under:

Particulars	Rs.
Income from salaries (computed)	Rs. 1,50,000
Income from speculation business	Rs. 60,000
Loss from non-speculation business	Rs. (40,000)
STCG	Rs. 80,000
LTCL of AY 2020-21	Rs. (30,000)
Winning from lotteries (Gross)	Rs. 20,000

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

Answer: **Computation of taxable income of Mr. E for the AY 2022-23**

Particulars	Rs.	Rs.
Income from salaries		Rs. 1,50,000
Income from speculation business	Rs. 60,000	
Less: Loss from non-speculation business	Rs. (40,000)	Rs. 20,000
STCG		Rs. 80,000
Winnings from lotteries		Rs. 20,000
Taxable Income		Rs. **2,70,000**

Note: LTCL can be set off only against LTCG. Therefore, LTCL of Rs. 30,000 has to be c/f to the next AY.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. R carries two businesses A & B. Business A is a manufacturing business while business B is a speculative business. State whether the loss can be set off in the following two situations:

Particulars	Situation I	Situation II
Manufacturing Business	(+) 3,00,000	(-) 15,00,000
Speculation Business	(-) 1,40,000	(+) 2,00,000

Answer:

- **Situation I:** Set off is **Not possible** as speculation loss can be set off only against speculation Income. Thus, loss from speculation business cannot be set off against Normal Business Income & it will be c/f to next year & will be adjusted against profit from speculation business (if any).
- **Situation II:** Set off is **Possible** since loss from Normal Business can be set off against profit form Speculative Business. Thus, Normal business loss of Rs. 2,00,000 can be adjusted against Speculation Business Income. Remaining **Business** loss of Rs. 13,00,000 will be c/f to next year & will be adjusted against profit from Normal Business only (if any).

Q2. Give the provisions regarding set off & carry forward in the following situations:

Particulars	Situation I	Situation II
Short-term Capital Gain	(-) 5,00,000	(+) 3,00,000
Long-term Capital Gain	(+) 7,00,000	(-) 2,00,000

Answer:

- **Situation I:** STCL of Rs. 5,00,000 can be set off against LTCG. Hence, Net LTCG = Rs. 2,00,000;
- **Situation II:** LTCL can be set off from LTCG only. It cannot be set off from STCG. Hence, STCG of Rs. 3,00,000 shall be taxable & Rs. 2,00,000 of LTCL will be c/f to next year & adjusted against LTCG only (if any).

Q3. Compute the Taxable Income in following situation:

Particulars	Situation I	Situation II
Long term capital gain/loss	30,000	(3,00,000)
Short term capital gain/loss	(50,000)	1,10,000
Business income/loss	(80,000)	(90,000)

Answer:

Particulars	Situation I	Situation II
Long term capital Gain/Loss	30,000	(3,00,000) [Note 4]
Short term capital Loss/Gain	(50,000)	1,10,000
Income u/h Capital Gain after Set off	**Nil** [Note 1]	**1,10,000** [Note 2]
Set off of Business Income/Loss	Nil [Note 4]	(90,000) [Note 3]
Total income	**Nil**	**20,000**

Note:

1. STCL can be set off against LTCG. Thus, STCL of Rs. 30,000 will be set off against LTCG. Remaining STCL will be c/f to next year & will be set off in next year against income u/h 'Capital Gains'.
2. LTCL can only be set off against LTCG. It cannot be set off against STCG also. Thus, LTCL of Rs. 3,00,000 will be c/f & set off in next year against LTCG.
3. Business Loss can be set off against income under any head except salary. Business loss can be set off against CG.
4. Business Loss of Rs. 80,000 will be c/f & will be set off in next year against income u/h 'PGBP'.

Q4. Compute the taxable income in the following two situations:

Particulars	Situation I	Situation II
Income from Manufacturing business (Normal Business)	1,50,000	(3,60,000)
Income from Speculation Business	(80,000)	3,50,000
Loss from a Specified Business u/s 35AD	(40,000)	40,000
STCG	(1,70,000)	(1,70,000)
Agricultural Income	(40,000)	60,000

Answer:

Particulars	Situation I	Situation II	Notes for Situation II
Income from manufacturing business	1,50,000	(3,60,000)	Loss from Normal Business can be set off against speculative income & specified business income also
Income from speculation business	Nil [Note 1]	3,50,000	
Loss from specified business	Nil [Note 1]	40,000	
Total income	**1,50,000**	**30,000**	

Note:

1. Loss from Speculation/Specified Business can be set off only against Income from Speculative/Specified business respectively. Thus, Loss of Rs. 80,000 & Rs. 40,000 will be c/f to next year & will be set off in next year against Speculative/Specified Business Income respectively.
2. STCL cannot be set off from any other head. It will be c/f & set off against 'Capital Gains'.
3. Loss from Exempt Source cannot be set off against any Income & No loss can be set off from Agriculture Income.

Q5. Compute the total income of A for AY 2022-23:

Income from Salary	1,80,000
Income from HP	40,000
Business Loss	(1,90,000)
Loss from Specified Business	(60,000)
STCL	(60,000)
LTCG	2,40,000

Answer: **Computation of total income of A for AY 2022-23**

(i) Income u/h Salary		1,80,000
(ii) Income u/h House Property	**40,000**	

Less: Business loss adjusted against HP Income	(10,000)	30,000
(iii) Business Loss	**(1,90,000)**	
Less: Set off against Capital Gain	1,80,000	
Less: Set off against HP Income	10,000	Nil
Loss from specified business not allowed to be set off	**(-) 60,000**	
(iv) Income u/h Capital Gain		
LTCG	**2,40,000**	
Less: STCL	(60,000)	
Less: Business loss adjusted	(1,80,000)	Nil
Gross total income/Total Income		**2,10,000**

Note:
1. Business loss should first be set off from LTCG as it is taxable @ 20% whereas HP is taxable @ 10%.
2. Business loss cannot be set off against income u/h salary.

Q6. R had incurred a business loss of Rs. 4,00,000 during PY 2020-21. During PY 2021-22, he has earned business income of: (a) 5,00,000; (b) 2,50,000. What will be the consequences if he does not set off the loss in AY 2022-23 & wishes to set off the same in AY 2023-24?

Answer:

(a) R can set off the loss of Rs. 4,00,000 in AY 2022-23 against the income of Rs. 5,00,000. If he does not do so, he cannot carry forward such loss of 4,00,000 to AY 2023-24.

(b) R can set off the loss of Rs. 2,50,000 only out of loss of Rs. 4,00,000 in AY 2022-23. If he does not do so, he will not be able to carry forward & set off Rs. 2,50,000 in next AY. However, he can carry forward the balance Rs. 1,50,000 which could not be set off due to insufficient income during AY 2022-23.

Q7. Mr. Shyam (resident) provides the following information for PY 2021-22: **[May 2017]**

Particulars	Rs.
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling/betting	30,000
Loss on maintenance of race horse	15,000
Eligible current year depreciation of textile business not adjusted in income given above	5,000
Unabsorbed depreciation of AY 2021-22 b/f	10,000
Speculation business loss of AY 2021-22	30,000

Compute GTI of Mr. Shyam for AY 2022-23 & any other loss eligible for c/f.

Answer: **Computation of Gross Total Income of Mr. Shyam for AY 2022-23**

Income from Textile Business	4,60,000
Less: Current year depreciation	(5,000)
Less: Unabsorbed depreciation	(10,000)
Income from Textile Business	4,45,000
Income from speculation business	25,000
Less: B/F speculation loss (Section 73)	(25,000)
Income from Speculation business	Nil
Gross Total Income	**4,45,000**

Note:
1. As per section 73, unadjusted B/F Speculation loss of AY 2021-22 shall be c/f of 5,000.
2. Loss from Gambling can neither be set off nor c/f to next year.
3. Loss on maintenance of race horse shall be allowed to be set off from income of maintenance of race horse only &

unadjusted loss of Rs. 15,000 shall be c/f for 4 years as per section 74A.

Q8. Mr. X provides the following details for PY 2021-22 **[Nov 2015]**

(1) Salary from XYZ Ltd.	50,000 p.m.
(2) Interest on FD with SBI for PY 2021-22 (Net)	80,000
(3) LTCL of AY 2020-21	96,000
(4) LTCG	75,000
(5) Loss of minor son (Mr. X transferred his own house to his minor son without adequate consideration few years back & minor son let it out & suffered loss)	(90,000)
(6) Loss of his wife's business (She carried business with funds Mr. X gifted to her)	(2,00,000)

You are required to compute taxable income of Mr. X for AY 2022-23.

Answer: **Computation of taxable income of Mr. X for AY 2022-23**

(1) Income u/h Salary	6,00,000	
Less: Loss u/h HP adjusted (loss of minor son)	(90,000)	5,10,000
(2) Income u/h HP		Nil
(3) Income u/h capital Gains		
LTCG	75,000	
Less: Loss from Business of his wife	(75,000)	Nil
(4) IFOS		
Interest Income from FD	80,000	
Less: Loss from Business of his wife (Balance Loss of Rs. 45,000 of his wife is to be c/f)	(80,000)	Nil
Gross Total Income		**5,10,000**

Note:
1. X is a deemed owner of house property transferred to minor son. Thus, it will be considered as X's Loss.
2. Loss from business of Mrs. X shall also be clubbed.
3. B/F LTCL of AY 2020-21 to be c/f Rs. 96,000.

Q9. Mr. X (aged 61 years) gives the following information for PY 2021-22 **[Nov 2012]**

Loss from profession	1,05,000
Capital loss on the sale of property - short term	55,000
Capital gains on sale of shares - long term	2,05,000
Loss in respect of self-occupied property	15,000
Loss in respect of let out property	30,000
Share of loss from firm	1,60,000
Income from card games	55,000
Winnings from lotteries	1,00,000
Loss from horse races in Mumbai	40,000
Medical insurance premium paid by cheque	18,000

Compute the total income of Mr. X for AY 2022-23.

Answer:

(1) Income from HP	(45,000)	
Less: Adjusted against Capital gains	45,000	**Nil**
(2) Profits & gains of business & profession	(1,05,000)	
Less: Adjusted against Capital gains	1,05,000	**Nil**
(3) Income u/h Capital Gains		
Long term capital Gain	2,05,000	

Less: Short term capital loss on sale of property	(55,000)	
Less: Loss from profession	(1,05,000)	
Less: Loss from House Property	(45,000)	**Nil**
(4) Income u/h Other Sources		
Winning from lottery	1,00,000	
Income from card game	55,000	**1,55,000**
Gross Total Income		**1,55,000**
Less: Deduction u/s 80D (Deductions are not allowed from casual income)		Nil
Total Income		**1,55,000**

Notes:
1. Share of loss from firm is not allowed to be set off by partner since share of profit from firm is exempt in the hands of partner u/s 10(2A).
2. Loss from races can neither be set off nor be carried forward.

Q10. Mr. PC submits the following information for PY 2021-22:

1	Profit from Business A situated in Nagpur	2,80,000
2	Profit from Business B situated in Pune	1,25,000
3	Loss from Business C in Vegas (business is controlled from India but profits are not received in India)	85,000
4	Unabsorbed depreciation of business C	45,000
5	Income from HP situated in India	30,000
6	Income from HP situated in USA (rent received in USA)	50,000

Find out the GTI of Mr. PC for AY 2022-23 if he is (a) ROR (b) RNOR & (c) NR.

Answer:

Particulars	**ROR**	**RNOR**	**NR**
(1) Business Income			
Business A (Profit)	2,80,000	2,80,000	2,80,000
Business B (Profit)	1,25,000	1,25,000	1,25,000
Less: Business C (Loss); [controlled from India; received outside India]	(85,000)	(85,000)	Nil
Less: Unabsorbed depreciation of business C	(45,000)	(45,000)	Nil
Total	**2,75,000**	**2,75,000**	**4,05,000**
(2) Income from house property	-		
Property in India	30,000	30,000	30,000
Property in USA	50,000	-	-
Gross total income	**3,55,000**	**3,05,000**	**4,35,000**

Q11. Income from business = Rs. 1.5 lacs for AY 2022-23 without making following adjustments.

(i)	Depreciation for the current year	30,000
(ii)	Unabsorbed depreciation b/f from AY 2021-22	15,000
(iii)	LTCL for the current year	12,000
(iv)	Unabsorbed business loss b/f from AY 2012-13	50,000
(v)	Unabsorbed speculation loss b/f from AY 2020-21	15,000
(vi)	STCL for the current year	24,000

Compute total income for AY 2022-23 & the loss to be c/f to next year.

Answer:

Business Income	1,50,000
Less: Depreciation	(30,000)

Less: Unabsorbed depreciation b/f from AY 2021-22	(15,000)
Total income	**1,05,000**

Amount to be carried forward to AY 2023-24:

1. LTCL & STCL for AY 2022-23 can be set off against income u/h capital gains only. It can be carried forward upto 8 years commencing from AY 2022-23.
2. Unabsorbed speculation loss b/f from AY 2020-21 will be c/f to next AY. It can be set-off against speculation profit only.

Note: Unabsorbed business loss of Rs. 50,000 b/f from AY 2012-13 can neither be set-off against business profits of AY 2022-23 nor can it be c/f to next year because 8 years has already expired.

Q12. Mrs. X has income & losses as given below:

1	Income from Salary	Rs. 5,00,000
2	Loss u/h HP	Rs. 10,00,000
3	Income u/h PGBP	Rs. 12,00,000
4	Normal STCG	Rs. 2,00,000
5	STCG u/s 111A	Rs. 10,00,000
6	Casual Income	Rs. 3,00,000
7	B/f Business loss for	
	PY 2011-12	Rs. 2,00,000
	PY 2014-15	Rs. 6,00,000
	PY 2015-16	Rs. 3,00,000

Compute tax liability of Mrs. X for AY 2022-23.

Answer: **Option 1**: **Loss of HP is set off from normal income (salary)**

(1) Income u/h Salary	5,00,000	
Less: Loss of HP	(2,00,000)	3,00,000
(2) Income u/h PGBP	12,00,000	
Less: B/f PGBP loss PY 2014-15	(6,00,000)	
Less: B/f PGBP loss PY 2015-16	(3,00,000)	3,00,000
(3) Capital gain		
(a) STCG u/s 111A	10,00,000	
(b) Normal STCG	2,00,000	12,00,000
(4) IFOS: Casual Income	3,00,000	3,00,000
Gross Total Income		**21,00,000**
Computation of Tax Liability		
Tax on STCG u/s 111A Rs. 10,00,000 @ 15%		1,50,000
Tax on Casual income Rs. 3,00,000 @ 30%		90,000
Tax on Normal income Rs. 8,00,000 at slab rate		72,500
Tax before HEC + HEC @ 4% [3,12,500 + 4% HEC]		**3,25,000**

Option 2: **Loss of HP is set off from STCG u/s 111 A**

(1) Income u/h Salary		5,00,000
(2) Income u/h PGBP	12,00,000	
Less: B/f PGBP loss PY 2014-15	(6,00,000)	
Less: B/f PGBP loss PY 2015-16	(3,00,000)	3,00,000
(4) Capital gains	2,00,000	
(a) STCG u/s 111A	10,00,000	

Less: loss of HP	(2,00,000)	8,00,000
(b) STCG u/s 111A	8,00,000	
(4) IFOS: Casual Income		3,00,000
Gross Total Income		21,00,000
Less: Deduction u/s 80C to 80U		(1,00,000)
Total Income		20,00,000
Computation of Tax Liability		
Tax on STCG u/s 111A: Rs. 8,00,000 @ 15%		1,20,000
Tax on Casual income: Rs. 3,00,000 @ 30%		90,000
Tax on Normal income: Rs. 10,00,000 at slab rate		1,12,500
Tax before HEC + HEC @ 4% [3,22,500 + 4% HEC]		**3,35,400**

Conclusion: Option I is better.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE"[COMPILED BY CA PRANAV CHANDAK]

Q1. Compute the gross total income of Mr. F for AY 2022-23 from the information given below:

Particulars	Rs.
Income from HP (computed)	Rs. 1,25,000
Income from business (before providing for depreciation)	Rs. 1,35,000
STCG on sale of unlisted shares	Rs. 56,000
LTCL from sale of property (b/f from AY 2021-22)	Rs. (90,000)
Income from tea business	Rs. 1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	Rs. 80,000
Current year depreciation	Rs. 26,000
B/f business loss (loss incurred 6 years ago)	Rs. (45,000)

Answer:

Particulars	Rs.	Rs.
Income from HP (Computed)		Rs. 1,25,000
Income from business		
Profits before depreciation	Rs. 1,35,000	
Less: Current year depreciation	Rs. 26,000	
Less: B/f business loss	Rs. 45,000	
	Rs. 64,000	
Income from tea business (40% is business income)	Rs. 48,000	Rs. 1,12,000
Capital gains		
STCG		Rs. 56,000
IFOS		
Dividend income (taxable in the hands of shareholders)		Rs. 80,000
Gross Total Income		**3,73,000**

Note:

1. Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.
2. 60% of the income from tea business is treated as agricultural income & therefore, exempt from tax.
3. LTCL can be set-off only against LTCG. Therefore, LTCL of Rs. 90,000 b/f from AY 2021-22 cannot be set-off in the AY

2022-23, since there is no LTCG in that year. It has to be c/f for set-off against LTCG, if any, during AY 2023-24.

Q2. Mr. Sohan submits the following details of his income for AY 2022-23:

Particulars	Rs.
Income from salary	Rs. 3,00,000
Loss from let out HP	(-) Rs. 40,000
Income from sugar business	Rs. 50,000
Loss from iron ore business b/f (discontinued in PY 2016-17)	Rs. (-) 1,20,000
STCL	Rs. (-) 60,000
LTCG	Rs. 40,000
Dividend	Rs. 5,000
Income received from lottery winning (Gross)	Rs. 50,000
Winnings from card games (Gross)	Rs. 6,000
Agricultural income	Rs. 20,000
STCL u/s 111A	Rs. (-) 10,000
Bank interest on FD	Rs. 5,000

Calculate GTI & losses to be c/f. He does not opt for section 115BAC.

Answer: **Computation of GTI of Mr. Sohan for AY 2022-23**

Particulars	Rs.	Rs.
Salaries		
Income from salary	Rs. 3,00,000	
Less: Loss from HP set-off against salary income as per section 71.	Rs. (40,000)	Rs. 2,60,000
PGBP		
Income from sugar business	Rs. 50,000	
Less: B/f loss from iron-ore business set- off as per section 72(1).	Rs. (50,000)	Nil
Balance business loss of Rs. 70,000 of PY 2016-17 to be c/f to AY 2023-24		
Capital gains		
LTCG	Rs. 40,000	
Less: STCL set-off	Rs. (40,000)	Nil
Balance STCL of Rs. 20,000 to be c/f		
STCL of Rs. 10,000 u/s 111A also to be c/f		
IFOS		
Dividend (fully taxable in the hands of shareholders)	Rs. 5,000	
Winnings from lottery	Rs. 50,000	
Winnings from card games	Rs. 6,000	
Bank interest	Rs. 5,000	Rs. 66,000
Gross Total Income		**Rs. 3,26,000**
Losses to be carried forward to AY 2023-24		
Loss of iron-ore business (Rs. 1,20,000 – Rs. 50,000)	Rs. 70,000	
STCL (Rs. 20,000 + Rs. 10,000)	Rs. 30,000	

Notes:

1. Agricultural income is exempt u/s 10(1).

2. It is presumed that loss from iron-ore business relates to PY 2016-17, year in which the business was discontinued.

Q3. Mr. Batra furnishes the following details for year ended 31.03.2022: **[IMPORTANT]**

Particulars	
STCG	Rs. 1,40,000
Loss from speculative business	(Rs. 60,000)
LTCG on sale of land	Rs. 30,000
LTCL on sale of unlisted shares	Rs. 1,00,000
Income from business of textile (after allowing current year depreciation)	Rs. 50,000
Income from activity of owning & maintaining race horses	Rs. 15,000
Income from salary (computed)	Rs.1,00,000
Loss from HP	(Rs. 40,000)

Following are b/f losses:

1) Losses from activity of owning & maintaining race horses-pertaining to AY 2019-20 Rs. 25,000.
2) B/f loss from business of textile Rs. 60,000 - Loss pertains to AY 2014-15.

Compute GTI of Mr. Batra for AY 2022-23. Also determine losses eligible for c/f to AY 2023-24.

Answer: **Computation of GTI of Mr. Batra for AY 2022-23**

Particulars	Rs.	Rs.
Salaries	Rs. 1,00,000	
Less: Current year loss from HP	Rs. (40,000)	Rs. 60,000
PGBP		
Income from textile business	Rs. 50,000	
Less: Loss from textile business b/f from AY 2014-15	Rs. 60,000	
Balance business loss of AY 2014-15 [See Note 1]	Rs. (10,000)	NIL
Income from the activity of owning & maintaining race horses	Rs. 15,000	
Less: Loss from activity of owning & maintaining race horses b/f from AY 2019-20	Rs. 25,000	
Loss to be c/f to AY 2023-24 [See Note 2]	Rs. (10,000)	NIL
Capital Gain		
STCG		Rs. 1,40,000
LTCG on sale of land	Rs. 30,000	
Less: LTCL on sale of unlisted shares	Rs. 1,00,000	
Loss to be c/f to AY 2023-24 [See Note 3]	Rs. (70,000)	NIL
Gross Total Income		**Rs. 2,00,000**

Losses to be c/f to AY 2023-24:

Particulars	Rs.
Current year loss from speculative business [See Note 4]	Rs. 60,000
Current year LTCL on sale of unlisted shares	Rs. 70,000
Loss from activity of owning & maintaining of race horse pertaining to AY 2019-20	Rs. 10,000

Notes:

1. Business loss can be c/f for a maximum of 8 AYs. Since, 8 years period for c/f of business loss of AY 2014-15 expired in AY 2022-23, balance unabsorbed business loss of Rs. 10,000 cannot be c/f to AY 2023-24.
2. Loss from maintenance of race horses cannot be set-off against income from any source other than activity of owning & maintaining race horses. Such loss can be c/f for a maximum period of 4 AYs.
3. LTCL on sale of unlisted shares can be set-off against LTCG on sale of land. Balance loss of Rs. 70,000 cannot be set-off against STCG or against any other head of income. The same has to be c/f for set-off against LTCG of the subsequent AY. Such LTCL can be c/f for a maximum of 8 AYs.
4. Loss from speculation business can be set-off against speculation business income only. Such loss can, however, be

c/f for a maximum of 4 years as per section 73(4) to be set off against income from speculation business.

Q4. Mr. A furnishes you the following information for the year ended 31.03.2022:

1	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicles throughout the year)	Rs. 3,20,000
2	Income from retail trade of garments (Computed as per books) (Sales turnover 1,35,70,000) Mr. A had declared income on presumptive basis u/s 44AD for the first time in AY 2021-22. Assume 10% of the turnover during PY 2021-22 was received in cash & balance through A/c payee cheque & all the payments in respect of expenditure were also made through A/c payee cheque/debit card.	Rs. 7,50,000
3	He has B/F depreciation relating to AY 2020-21	Rs. 1,00,000

Compute taxable income of Mr. A & his tax liability for the AY 2022-23 with reasons for your computation. Assuming that he does not opt for section 115BAC.

Answer: **Computation of total income & tax liability of Mr. A for AY 2022-23**

Particulars	Rs.
Income from retail trade – as per books (See Note 1)	Rs. 7,50,000
Income from plying of vehicles – as per books (See Note 2)	Rs. 3,20,000
	Rs. 10,70,000
Less: Set off of B/F depreciation relating to AY 2020-21	Rs. 1,00,000
Total income	Rs. **9,70,000**
Tax liability	Rs. 1,06,500
Add: Health & Education cess @4%	Rs. 4,260
Total tax liability	Rs. **1,10,760**

Note:

1. **Income from retail trade:** Presumptive business income u/s 44AD is Rs. 8,41,340 i.e., 8% of Rs. 13,57,000, being 10% of the turnover received in cash & 6% of Rs. 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is Rs. 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of Rs. 1,00,000. Since the income computed as per books is lower than the income deemed u/s 44AD, the assessee can adopt the income as per books.
However, if he does not opt for presumptive taxation u/s 44AD, he has to get his books of A/c audited u/s 44AB, since his turnover exceeds 1 crore (the enhanced limit of Rs. **10 crores** would not available, since more than 5% of the turnover is received in cash). Also, his case would be falling u/s 44AD (4) & hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five AY if he does not opt for section 44AD this year.

2. **Income from plying of light goods vehicles:** Income u/s 44AE = Rs. 7,500 x 12 x 5 = Rs. 4,50,000. However, income from plying of vehicles as per books is Rs. 3,20,000, which is lower than presumptive income of Rs. 4,50,000. Hence, assessee can adopt the income as per books i.e. Rs. 3,20,000, provided he maintains books of account as per section 44AA & gets his accounts audited & furnishes an audit report as required u/s 44AB.
It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions u/s 30 to 38, including **depreciation** would have been deemed to have been given full effect to & no further deduction under those sections would be allowable.

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

Particulars	Rs.
Income from retail trade u/s 44AD [Rs. 13,57,000 @ 8% plus Rs. 1,22,13,000 @6%]	Rs. 8,41,340
Income from plying of light goods vehicles u/s 44AE [Rs. 7,500 x 12 x 5]	Rs. 4,50,000
	Rs. 12,91,340
Less: Set off of B/F depreciation – not possible as it is deemed that it has been allowed & set off	Nil
Total income	**Rs. 12,91,340**
Tax thereon	Rs. 1,99,902
Add: Health & Education cess @4%	Rs. 7,996

Total tax liability	**Rs. 2,07,898**
Total tax liability (rounded off)	**Rs. 2,07,900**

Q5. Mr. Aditya furnishes the following details for PY 2021-22:

Loss from speculative business A	Rs. 25,000
Income from speculative business B	Rs. 5,000
Loss from specified business covered u/s 35AD	Rs. 20,000
Income from salary (computed)	Rs. 3,00,000
Loss from HP	Rs. 2,50,000
Income from trading business	Rs. 45,000
LTCG from sale of urban land	Rs. 2,00,000
LTCL on sale of shares (STT not paid)	Rs. 75,000
LTCL on sale of listed shares in RSE (STT paid at the time of acquisition & sale of shares)	Rs. 1,02,000

Following are B/F losses:
(1) Losses from owning & maintaining of race horses pertaining to AY 2020-21 Rs. 2,000.
(2) B/F loss from trading business Rs. 5,000 relating to AY 2017-18.
Compute the total income of Mr. Aditya & show items eligible for c/f. He does not opt for section 115BAC.

Answer: **Computation of total income of Mr. Aditya for the AY 2022-23**

Particulars	Rs.	Rs.
Salaries		
Income from Salary	Rs. 3,00,000	
Less: Loss from HP set-off against salary income as per section 71(3A)	Rs. 2,00,000	Rs. 1,00,000
HP Loss of Rs. 50,000 not set off (Rs. 2.5 Lacs – 2 Lacs) to be c/f to AY 20223-24	Rs. 50,000	
PGBP		
Income from trading business	Rs. 45,000	
Less: B/F loss from trading business of AY 2017-18 can be set off against current year income from trading business as per section 72(1), since the 8 year time limit as specified u/s 72(3), within which set-off is permitted, has not expired.	Rs. 5,000	Rs. 40,000
Income from speculative business B	Rs. 5,000	
Less: Loss from speculative business A set-off as per section 73(1)	Rs. 25,000	
Loss from speculative business A to be c/f to AY 2023-24 as per section 73(2)	Rs. 20,000	
Loss from specified business to be c/f for set-off against specified business income	Rs. 20,000	
Capital Gains		
LTCG on sale of urban land	Rs. 2,00,000	
Less: LTCL on sale of shares (STT not paid) set-off as per section 74(1)]	Rs. 75,000	
Less: LTCL arising on sale of such shares (STT paid) is taxable u/s 112A	Rs. 1,02,000	Rs. 23,000
Total Income		**Rs. 1,63,000**

Q6. Mr. Garg (resident) furnishes the following particulars of his income & other details for PY 2021-22:

1	Income from Salary (computed)	Rs. 15,000
2	Income from business	Rs. 66,000
3	LTCG on sale of land	Rs. 10,800
4	Loss on maintenance of race horses	Rs. 15,000
5	Loss from gambling	Rs. 9,100

Other details of unabsorbed depreciation & B/F losses pertaining to AY 2021-22 are as follows:

	Particulars	**Rs.**
1	Unabsorbed depreciation	Rs. 11,000

2	Loss from Speculative business	Rs. 22,000
3	STCL	Rs. 9,800

Compute GTI of Mr. Garg for AY 2022-23 & the amount of loss, if any that can be c/f or not.

Answer:

	Particulars		
1	**Income from salary**		Rs. 15,000
2	**PGBP**	Rs. 66,000	
	Less: Unabsorbed depreciation b/f from AY 2021-22 (Unabsorbed depreciation can be set-off against any head of income other than salary)	Rs. 11,000	Rs. 55,000
3	**Capital gains**		
	LTCG on sale of land	Rs. 10,800	
	Less: B/F STCL		
	[STCL can be set-off against both STCG & LTCG as per section 74(1)]	Rs. 9, 800	Rs. 1,000
	Gross Total Income		**Rs. 71,000**

Amount of loss to be c/f to AY 2023-24

	Particulars	Rs.
1	**Loss from speculative business [to be c/f as per section 73]** [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 Rs. 22,000 b/f from AY 2021-22 has to be c/f to AY 2023-24 for set-off against speculative business income of that year. It may be noted that speculative business loss can be c/f for a maximum of four years as per section 73(4), i.e., upto AY 2025-26]	Rs. 22,000
2	**Loss on maintenance of race horses [to be c/f as per section 74A]** [As per section 74A(3), the loss incurred in the activity of owning & maintaining race horses in any AY cannot be set-off against income from any other source other than activity of owning & maintaining race horses. Such loss can be c/f for a maximum of four AYs i.e., upto AY 2026-27]	Rs. 15,000
3	**Loss from gambling can neither be set-off nor be c/f.**	

Q7. Following are the details relating to Mr. Srivatsan (resident) age 57, relating to PY 2021-22:

Particulars	Rs.
Income from salaries (computed)	Rs. 2,20,000
Loss from HP	Rs. 1,90,000
Loss from cloth business	Rs. 2,40,000
Income from speculation business	Rs. 30,000
Loss from specified business covered by section 35AD	Rs. 20,000
LTCG from sale of urban land	Rs. 2,50,000
Loss from card games	Rs. 32,000
Income from betting (Gross)	Rs. 45,000
Life Insurance Premium paid (10% of the capital sum assured)	Rs. 45,000

Compute the total income & show the items eligible for c/f. He does not opt for section 115BAC.

Answer: **Computation of total income of Mr. Srivatsan for the AY 2022-23**

Particulars	Rs.	Rs.
Salaries		
Income from salaries	Rs. 2,20,000	
Less: Loss from HP	Rs. 1,90,000	Rs. 30,000
PGBP		
Income from speculation business	Rs. 30,000	

Less: Loss from cloth business set off	Rs. 30,000	Nil
Capital gains		
LTCG from sale of urban land	Rs. 2,50,000	
Less: Loss from cloth business set off	Rs. 2,10,000	Rs. 40,000
IFOS		
Income from betting		Rs. 45,000
Gross Total Income		Rs. **1,15,000**
Less: Deduction u/s 80C (life insurance premium paid)		Rs. 30,000
Total income		Rs.**85,000**

Losses to be c/f:

	Particulars	**Rs.**
1	Loss from cloth business (Rs. 2,40,000 – Rs. 30,000 – Rs. 2,10,000)	Nil
2	Loss from specified business covered by section 35AD	Rs. 20,000

Notes:

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

Q8. Mr. Rajat submits the following information for PY 2021-22. He desires that you should: (a) Compute the total income & (b) Ascertain the amount of losses that can be c/f.

		Particular	**Amount**
1	He has two houses:		
	a	House No. I – Income after all statutory deductions	Rs. 72,000
	b	House No. II – Current year loss	Rs. (30,000)
2	He has three proprietary businesses:		
	a	Textile Business:	
		(i) Discontinued from 31.10.2021 – Current year loss	Rs. 40,000
		(ii) B/F business loss of AY 2017-18	Rs. 95,000
	b	Chemical Business:	
		(i) Discontinued from 1.3.2019 – hence no profit/loss	Nil
		(ii) Bad debts allowed in earlier years recovered during thisyear	Rs. 35,000
		(iii) B/F business loss of AY 2018-19	Rs. 50,000
	c	Leather Business: Profit for the current year	Rs. 1,00,000
	d	Share of profit in a firm in which he is partner since 2008	Rs. 16,550
3	**a**	STCG: Rs. 60,000 & LTCL: Rs. 35,000	Rs. 60,000
4	Contribution to LIC towards premium		Rs. 10,000

Answer: **Computation of total income of Mr. Rajat for AY 2022-23**

	Particulars	**Rs.**	**Rs.**

1	**Income from HP**		
	House No.1	Rs. 72,000	
	House No.2	(-) Rs. 30,000	**Rs. 42,000**
2	**PGBP**		
	Profit from leather business	Rs. 1,00,000	
	Bad debts recovered taxable u/s 41(4)	Rs. 35,000	
		Rs. 1,35,000	
	Less: Current year loss of textile business	(-) Rs. 40,000	
	Less: B/F business loss of textile business for AY 2017-18 set off against the business income of current year	(-) Rs.95,000	**Nil**
3	**Capital Gains**		
	STCG		Rs. 60,000
	Gross Total Income		Rs. 1,02,000
	Less: Deduction under Chapter VI-A		
	U/s 80C – LIC premium paid		Rs. 10,000
	Total Income		**Rs. 92,000**

Statement of losses to be c/f to AY 2023-24:

Particulars	
Business loss of AY 2018-19 to be c/f u/s 72	Rs. 50,000
LTCL of AY 2022-23 to be c/f u/s 74	Rs. 35,000

Notes:
1. Share of profit from firm of Rs. 16,550 is exempt u/s 10(2A).
2. LTCL cannot be set-off against STCG. Therefore, it has to be c/f to the next year to be set-off against LTCG of that year.

Q9. Ms. Geeta, a resident individual, provides the following details of her income/losses for PY 2021-22:
(i) Salary received as a partner from a partnership firm Rs. 7,50,000. The same was allowed to the firm.
(ii) Loss on sale of shares listed in BSE Rs. 3,00,000. Shares were held for 15 months & STT paid on sale & acquisition.
(iii) LTCG on sale of land Rs. 5,00,000.
(iv) Rs. 51,000 received in cash from friends in party.
(v) Rs. 55,000, received towards dividend on listed equity shares of domestic companies.
(vi) B/F business loss of AY 2020-21 Rs. 12,50,000.
Compute GTI of Ms. Geeta for AY 2022-23 & ascertain the amount of loss that can be c/f.

Answer: **Computation of GTI of Ms. Geeta for AY 2022-23**

Particulars	**Rs.**	**Rs.**
PGBP		
Salary received as a partner from a partnership firm is taxable u/h PGBP	Rs. 7,50,000	
Less: B/f business loss of AY 2020-21 to be set-off against business income	(-) Rs. 7,50,000	**Nil**
Capital Gains		
LTCG on sale of land	Rs. 5,00,000	
Less: LTCL on shares on STT paid (See Note 2)	(-) Rs. 3,00,000	**Rs. 2,00,000**
IFOS		
Cash gift received from friends: Entire sum is taxable	Rs. 51,000	
Dividend received from a domestic company is fully taxable to shareholders	Rs. 55,000	**Rs. 1,06,000**
Gross Total Income		**Rs. 3,06,000**

Notes:
1. Balance brought forward business loss of AY 2020-21 of Rs. 5,00,000 has to be c/f to the next year.

2. LTCL on sale of shares on which STT is paid at the time of acquisition & sale can be set-off against LTCG on sale of land since LTCG on sale of shares (STT paid) is taxable u/s 112A.Therefore, it can be set-off against LTCG on sale of land.

Q10. Mr. P (resident) furnishes the following particulars of his income & other details for PY 2021-22:

SN	Particulars	Rs.
1	Income from salary (computed)	Rs. 18,000
2	Net annual value of HP	Rs. 70,000
3	Income from business	Rs. 80,000
4	Income from speculative business	Rs. 12,000
5	LTCG on sale of land	Rs. 15,800
6	Loss on maintenance of race horse	Rs. 9,000
7	Loss on gambling	Rs. 8,000

Depreciation allowable under Income-tax Act, 1961 = Rs. 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation & b/f losses (pertaining to AY 2021-22) are:

SN	Particulars	Rs.
1	Unabsorbed depreciation	Rs. 9,000
2	Loss from speculative business	Rs. 16,000
3	STCL	Rs. 7,800

Compute GTI of Mr. P for AY 2022-23, & the amount of loss that can/cannot be c/f.

Answer: **Computation of Gross Total Income of Mr. P for AY 2022-23**

	Particulars		
1	**Income from salary**		Rs. 18,000
2	**Income from HP**		
	Net Annual Value	Rs. 70,000	
	Less: Deduction u/s 24 (30% of Rs. 70,000)	(Rs. 21,000)	Rs. 49,000
3	**Income from business & profession**		
	(a) Income from business	Rs. 80,000	
	Less: Current year depreciation	(Rs. 8,000)	
		Rs. 72,000	
	Less: Unabsorbed depreciation	(Rs. 9,000)	Rs. 63,000
	(b) Income from speculative business	Rs. 12,000	
	Less: B/F loss from speculative business	(Rs. 12,000)	Nil
	(Balance loss of Rs. 4,000 (i.e. Rs. 16,000 – Rs. 12,000) can be c/f to the next year)		
4	**Income from capital gain**		
	LTCG on sale of land	Rs. 15,800	
	Less: B/F STCL	(Rs. 7,800)	Rs. 8,000
	Gross total income		**Rs. 1,38,000**

Amount of loss to be c/f to the next year:

Particulars	
Loss from speculative business (to be c/f as per section 73)	Rs. 4,000
Loss on maintenance of race horses (to be c/f as per section 74A)	Rs. 9,000

Notes:
1. Loss on gambling can neither be set-off nor be c/f.
2. 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 & maintaining race horses. Such loss can be c/f for a maximum period of 4 AYs.

3. Speculative business loss can be set off only against income from speculative business of the current year & the balance loss can be c/f to AY 2023-24. It may be noted that speculative business loss can be c/f for a maximum of four years as per section 73(4).

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. Following are the details relating to Mr. Gupta, a resident, relating to PY 2021-22:

Particulars	Rs.
Income from Salaries	2,20,000
LTCL from sale of listed shares in RSE (STT paid at time of sale acquisition)	1,50,000
Loss from Cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	45,000
LTCG from sale of urban land	2,50,000
Loss from HP	2,50,000
Loss from card games	40,000
Income from betting (Gross)	35,000
Life Insurance Premium paid (Sum assured Rs. 5,00,000)	25,000

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

Answer: Computation of total income of Mr. Gupta for AY 2022-23

SN	Particulars	Rs.	Rs.
1	**Salaries**		
		2,20,000	
	Less: Loss from HP **[See Note]**	2,00,000	20,000
2	**Loss from HP**	(2,50,000)	
	Less: Adjusted against salaries to the extent of Rs. 2,00,000. [HP Loss of Rs. 50,000 is to be carried forward to next AY]	(2,00,000)	Nil
3	**PGBP**		
	Income from speculation business	30,000	
	Less: Loss from cloth business set off **[See Note]**	30,000	Nil
4	**Capital gains**		
	LTCG from sale of urban land	2,50,000	
	Less: LTCL from sale of shares in RSE	(1,50,000)	
	Less: Loss from cloth business set off **[See Note]**	1,00,000	Nil
5	**IFOS**		
	Income from betting		35,000
	Gross Total Income		**55,000**
	Less: Deduction u/s 80C (life insurance premium paid) **[Note]**		20,000
	Total income		**75,000**

Losses to be c/f:

(1) Loss from HP (Rs. 2,50,000 – Rs. 2,00,000) = Rs. 50,000.

(2) Loss from cloth business (Rs. 2,40,000 – Rs. 30,000 – Rs. 1,00,000) = 1,10,000.

(3) Loss from specified business u/s 35AD = Rs. 45,000.

Notes:

1. Loss from HP can be set-off against income under any other head to the extent of Rs. 2,00,000 only. Balance loss of Rs. 50,000 can be c/f to next year for set-off against income from HP of that year.
2. Loss from specified business covered by section 35AD can be set-off only against profits & gains of any other specified business. Therefore, such loss cannot be set off against any other income.

Unabsorbed loss has to be c/f for set-off against profits of any specified business.

3. Loss from cloth business to the extent of Rs. 30,000 can be set-off against income from speculation business.
Remaining business loss of Rs. 2,10,000 (Rs. 2,40,000 – Rs. 30,000) can be set-off against balance LTCG of Rs. 2,00,000 from sale of urban land.
Remaining business loss cannot be set off against salary income due to restriction contained in section 71(2A).
4. Loss from card games can neither be set off against any income, nor can it be c/f.
5. Deduction under Chapter VI-A is not available from CG & casual income. Therefore, deduction u/s 80C i.r.o life insurance premium paid has to be restricted to Rs. 20,000 [i.e., Rs. 55,000 (GTI) – Rs. 20,000 (Casual income)].
6. Income from betting is chargeable to tax @ 30% u/s 115BB & no expenditure/ allowance can be allowed as deduction nor can any loss be set-off against such income.

Nov 18

Q2. From the following information for PY 2021-22, compute the total income of Mr. Arihant for AY 2022-23 & show eligible items for c/f & upto which AY:

Particulars	Amount
LTCG from sale of urban land	2,30,000
LTCG on sale of shares (STT not paid)	85,000
LTCL on sale of listed shares in RSE (STT paid at time of acquisition & sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered u/s 35AD	40,000
Income from salary	3,50,000
Loss from HP	2,20,000
Income from trading business	75,000

Following are details of unabsorbed depreciation & the b/f losses:
(1) Unabsorbed depreciation of Rs. 11,000 pertaining to AY 2021-22.
(2) Losses from owning & maintaining of race horses pertaining to AY 2021-22: Rs. 5,000.
(3) Brought forward loss from trading business Rs. 8,000 relating to AY 2018-19.

Answer: **Computation of total income of Mr. Arihant for AY 2022-23**

	Particulars	Rs.	Rs.
1	**Income from Salary**	3,50,000	
	Less: Loss from HP set-off against salary income	1,57,000	1,93,000
2	**House Property (Loss)**	2,20,000	
	Less: Adjusted against Capital gains u/s 112	43,000	
	Less: Adjusted against salary income	1,57,000	Nil
	[Loss of Rs. 20,000 shall be c/f to next year]		
3	**Profits & gains of business or profession**		
	Income from trading business	75,000	
	Less: B/f loss from trading business of AY 2018-19 [8 years time limit within which set-off is permitted has not expired]	8,000	
	Less: Unabsorbed depreciation	11,000	56,000
	Income from speculative business Y	15,000	
	Less: Loss from speculative business X	15,000	
4	**Capital Gains**		
	LTCG on sale of urban land	2,30,000	
	Less: LTCL on sale of shares (STT not paid)	85,000	
	Less: LTCL u/s 112A on sale of listed shares [Note 1]	1,02,000	

	Less: Loss from HP	43,000	Nil
	Total Income		**3,51,000**

PC Note: As per section 71(3A), loss from HP to the extent of Rs. 2 lacs can be set-off against any other head of income. In case of Mr. Avinash, it is more beneficial to set-off the loss from HP against LTCG since LTCG would be taxable @ 20%. Accordingly, loss to the extent of Rs. 43,000 is set-off against LTCG & Rs. 1.57 lacs set-off against income u/h Salaries.

Items eligible for carried forward to AY 2023-24

- Loss from HP: Rs. 20,000.
- Loss from speculative business X: Rs. 10,000.
- Loss from specified business u/s 35AD: Rs. 40,000.
- Loss from the activity of owning & maintaining race horses: Rs. 5,000.

May 19

Q3. Mr. Rajan incurred loss of Rs. 5.3 lacs in PY 2020-21 in toy business. Against which of the following income earned during the same year, can he set-off such loss?

(a) Profit of Rs. 2 lacs from wholesale cloth business
(b) Speculative business income of Rs. 80,000
(c) LTCG of Rs. 1.20 lacs on sale of land
(d) All of the above

Q4. Compute GTI of Mr. Avinash & show the items eligible for carry forward & AYs upto which such losses can be carry forward from following the information for PY 2021-22:

Particulars	Amount
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered u/s 35AD	45,000
Income from salary (computed)	4,18,000
Loss from HP	2,20,000
Income from trading business	2,80,000
Income from owning & maintaining race horses	8,000
LTCG from sale of urban land	2,05,000
LTCL on sale of equity shares (STT not paid)	85,000
LTCL on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition & sale of shares)	1,10,000

Following are the brought forward (B/F) losses:

- Losses from owning & maintaining of race horses pertaining to AY 2020-21: Rs. 12,000.
- B/F loss from speculative business MNO 18,000 relating to AY 2019-20.
- B/F loss from trading business of Rs. 12,000 relating to AY 2018-19.

Assume Mr. Avinash has furnished his ROI before DD u/s 139(1) in all the above PYs.

Answer: **Computation of Gross total income of Mr. Avinash for AY 2022-23**

	Particulars	Rs.	Rs.
1	**Income from Salary**	4,18,000	
	Less: Loss from HP set-off against salary	1,90,000	2,28,000
2	**House Property (Loss)**	2,20,000	
	Less: Adjusted against LTCG u/s 112	10,000	
	Less: Adjusted against salary income [Note 1]	1,90,000	
	[Loss of Rs. 20,000 shall be c/f to next year]		Nil
3	**PGBP**		
	Income from trading business	2,80,000	
	Less: B/f loss from trading business of AY 2018-19 [8 year time limit		

	within which set-off is permitted has not expired]	12,000	2,68,000
	Income from speculative business BPO	25,000	
	Less: Loss from speculative business MNO	12,000	
	Less: B/f Loss from speculative business MNO of AY 2019-20	13,000	Nil
4	**Capital Gains**		
	Long term capital gain on sale of urban land	2,05,000	
	Less: LTCL on sale of shares (STT not paid)	85,000	
	Less: LTCL u/s 112A on sale of listed shares [Note 1]	1,10,000	
	Less: Loss from HP set-off LTCG	10,000	Nil
	Total Income		**4,96,000**

Items eligible for carried forward to AY 2022-23

- Loss from HP: Rs. 20,000.
- Loss from speculative business MNO: Rs. 5,000.
- Loss from specified business u/s 35AD: Rs. 45,000.
- Loss from the activity of owning & maintaining race horses: Rs. 4,000.

Nov 19

Q5. The details of income/loss of Mr. Kumar for AY 2022-23 are as follows:

Particulars	Amount
Income from Salary (Computed)	5,20,000
Loss from self-occupied HP	95,000
Loss from let-out HP	2,25,000
Loss from specified business u/s 35AD	2,80,000
Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

Compute gross total income of Mr. Kumar for AY 2022-23:

(a) Rs. 4,40,000 (b) Rs. 3,20,000 (c) Rs. 1,60,000 (d) Rs. 4,80,000

Q6. Mr. Raghav is a CA & his income from profession for PY 2021-22 is Rs. 15 lacs. He provides you with the following information for PY 2021-22:

Particulars	Rs.
Income of minor son Rahul from company deposit	1,75,000
Income of minor daughter Riya from her dance performances (profession)	20,00,000
Interest from Canara bank received by Riya on FD made in 2017 out of income earned from her dance performances	20,000
Gift received by Riya from friend of Mr. Raghav on winning National award	45,000
Loss from HP (computed)	2,50,000
STCL	6,00,000
LTCG u/s 112	4,00,000
STCL u/s 111A	10,00,000

Mr. Raghav income before considering clubbing provisions is higher than that of his wife. Compute Total Income of Mr. Raghav for AY 2022-23 & losses to be carried forward.

Answer: **Computation of Total Income of Mr. Raghav for AY 2022-23**

Particulars	Rs.	Rs.	Rs.
Profits & gains from business & profession			
Income from chartered accountancy profession		15,00,000	
Less: Loss from HP (can be set-off to the extent of Rs. 2 lacs)		2,00,000	13,00,000
Capital gains			

LTCG u/s 112		4,00,000	
Less: STCL set off against LTCG		(4,00,000)	Nil
Income from other sources			
1. Income of minor son Rahul			
Income from company deposit includible in the hands of Mr. Raghav as per section 64(1A)	1,75,000		
Less: Exemption i.r.o income of minor child u/s 10(32)	(1,500)	1,73,500	
2. Income of minor daughter Riya			
▪ Income of Rs. 20 lacs of minor daughter Riya (professional dancer) not includible in hands of parent, since such income is earned on account of special skills.	Nil		
▪ Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible since interest income arises out of deposit made & not on account of her special skills.	20,000		
▪ Gift of Rs. 45,000 received by her from friends of Mr. Raghav is not taxable u/s 56(2)(x), since the aggregate amount from non-relatives does not exceed Rs. 50,000	Nil		
Less: Exemption i.r.o. income of minor child u/s 10(32)	(1500)	18,500	1,92,000
Total Income			14,92,000

Losses to be carried forward to AY 2023-24:

Loss from HP [Rs. 2.50,000 – Rs. 2,00,000]	50,000
STCL u/s 111A	10,00,000
STCL (other than above) [Rs. 6,00,000 – Rs. 4,00,000]	2,00,000

PC Note: STCL u/s 111A can also be set-off against LTCG u/s 112. In such a case, the losses to be c/f to AY 2023-24 would be as under:

Particulars	Rs.
Loss from HP [RS. 2.50,000 – RS. 2,00,000]	50,000
STCL u/s 111A [RS. 10,00,000 – RS. 4,00,000]	6,00,000
STCL (other than above)	6,00,000

May 20 — **No Direct Question was asked.**

Nov 20

Q7. Mr. Krishan, residing in Indore, provides following information for PY 2021-22:

Particulars	Amount
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
CY depreciation of textile business not adjusted in income given above.	5,000
Unabsorbed depreciation of AY 2020-21	10,000
Speculation business loss of AY 2021-22	30,000

Compute GTI of Mr. Krishan for AY 2022-23 & state losses eligible for c/f & period up to which such losses can be c/f.

Answer: **Computation of Gross Total Income of Mr. Krishan for AY 2022-23**

Particulars	Amount	Amount
PGBP:		
Income from Textile business	4,60,000	

Less: Current year depreciation allowable u/s 32(1)	(5,000)	
	4,55,000	
Less: Unabsorbed depreciation b/f from AY 2020-21 as per section 32(2)	(10,000)	4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for AY 2021-22 set-off as per provisions of section 73(2)	(30,000)	
Speculation business loss to be c/f	(5,000)	Nil
Gross Total Income		**4,45,000**

Losses eligible for carry forward to AY 2023-24

SN	Particulars	Amount
1	Loss from speculation business to be c/f as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be c/f for a maximum of 4 AY immediately succeeding AY for which loss was first computed. Thus, such loss can be c/f up to AY 2025-26	5,000
2	Loss on maintenance of race horses to be c/f as per section 74A (3) Loss on maintenance of race horses can be set-off only against income from activity of owning & maintaining race horses. Such loss can be c/f for a maximum of 4 AY immediately succeeding AY for which loss was first computed. Thus, such loss can be c/f up to AY 2026 -27	15,000
3	Loss from gambling can neither be set-off nor be c/f.	

May 21

Q8. Mr. Arpan (aged 35 years) submits following particulars for purpose of computing his total income:

Particulars	Amount
Income from salary (computed)	4,00,000
Loss from let-out HP	(-) 2,20,000
B/f loss from let-out HP for AY 2021-22	(-) 2,30,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute total income of Mr. Arpan for AY 2022-23 & amount of loss that can be c/f for subsequent AY.
(a) Total income 2,00,000 & HP loss of 2,50,000 & business loss of 20,000 to be c/f to subsequent AY.
(b) Total income 80,000 & HP loss of 2,30,000 to be c/f to subsequent AY.
(c) Total income 1,80,000 & HP loss of 2,30,000 & business loss of 20,000 to be c/f to subsequent AY.
(d) Total income is Nil & loss from HP of 70,000 to be c/f to subsequent AY.

Q9. Mr. Prakash furnishes following information for FY 2021-22:

Particulars	Amount
Loss from speculation business X	85,000
Profit from speculation business Y	45,000
Interest on borrowings i.r.o. self-occupied HP	3,18,000
Income from let out HP	1,20,000
Presumptive Income from trading & manufacturing business u/s 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	65,000
LTCG on sale of Vacant site	1,25,000
STCG on sale of Jewellery	65,000

Investment in tax saver deposit on 31.03.22	60,000
B/f loss of business of AY 2016-17	1,00,000
Donation to a charitable trust recognized u/s 12AA & approved u/s 80G (payment made via credit card)	60,000

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

Answer: **Computation of total income of Mr. Prakash for AY 2022-23**

Particulars	Amount	Amount
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	(50,000)	
Less: Loss from HP of 20,000 [80,000 - 60,000, being loss set-off against LTCG]	(20,000)	4,55,000
Income from HP		
Income from let out HP	1,20,000	
Less: Loss from self-occupied HP to extent of 2 lakhs, allowable as deduction u/s 24(b) i.r.o. interest on borrowings	(2,00,000)	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	Nil
PGBP		
Profit from speculation business Y	45,000	
Less: Loss of 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading & manufacturing business	1,00,000	
Less: B/f business loss of AY 2016-17 set- off since period of 8 AY has not expired	(1,00,000)	Nil
Capital Gains		
LTCG on sale of vacant site	1,25,000	
Less: STCG on sale of jewellery	(65,000)	
Less: Loss from HP to be set-off to extent of LTCG (It is more beneficial for Mr. Prakash to first set-off loss from HP against the LTCG, since it is taxable @20%)	60,000	Nil
IFOS		
Interest on PPF deposit [It is exempt]		Nil
Gross Total Income		**4,55,000**
Deduction u/s 80C: Investment in tax saver deposit on 31.3.2022	60,000	
Deduction u/s 80G: Donation to recognized & approved charitable trust [Donation of 60,000 to be first restricted to 39,500, being 10% of adjusted total income of 3,95,000 (4,55,000 – 60,000). Thereafter, deduction would be computed at 50% of 39,500.	19,750	(79,750)
Total Income		**3,75,250**

Losses to be c/f to AY 2023-24: Loss from speculation business X = Rs. 45,000 [85,000 – 40,000]

Note: Loss from speculation business can be set-off only against profits of any other speculation business. If loss can't be so set-off, the same has to be c/d to subsequent year for set off against income from speculation business, if any, in that year.

Nov 21

Q10. Ms. Aarti, a resident, provides following information of her income/losses for PY 2021-22:

SN	Particulars	Amount
1	Income from salary (Computed)	8,20,000
2	Income from HP let out (Net Annual Value)	1,20,000
3	Share of profit from firm in which she is partner	48,000
4	Loss from specified business covered u/s 35AD	67,000
5	Income from textile business before adjusting following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) B/f loss of textile business of AY 2019-20	1,90,000
6	LTCG on sale of debentures (unlisted)	1,50,000
7	LTCL on sale of equity shares (STT not paid)	1,50,000
8	LTCG on sale of equity shares listed in RSE (STT paid at time of acquisition & sale)	2,50,000
9	Dividend from units of UTI	1,15,000
10	Repayment towards housing loan taken from a scheduled bank. Out of this 3,28,000 was towards payment of interest & rest towards principal.	4,85,000

Compute GTI of Ms. Aarti & ascertain amount of loss that can be c/f Ms. Aarti has always filed her ROI within the due date specified u/s 139(1). She does not want to opt for 115BAC.

Answer:

Particulars	Amount	Amount
Salary Income (computed)	8,20,000	
Less: As per section 71(3A), loss from HP of 2,44,000 can be set-off, to the extent of	2,00,000	**6,20,000**
Income from HP		
Net Annual Value	1,20,000	
Less: Deduction u/s 24 - (a) 30% of NAV	36,000	
(b) Interest on housing loan	3,28,000	
Loss from house property	**(2,44,000)**	
Less: Loss eligible for set-off against salary income restricted to	2,00,000	
Loss to be c/f to AY 2023-24 for set-off against income from HP, if any, in that year.	(44,000)	
PGBP		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Specified business Loss u/s 35AD: Rs. 67,000 [can be set-off against specified business income. Hence, it has to be c/f to AY 2023-24]	-	
Income from textile business	3,30,000	
Less: Current year depreciation	53,000	
Less: B/f loss of textile business	1,90,000	
Less: Set-off of unabsorbed depreciation to the extent of Rs. 87,000 against business income	87,000	**Nil**
Capital Gains		
LTCG on sale of listed equity shares (STT paid)	2,50,000	
Less: Balance unabsorbed depreciation of 98,000 set-off	98,000	
LTCG on sale of listed equity shares [Tax is payable u/s 112A @ 10% on amount exceeding 1,00,000]		**1,52,000**
LTCG on sale of debentures	1,50,000	

Less: Set-off of LTCL on sale of equity shares (STT not paid) [Since LTCG on sale of unlisted debentures are taxable @20% & LTCG on sale of listed shares in excess of 1,00,000 taxable @10%, it is beneficial to set-off LTCL against LTCG on sale of debentures]	1,50,000	**Nil**
IFOS		
Dividend from units of UTI [Taxable in the hands of unitholders]		**1,15,000**
Gross Total Income		**8,87,000**

	Losses to be c/f to AY 2023-24	**Amount**
1	Losses from specified business [can be c/f indefinitely for set-off against income from any specified business]	67,000
2	Loss from HP [can be c/f up to 8 successive AY for set-off against income from HP]	44,000

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15	**No Direct Question was asked.**
N15	**No Direct Question was asked.**
M16	**No Direct Question was asked.**
N16	**No Direct Question was asked.**

M17

Q1. S, a resident of Chandigarh, provides following information for FY 2021-22:

Particulars	**Amount**
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss from maintenance of race horse	15,000
Eligible current year depreciation of textile business not adjusted in Income given above	5,000
Unabsorbed depreciation of AY 2021-22 brought forward	10,000
Speculation business loss of AY 2021-22	30,000

Compute GTI of S for AY 2022-23 & any other item of expense or loss eligible for carry forward.

Answer: **Computation of Gross Total Income of S**

Particulars	**Amount**	**Amount**
Income from textile business:		4,60,000
Less: Current year depreciation	5,000	
Less: Unabsorbed depreciation of AY 2021-22	10,000	(15,000)
		4,45,000
Income from speculation business:	25,000	
Less: Brought forward speculative loss restricted to Speculative Income	25,000	Nil
Gross total income		**4,45,000**

Notes:

1. Loss from gambling is neither allowed to be set off nor eligible for c/f.
2. As per section 74A, losses on maintenance of race horses shall be c/f for 4 subsequent AYs, & can be set-off only against Income from such activity. Therefore, in this case, 15,000 is c/f.
3. Losses from speculative business can be c/f for 4 AY, & set off only against Income from speculative business. Hence, in this case, set-off is allowed only to extent of income from speculative business, i.e., 25,000. The balance 5,000 is c/f for next 3 AYs.

N17	**No Direct Question was asked.**

M18	**No Direct Question was asked.**
N18	**No Direct Question was asked.**

M19

Q2. Ms. Geeta, a resident individual, provides following details of her income/losses for year ended 31.3.2022:

SN	Particulars	Amount
1	Income from salary (computed)	41,20,000
2	Rent received from HP situated in Delhi	5,00,000
3	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
4	Rent received from HP situated in Jaipur	3,20,000
5	Interest on loan taken for HP in Mumbai which is self-occupied. Loan was taken from PNB on 1.1.1999 for purchase of this property	1,57,000
6	Interest on loan taken for repair of HPs situated in Mumbai & Delhi. Loan was taken on 1.4.2020 & was utilized in 50:50 ratio for HPs situated in Mumbai & Delhi, respectively.	**1,50,000**
7	LTCG on sale of equity shares computed in accordance with section 112A	**8,95,000**
8	Interest on FD	**73,000**
9	Loss from textile business	**7,50,000**
10	Speculation profit	**2,30,000**
11	Lottery income	**75,000**
12	Loss incurred by the firm in which she is a partner	**1,60,000**
13	Salary received as a partner from partnership firm (same was allowed to firm)	**50,000**
14	Brought forward STCL on sale of gold	**2,75,000**
15	Brought forward loss on sale of equity shares of nature specified u/s 111A	**25,000**
16	Life insurance premium paid for her son who is 30 years of age & is working in USA	**15,000**

Compute total income of Ms. Geeta for AY 2022-23 & the amount of loss that can be c/f. For the above solution, you may assume principal repayment of loan as under:

(1) Loan taken for purchase of HP in Delhi: Rs. 2,50,000

(2) Loan taken for purchase of HP in Mumbai: Rs. 50,000

(3) Loan taken for repair of HPs in Delhi & Mumbai: Rs. 75,000

Assume Ms. Geeta: (a) does not opt to be taxed u/s 115BAC (b) opts to be taxed u/s 115BAC

Answer: **Computation of Total Income of Ms. Geeta for AY 2022-23**

Particulars		**Does not opt to be taxed u/s 115BAC**		**Opts to be taxed u/s 115BAC**	
Income u/h salary (computed)		41,20,000		41,70,000	
Less: Loss from HP maximum allowed 2,00,000		(2,00,000)	39,20,000	Not allowed	41,70,000*
Income u/h HP					
House 1 (House in Delhi)					
GAV	5,00,000				
Less: Municipal Tax	Nil				
Net Annual Value	5,00,000				
Less: 30% of NAV u/s 24(a)	(1,50,000)				
Less: Interest on capital borrowed u/s 24(b) (7,50,000+75,000)	(8,25,000)	(4,75,000)		(4,75,000)	
House 2 (House in Jaipur)					
GAV	3,20,000				
Less: Municipal Tax	Nil				
Net Annual Value	3,20,000				

Less: 30% of NAV u/s 24(a)	(96,000)	2,24,000		2,24,000	
House 3 (House in Mumbai Self occupied)					
Net Annual Value	Nil				
Less: 30% of NAV u/s 24(a)	Nil				
Less: Interest on Loan u/s 24(b)	(30,000)	(30,000)		Nil	
Loss u/h HP (2,24,000 - 4,75,000 - 30,000) (2,24,000 - 4,75,000)		(2,81,000)		(3,51,000)	
Set off of loss from salary		2,00,000		Nil	
Balance HP loss to be c/f		(81,000)		(3,51,000)	
Income u/h PGBP					
Speculation profit		2,30,000		2,30,000	
Salary from partnership firm		50,000		50,000	
		2,80,000		2,80,000	
Less: Loss from textile business		(7,50,000)		(7,50,000)	
Balance		(4,70,000)		(4,70,000)	
Less: Set off from LTCG		4,70,000	Nil	4,70,000	Nil
Income u/h capital Gains					
LTCG		8,95,000		8,95,000	
Less: Current year loss u/h PGBP set off (Cannot be set off from salary)		(4,70,000)		(4,70,000)	
		4,25,000		4,25,000	
Less: Brought forward STCL		(2,75,000)		(2,75,000)	
Less: Brought forward STCL u/s 111A		(25,000)	1,25,000	(25,000)	1,25,000
Income u/h IFOS					
Interest on Fixed Deposit		73,000		73,000	
Lottery Income		75,000	1,48,000	75,000	1,48,000
Gross Total Income			**41,93,000**		**44,43,000**
Less: Deductions u/s 80C					
Repayment of Principal amount (Mumbai House)		50,000			
LIC Paid		15,000	(65,000)		Nil
Total Income			**41,28,000**		**44,43,000**

Note: Assessee is allowed to c/f an amount of 81,000 as loss u/h HP.

* Standard deduction of 50,000 has been added to the computed salary as it will not be allowed if Ms. Geeta a opts to be taxed u/s 115BAC. Further, in absence of other information, it is assumed that she although has opted for section 115BAC but no disallowance was allowed while computing salary income.

Notes:

1. Loss u/h HP shall be adjusted from other head income maximum up to 2,00,000 & balance shall be c/f, (section 71). Not allowed if she opts to be taxed under section 115BAC.
2. As per section 74, b/f STCL shall be adjusted from income u/h capital gains only.
3. Loss from normal business shall be adjusted from speculation income & salary from partnership firm & balance from LTCG as business loss is not allowed to be set off from salary income, (section 71).
4. Repayment of housing loan shall be allowed as deduction u/s 80C provided same is taken from notified Institution & loan is taken for purchase/construction. Not allowed if she opts to be taxed u/s 115BAC.

N19

Q3. Following are details of incomes/losses of Mr. Rishi for FY 2021-22:

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

You are required to determine GTI of Mr. Rishi for AY 2022-23. Assume Mr. Rishi:
(a) does not opt to be taxed u/s 115BAC; (b) opts to be taxed u/s 115BAC

Answer:

Particulars		**Does not opt to be taxed u/s 115BAC**		**Opts to be taxed u/s 115BAC**	
Income from Salary		3,60,000		4,10,000	
Less: Loss u/h HP		(2,00,000)	1,60,000	Not allowed	4,10,000 (Note 1)
Income from HP					
Income from House X		1,20,000		1,20,000	
Loss from House Y		(3,40,000)		(3,40,000)	
		(2,20,000)		(2,20,000)	
Set off from salary		2,00,000		—	
C/f of loss from HPs	(20,000)			(2,20,000)	
Income from Business					
Business P		2,30,000		2,30,000	
Business Q		(12,000)	2,18,000	(12,000)	2,18,000
Profit from speculation business R	15,000			15,000	
Less: Loss from speculation business T	(25,000)			(25,000)	
C/f speculation loss	(10,000)			(10,000)	
IFOS					
Income from card games		16,000		16,000	
Loss from owning & maintenance of race horses to be c/f in both the options	7,000				
Interest on securities		5,000	21,000	5,000	21,000
Gross Total Income			**3,99,000**		**6,49,000**

Notes:

1. Standard deduction of 50,000 has been added to computed salary as it will not be allowed if Mr. Rishi opts to be taxed u/s 115BAC.
2. Loss from owning & maintenance horse race cannot be set off against any income.

N20

Q4. Ms. Pooja, a resident provides following information of her income/losses for PY 2021-22:

SN	Particulars	Amount
1	Income from salary (Computed)	2,20,000
2	Income from HP (let out) (Net Annual Value)	1,50,000
3	Share of loss from firm in which she is partner	10,000
4	Loss from specified business covered u/s 35AD	20,000
5	Income from textile business before adjusting following items:	3,00,000
	(a) Current year depreciation	60,000
	(b) Unabsorbed depreciation of earlier year	2,25,000
	(c) Brought forward loss of textile business of AY 2020-21	90,000
6	LTCG on sale of debentures	75,000
7	LTCL on sale of equity shares (STT not paid)	1,00,000
8	LTCG on sale of equity shares listed in RSE (STT paid at the time of acquisition & sale)	1,50,000
9	Dividend from units of UTI	5,000

During PY 2021-22, Ms. Pooja has repaid Rs. 5,25,000 towards housing loan from a scheduled bank. Out of this 3,16,000 was towards payment of interest & rest towards principal. Compute GTI of Ms. Pooja & ascertain amount of loss that can be c/f. Ms. Pooja has always filed her return within due date specified u/s 139(1). Assume Ms. Pooja (a) does not opt to be taxed u/s 115BAC (b) opts to be taxed u/s 115BAC

Answer:

Particulars	Does not opt for 115BAC		Opts for 115BAC	
Salary income (with & without std. deduction)	2,20,000		2,70,000	
Less: Loss from HP/not allowed to set off in 2nd case	(2,00,000)	20,000	Nil	2,70,000
Income from HP				
Net annual value [Net of Std. deduction u/s 24(a)]	1,05,000		1,05,000	
Less: Interest on loan u/s 24(b): Rs. 3,16,000	(3,16,000)		(3,16,000)	
Loss from HP	(2,11,000)		(2,11,000)	
Set off from salary (see above)/Not allowed	2,00,000	—	Nil	—
HP loss to be c/f	(11,000)		(2,11,000)	
Income from business				
Income from textile business	3,00,000		3,00,000	
Less: Current year depreciation	(60,000)		(60,000)	
Less: Unabsorbed depreciation of earlier year	(2,25,000)		(2,25,000)	
Less: B/f loss Rs. 3,90,000 set off to extent of	(15,000)	Nil	(15,000)	Nil
Balance loss of textile business to be c/f to next year	(75,000)		(75,000)	
Specified business Loss to be c/f to next PY.	(20,000)		(20,000)	
Capital gains				
LTCG on debentures	75,000		75,000	
Less: LTCL on sale of shares (STT not paid)	(1,00,000)		(1,00,000)	
Balance loss	(25,000)		(25,000)	
LTCG on sale of shares (STT paid) (25,000 set off)	25,000		25,000	
Net Long Term Capital Gains		1,25,000		1,25,000
Income from other sources: Dividend from UTI		5,000		5,000
Gross Total Income		**1,50,000**		**4,00,000**
Less: Deduction u/s 80C (Housing loan repaid: Rs. 2,09,000)		1,50,000		NA
Total income		**Nil**		**4,00,000**

CHAPTER 10. DEDUCTIONS FROM GTI QB

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Examine the following statements with regard to the provisions of the Income-taxAct 1961:

(a) For grant of deduction u/s 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.

(b) Filing of belated ROI u/s 139(4) will debar an assessee from claiming deduction u/s 80QQB.

Answer:

(a) **Not Correct.** Section 80AC stipulates compulsory filing of return of income on or before the due date specified u/s 139(1), as a pre-condition for availing the benefit of deduction, inter alia, u/s 80JJAA

(b) **Correct.** As per section 80AC, the assessee has to furnish his return of income on or before the due date specified u/s 139(1), to be eligible to claim deduction u/s 80QQB.

Q2. Compute the eligible deduction u/s 80C for AY 2022-23 i.r.o. life insurance premium paid by Mr. Ganesh during the PY 2021-22, the details of which are given hereunder-

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during PY 2021- 22
(i)	30/3/2012	Self	Rs. 6,00,000	Rs. 51,000
(ii)	1/5/2017	Spouse	Rs. 1,50,000	Rs. 20,000
(iii)	1/6/2019	Handicapped son	Rs. 4,00,000	Rs. 80,000

Answer:

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2021-22	Deduction u/s 80C for AY2022- 23	Remark (restricted to % of sum assured)
(i)	30/3/2012	Self	Rs. 6,00,000	Rs. 51,000	Rs. 51,000	20%
(ii)	1/5/2017	Spouse	Rs. 1,50,000	Rs. 20,000	Rs. 15,000	10%
(iii)	1/6/2019	Handicapped son	Rs. 4,00,000	Rs. 80,000	Rs. 60,000	15%
	Total				**Rs. 1,26,000**	

Q3. An individual, resident in India, has made the following deposit/payment during the PY 2021-22:

Particulars	
Contribution to the public provident fund	Rs. 1,50,000
Insurance premium paid on life of spouse (policy taken on 1.4.2016) (Assured value 2 Lac)	Rs. 25,000

What is the deduction allowable u/s 80C for AY 2022-23?

Answer: **Computation of deduction u/s 80C for AY 2022-23**

Particulars	
Deposit in public provident fund	Rs. 1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of assured value)	Rs. 20,000
Total	**Rs. 1,70,000**
However, the maximum permissible deduction u/s 80C is restricted to	Rs. 1,50,000

Q4. Basic salary of Mr. A is Rs. 1,00,000 pm He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A & his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment i.r.o. such contribution in the hands of Mr. A.

Answer:

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of 'salary' u/s 17(1)(viii). Therefore, Rs. 1,80,000 (15% of basic salary) will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay. Therefore, 'salary' for the purpose of deduction u/s 80CCD for Mr. A would be:

Particulars	Rs.
Basic salary = Rs. 1,00,000 × 12 =	Rs. 12,00,000
Dearness allowance = 40% of Rs. 12,00,000 = Rs. 4,80,000. 50% of Dearness Allowance forms part of pay = 50% of Rs. 4,80,000	Rs. 2,40,000
Salary for the purpose of deduction u/s 80CCD	**Rs. 14,40,000**
Deduction u/s 80CCD (1) is restricted to 10% of Rs. 14,40,000(as against actual contribution of Rs. 1,80,000, being 15% of basic salary of Rs. 12,00,000)	Rs. 1,44,000
As per section 80CCD(1B), a further deduction of upto Rs. 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is Rs. 36,000(Rs. 1,80,000 - Rs. 1,44,000).	Rs. 36,000

Rs. 1,44,000 is allowable as deduction u/s 80CCD (1). This would be taken into consideration & be subject to the overall limit of Rs. 1,50,000 u/s 80CCE. Rs. 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall limit of Rs. 1,50,000 u/s 80CCE.

In the alternative, Rs. 50,000 can be claimed as deduction u/s 80CCD(1B). The balance Rs. 1,30,000 (Rs. 1,80,000 - Rs. 50,000) can be claimed as deduction u/s 80CCD (1).

(c) Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD (2), subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD (2), would also be restricted to Rs. 1,44,000, even though the entire employer's contribution of Rs. 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of Rs. 1,44,000 to pension scheme would be outside the overall limit of Rs. 1,50,000 u/s 80CCE i.e., this deduction would be over & above the other deductions which are subject to the limit of Rs. 1,50,000.

Q5. GTI of Mr. X for AY 2022-23 is Rs. 8 Lacs. He has made the following payments during PY 2021-22.

	Particulars	Rs.
(1)	Contribution to PPF	Rs. 1,10,000
(2)	Payment of tuition fees to AB School, New Delhi, for education of his son studying in Class XI	Rs. 45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	Rs. 25,000
(4)	Contribution to approved pension fund of LIC	Rs. 1,05,000

Compute the eligible deduction under Chapter VI-A for AY 2022-23.

Answer: **Computation of deduction under Chapter VI-A for AY 2022-23**

	Particulars	Rs.
	Deduction u/s 80C	
1)	Contribution to PPF	Rs. 1,10,000
2)	Payment of tuition fees to AB School, New Delhi, for education of his son studying in Class XI	Rs. 45,000
3)	Repayment of housing loan	Rs. 25,000
		Rs. 1,80,000
	Restricted to 1,50,000, being the maximum permissible deduction u/s 80C	Rs. 1,50,000
	Deduction u/s 80CCC	
4)	Contribution to approved pension fund of LIC Rs. 1,05,000	Rs. 1,05,000
		Rs. 2,55,000
	As per section 80CCE, aggregate deduction u/s 80C, 80CCC & 80CCD (1) has to be restricted to Rs. 1,50,000	
	Deduction allowable under Chapter VIA for the AY 2022-23	Rs. **1,50,000**

Q6. Mr. A, aged 40 years, paid medical insurance premium of Rs. 20,000 during the PY 2021-22 to insure his health as well as the health of his spouse. He also paid medical insurance premium of Rs. 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed Rs. 3,600 to CGHS during the year. He has incurred Rs. 3,000 in cash on preventive health check-up of himself & his spouse & Rs. 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable u/s 80D for the AY 2022-23.

Answer: **Deduction allowable u/s 80D for the AY 2022-23**

	Particulars	Actual Payment	Maximum deduction allowable
(A)	**Premium paid & medical expenditure incurred for self & spouse**		
(i)	Medical insurance premium paid for self & spouse	Rs. 20,000	Rs. 20,000
(ii)	Contribution to CGHS	Rs. 3,600	Rs. 3,600
(iii)	Exp. on preventive health check-up of self & spouse	Rs. 3,000	Rs. 1,400
		Rs. 26,600	**Rs. 25,000**
(B)	**Premium paid or medical expenditure incurred for father, who is a senior citizen**		
(i)	Mediclaim premium paid for father, who is over 60 years of age	Rs. 47,000	Rs. 47,000
(ii)	Expenditure on preventive health check-up of father	Rs. 4,000	Rs. 3,000
		Rs. 51,000	Rs. 50,000
	Total deduction u/s 80D (Rs. 25,000 + Rs. 50,000)		Rs. 75,000

Notes:
1. Total deduction under A. (i), (ii) & (iii) above should not exceed Rs. 25,000. Therefore, the expenditure on preventive health check-up for self & spouse would be restricted to Rs. 1,400, being (Rs. 25,000 – Rs. 20,000 - Rs. 3,600).
2. Total deduction under B. (i) & (ii) above should not exceed Rs. 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to Rs. 3,000, being (Rs. 50,000 – Rs. 47,000).
3. Total deduction allowed on account of expenditure on preventive health check-up of self, spouse & father is Rs. 4,400 (i.e., Rs. 1,400 + Rs. 3,000), which is within the maximum permissible limit of Rs. 5,000.

Q7. Mr. Y, aged 40 years, paid medical insurance premium of Rs. 22,000 during the PY 2021-22 to insure his health as well as the health of his spouse & dependent children. He also paid medical insurance premium of Rs. 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of Rs. 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed Rs. 6,000 to CGHS during the year. Compute the deduction allowable u/s 80D for the AY 2022-23.

Answer: **Deduction allowable u/s 80D for AY 2022-23**

	Particulars	Rs.	Rs.
(i)	Medical insurance premium paid for self, spouse & dependent children	Rs. 22,000	
(ii)	Contribution to CGHS	Rs. 6,000	
	restricted to	Rs. 28,000	**Rs. 25,000**
(iii)	Mediclaim premium paid for mother, who is over 60 years of age	Rs. 33,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age & not covered by any insurance	Rs. 20,000	
	restricted to	Rs. 53,000	**Rs. 50,000**
	Total Deduction allowable u/s 80D		**Rs. 75,000**

Q8. Mr. X is a resident individual. He deposits a sum of Rs. 50,000 with LIC every year for the maintenance of his handicapped grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights & Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available u/s 80DD for the AY 2022-23.

Answer: Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction u/s 80DD. Deduction is available if individual assessee incurs any expense for a dependant disabled person. Grandfather does not come within the definition of dependant.

Q9. What will be the deduction if Mr. X had made this deposit for his dependant father?

Answer:

- Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of Rs. 75,000 u/s 80DD, irrespective of the amount deposited.
- In case his father has severe disability, the deduction would be Rs. 1,25,000.

Q10. Mr. B has taken three education loans on April 1, 2021, the details of which are given below:

	Loan 1	**Loan 2**	**Loan 3**
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan	Rs. 5,00,000	Rs. 2,00,000	Rs.4,00,000
Annual repayment of loan	Rs. 1,00,000	Rs. 40,000	Rs. 80,000
Annual repayment of interest	Rs. 20,000	Rs. 10,000	Rs. 18,000

Compute the amount deductible u/s 80E for the AY 2022-23.

Answer:

- Deduction u/s 80E is available to an individual assessee i.r.o. any interest paid by him in the PY i.r.o. loan taken for pursuing his higher education or higher education of his spouse or children.
- Higher education means any course of study pursued after senior secondary examination.
- Therefore, interest repayment i.r.o. all the above loans would be eligible for deduction.
- Deduction u/s 80E = Rs. 20,000 + Rs. 10,000 + Rs. 18,000 = Rs. 48,000.

Q11. Mr. A purchased a residential HP for self-occupation at a cost of Rs. 45 lakhs on 1.4.2017, i.r.o. which he took a housing loan of Rs. 35 lakhs from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction i.r.o. interest on housing loan for AY 2022- 23, assuming that the entire loan was outstanding as on 31.3.2022 & he does not own any other HP.

Answer: **Interest deduction for AY 2022-23**

(i)	Deduction allowable while computing income u/h 'Income from HP'	
	Deduction u/s 24(b) Rs. 3,85,000 [Rs. 35,00,000 × 11%] but restricted to	Rs. 2,00,000
(ii)	**Deduction under Chapter VI-A from Gross Total Income**	
	Deduction u/s 80EE Rs. 1,85,000 (Rs. 3,85,000 – Rs. 2,00,000) but restricted to	Rs. 50,000

Q12. Particulars of to Mr. A, Mr. B, Mr. C & Mr. D, salaried individuals, for AY 2022-23 are as follows: **[V. IMP]**

Particulars	**Mr. A**	**Mr. B**	**Mr. C**	**Mr. D**
Amount of Loan	Rs. 43 lakhs	Rs. 45 lakhs	Rs. 20 lakhs	Rs. 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Disbursement Date	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential HP for self- occupation	Acquisition of residential HP for self- occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
SDV of HP	45 lakhs	48 lakhs	-	-
Cost of Electric vehicle	-	-	22 lakhs	18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable for AY 2022-23 in the hands of Mr. A, Mr. B, Mr. C & Mr. D. Assume that there has been no principal repayment during the PY 2021-22.

Answer: **Interest deduction for AY 2022-23**

Mr. A		
(i)	**Deduction allowable while computing income u/h 'Income from HP'**	
	Deduction u/s 24(b) Rs. 3,54,750[Rs. Rs. 43,00,000 × 9% x 11/12] Restricted to	Rs. 2,00,000
(ii)	**Deduction under Chapter VI-A from Gross Total Income**	
	Deduction u/s 80EEA: Rs. 1,54,750 (Rs.3,54,750 – Rs. 2,00,000) Restricted to	Rs. 1,50,000
Mr. B		
(i)	**Deduction allowable while computing income u/h "Income from HP"**	
	Deduction u/s 24(b) Rs. 4,05,000[Rs. 45,00,000 × 9%] Restricted to	Rs. 2,00,000
(ii)	**Deduction under Chapter VI-A**	
	Deduction u/s 80EEA is not permissible since (1) Loan is taken from NBFC (2) SDV > 45 lacs.	Nil
Mr. C		
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs. 20 lakhs x 10% = Rs. 2,00,000, restricted to Rs. 1,50,000, being maximum deduction]		1,50,000
Mr. D		
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.		Nil

Q13. Mr. Shiva aged 58 years, has gross total income of Rs. 7,75,000 comprising of income from salary & HP. He has made the following payments & investments:

1. Premium paid to insure life of her major daughter (policy taken: 1.4.2018) (Assured value: Rs. 1,80,000): Rs. 20,000.
2. Medical Insurance premium for self: Rs. 12,000; Spouse: Rs. 14,000.
3. Donation to a public charitable institution registered u/s 80G: Rs. 50,000 by way of cheque.
4. LIC Pension Fund: Rs. 60,000.
5. Donation to National Children's Fund: Rs. 25,000 by way of cheque
6. Donation to Jawaharlal Nehru Memorial Fund: Rs. 25,000 by way of cheque
7. Donation to approved institution for promotion of family planning: Rs. 40,000 by way of cheque
8. Deposit in PPF: Rs. 1,00,000.

Compute the total income of Mr. Shiva for AY 2022-23.

Answer: **Computation of Total Income of Mr. Shiva for AY 2022-23**

Particulars		
Gross Total Income		**Rs. 7,75,000**
Less: Deduction u/s 80C		
Deposit in PPF	Rs. 1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of assured value Rs. 1,80,000, as the policy is taken after 31.3.2012)	Rs. 18,000	
Deduction u/s 80CCC i.r.o. LIC pension fund	Rs. 60,000	
As per section 80CCE, deduction u/s 80C & 80CCC is restricted to	Rs. 1,78,000	**Rs. 1,50,000**
Deduction u/s 80D		
Medical Insurance premium i.r.o. self & spouse Restricted to	Rs. 26,000	**Rs. 25,000**
Deduction u/s 80G (See Working Note below)		**Rs. 87,500**
Total income		**Rs. 5,12,500**

Working Note: Computation of deduction u/s 80G

	Particulars of donation	**Amount donated**	**% of deduction**	**Deduction u/s 80G**
(i)	National Children's Fund	Rs. 25,000	100%	Rs. 25,000
(ii)	Jawaharlal Nehru Memorial Fund	Rs. 25,000	50%	Rs. 12,500

(iii)	Approved institution for promotion of family planning	Rs. 40,000	100%, subject to qualifying limit	Rs. 40,000
(iv)	Public Charitable Trust	Rs. 50,000	50% subject to qualifying limit (Note)	Rs. 10,000
				Rs. 87,500

Note:

- Adjusted total income = GTI - deductions u/s 80C to 80U except section 80G = Rs. 6,00,000.
- **Qualifying Limit = Rs. 60,000 (being 10% of adjusted total income).**
- Firstly, donation of Rs. 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount.
- Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted.
- Hence, the contribution of Rs. 50,000 to public charitabletrust is restricted to Rs. 20,000 (being, Rs. 60,000 - Rs. 40,000), 50% of which would be the deduction u/s 80G.
- Therefore, deduction u/s 80G i.r.o. donation to public charitable trust = Rs. Rs. 10,000, which is 50% of Rs. 20,000.

Q14. Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for AY 2022-23 is Rs. 4,60,000, paid house rent at Rs. 12,000 p.m. i.r.o. residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for AY2022-23.

Answer: The deduction u/s 80GG will be computed as follows:

1. Actual rent paid *less* 10% of total income = Rs. 1,44,000 (-) $\frac{10 \times 4{,}60{,}000}{100}$ = Rs. 98,000.
2. 25% of total income = $\frac{25 \times 4{,}60{,}000}{100}$ = Rs. 1,15,000.
3. Amount calculated at Rs. 5,000 p.m. = Rs. 60,000. **Deduction allowable [Least of (1), (2) & (3)] = Rs. 60,000.**

Q15. During the PY 2021-22, ABC Ltd., an Indian company,

(a) contributed a sum of 2 lakhs to an electoral trust; &

(b) incurred expenditure of Rs. 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction i.r.o. such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction?

Answer:

- An Indian company is eligible for deduction u/s 80GGB i.r.o. any sum contributed by it in the PY to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, & accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.
- Therefore, ABC Ltd. is eligible for a deduction of Rs. 2,25,000 u/s 80GGB i.r.o. sum of 2 lakh contributed to an electoral trust & Rs. 25,000 incurred by it on advertisement in a brochure of a political party.
- It may be noted that there is a specific disallowance u/s 37(2B) i.r.o. expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of Rs. 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income u/s 80GGB.

Q16. Mr. A has commenced the business of manufacture of computers on 1.4.2021. He employed 350 new employees during PY 2021-22, the details of whom are as follows:

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee
(i)	75	1.4.2021	Regular	Rs. 24,000
(ii)	125	1.5.2021	Regular	Rs. 26,000
(iii)	50	1.8.2021	Casual	Rs. 24,500
(iv)	100	1.9.2021	Regular	Rs. 24,000

Regular employees participate in RPF while casual employees do not. Compute deduction available to Mr. A for AY 2022-23, if profits & gains derived from manufacture of computers that year is Rs. 75 lakhs & his total turnover is 10.16 crores.

(b) What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2021?

Answer: Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for AY 2022-23 & he has employed "additional employees" during the PY 2021-22.

(a) If Mr. A is engaged in the business of manufacture of computers:

- Additional employee cost = Rs. 24,000 × 12 × 75 [See Working Note below] = Rs. 2,16,00,000.
- Deduction u/s 80JJAA = 30% of Rs. 2,16,00,000 = Rs. 64,80,000.

Working Note: **Number of additional employees**

Particulars	No. of Workers	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2021 who do not participate in RPF	50	
Less: Employees employed on 1.5.2021 since their monthly emoluments > Rs. 25,000	125	
Less: Employees employed on 1.9.2021 (Employed for < 240 days in PY 2021-22)	100	275
Number of "additional employees"		75

Notes:

1. Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2021 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1.9.2021 do not qualify as additional employees for the PY 2021-22, since they are employed for less than 240 days in that year. Therefore, only 75 employees employed on 1.4.2021 qualify as additional employees, & the total emoluments paid or payable to them during the PY 2021-22 is deemed to be the additional employee cost.
2. For 100 regular employees employed on 1.9.2021, they would be treated as additional employees for PY 2022-23, if they continue to be employees in that year for minimum period of 240 days. Accordingly, 30% of additional employee cost i.r.o. such employees would be allowable as deduction u/s 80JJAA to Mr. A for AY 2023-24.

(b) <u>If Mr. A is engaged in the business of manufacture of footwear</u>

- If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction u/s 80JJAA i.r.o. employee cost of regular employees employed on 1.9.2021, since they have been employed for more than 150 days in the PY 2021-22.
- Additional employee cost = Rs. 2,16,00,000 +Rs. 24,000 × 7 × 100 = Rs. 3,84,00,000.
- Deduction u/s 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000.

Q17. Mr. Aakash received royalty of 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. Rate of royalty is 18% of value of books. Expenditure incurred by him for earning this royalty was 40,000. Amount remitted to India till 30th September, 2021 is 2,30,000. The remaining amount was not remitted till 31st March, 2022. Compute the amount includible in the gross total income of Mr. Aakash & the amount of deduction eligible u/s 80QQB.

Answer: The net royalty of 2,48,000 [i.e. 2,88,000 (royalty) - 40,000 (expenditure)] is includible in gross total income.

Deduction u/s 80QQB	
Royalty 2,88,000 x 15/18	2,40,000
Restricted to: Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	1,90,000

Q18. Mr. A, a resident individual aged 61 years, has earned business income (computed) of Rs. 1,35,000, lottery income of Rs. 1,20,000 (gross) during the PY 2021-22. He also has interest on Fixed Deposit of Rs. 30,000 with banks. He invested an amount of Rs. 1,50,000 in PPF account. What is the total income of Mr. A for the AY 2022-23?

Answer: **Computation of total income of Mr. A for AY2022-23**

Particulars	Rs.	Rs.
Profits and gains of business or profession		Rs. 1,35,000
Income from other sources		
▪ Interest on Fixed Deposit with banks		Rs. 30,000
▪ lottery income		Rs. 1,20,000

GTI		Rs. 2,85,000
Less: Deductions under Chapter VIA [See Note below]		
U/s 80C: Deposit in Public Provident Fund	(Rs. 1,50,000)	
U/s 80TTB: Interest on fixed deposits with banks	(Rs. 30,000)	
	(Rs. 1,80,000)	
Restricted to (since not available from casual income)		Rs. 1,65,000
Total Income		Rs. 1,20,000

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto 50,000 u/s 80TTB.
Though the aggregate of deductions under Chapter VI-A is Rs. 1,80,000, however, the maximum permissible deduction cannot exceed GTI exclusive of LTCG u/s 112 & 112A, STCG u/s 111A & winnings from lotteries.
Therefore, maximum permissible deduction = Rs. Rs. 2,85,000 – Rs. Rs. 1,20,000 = 1,65,000.

Q19. Mr. Gurnam, aged 42 years, has salary income (computed) of Rs. 5,50,000 for the PY ended 31.03.2022. He has earned interest of Rs. 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:

1. Life insurance premium paid to Birla Sunlife Insurance in cash amounting to Rs. 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 & the sum assured on life of his dependent parents is Rs. 2,00,000.
2. Life insurance premium of Rs. 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 Rs. 3,50,000 & the life insurance policy was taken on 30.3.2012.
3. Life insurance premium paid by cheque of Rs. 22,500 for insurance of his life. The insurance policy was taken on 08.09.2018 & the sum assured is Rs 2,00,000.
4. Premium of Rs. 26,000 paid by cheque for health insurance of self & his wife.
5. Rs. 1,500 paid in cash for his health check-up & Rs. 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
6. Paid interest of Rs. 6,500 on loan taken from bank for MBA course pursued by his daughter.
7. Rs. 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Answer:

Particulars	Rs.	Rs.	Rs.
Income from salary			Rs. 5,50,000
Interest on saving bank deposit			Rs. 14,500
GTI			Rs. 5,64,500
Less: Deduction under Chapter VIA			
U/s 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
▪ major son	Rs. 25,500		
▪ self-22,500 restricted to 10% of 2,00,000	Rs. 20,000	Rs. 45,500	
U/s 80D (See Note 2)			
Health insurance Premium paid of Rs. 26,000 self & wife by cheque, restricted to	Rs. 25,000		
Payment made for health check-up for parents	Rs. 4,500	Rs. 29,500	
U/s 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		Rs. 6,500	
U/s 80TTA (See Note 4)			
Interest on savings bank account 14,500 restricted to		Rs. 10,000	Rs. 91,500
Total Income			Rs. 4,73,000

Notes:

1. As per section 80C, no deduction is allowed i.r.o. premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable i.r.o. ` Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.
   i.r.o. 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 Rs. 25,500 is allowable in full i.r.o. life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 & the premium amount is less than 20% of Rs. 3,50,000. However, i.r.o. premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued on or after 01.04.2012 & the premium amount exceeds 10% of sum assured.
2. As per section 80D, in case the premium is paid i.r.o. health of a person specified therein & for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed i.r.o. health check-up of self, spouse, children & parents. In order to claim deduction u/s 80D, the payment for health-check-up 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, i.r.o. premium of Rs. 26,000 paid for health insurance of self & wife, deduction would be restricted to Rs. 25,000. Since the limit of Rs. 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self & wife. However, deduction of Rs. 4,500 is allowable i.r.o. health check-up of his parents, since it falls within the limit of Rs. 5,000.
3. No deduction shall be allowed u/s 80G in case the donation is made in cash of a sum exceeding Rs. 2,000. Therefore, deduction u/s 80G is not allowable i.r.o. cash donation of Rs. 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 / HUF i.r.o. income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is Rs. 14,500.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. A, (age 61 years) has earned a lottery of Rs. 1,20,000 (gross) during PY 2021-22. He also has interest on FD of Rs. 30,000. He invested Rs. 10,000 in PPF & Rs. 24,000 in NSC. What is the total income of Mr. A for AY 2022-23?

Answer: **Computation of Total Income of Mr. A for AY 2022-23**

Particulars	Rs.	Rs.
Income from other sources		
Interest on Fixed Deposit		Rs. 30,000
Lottery income		Rs. 1,20,000
Gross Total Income		**Rs. 1,50,000**
Less: Deductions under Chapter VIA [See Note]		
u/s 80C - Deposit in PPF	Rs. 10,000	
- Investment in National Saving Certificate	Rs. 24,000	
Total Eligible Investments for deduction u/s 80C	Rs. 34,000	
But Deduction u/s 80C is restricted to		(Rs. 30,000)
Total Income		**Rs. 1,20,000**

Note: Even though eligible investment is Rs. 34,000, however, deduction under Chapter VIA is not available against casual Incomes. Therefore, maximum permissible deduction u/s 80C = Rs. 1,50,000 – Rs. 1,20,000 = Rs. 30,000.

Q2. Mr. Bharat has made the investments as given below. Compute deduction u/s 80C for AY 2022-23.

(a) Fixed deposit with State Bank for 2 years Rs. 5,000.
(b) Deposit in PPF A/c in the name of minor son Rs. 8,000.
(c) LIC Premium of major married independent daughter on 15.9.2021 Rs. 9,000. (Sum assured Rs. 1,00,000).
(d) LIC Premium of major married independent son on 11.11.2021 Rs. 5,000. (sum assured Rs. 20,000)

(e) Investment in Home Loan A/c Scheme of National Housing Bank Rs. 15,000 (Investment made from Past saving)
(f) Investment in units of Mutual Fund notified u/s 10(23D) Rs. 25,000. (Investment made from Exempt Income).
(g) Investment in Equity Shares of Infrastructure Companies Rs. 35,000.
(h) Payment of Tuition fees of his son to a private coaching center for coaching in taxation Rs. 5,000.

Answer: **Computation of Deduction u/s 80C**

Fixed deposit with State Bank for 2 years	Nil
PPF (Minor Son)	Rs. 8,000
LIC in name of major married independent daughter [10% of Sum assured is deductible]	Rs. 9,000
LIC policy in name of major married independent son [10% of Sum Assured is only allowed]	Rs. 2,000
Home Loan Account Scheme	Rs. 15,000
Units of Mutual Funds	Rs. 25,000
Equity Shares of Infrastructure Companies	Rs. 35,000
Tuition Fees (Since paid to private coaching centre)	Nil
Total Deduction u/s 80C	**1,00,000**

Q3. Mr. B has taken 5 education loans on April 1, 2021. Compute deduction u/s 80E for AY 2022-23.

Particulars	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5
For whose education loan was taken	B	Son of B	Daughter of B	Spouse	Y, his Friend
Purpose of Loan	MBA	B. Sc.	10th	BA	CA
Amount of Loan	5,00,000	2,00,000	4,00,000	10,00,000	6,00,000
Annual repayment of Loan	1,00,000	40,000	80,000	2,00,000	1,20,000
Annual repayment of Interest	20,000	10,000	18,000	40,000	24,000

Answer:

- Deduction u/s 80E is available to an individual for any interest paid by him during PY i.r.o. loan taken for pursuing higher education of himself/spouse/children.
- No deduction is available for loan taken for 10th class.
- Therefore, Interest repayment of Loan 1, Loan 2, Loan 4 will qualify for deduction.
- Deduction u/s 80E = 20,000 + 10,000 + 40,000 = Rs. 70,000.

Q4. Mr. X receives royalty of Rs. 1 Lacs @ 18% & incurs Rs. 10,000 as expenditure for earning royalty. The books are covered u/s 80QQB & royalty is received from abroad. Rs. 50,000 are remitted to India till 30th September 2022. Determine deduction u/s 80 QQB for AY 2022-23.

Answer:

- Eligible income for deduction (before allowing expenditure) = 15% = $\frac{1,00,000}{18\%}$ x 15% = Rs. 83,334.
- Income brought to India in convertible foreign exchange = Rs. 50,000.
- Thus, Income eligible for deduction = Rs. 50,000.
- Royalty Income = Rs. 50,000 – Rs. 10,000 (expenditures) = Rs. 40,000.
- Deduction u/s 80 QQB = Rs. 50,000 – Rs. 10,000 = Rs. 40,000.

Q5. Mr. Kirshnan has commenced the operations of Manufacture of goods in a factory on 1.4.2021. He employed 105 New Employees during PY 2021-22 as under:
(a) 10 Employees who does not participate in PF benefits;
(b) 30 Employees employed from 1.4.2021 to 30.3.2022;
(c) 50 Employees employed on 1.5.2021, to whom Salary is paid at Rs. 30,000 p.m.;
(d) 15 Employees employed on 1.9.2021.
Compute deduction available to Mr. A for AY 2022-23 if Salary paid to each employee at Rs. 10,000 pm except those employed on 1.5.2021 & profits from the manufacture of goods in factory for AY 2022-23 is Rs. 4,75,000.

Answer: **Computation of Deduction u/s 80JJAA**

	Particulars	Additional Employee	Reason
(a)	10 Employees	No	Does not participate in RPF.
(b)	30 Employees employed from 1.4.2021 to 30.3.2022	30	Employed for > 240 days
(c)	50 Employees employed on 1.5.2021 to whom wages are paid at Rs. 30,000 pm.	No	Total emoluments > Rs. 25,000 pm.
(d)	15 Employees employed on 1.9.2021	No	Employed for < 240 days
	Additional Employees	**30**	

- Additional Employee Cost = Rs. 10,000 × 30 Employees × 12 months = Rs. 36,00,000.
- **Deduction u/s 80JJAA =** Rs. 36,00,000×30% = **Rs. 10,80,000.**

Q6. Mr. Arjun (age 52 years) furnishes the following particulars i.r.o. the following payments:

Premium paid for insuring the health of:	
▪ Self	10,000
▪ Spouse	8,000
▪ Dependent son	4,000
▪ Mother	18,000
Paid for Preventive Health Check-up of	
▪ Himself	2,000
▪ Spouse	1,500
▪ Mother	4,000
Incurred medical expenditure of Rs. 25,000 & Rs. 15,000 for his mother (age 80 years) & father (age 85 years).	

Compute the deduction available to Mr. Arjun u/s 80D for AY 2022-23.

Answer: **Computation of deduction u/s 80D for AY 2022-23**

	Particulars	**Amt**	**Amt**
1(a)	**Deduction i.r.o. premium paid for insuring the health of:** ▪ Self ▪ Spouse ▪ Dependent Son	 10,000 8,000 4,000	 22,000
1(b)	**Deduction i.r.o. expenditure on preventive health check-up of:** ▪ Self ▪ Spouse Restricted to [25,000 - 22,000] = Rs. 3,000 since maximum deduction is 25,000.	 2,000 1,500	 3,000
	Aggregate of deduction (a+b) under (1) is restricted to		**25,000**
2(a)	Payment towards health insurance premium for his mother	18,000	
2(b)	Preventive health check-up of his mother: 4000 restricted to 2000 (5000 -3000) [since maximum deduction for preventive health check-up u/s 80D is Rs. 5,000]	2,000	
2(c)	Medical expenditure for father would only be eligible for deduction [See Note]	15,000	**35,000**
	Total deduction u/s 80D [(1) + (2)]		**60,000**

Note: Irrespective of the fact that the mother of Arjun is a very senior citizen, deduction u/s 80D would not available to him i.r.o. medical expenditure incurred for his mother, since Mr. Arjun has taken a health insurance policy for his mother.

Q7. Ram has computed his income under various heads for PY 2021-22 as under: **[V. IMP Question]**

Particulars	Rs.	Particulars	Rs.
Income from Salary	1,25,000	**Donations to -**	
Income u/h HP	(15,000)	Prime Minister's Drought Relief Fund	3,000
PGBP	90,000	National Fund for Communal Harmony	4,000
STCG	30,000	Jawaharlal Nehru Memorial Fund	4,000
LTCG	40,000	Prime Minister's National Relief Fund	4,200
IFOS -		Government for Family Planning	13,000
Winnings of Lotteries	15,000	Approved Charitable Institution	7,000
Interest on Govt. Securities	20,000	Deposits in PPF A/c	70,000
Payment for Mediclaim Policy (Cheque)	5,000	Re-payment of loan including interest of Rs. 15,000 to Canara Bank taken for pursuing approved higher education	35,000
Expenses on Medical treatment of dependent handicapped son	25,000		

Compute (a) Total Income for AY 2022-23 (b) Tax Liability for AY 2022-23.

Answer: **Computation of Total Income & Tax Payable**

Particulars	Rs.	Rs.
Salaries		1,25,000
Income from HP (Loss): Adjusted against Salary Income		(15,000)
PGBP		90,000
Capital Gains		
(i) STCG **(ii) LTCG**	30,000 40,000	70,000
IFOS		
(i) Winnings from Lotteries (ii) Interest on Government Securities	15,000 20,000	35,000
GTI		3,05,000
Less: Deduction under Chapter VI-A u/s 80C Contribution to PPF u/s 80D Medical Insurance Premium Paid u/s 80DD Expenditure on Medical Treatment of Dependent Son u/s 80E Interest paid on Repayment of Education Loan u/s 80G Donations (See Note)	 70,000 5,000 75,000 15,000, 21,700	 (1,86,700)
Total Income		**1,18,300**
Tax on Total Income		
1. Income taxable @ slab rate: (Rs. 1,18,300 - 15,000 - 40,000 = Rs. 63,300)	Nil	
2. Income chargeable at **Special Rates**		
(a) Lottery Income = Rs. 15,000 x 30%	4,500	
(b) LTCG [Unexhuasted BEL = 186,700 (2,50,000 – 63,300)]	Nil	4,500
Less: Rebate u/s 87A		(4,500)
Tax Payable		**Nil**

Working Note: Computation of Deduction u/s 80G

1. Computation of 10% of Adjusted total income (ATI)

Particulars	Rs.
Gross Total Income	3,05,000
Less: Long Term Capital Gains	(40,000)
Less: Deduction u/s 80C to 80U Excluding Section 80G (70,000 + 5,000 + 75,000 + 15,000)	(1,65,000)
Adjusted Total Income	**1,00,000**
Qualifying Limit = 10% of ATI (10% x Rs. 1,00,000)	**Rs. 10,000**

Note: It is assumed that STCG is not arising from transfer of Listed Securities (i.e. not covered by Section 111A) & hence, not reduced to determine ATI.

2. Computation of Amount of Donation & Deduction u/s 80G

Nature of Donation	Amount donated	Eligible % of deduction	Deduction
National Fund for Communal Harmony	4,000	100% without QL	4,000
Prime Minister's National Relief Fund	4,200	100% without QL	4,200
Prime Minister's Drought Relief Fund	3,000	50% without QL	1,500
Jawaharlal Nehru Memorial Fund	4,000	50% without QL	2,000
Family Planning (Government)	13,000	100% with QL (WN3)	10,000
Approved Charitable Institutions	7,000	50% with QL (WN3)	
Total	**35,200**		**21,700**

3. **Maximum amount of Donation eligible for deduction = Qualifying Limit = Rs. 10,000.** Thus, we will first apply the limit towards donations which qualify for 100% deduction.

4. **Amount of Restricted Deduction** is computed as under, out of the total eligible limit of Rs. 10,000

Particulars	Rs.
Eligible for 100%: Family Planning = Rs. 13,000 x 100% but restricted to Qualifying limit of Rs. 10,000.	10,000
Eligible for 50%: Approved Charitable Institutions = 7,000 × 50% = 3,500 but restricted to Qualifying limit of Rs. 10,000 which is exhausted in 100% category.	Nil
Deduction available u/s 80G under this category of Donation (WN 3)	10,000

5. It is assumed that assessee is a Resident. Hence, LTCG is not liable to tax since it is less than unexhausted BEL.

Q8. Mr. Pramod, a Writer & a Professional, furnishes following particulars for PY 2021-22: **[Nov 2001]**

Royalty on Books Rs. 1,26,000;	Expenditure relating to Royalty Income Rs. 24,000
Income from Profession: Rs. 7,20,000	Deposited in PPF A/c: Rs. 1,40,000 (15.03.2021)

Compute (a) Taxable Income for AY 2022-23 (b) Tax Payable for AY 2022-23. **[HW Question]**

Answer: **Computation of Total Income & Tax Liability**

Particulars	Rs.	Rs.
PGBP		7,20,000
IFOS: Royalty on Books	1,26,000	
Less: Expenditure incurred on realising Royalty Income	(24,000)	1,02,000
Gross Total Income		**8,22,000**
Less: Deduction Under Chapter VI-A		
U/s 80C Deposit in PPF (Maximum Rs. 1,50,000)	1,40,000	
U/s 80QQB Royalty on Books: Least of Rs. 3,00,000 or Royalty Income	1,02,000	(2,42,000)
Total Income (Round Off)		**5,80,000**

Tax on Total Income [Rs. 12,500 + (Rs. 5,80,000 – Rs. 5,00,000) x 20%]		28,500
Add: HEC at 4%		1,140
Total Tax Payable (Rounded Off)		**29,640**

Q9. Ms. X, employed in a private company, furnishes following information for PY 2021-22: **[MAY 2012]**

Income from salary (computed)	3,45,000
Bank interest on savings bank account	15,000
Tax on non-monetary perquisite paid by employer	20,000
Amount contributed by her during the year of given below:	
Contribution to Recognized Provident Fund	60,000
Health Insurance Premium on self (paid by crossed cheque)	7,000
Medical expenditure for dependent sister with disability	20,000

Compute the total income of Ms. X for AY 2022-23. **[HW Question]**

Answer: **Computation of Total Income of Ms. X for AY 2022-23**

Income u/h Salary	3,45,000
Income u/h Other Sources (Bank Interest)	15,000
Gross Total Income	**3,60,000**
Less: Deduction u/s 80C - Contribution to Recognized Provident Fund	(60,000)
Less: Deduction u/s 80D - Health Insurance Premium	(7,000)
Less: Deduction u/s 80DD - Medical expenditure for dependent sister with disability	(75,000)
Less: Deduction u/s 80TTA (10,000 or 15,000 whichever is less)	(10,000)
Total Income	**2,08,000**

Note: Tax on non-monetary perquisite paid by employer is exempt u/s 10(10CC).

Q10. Mr. X declares GTI of Rs. 4 Lacs for AY 2022-23. It includes taxable LTCG of Rs. 65,000 & STCG u/s 111A of Rs. 35,000. The details of fund investment made during PY 2021-22 are: **[HW Question]**

Medical insurance premium paid by cheque:	
(a) in the name of Mr. X	4,000
(b) in name of Mrs. X	5,000
Contribution made to:	
(a) Indira Gandhi Memorial Trust by cheque	7,000
(b) Delhi University (declared as an institution of national eminence) by cheque	3,000
(c) Zila Saksharta Samiti by cheque	5,000
(d) An approved charitable institute by cheque	30,000
(e) Government by cheque for the purpose of promoting family planning	10,000
(f) Hanuman Temple in Mohalla by cheque	20,000

Compute total income of Mr. X for AY 2022-23 & compute his tax liability. **[Nov 2008]**

Answer: **Computation of Total Income of Mr. X for AY 2022-23**

Gross Total Income		**4,00,000**
Less: Deduction u/s 80D: Medical insurance premium (4,000 + 5,000)	(9,000)	
Deduction u/s 80G		
(i) Donation to Indira Gandhi Memorial trust = 50% of Rs. 7,000	(3,500)	
(ii) Donation to Delhi University @ 100%	(3,000)	
(iii) Donation to Zila Saksharta Samiti @ 100%	(5,000)	
(iv) Other donations u/s 80G [Refer Working Note]	(19,550)	

Working Note:

1	**Donations subject to Qualifying Limit:**	
	Donation to Government for promoting family planning	10,000
	Donation to approved Charitable Institute	30,000
	Total	**40,000**
2	Adjusted GTI = GTI – LTCG - STCG u/s 111A - Deduction u/s 80C to 80U (Except 80G) = Rs. 4,00,000 - 65,000 - 35,000 - 9,000 = 2,91,000	
3	**Qualifying amount = 10% of Adjusted GTI = Rs. 29,100.** (a) Deduction for family planning = 100 % of Rs. 10,000 = Rs. 10,000; (b) Approved charitable Institute = 50% of balance amount (i.e. 19,100) = Rs. 9,550; **(c) Total deduction = 10,000 + 9,550 = 19,550;** **Note:** Donation to hanuman temple in Mohalla is not deductible u/s 80G.	

Q11. GTI of Mr. A for PY 2021-22 is Rs. 3,50,000 (includes LTCG: Rs. 2,80,000 & STCG: Rs. 10,000).

1. He has deposited Rs. 12,000 to effect a contract for Annuity Plan of LIC.
2. He paid following premium to New India Assurance Ltd for mediclaim scheme for himself & his relatives.

(i) His own health	1,000
(ii) For health of Spouse	600
(iii) Major Son not dependent on him	800
(iv) Mother dependent on him	1,200
(v) Brother dependent on him	1,100

3. His brothers is totally blind & dependent on him for medical treatment. Mr. A spends 10,000 on his blind brother. He has also deposited Rs. 25,000 in a Scheme framed by UTI for maintenance of his dependent brother.

Compute his Total Income & Tax Payable for AY 2022-23.

Answer: **Computation of Total Income & Tax Payable**

Particulars	Rs	Rs
Gross Total Income (including LTCG of Rs. 2,80,000)		3,50,000
Less: Deduction Under Chapter VI-A		
U/s 80CCC – Contribution to Pension Fund	12,000	
U/s 80D – Medical Insurance Premium (1,000 + 600 + 1,200) (Note 1)	2,800	
U/s 80DD – Medical Expenditure on Dependent (Note 2)	1,25,000	
Total Eligible Deduction (Note 3)	1,39,800	(70,000)
Total Income		**2,80,000**
Tax on Total Income [2,80,000 – 2,50,000 (Unexhausted BEL)] x 20%		6,000
Less: Rebate u/s 87A		(6,000)
Tax Payable		**Nil**

Note:

1. Mediclaim Premium:
   (a) Premium paid on Major Son not dependent on the assessee is **not** eligible for deduction.
   (b) Premium paid on dependent brother is **not** eligible for deduction.
2. Deduction of 1,25,000 is available irrespective of the amount spent for severe disable person.
3. Deduction restricted to Rs. 70,000 [GTI of Rs. 3,50,000 - LTCG of Rs. 2,80,000] since (a) LTCG is not eligible for Chapter VI-A Deduction, & (b) Deductions cannot exceed GTI exclusive of LTCG]

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Examine the following statements with regard to the provisions of the Income-tax Act 1961:

1. During FY 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 u/s 80E.
2. Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.
3. In order to be eligible to claim deduction u/s 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
4. Where an individual repays a sum of Rs. 30,000 towards principal & Rs. 14,000 as interest i.r.o. loan taken from a bank for pursuing eligible higher studies, the deduction allowable u/s 80E is Rs. 44,000.
5. Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received 7 lacs on 1.5.2020, being amount standing to the credit of Mr. Satish in his NPS Account, i.r.o. which deduction has been allowed u/s 80CCD to Mr. Satish in earlier PY. Such amount received by her as a nominee on closure of account is deemed to be her income for AY 2022-23.
6. Mr. Vishal, a CG employee, contributed Rs. 50,000 towards Tier II account of NPS. The same would be eligible for deduction u/s 80CCD.

Answer:

1. **Correct.** Deduction u/s 80E available to an individual i.r.o. interest on loan taken for his higher education or for higher education of his relative. For this purpose, relative means, inter alia, spouse & children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction u/s 80E.
2. **Correct.** U/s 80C(2) subscription to such bonds issued by NABARD (as CG may notify in the Official Gazette) would qualify for deduction u/s 80C.
3. **Not correct.** There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
4. **Not correct.** Deduction u/s 80E is i.r.o. interest paid on education loan. Hence, deduction will be limited to Rs. 14,000.
5. **Correct.** Proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS A/c 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 AY 2022-23.
6. **Not correct.** Contribution to Tier II NPS A/c would qualify for deduction u/s 80C & not u/s 80CCD.

Q2. Examine the allowability of the following:

(a) Rajan has to pay to a hospital for treatment Rs. 62,000 & spent nothing for life insurance or for maintenance of handicapped dependent disabled.

(b) Raja, a resident Indian, has spent nothing for treatment in PY & deposited Rs. 25,000 with LIC for maintenance of handicapped dependant disabled.

(c) Rajan has incurred Rs. 20,000 for treatment & Rs. 25,000 was deposited with LIC for maintenance of handicapped dependant disabled.

(d) Payment of Rs. 50,000 by cheque to an electoral trust by an Indian company.

Answer

(a) Deduction of Rs. 75,000 u/s 80DD is allowed in full, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred i.r.o. a dependant with severe disability, deduction allowable is Rs. 1,25,000.

(b) Rajan has deposited Rs. 25,000 for maintenance of handicapped dependent. Assessee is, however, eligible to claim Rs. 75,000 since the deduction of Rs. 75,000 is allowed in full, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, deduction allowable is Rs. 1,25,000.

(c) Section 80DD allows a deduction of Rs. 75,000 irrespective of actual amount spent on maintenance of handicapped dependent &/or actual amount deposited with LIC. Therefore, deduction will be Rs. 75,000 even though total amount incurred/deposited is only Rs. 45,000. If dependant is a person with severe disability, deduction = Rs. 1,25,000.

(d) Amount paid by an Indian Company to an electoral trust is eligible for deduction u/s 80GGB from GTI, since such payment is made otherwise than by way of cash.

Q3. For AY 2022-23, GTI of Mr. Chaturvedi, a resident in India, was 8,18,240 which includes LTC of Rs. 2,45,000 taxable u/s 112 & STCG of Rs. 58,000. GTI also includes interest income of Rs. 12,000 from savings bank deposits with banks & Rs. 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF Rs. 1,20,000 & also paid a medical insurance premium Rs. 51,000. Mr. Chaturvedi also contributed Rs. 50,000 to Public Charitable Trust eligible for deduction u/s 80G by way of an account payee cheque. Compute the total income & tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2022. Ignore the provisions of section 115BAC.

Answer: **Computation of total income & tax payable by Mr. Chaturvedi for AY 2022-23**

Particulars	Rs.	Rs.
Gross total income including LTCG		Rs.8,18,240
Less: LTCG		Rs. 2,45,000
Less: Deductions under Chapter VI-A:		Rs. 5,73,240
U/s 80C i.r.o. PPF deposit	Rs. 1,20,000	
U/s 80D (it is assumed that premium of Rs. 51,000 is paid by otherwise than by cash. The deduction would be restricted to Rs. 50,000, sinceMr. Chaturvedi is a senior citizen)	Rs. 50,000	
U/s 80G (See Notes 1 & 2)	Rs. 17,662	
U/s 80TTB (See Note 3)	Rs. 50,000	Rs. 2,37,662
Total income (excluding LTCG)		Rs. **3,35,578**
Total income (including LTCG)		Rs. **5,80,578**
Total income (rounded off)		Rs. **5,80,580**
Tax on total income (including LTCG of Rs. 2,45,000)		
LTCG Rs. 2,45,000 x 20%		Rs. 49,000
Balance total income Rs. 3,35,580 (See Note 4)		Rs. 1,779
		Rs. 50,779
Add: Health & Education cess @4%		Rs. 2,031
Total tax liability		Rs. **52,810**

Notes:

1. Computation of deduction u/s 80G:

Particulars	Rs.
Gross total income (excluding LTCG)	Rs. 5,73,240
Less: Deduction u/s 80C, 80D & 80TTB	Rs. 2,20,000
	Rs. **3,53,240**
10% of the above	Rs. 35,324
Contribution made	Rs. 50,000
Lower of the two eligible for deduction u/s 80G	Rs. 35,324
Deduction u/s 80G – 50% of Rs. **35,324**	Rs. **17,662**

2. Deduction u/s 80G is allowed only if amount is paid by any mode other than cash if amount > Rs. 2,000. Therefore, contribution made to public charitable trust is deductible since it is made by way of an account payee cheque.
3. Deduction of upto Rs. 50,000 u/s 80TTB is allowed to a senior citizen if GTI includes interest income on bank deposits, both fixed deposits & savings account.
4. Mr. Chaturvedi, being a senior citizen is eligible for basic exemption of Rs. 3,00,000.

Q4. Mr. Rajmohan whose GTI was Rs. 6,40,000 for PY 2021- 22, furnishes you the following information:
(a) Stamp duty paid on acquisition of residential house (self-occupied) - Rs. 50,000.
(b) 5 years post office time deposit - Rs. 20,000.
(c) Donation to a recognized charitable trust Rs. 25,000 which is eligible for deduction u/s 80G at the applicable rate.
(d) Interest on loan taken for higher education of spouse paid during the year - Rs. 10,000.
Compute the total income of Mr. Rajmohan for AY 2022-23. Assume he has not opted for section 115BAC.

Answer: **Computation of total income of Mr. Rajmohan for AY 2022-23**

Particulars	Rs.	Rs.
GTI		**Rs. 6,40,000**
Less: Deduction under Chapter VI-A		
U/s 80C		
Stamp duty paid on acquisition of residential House	Rs. 50,000	
5 year time deposit with Post Office	Rs. 20,000	
	Rs. 70,000	
U/s 80E		
Interest on loan taken for higher education of spouse, being a relative.	**Rs. 10,000**	
U/s 80G (See Note)		
Donation to recognized charitable trust (50% of 25,000)	**Rs. 12,500**	Rs. 92,500
Total Income		Rs. **5,47,500**

Note: In case of deduction u/s 80G i.r.o. donation to a charitable trust, the net qualifying amount has to be restricted to 10% of ATI, i.e., GTI less deductions under Chapter VI-A except 80G. ATI is therefore Rs. 5,60,000 (i.e. Rs. 6,40,000 – Rs. 80,000), 10% of which is Rs. 56,000, which is higher than actual donation of Rs. 25,000. Therefore, deduction u/s 80G would be Rs. 12,500, being 50% of the actual donation of Rs. 25,000.

Q5. Compute the eligible deductions for AY 2022-23 of Ms. Roma, aged 40 years, who has a GTI of Rs. 15,00,000 for the AY 2022-23 & provides the following information about her investments/payments during the PY 2021-22:

SN	Particulars	Amount
1.	Life Insurance premium paid (Policy taken on 31.03.2012 & sum assured is Rs. 4,40,000)	Rs. 35,000
2.	PPF contribution	Rs. 1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	Rs. 20,000
4.	Payment to LIC Pension Fund	Rs. 1,40,000
5.	Mediclaim Policy taken for self, wife & dependent children, premium paid by cheque	Rs. 30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	Rs. 52,000

Answer: **Computation of eligible deduction under Chapter VI-A of Ms. Roma for AY 2022-23**

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

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. For AY 2022-23, GTI of Mr. Raja, a resident in India, was Rs. 8 Lacs which includes LTCG of Rs. 2.5 Lacs & STCG of Rs. 50,000. GTI also includes interest income of Rs. 15,000 from savings bank deposits with banks. Mr. Raja has invested in PPF Rs. 1,40,000 & also paid a medical insurance premium Rs. 35,000 for self. Mr. Raja also contributed Rs. 50,000 to Public Charitable Trust eligible for deduction u/s 80G by way of A/c Payee cheque. Compute total income & tax of Mr. Raja (age is 65 years).

Answer: **Computation of total income & tax payable by Mr. Raja for AY 2022-23**

Particulars	Rs.	Rs.
Gross total income including LTCG		8,00,000
Less: LTCG		(2,50,000)
		5,50,000
Less: Deductions under Chapter VI-A		
▪ Section 80C i.r.o. PPF deposit	1,40,000	
▪ Section 80D (it is assumed that premium of Rs. 35,000 is paid by otherwise than by cash. [Maximum deduction for Mr. Raja who is a resident senior citizen is Rs. 50,000]	35,000	
▪ Section 80G (See Notes 1 & 2 below)	18,500	
▪ Section 80TTA (See Note 3 below)	10,000	**(2,03,500)**
Total income (excluding LTCG)		**3,46,500**
Total income (including LTCG)		**5,96,500**
Tax on total income		
LTCG Rs. 2,50,000 x 20%		**50,000**
Balance total income: Rs. 3,46,500 - Tax @ 5% on Rs. 46,500 (Rs. 3,46,500 – Rs. 3,00,000 being BEL for senior citizen)		**2,325**
Total		**52,325**
Add: 4% HEC		**2093**
Total tax liability		**54,418**

Notes:

1. Computation of deduction u/s 80G:

Gross total income (excluding LTCG)	5,50,000
Less: Deduction u/s 80C, 80D & 80TTA	1,80,000
Adjusted Total Income	**3,70,000**
Qualifying Limit: **10% Adjusted Total Income**	37,000
Contribution made to Public Charitable Trust	50,000
Lower of the two eligible for deduction u/s 80G	37,000
Deduction u/s 80G - 50% of Rs. 37,000	**18,500**

2. Deduction of upto Rs. 10,000 u/s 80TTA is allowed to individual assessee i.r.o interest income of Rs. 15,000 on savings bank deposit.

Nov 18

Q2. Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for AY 2022-23 is Rs. 1.85 crore & total turnover is Rs. 18.70 crore.

On 1.4.2021, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during PY 2021-22 comprises of:

(a) 15 casual employees employed on 15.4.2021 till 31.1.2022 on monthly emolument of Rs. 22,000 per month.
(b) 40 regular employees employed on 1.5.2021 on monthly emolument of Rs. 22,000 per month.
(c) 25 contractual employees employed on 1.7.2021 for 2 years on emolument of Rs. 15,000/ month.
(d) 35 regular employees employed on 1.8.2021 on monthly emolument of Rs. 30,000 per month.
(e) 25 regular employees employed on 1.10.2021 on monthly emolument of Rs. 22,000 per month.

	Compute the deduction u/s 80JJAA, if available to Mr. Anay for AY 2022-23, assuming that monthly emoluments were paid by use of Electronic Clearing System. Regular & contractual employees participate in RPF while casual employees do not.

(II) Would your answer be different if Mr. Anay is engaged in the manufacture of apparel?

[**Note:** Ignore the amount of deduction available u/s 80JJAA to Mr. Anay for employees employed in preceding PYs while computing the deduction u/s 80JJAA for AY 2022-23].

Answer: Computation of deduction u/s 80JJAA for AY 2022-23

- Mr. Anay is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for AY 2022-23, as his total turnover from business exceeds Rs. 1 crore & he has employed "additional employees" during PY 2021-22.
- Additional Employee Cost = [Rs. 22,000 × 40 new regular employees × 11 months] + [Rs. 15,000 per month × 9 months × 25 new contractual employees] = Rs. 96,80,000 + Rs. 33,75,000 = Rs. 1,30,55,000.
- Deduction u/s 80JJAA = 30% of Rs. 1,30,55,000 = Rs. 39,16,5**00.**

Working Note: Number of Additional employees employed during PY 2021-22

Particulars	Additional employees
Total no. of additional employees employed during PY	140
Less: Casual workmen employed on 15.4.2021 who do not participate in RPF	(15)
Less: Regular employees employed on 1.8.2021 since their total monthly emoluments exceed Rs. 25,000	(35)
Less: Regular employees employed on 1.10.2021 for a period of less than 240 days during the PY 2021-22	(25)
Total Additional employees employed during PY 2021-22	65

(II) Yes, answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel.

- Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2021 would also qualify for deduction u/s 80JJAA for AY 2022-23.
- Additional Employee Cost = Rs. 1,30,55,000 + Rs. 33,00,000 (Rs. 22,000 x 6 x 25) = Rs. 1,63,55,000
- Deduction u/s 80JJAA = 30% of Rs. 1,63,55,000 = Rs. 49,06,500.

May 19

Q3. Mr. Darshan (age 61 years) working with G Ltd., submits the following particulars of investments & payments made by him during PY 2021-22:

- Deposit of Rs. 1,50,000 in PPF
- Payment of life insurance premium of Rs. 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – Rs. 3,00,000).
- Deposit of Rs. 55,000 in a 5-year term deposit with bank.
- Contributed Rs. 1,95,000 being 15% of his salary (basic salary + dearness allowance, which forms part of retirement benefits) to NPS of CG. A matching contribution was made by G Ltd.
- On 1.4.2021, mediclaim premium of Rs. 1,08,000 & Rs. 80,000 paid as lumpsum to insure his & his wife (aged 58 years) health, respectively for 4-year medical insurance & incurred Rs. 46,000 towards medical expenditure of his father, aged 90 years, not dependent on him. No insurance policy taken for his father.
- He spent Rs. 6,000 for the preventive health checkup of his wife.
- He has incurred an expenditure of Rs. 90,000 for the medical treatment of his mother, being a person with severe disability.
- His income comprises of income from salary of Rs. 18,50,000 & interest on FD of Rs. 75,000.

Compute the deduction available to Mr. Darshan under Chapter VI-A for AY 2022-23.

Would your answer be different, if Mr. Darshan contributed Rs.1,30,000 (being, 10% of his salary) towards NPS of CG?

Answer: Deduction available to Mr. Darshan for AY 2022-23

Section	Particulars	Rs	Rs
80C	Deposit in PPF	1,50,000	
	Life insurance premium paid Rs. 62,000 (restricted to Rs. 30,000, being 10% of Rs. 3 Lacs which is sum assured, since policy was taken on/after 1.4.2012)	30,000	
	5 year term deposit with bank	55,000	
	Deduction u/s 80C restricted to		**1,50,000**
80CCD(1)	Contribution to NPS of CG: Rs. 1,45,000 [Rs. 1,95,000 – Rs. 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [1,95,000/15 x 10] **[See Note 1]**		**1,30,000**
			2,80,000
80CCE	Aggregate deduction u/s 80C & 80CCD(1) = Rs. 2,80,000 but restricted to Rs. 1,50,000		**1,50,000**
80CCD(1B)	Rs. 50,000 would be eligible for deduction i.r.o contribution to NPS of CG		**50,000**
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary **[See Note 2]**		**1,30,000**
80D	(a) Medical insurance premium for self & his wife, Deduction = Rs. 47,000 (Rs. 27,000 + Rs. 20,000), being 1/4th of lumpsum premium, since policies would be in force for 4 PYs.	47,000	
	(b) Preventive health checkup Rs. 6,000 for wife restricted to Rs. 3,000 (Rs. 50,000 - Rs. 47,000, since maximum allowable deduction is Rs. 50,000 in case assessee or one of the family members is senior citizen)	3,000	**50,000**
	Medical Expenditure for his father is fully allowed as deduction, since no insurance policy is taken on his name		**46,000**
80DD	Deduction of Rs. 1,25,000 i.r.o. expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs. 90,000		**1,25,000**
80TTB	Interest on fixed deposits with bank of Rs. 75,000, deduction restricted to Rs. 50,000		**50,000**
	Deduction under Chapter VI-A		**6,01,000**

Notes:

1. Deduction u/s 80CCD(1B) would not be subject to overall limit of Rs. 1.50 lacs u/s 80CCE. Therefore, it is more beneficial for Mr. Darshan to claim deduction u/s 80CCD(1B) first i.r.o. contribution to NPS. Thereafter, remaining amount of Rs. 1,45,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. Rs. 1,30,000.
2. Entire employer's contribution to NPS has to be first included u/h "Salaries" while computing gross total income and thereafter, deduction u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not subject to the overall limit of Rs. 1,50,000 u/s 80CCE.
3. If contribution towards NPS is Rs. 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of Rs. 50,000 u/s 80CCD(1B) and the balance of Rs. 80,000 can be claimed u/s 80CCD(1), since the deduction available u/s 80CCD(1B) is over and above the aggregate limit of Rs. 1,50,000 u/s 80CCE. In any case, the aggregate deduction of Rs. 2,30,000 [i.e., Rs. 1,50,000 u/s 80C and Rs. 80,000 u/s 80CCD(1)] cannot exceed the overall limit of Rs. 1,50,000 u/s 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs. 6,01,000.

Nov 19

Q4. Mr. Arihant, a resident individual aged 40 years, has GTI of Rs. 7,50,000 comprising of income from Salary & income from HP for AY 2022-23. He provides the following information:

- Paid Rs. 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured Rs. 4,00,000 & date of issue of policy 01.08.2017.
- Deposited Rs. 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.
- Paid Rs. 78,000 towards medical insurance for term of 3 years as a lumpsum payment for himself & his spouse. Also incurred Rs. 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned Rs. 4,50,000 interest from fixed deposit.
- Contributed Rs. 25,000 to the Clean Ganga Fund, set up by the CG.

Compute the Total Income & deduction under Chapter VI-A for AY 2022-23.

Answer: **Computation of Total Income of Mr. Arihant for AY 2022-23**

Particulars	Rs.	Rs.	Rs.
GTI			7,50,000
Less: Deduction under Chapter VI-A			
Section 80C			
▪ Life insurance premium of Rs. 70,000 (restricted to Rs. 60,000 i.e., 15% of Rs. 4,00,000 (sum assured), since policy has been taken on/ after 1.4.2013, i.r.o. his handicapped son suffering from disability u/s 80U)	60,000		
▪ Tax saver deposit of Rs. 90,000 in the name of his major son – No deduction u/s 80C, since such deposit has to be made in name of assessee himself.	Nil	60,000	
Section 80D			
▪ Medical insurance premium for self & his wife, pertaining to PY 2021-22 is Rs. 26,000, being 1/3rd of Rs. 78,000, lumpsum premium, since policy would be in force for 3 PYs. Said deduction would restrict to	25,000		
▪ Deduction i.r.o medical expenditure of Rs. 54,000 for his father, being senior citizen is allowable, since no insurance policy is taken in his name, to the extent of	50,000	75,000	
Section 80G			
▪ Contribution by a resident towards Clean Ganga Fund is for 100% deduction without any qualifying limit.	25,000	25,000	
Total Income			**5,90,000**

May 20	**No Direct Question was asked.**
Nov 20	**No Direct Question was asked.**
May 21	**No Direct Question was asked.**

Nov 21

Q5. Mr. Arpit, an employee of MNO Ltd. has contributed Rs. 1,61,280 towards NPS & similar amount is contributed by his employer. His basic salary is 80,000 p.m. & dearness allowance is 40% of basic salary which forms part of retirement benefits. He also paid 55,000 towards LIC premium for himself & his wife & medical insurance premium of Rs. 35,000 by crossed cheque for his mother, being a senior citizen during PY 2021-22. How much deduction is available under Chapter VI-A while computing total income of Mr. Arpit for AY 2022-23?

(a) 3,46,280 **(b) 3,69,400** (c) 3,19,400 (d) 3,96,280

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15

Q1. Compute eligible deduction under Chapter VI-A for AY 2022-23 of Ms. Roma, who has a GTI of 15,00,000 for AY 2022-23 & provides the following information about her investments/payments during PY 2021-22:

SN	Particulars	Amount
1	Life Insurance premium paid (Policy taken on 01.01.2012 & sum assured is ₹ 1,50,000)	35,000
2	Public Provident Fund contribution	90,000
3	Repayment of Housing loan to Bhartiya Mahila Bank, Banglore	20,000
4	Payment to LIC Pension Fund	25,000
5	Premium paid mediclaim policy taken for self, wife & dependent children	30,000
6	Medical Insurance premium paid for parents (Senior Citizen)	55,000

Answer: **Computation of Eligible deduction:**

Particulars	Amount Paid	Eligible Deduction	Deduction Actually Allowed
Under section 80C:			
LIC premium u/s 80C allowed to extent of 20% of Rs. 1,50,000	35,000	30,000	
PPF contribution u/s 80C	90,000	90,000	
Repayment of housing loan	20,000	20,000	
		1,40,000	
Under section 80CCC:			
Payment to LIC pension fund		25,000	
Total		**1,65,000**	
Maximum deduction allowed as per section 80CCE			**1,50,000**
Under section 80D:			
Mediclaim policy taken for self, wife & dependent children	30,000	25,000	
Medical premium for parents (senior citizen)	55,000	50,000	
Total deduction under section 80D			**75,000**
Total deduction under Chapter VIA			**2,25,000**

N15 — **No Direct Question was asked.**

M16 — **No Direct Question was asked.**

N16 — **No Direct Question was asked.**

M17

Q2. R, a resident individual, has GTI of 7,50,000 comprising of Income from salary & Income from HP for AY 2022-23. He provides following information:

1. Paid Rs. 70,000 towards premium on Life Insurance Policy of his Handicapped Son (Section 80U disability). Sum Assured is Rs. 4,00,000, & date of issue of policy 01.08.2016.
2. Deposited Rs. 90,000 in tax saver deposit in name of his major son in SBI.
3. Contributed Rs. 25,000 to the Clean Ganga Fund, set up by CG.

Compute the total income & deduction under Chapter VI-A for AY 2022-23.

Answer:

Particulars	Amount	Amount
Gross Total Income		7,50,000
Less: Deductions under Chapter VIA		
Section 80C: Life Insurance Policy for handicapped Son (15% of Sum Assured, in case of persons covered u/s 80DDB) i.e. 15% of sum assured 4,00,000	60,000	

Section 80DD: Deduction for Medical Expenditure of Handicapped Dependent	75,000	
Section 80G: Contribution to The Clean Ganga Fund eligible for 100% deduction, without qualifying limit	25,000	1,60,000
Total Income		**5,90,000**

Notes:

1. Deduction u/s 80C i.r.o tax saver deposit is allowed only if deposit is made in name of the assessee.
2. It is assumed that his son has normal disabilities. In case he suffers from severe disability, the deduction shall be 1,25,000.

N17

Q3. Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to NPS Rs. 50,000 every year since 2018 & was claiming deduction u/s 80CCD. In December 2021, he opted out of the pension scheme & withdrew a lump sum amount of 2,00,000. Is the amount so withdrawn taxable? If yes, how much is taxable?

Answer:

- Mr. Srivastava has opted out of the pension scheme in December 2021.
- Hence, as per section 10(12A), amount withdrawn from NPS shall be exempt to the extent of 60% of amount payable to him.
- Thus, 60% of 2,00,000 i.e., 1,20,000 shall be exempt. Balance 80,000 shall be taxable u/h IFOS.

N20

Q4. Mr. Mukesh bom on 1.4.1962 furnished his original return for AY 2022-23 on 30.7.2022. He has shown salary income of 7.30 lakhs (computed) & interest from his savings bank of 12,700 & from his FD of 43,000. He also claimed deduction u/s 80C of 1.50 lakhs. He had claimed deduction u/s 80D of 25,000. He also claimed deduction u/s 80TTA of 10,000. His employer had deducted TDS of 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of 38,000 by A/c payee cheque for self & wife. He paid 1,500 in cash for his health check-up & 4,000 by cheque for preventive health check- up of his parents. He also paid medical insurance premium of 33,000 during the year to insure health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any Mediclaim policy.

He seeks your advice about possibility of revising his return & if possible, file his revised return. Analyse the above narrated facts as per applicable provisions of the Income Tax Act, 1961. Does he need to revise his return & for what reasons? Please advise him suitably & if needed, re-compute his income & tax payable or refund due for AY 2022-23.

Answer:

- Mr. Mukesh is a senior citizen & hence he can claim deduction u/s 80TTB instead of section 80TTA.
- Deduction this case can be (12,700 + 43,000) = 55,700 but restricted to maximum 50,000.
- Deduction u/s 80D can be claimed as under:

SN	Particulars	For spouse & dependent children	For parents whether dependent or not
1	Premium on health of self & wife	38,000	
2	Amount paid for his health check up	1,500	
3	Amount paid on health of his mother (Allowed as mother may or may not be dependent on him)		33,000
4	Amount paid for health check-up of his parents (5,000 - 1,500)		3,500
5	Medical expenditure incurred for his father		25,000
		39,500	61,500

1. Deduction for self & spouse (including for preventive health check-up) will be allowed to the extent of 39,500 as he is a senior citizen.

2. Deduction in case of parents is restricted to 50,000. Total deduction 89,500 (39,500 + 50,000).

Comparison of income declared & correct income is as under:

Particulars		**Income declared**		**Recomputed income for revised return**
Income from salary (computed)		7,30,000		7,30,000
IFOS (12,700 + 43,000)		55,700		55,700
Gross total income		**7,85,700**		**7,85,700**
Less: Deductions				
U/s 80C	1,50,000		1,50,000	
U/s 80TTA/80TTB	10,000		50,000	
U/s 80D	25,000	(1,85,000)	89,500	(2,89,500)
Total income		**6,00,700**		**4,96,200**
Tax payable		30,140		9,810
Less: Rebate u/s 87A		Nil		9,810
Net tax payable		30,140		Nil
Add: HEC @ 4%		1,206		Nil
Total tax payable (rounded off)		**31,350**		**Nil**
Less: TDS		33,950		33,950
Refund due		**2,600**		**33,950**

As per section 139(5), if a person having furnished a return u/s 139(1) or 139(4), discovers any omission or any wrong statement in return furnished by him, he may furnish a revised return at any time before 3 months prior to end of relevant AY or before completion of assessment, whichever is earlier.

Hence, he must file a revised return & can claim refund of Rs. 33,950 instead of Rs. 2,600.

CHAPTER 11. EXEMPT INCOMES [SECTION 10]

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. B grows sugarcane & uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for Rs. 10 lacs, & the cost of cultivation of such sugarcane is Rs.5 lacs. The cost of cultivation of the balance sugarcane (70%) is Rs.14 lacs & the market value of the same is Rs. 22 lacs. After incurring Rs. 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for 25 lacs. Compute B's business income & agricultural income.

Answer: **Computation of Business Income & Agriculture Income of Mr. B**

Particulars	BusinessIncome	Agricultural Income	
Sale of Sugar			
Business income			
Sale Proceeds of sugar	Rs. 25,00,000		
Less: Market value of sugar(70%)	Rs. 22,00,000		
Less: Manufacturing exp.	Rs. 1,50,000		
	Rs. 1,50,000		
Agricultural income			
Market value of sugar (70%)		Rs. 22,00,000	
Less: Cost of cultivation		Rs. 14,00,000	
			Rs. 8,00,000
Sale of sugarcane			
Agricultural Income			
Sale proceeds of sugarcane (30%)		Rs. 10,00,000	
Less: Cost of cultivation		Rs. 5,00,000	
			Rs. 5,00,000
			Rs. 13,00,000

Q2. Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for Rs. 30 lacs. The cost of growing rubber plants is Rs. 10 lacs & that of manufacturing latex is Rs. 8 lacs. Compute his total income.

Answer:

- Total income of Mr. C comprises of agricultural income & business income.
- Total profits from the sale of latex = Rs. 30 lacs – Rs. 10 lacs – Rs. 8 lacs = Rs. 12 lacs.
  - Agricultural income = 65% of Rs. 12 lacs = Rs. 7,80,000 lacs.
  - Business income = 35% of Rs. 12 lacs = Rs. 4,20,000 lacs.

Q3. Mr. X, a resident, has provided the following particulars of his income for PY 2021-22:

1	Income from salary (computed)	Rs. 2,80,000
2	Agricultural income from a land in Jaipur	Rs. 4,80,000
3	Expenses incurred for earning agricultural income	Rs. 1,70,000

Compute his tax liability assuming his age is (a) 45 years, (b) 70 years. [Mr. X does not opt for section 115BAC]

Solution: **Computation of total income of Mr. X for the AY 2022-23**

(a) Computation of tax liability (age 45 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds Rs. 5,000 p.a., &
2. Non-agricultural income exceeds the basic exemption limit of Rs. 2,50,000
3. His tax liability is computed in the following manner:

Particulars	Amount	Amount
Income from salary		Rs. 2,80,000
Income from house property		Rs. 2,50,000

Net agricultural income [Rs. 4,80,000 – Rs. 1,70,000]	Rs. 3,10,000	
Less: Exempt u/s 10(1)	Rs. (3,10,000)	-
Gross Total Income		Rs. 5,30,000
Less: Deductions under Chapter VI-A		-
Total Income		**Rs. 5,30,000**

- **Step 1:** Rs. 5,30,000 + Rs. 3,10,000 = Rs. 8,40,000 Tax on Rs. 8,40,000 = Rs. 80,500 (i.e., 5% of Rs. 2,50,000 plus 20% of Rs. 3,40,000.
- **Step 2:** Rs. 3,10,000 + Rs. 2,50,000 = Rs. 5,60,000 Tax on Rs. 5,60,000 = Rs. 24,500 (i.e., 5% of Rs. 2,50,000 plus 20% of Rs. 60,000)
- **Step 3:** Rs. 80,500 – Rs. 24,500 = Rs. 56,000
- **Step 4 & 5:** Total tax payable = Rs. 56,000 + 4% of Rs. 56,000 = Rs. 58,240.

(b) Computation of tax liability (age 70 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds Rs. 5,000 p.a., &
2. Non-agricultural income exceeds the basic exemption limit of Rs. 3,00,000.
3. His tax liability is computed in the following manner:
   - **Step 1:** Rs. 5,30,000 + Rs. 3,10,000 = Rs. 8,40,000 Tax on Rs. 8,40,000 = Rs. 78,000 (i.e., 5% of Rs. 2,00,000 plus 20% of Rs. 3,40,000)
   - **Step 2:** Rs. 3,10,000 + Rs. 3,00,000 = Rs. 6,10,000 Tax on Rs. 6,10,000 = Rs. 32,000 (i.e. 5% of Rs. 2,00,000 plus 20% of Rs. 1,10,000)
   - **Step 3:** Rs. 78,000 – Rs. 32,000 = Rs. 46,000
   - **Step 4 & 5:** Total tax payable = Rs. 46,000+ 4% of Rs. 46,000 = Rs. 47,840

Q4. Mr. A, a member of a HUF, received Rs. 10,000 as his share from the income of the HUF. Is such income includible in his chargeable income? Examine with reference to the provisions of the Income-tax Act, 1961.
Solution: No. Such income is not includible in Mr. A's chargeable income since 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.

Q5. Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.
Solution: The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Q6. "Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim". Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.
Solution: The statement is not correct. Exemption u/s 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.

Q7. Y Ltd. furnishes you the following information for the year ended 31.3.2021:

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

Compute deduction u/s 10AA for AY 2022-23, assuming that Y Ltd. commenced operations in SEZ & DTA in PY 2016-17.

Solution: 100% of the profit derived from export of articles or things or services is eligible for deduction u/s 10AA, assuming that F.Y. 2020-21 falls within 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.

$$\text{Deduction u/s 10AA} = \text{Profit of the business of Unit A} \times \frac{Expert\ Turnover\ of\ unit\ A}{Total\ tunover\ of\ unit\ A} \times 100$$

$$= \text{Rs. 30 lakhs} \times \frac{50}{100} \times 100\% = \text{Rs. 15 lakhs}$$

Note: No deduction u/s 10AA is allowable i.r.o. profits of business of Unit B located in DTA

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. State with reasons whether the receipt is taxable under the Income Tax Act, 1961 for AY 2022-23?

(a) Mr. Suri received a sum of Rs. 5,00,000 as compensation, from 'Yatra Foundation', towards the loss of property on account of Flood Disaster.

(b) Amount received by an individual/his legal heir as compensation for natural disaster from CG/SG is taxable.

(c) Rent Received for letting out Agricultural Land for a movie shooting – Rs. 7,00,000.

Solution:

(a) Disaster Compensation received/receivable from CG/SG/Local Authority is exempt u/s 10(10BC). In this case, since Yatra Foundation is not covered in the above, the receipt is taxable in Suri's hands.

(b) According to Section 10(10BC), any amount received or receivable as compensation by an individual or his legal heir on account of any disaster is exempt from tax if Such compensation should be granted by CG/SG/LA.

(c) Rent Received for letting out Agricultural Land for movie shooting is taxable, as it is not an Agricultural Income.

Q2. The Government of India pays a salary of US $ 80,000 to a Non-Resident for services rendered by him in USA. Such NR is Indian Citizen. In addition, he gets allowances & Perquisites of US$ 20,000. Discuss the tax consequence.

Solution:

- As per section 9(1)(iii), salary income for service rendered outside India shall be deemed to accrue or arise in India if all the following conditions are satisfied:
  (a) Salary is paid to a citizen of India. (b) Salary must be paid by Govt. (c) Paid for services rendered outside India.
- However, any allowances/perquisites paid outside India by the Government shall be exempt u/s 10(7).
- Thus, salary of US $ 80,000 is taxable in India. But Allowances & perquisites of US $ 20,000 is exempt u/s 10(7).

Q3. Calculate tax liability of Mrs. Mahima who is 50 years for AY 2022-23:

Share of profit from partnership firm	40,000
Income from salary (Computed)	2,00,000
Receipt of accumulated balance in PPF	80,000
Lottery income (Gross)	7,000
Income from Horse Race	13,000
Income of his minor child	1,500
Income of his wife	2,00,000

Solution: **Computation of taxable income of Mrs. Mahima**

Income from salary		2,00,000
Income from other sources: Lottery Income	7,000	
Winning from Horse Race	13,000	
Income of Minor Child after exemption of Rs. 1,500	Nil	20,000
Gross Total Income		**2,20,000**
Tax on Rs. 20,000 of lottery income + Horse Race @ 30%	6,000	
Tax on Rs. 2,00,000	Nil	6,000

Less: Rebate u/s 87A		(6,000)
Total Tax		**Nil**

Notes:
1. Share of profit from firm is exempt u/s 10(2A).
2. Receipt of accumulated balance in PPF is exempt u/s 10(11).
3. Minor's income will be clubbed in the hands of that parent whose income from all other sources is higher.

Q4. X Ltd. is a manufacturing & trading company. It owns 3 units. Unit A manufactures goods in SEZ since 2017 for export & qualified for exemption u/s 10AA. Unit B is a manufacturing unit & goods are sold in domestic market. It is not qualified for tax holiday. Unit C owns retail outlets in different parts of the country. Calculate Net income for AY 2022-23:

Particulars	Unit A	Unit B	Unit C
Net profit as per profit & loss account	90	(-) 40	10
Total Turnover	1200	400	150
Export Turnover included in Total Turnover	1180	10	-
Amount remitted in convertible foreign exchange upto 30 Sep 2021	1002	2	-
Freight & insurance (charged over & above sale price from importers & included in amount remitted in convertible foreign exchange & turnover above)	10	-	-

Solution: **Exemption u/s 10AA shall be calculated as follows**

(a) Net profit of Unit A	Rs. 90 Lacs
(b) Export turnover of Unit A (Rs. 1002 Lac - freight & insurance: Rs. 10 Lac)	Rs. 992 Lacs
(c) Total turnover of Unit A (Rs. 1200 Lac - freight & insurance: Rs. 10 Lac)	Rs. 1190 Lacs
(d) Exemption u/s 10AA = Profits from unit in SEZ × $\frac{\text{Export Turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} = 90 \times \frac{992}{1190}$	**Rs. 75.03 Lacs**

Computation of Income of X Ltd

Income of Unit A (Rs. 90 Lac - deduction u/s 10AA: Rs. 75.03 Lac)	14.97
Income of Unit B	(40)
Income of Unit C	10
Loss to be carried forward	(15.03)

Q5. Mr. Bharat is running 2 Units, Unit A in SEZ & Unit B in DTA. Details for PY 2021-22:

Particulars	Unit A	Unit B
Domestic Turnover	10 Lacs	100 Lacs
Export Turnover	120 Lacs	Nil Lacs
Gross Profit	20 Lacs	10 Lacs
Expenses & Depreciation	07 Lacs	06 Lacs
Profits derived from the Units	13 Lacs	04 Lacs

Brought Forward Business Loss pertaining to AY 2019-20 for Unit B is Rs. 3.2 Lacs. Compute Income of Mr. Bharat.

Solution: **Computation of Business Income**

Particulars	Unit A	Unit B
Total Profits derived	13	4
Exemption u/s 10AA = Profits from unit in SEZ × $\frac{\text{Export Turnover of unit in SEZ}}{\text{Total turnover of Unit in SEZ}} = 13 \times \frac{120}{130}$	(12)	NA
Taxable Profits	1.00	4.00
Less: Brought Forward Business Loss	-	(3.20)
Business Income	1.00	0.80

Note: It is assumed that the above Financial Year falls within the **first 5-year period** commencing from the year of manufacture or production of articles / things, or provision of services, by Unit A.

Q6. X Ltd, SEZ Unit, provides you the following particulars relating to its first year of operation:

Total receipts from providing services	64 Lacs
Receipts from export of services	50 Lacs
Profits of business	7 Lacs

- Out of the total exports, Rs. 5 Lacs could not be realized on account of death of the Foreign Service recipient.
- Plant & machinery used in the business had been depreciated @ 20% on SLM basis & depreciation of Rs. 4 Lacs was charged in the P & L A/c. Compute the taxable income of the company.

Solution: **Computation of taxable income of X Ltd**

Net Profit as per P&L A/ c		Rs. 7,00,000
Add: Depreciation charged in the books of A/c		Rs. 4,00,000
Less: Depreciation as per IT Rules (15% of Rs. 20 Lacs)	(WN 1)	Rs. 3,00,000
Profits & Gains of Business		Rs. 8,00,000
Less: Deduction u/s 10AA	(WN 2)	Rs. 5,62,500
Taxable Income		**Rs. 2,37,500**

Working Note:

1. Cost of machinery = Rs. 4 lacs/20% = Rs. 20 Lacs.
2. Deduction allowable u/s 10AA = 100% of [(Profits × Export Turnover realised (net of bad debts) ÷ Total turnover]
   = Rs. 8,00,000 × Rs. 45,00,000 ÷ Rs. 64,00,000 = **Rs. 5,62,500.**

Q7. Following are the details of Mrs. Mansi born on 1st April 1961. Compute the tax payable by her for AY 2022-23:

Business Income	2,90,000
Net Agricultural Income [Ignore Partial Integration of Tax]	4,40,000
Long-term capital gains on sale of house	Rs. 2,00,000
STCG on sale of shares in B Ltd. (STT paid)	Rs. 30,000
Prize winning from a TV show	20,000
Deduction allowed u/s 80C to 80U	60,000

(b) What if her Business Income is Rs. 5 Lacs instead of Rs. 2,90,000. Consider Partial Intergration of Tax **[May 2007]**

Solution: **Computation of Total Income of Mrs. Mansi**

1	PGBP: Business Income		Rs. 2,90,000
2	Capital Gains:		
	Long term capital gain on sale of house:	Rs. 2,00,000	
	STCG on sale of shares in B Ltd. (STT paid):	Rs. 30,000	Rs. 2,30,000
3	IFOS: Casual Income (Prize winning from a TV show)		Rs. 20,000
	Gross Total Income		**Rs. 5,40,000**
	Less: Deduction u/s 80C to 80U		(Rs. 60,000)
	Total Income		**Rs. 4,80,000**

Computation of Tax Payable by Mrs. Mansi for AY 2022-23	
Tax on winnings from a TV show: Rs. 20,000 @ 30%	Rs. 6,000
Tax on short term capital gain: Rs. 30,000 @ 15%	Rs. 4,500
Tax on long-term capital gain of Rs. 1,30,000 (Rs. 2,00,000 – Rs. 70,000) @ 20%	Rs. 26,000
Tax on balance income of Rs. 3,00,000 at slab rate	Nil
Tax on Total Income	**Rs. 36,500**
Less: Rebate u/s 87A	**(Rs. 12,500)**
Balance Tax Payable	**24,000**
Add: HEC @ 4%	Rs. 960
Tax payable by Mrs. Mansi	**Rs. 24,960**

Note:

1. Unexhausted BEL of Rs. 3,00,000 - (Rs. 2,90,000 - Rs. 60,000) = Rs. 70,000 has been allowed from LTCG.
2. Mrs. Mansi has completed 60 years of age on 1st April 2022 i.e. she has completed the age of 60 years on the last day of PY. Therefore, she is entitled to the higher basic exemption limit of Rs. 3,00,000.

(b) Presume income from business is Rs. 5,00,000.

Business Income	5,00,000
Long term capital gain on sale of house	2,00,000
Short-term capital gains on sale of shares in B Ltd. (STT paid)	30,000
Casual Income (Prize winning from a T.V. show)	20,000
Gross Total Income	**7,50,000**
Less: Deduction u/s 80C to 80U	(60,000)
Total (Non- Agricultural) Income	**6,90,000**

Computation of Tax payable by Mrs. Mansi for AY 2022-23

1. Tax on Agricultural + Non-Agricultural Income = Tax on Rs. 11,30,000.

Tax on long-term capital gain of Rs. 2,00,000 @ 20%	40,000
Tax on short term capital gain of Rs. 30,000 @ 15%	4,500
Tax on winnings of Rs. 20,000 from a TV show @ 30%	6,000
Tax on balance income of Rs. 8,80,000	86,000
Total Tax	**1,36,500**

2. Tax on Agricultural Income + BEL = Tax on Rs. 7,40,000 = Rs. 58,000.
3. Tax payable = 1 - 2 = Rs. 1,36,500 – Rs. 58,000 = Rs. 78,500. Add 4 % HEC on (3) above = 3140.
4. Tax payable by Mrs. X = Rs. 81,640.

Q8. Mr. Amol Chandak is a professor in PKV Agricultural University, Akola & is getting salary of Rs. 50,000 p.m. He claims that it is his agricultural income. Discuss.

Solution: Income from PKV Agricultural university cannot be considered to be agricultural income. It is taxable u/h salary in the hands of Mr. Amol Chandak.

Q9. Discuss whether Rent Received for letting out Agricultural land for a Movie shooting & amounts Received from Sale of seedlings in Nursery adjacent to Agricultural Land owned by Assessee can be regarded as Agricultural Income.

Solution:

Rent for Movie shooting: It is not an Agricultural Income, since it is not Income derived 'through Agriculture'. This constitutes Rental Income for 'non – agricultural purposes'.

Sales of seedlings in Nursery: Income from Sale of Plants & Seedlings grown in Posts in Nursery constitutes Agricultural Income. However, in this case, such income is derived not from agricultural land, but from a Nursery 'adjacent' to it. Hence, it does not constitute Agricultural Income.

Q10. Mr. B grows sugarcane & uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for Rs. 10 lacs & cost of cultivation of such sugarcane is Rs. 5 lacs. Cost of cultivation of 70% is Rs.14 lacs & market value of the same is Rs. 22 lacs. After incurring Rs.1.5 lacs in manufacturing process on the balance sugarcane, the sugar was sold for Rs. 25 lacs. Compute B's business income & agricultural income. **[ICAI SM Q1]**

Solution: Income from sale of sugarcane is agricultural income & Income from sale of sugar is business income.

Business income = Sale proceeds - MV of 70% of sugarcane (used in manufacture of sugar) - Manufacturing expenses
= Rs. 25 lacs - Rs. 22 lacs - Rs. 1.5 lacs = Rs. 1.5 lacs.

Agricultural income = Market value of sugarcane produce - Cost of cultivation.
= [Rs. 10 lacs + Rs. 22 lacs] – [Rs. 5 lacs + Rs. 14 lacs] = Rs. 13 lacs.

Q11. X Ltd. grows sugarcane to manufacture sugar. Data for the PY 2021-22 is as follow:

Cost of cultivation of sugarcane	6,00,000
Market value of Sugarcane when transferred to factory	10,00,000
other manufacturing cost	6,00,000
Sale of sugar	25,00,000
Salary of Managing Director who looks after all operation of the company	3,00,000

Determine the Income of the company.

Solution:

Particulars	Rs.	Rs.
1. Profit & Gain of Business or Profession:		
Sales of sugar		25,00,000
Less: Average market Value of Sugarcane	10,00,000	
Salary to managing Director	3,00,000	
Manufacturing cost	6,00,000	(19,00,000)
Business Income		**6,00,000**
2. Computation of Agricultural Income:		
Market Value of Sugarcane		10,0000
Less: Cost of Cultivation		(6,00,000)
Agricultural Income		**4,00,000**

Q12. Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for Rs. 30 lacs. Cost of growing rubber plants is Rs. 10 lacs & that of manufacturing latex is Rs. 8 lacs. Compute his total income.

Solution: The total income of Mr. C comprises of agricultural income & business income.

Total profits from the sale of latex= Rs. 30 lacs – Rs. 10 lacs – Rs. 8 lacs = **Rs. 12 lacs.**

Agricultural income = 65% of Rs. 12 lacs = Rs. 7.8 lacs; Business income = 35% of Rs. 12 lacs. = Rs. 4.2 lacs.

Q13. Mr. Shubham (Age 24), a resident, has provided the following particulars of his income for PY 2021-22:

Income from salary (computed)	Rs. 3,00,000
Income from house property (computed)	Rs. 2,10,000
Agricultural income from a land in Nagpur	Rs. 2,10,000
Expenses incurred for earning agricultural income	Rs. 1,10,000

Compute tax liability of Mr. Shubham for AY 2022-23.

Solution: **Computation of tax liability**

Particulars	Amount
Income from salary (computed)	Rs. 3,00,000
Income from house property (computed)	Rs. 2,10,000
Gross Total Income	**Rs. 5,10,000**

Computation of tax Liability	
Step 1	Tax on Rs. 6,10,000 (Rs. 1,00,000 + Rs. 5,10,000) = Rs. 34,500.
Step 2	Tax on Rs. 3,50,000 (Rs. 1,00,000 + Rs. 2,50,000) = Rs. 5,000.
Step 3	Tax Payable = tax in (1) – Tax in (2) = Rs. 34,500 – Rs. 5,000 = Rs. 29,500
Step 4 & 5	Rs. 29,500 + 4% = Rs. 30,680.
Tax Payable	**Rs. 30,680.**

PC Note: Net Agricultural Income = Rs. 2,10,000 – Rs. 1,10,000 = Rs. 1,00,000

Q14. Y Ltd. gives the following information for AY 2022-23. Compute deduction u/s 10AA for AY 2022-23.

Particulars	Rs. (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

Solution:

- 100% of profit derived from export of articles/things or services is eligible for deduction u/s 10AA, assuming that PY 2021-22 falls within first 5-years period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.
- **Deduction u/s 10AA** = Profits from unit in SEZ × Export Turnover of unit SEZ /Total turnover of Unit in SEZ
  = **[30 Lacs * (50 Lacs/100 Lacs)] = Rs. 15 Lacs.**

Q15. Mr. A, member of HUF, received 10,000 as his share from income of HUF. Discuss Tax Treatment.
Solution: Such income is not includible in Mr. A's chargeable income since 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.

Q16. Exemption is available to Sikkimese individual, only in respect of income from any source in Sikkim.
Solution: Incorrect. Exemption u/s 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.

MASTER QUESTION ON 'EXEMPT INCOMES'

MQ01. Find out the net income & tax liability of Mr. X (35 years) for the AY 2022-23. **[Modified RTP]**

Income from the activity of owning & maintaining race horses	7,00,000
Winnings from camel races in Dubai	3,00,000
Winnings from Government lottery	1,00,000
Cost of purchase of Lottery ticket	11,000
Salary from A Ltd. (includes entertainment allowance of Rs. 5,000) engaged in cultivation & manufacture of coffee in India	5,50,000
Share of profit from LLP firm for PY 2021-22 (X is a sleeping partner in the firm & share of profit includes LTCG on transfer of a plot of land of Rs. 1,50,000)	10,70,000
Share of profit from the family business	2,65,000
Interest income of minor child (of deposit made out of gift received by child from brother of Mrs. X)	21,500
Income of Mrs. X [It is interest on company deposit (50% deposit is made out of gift received from X & 50% is made out of gift received form her father).	1,00,000
PPF contribution	2,05,000
Receipt of accumulated balance of PPF A/c (it includes interest of Rs. 1,10,000)	6,10,000

Solution: **Computation of Total Income & tax liability of Mr. X**

(i) Salary (after standard deduction of Rs. 50,000) [Note 1]	5,00,000
(ii) Business income (owning & maintaining race horses)	7,00,000
(iii) Income from other sources -	
▪ Interest income of minor child [Rs. 21,500 - Rs. 1,500 exemption u/s 10(32)]	20,000
▪ Winnings from camel races (expenditure is not deductible)	3,00,000
▪ Winnings from lottery (expenditure is not deductible)	1,00,000
▪ Interest income of Mrs. X on deposit made by her out of money gifted by X	50,000
Gross total income	**16,70,000**

Less: Deduction u/s 80C	(1,50,000)
Total Income	15,20,000
Tax Payable = (30% of Rs. 4,00,000 + Normal tax @ Slab Rate = 11,20,000) + 4% HEC = Rs. 2,79,240	

Note:
1. Salary shall be taxable even if it is paid out of agricultural income by the employer.
2. Accumulated balance of PPF & Interest on such balance is exempt u/s 10(11).
3. Share of profit from a firm (LLP) is Exempt u/s 10(2A) even if X is a sleeping partner & profit includes LTCG.
4. Share of profit from HUF Business received by the member of HUF is Exempt u/s 10(2).

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Examine whether the following incomes are chargeable to tax, & if so, compute the amount liable to tax:
1. Arvind received Rs. 20,000 as his share from the income of the HUF.
2. Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of Rs. 2,20,000 during the financial year 2020-21.
3. Agricultural income of Rs. 1,27,000 earned by a resident of India from a land situated in Malaysia.
4. Rent of Rs. 72,000 received for letting out agricultural land for a movie shooting.

Answer.

SN	Taxable	Amount	Reason
1	Not Taxable	-	Share received by member out of the income of the HUF is exempt u/s 10(2).
2	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government employee who is a 'Param Vir Chakra' awardee, is exempt u/s 10(18).
3	Taxable	Rs. 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 u/s 10(1) is not available in respect of such income.
4	Taxable	Rs. 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 & 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 anagricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt u/s 10(1). The same is chargeable to tax u/h "IFOS".

Q2. Examine the taxability of agricultural income under the Income-tax Act, 1961. How will income be computed where an individual derives agricultural & non- agricultural income.

Answer:
- Agricultural income is exempt from tax as per section 10(1).
- However, aggregation of agricultural & non-agricultural income is to be done to determine the rate at which the non-agricultural income shall be chargeable to tax. In case agricultural income is not more than Rs. 5,000 or the tax-payer has non-agricultural income not more than 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 assesses.
- In the case of other assessees 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 manner of computation of income where individual derives agricultural & non-agricultural income, it can be answered on the basis of Rules 7A, 7B & 8 dealing with composite income.

Rule	Particulars	Business Income	Agri. 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 & cured by the seller in India	25%	75%
	▪ grown, cured, roasted & grounded by the seller in India	40%	60%
Rule 8	Income from sale of tea grown & manufactured by the seller in India	40%	60%

Thereafter, tax shall be computed by aggregating agricultural income & non-agricultural income in the following manner:
1. Aggregate the agricultural income with non-agricultural income & determine tax payable on such amount.
2. Aggregate the agricultural income with the basic exemption limit of the assessee i.e., Rs. 2,50,000/ Rs. 3,00,000/ Rs. 5,00,000, as the case may be, & determine tax on such amount.
3. Compute the difference between the tax computed in Step (1) & 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 u/s 87A, if the total income does not exceed Rs. 5 lakh. Thereafter, health & education cess@4% has to be added to compute the total tax liability.

Q3. Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961.
1. Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
2. Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax.
3. Mr. A, a member of a HUF, received Rs. 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.

Solution:
1. **False:** Exemption u/s 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.
2. **True:** Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government & has been awarded "ParamVir Chakra" or "MahaVir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.
3. **False:** Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, Rs. 10,000 should not be included in Mr. A's chargeable income.

Q4. Rudra Ltd. has one unit at Special Economic Zone (SEZ) & other unit at Domestic Tariff Area (DTA). The company provides the following details for the PY 2021-22.

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

Calculate the eligible deduction u/s 10AA of the Income-tax Act, 1961, for AY 2022-23, in the following situations.
1. If both the units were set up & start manufacturing from 22-05-2013.
2. If both the units were set up & start manufacturing from 14-05-2017.

Solution: **Computation of deduction u/s 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 PY relevant to AY commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit & gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with AY relevant to the PY in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, & 50% of such profits for further five AY.

Computation of eligible deduction u/s 10AA [See Working Note below]

1. **If Unit in SEZ was set up & began manufacturing from 22-05-2013:**
   Since AY 2022-23 is the 8th assessment year from AY 2014-15, relevant to the PY 2013-14, 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.

= Profits of units × $\frac{Exports\ turnover\ of\ unit\ in\ SEZ}{Total\ tunover\ of\ unit\ in\ SEZ}$ × 50% = Rs. 60 lakhs × $\frac{Rs.300\ lakhs}{Rs.400\ lakhs}$ × 50% = Rs. 22.50 Lacs.

2. If Unit in SEZ was set up & began manufacturing from 14-05-2017:

Since AY 2022-23 is the 4th assessment year from AY 2018-19, relevant to the PY 2017-18, 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.

= Profits of units in SEZ × $\frac{Exports\ turnover\ of\ unit\ in\ SEZ}{Total\ tuonover\ of\ units\ in\ SEZ}$ × 100% = Rs. 60 lakhs × $\frac{Rs.\ 300\ lakhs}{Rs.400\ lakhs}$ × 100% = Rs. 45 lacs.

Note: Unit set up in Domestic Tariff Area is not eligible for deduction u/s 10AA i.r.o. its export profits.

Working Note: Computation of total sales, export sales & net profit of unit in SEZ

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

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

May 18

Q1. Examine with reasons whether the following receipts are taxable or not.

(a) Mr. Akash received Rs. 3 Lacs as compensation from "Sahayata Foundation" towards the loss of property on account of Flood Disaster at Chennai.

(b) Rent of Rs. 60,000 received for letting out agricultural land for a movie shooting.

(c) Dividend of Rs. 17 lacs received by Mr. Yatin during PY 2021-22 from A Ltd., a domestic company.

(d) Agricultural income of Rs. 1,30,000 of Mr. Sunil from a land situated in Canada.

Solution:

(a) Taxable. As per section 10(10BC), any amount received/receivable by an individual as compensation, on account of any disaster from CG/SG/LA is exempt from tax, to the extent the individual has not been allowed deduction on account of any loss caused by such disaster.
However, Mr. Akash has received a compensation of Rs. 3 Lacs from Sahayata Foundation, & not from CG/SG/LA, no exemption will be available u/s 10(10BC) & is thus taxable.

(b) Taxable. Agricultural income is exempt from income-tax as per section 10(1). Agriculture income means, inter alia, any rent or revenue derived from land which is situated in India & is used for agricultural purposes.
In this case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 60,000, being rent received from letting out agricultural land for movie shooting, is not exempt u/s 10(1) & the same is chargeable to tax.

(c) Taxable. Dividend received from a domestic company is now taxable in the hands of shareholders w.e.f. 1.4.2020 since dividend distribution tax u/s 115-O has been abolished.

(d) Taxable. Agricultural income from a land situated in any foreign country is not exempt u/s 10(1) & hence, is chargeable to tax. Therefore, in this case, agricultural income of Rs. 1,30,000 of Mr. Sunil from land situated in Canada is taxable.

Nov 18

Q2. Mr. Charan grows paddy & uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for PY 2021-22:

- Cost of cultivation of 40% of paddy produce is Rs. 9,00,000 which is sold for Rs. 18,50,000.
- Cost of cultivation of balance 60% of paddy is Rs. 14,40,000 & market value of paddy is Rs. 28,60,000.
- Incurred Rs. 3,60,000 in the manufacturing process of rice on the balance (60%) paddy.
- The rice was sold for Rs. 38,00,000.

Compute the Business income & Agricultural Income of Mr. Charan for AY 2022-22.

Solution:

	Particulars	Business Income	Agricultural Income	
1	**Sale of Rice**			
	Business income			
	Sale Proceeds of Rice	38,00,000		
	Less: Market Value of paddy (60%)	28,60,000		
	Less: Manufacturing expenses	3,60,000		
		5,80,000		
	Agricultural Income			
	Market value of paddy (60%)		28,60,000	
	Less: Cost of cultivation		14,40,000	14,20,000
2	**Sale of Paddy**			
	Agricultural Income			
	Sale proceeds of paddy produce (40%)		18,50,000	
	Less: Cost of cultivation		9,00,000	9,50,000
	Total Income			**23,70,000**

May 19

Q3. Mr. Anay (aged 25) has agricultural income of Rs. 2,10,000 & business income of Rs. 2,35,000. Which of the following statement is correct?

(a) Agricultural income always has to be aggregated with business income for rate purposes

(b) **No aggregation is required since business income which constitutes his total income < BEL.**

(c) No aggregation is required since agricultural income is less than basic exemption limit

(d) Agricultural income is exempt u/s 10(1) but it has to be aggregated with business income, since it exceeds Rs. 5,000.

Q4. Mr. Rana, a resident & ordinarily resident aged 42 years, manufactures rubber from the latex processed from rubber plants grown in Kerala. Thereafter, he sold the rubber for Rs. 47 Lacs. Cost of growing rubber plants was Rs. 25 Lacs & the cost of manufacturing rubber was Rs. 7 Lacs. He has no other income during PY 2021-22. Compute his tax liability for AY 2022-23.

Solution: In cases where the assessee himself grows rubber plants & manufactures rubber processed from latex obtained from rubber plants in India, then, as per Rule 7A, 35% of profit on sale of rubber is taxable as business income under the head "Profits & gains from business or profession", & the balance 65% is agricultural income, which is exempt from tax.

- Profits from manufacture & sale of rubber = Rs. 47 Lacs – Rs. 25 Lacs – Rs. 7 Lacs = Rs. 15 Lacs.
- Agricultural Income = 65% of Rs. 15 Lacs = Rs. 9.75 Lacs.
- Business Income = 35% of Rs. 15 Lacs = Rs. 5.25 Lacs.

Tax liability of Mr. Rana has to be computed applying the concept of partial integration, since his total income comprises of both agricultural income & non- agricultural income & his agricultural income exceeds Rs. 5,000 p.a & his non- agricultural income exceeds BEL i.e., Rs. 2,50,000.

Accordingly, his tax liability would be computed in the following manner:

Computation of tax liability of Mr. Rana for AY 2022-23:

Particulars	Rs.
Tax on total income of Rs. 15,00,000 [Agricultural + Non-agricultural income]	2,62,500
Less: Tax on Agricultural income + BEL = Rs. 12,25,000 (9,75,000 + 2,50,000)	1,80,000
	82,500
Add: Health & Education cess @ 4%	3,300
Total Tax liability	85,800

Nov 19

Q5. XYZ Ltd. has two units, one unit at Special Economic Zone (SEZ) & another unit at Domestic Tariff Area (DTA). The unit in SEZ was set up & started manufacturing from 12.03.2013 & unit in DTA from 15.06.2016. Total turnover of XYZ Ltd. & Unit in DTA is Rs. 850 Lacs & 325 Lacs respectively. Export sales of unit in SEZ & DTA is Rs. 250 Lacs & Rs. 125 Lacs respectively & net profit of Unit in SEZ & DTA is Rs. 80 Lacs & Rs. 45 Lacs respectively. XYZ Ltd. would be eligible for deduction u/s 10AA for ___.

(a) Rs. 38,09,524 (b) **Rs. 19,04,762** (c) Rs. 23,52,941 (d) Rs. 11,76,471

Q6. Examine with brief reasons, whether the following are chargeable to income-tax & the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

(a) Allowance of Rs. 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

(b) During PY 2021-22, Mrs. Aadhya, a resident in India, received a sum of Rs. 9,63,000 as dividend from Indian companies & Rs. 4,34,000 as dividend from units of equity oriented mutual fund.

Solution:

(a) Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. Exemption = 70% of such allowance (i.e. Rs. 12,600 per month being, 70% of Rs. 18,000, in the present case) or Rs. 10,000 per month, whichever is less. Hence, Rs. 1,20,000 (i.e., Rs. 10,000 x 12) is exempt.
Balance Rs. 96,000 (Rs. 2,16,000 – Rs. 1,20,000) is taxable in the hands of Mr. Uttam Prakash.

(b) Dividend received from a domestic company is now taxable in the hands of shareholders w.e.f. 1.4.2020 since dividend distribution tax u/s 115-O has been abolished.
Also, income received from units of mutual fund is now taxable from AY 2022-23.
Hence Rs. 9,63,000, being the dividend from Indian companies & Rs. 4,34,000, being the dividend from units of equity oriented mutual fund is taxable in the hands of Mrs. Aadhya.

May 20

Q7. Mr. Ramesh furnishes the following particulars for PY 2021-22 i.r.o. an industrial undertaking established in 'SEZ' in March 2015. It began manufacturing in April 2015.

Particulars	Rs
Total sales	85,00,000
Export sales [proceeds received in India]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of PY 2021-22 include freight & insurance of Rs. 5 lacs for delivery of goods outside India. Compute amount of deduction available to Mr. Ramesh u/s 10AA for AY 2022-23.

Solution:

Since AY 2022-23 is 6th AY from AY 2016-17 relevant to PY 2015-16, in which the SEZ unit began manufacturing of articles, it shall be eligible for deduction of 50% of export profits.

$$= \text{Profits of Unit in SEZ x } \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \text{ x } 50\% = 20,00,000 \, \frac{40 \text{ Lacs}}{80 \text{ Lacs}} \text{ x } 50\% = \text{Rs. 5 Lacs.}$$

Working Note:

Particulars		Rs.
Export Turnover		
Sale proceeds received in India	45,00,000	
Less: Freight & insurance for delivery of goods outside India to be excluded from export turnover	(5,00,000)	40,00,000
Total turnover	85,00,000	
Less: Freight & insurance not includible [Since freight & insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	(5,00,000)	**80,00,000**

Nov 20

Q8. Explain with brief reasons, whether following income can be regarded as agricultural income:
(a) Rent received for letting out agricultural land for a movie shooting.
(b) Income from sale of seedlings in a nursery adjacent to agricultural lands owned by an assessee.

Answer:

(a) Rent received for letting out agricultural land for a movie shooting: As per section 2(1A), 'agricultural income' means, inter alia,
- any **rent or revenue derived from land**
- **which** is situated in India & is used for agricultural purposes

(b) In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose & hence, it does not constitute agricultural income.
Income from sale of seedlings in a nursery: As per Explanation 3 to section 2(1A), income derived from saplings/seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land. Therefore, amount received from sale of seedlings in nursery adjacent to agricultural lands owned by the assessee constitutes agricultural income.

May 21 — **No Direct Question was asked.**

Nov 21

Q9. M/s Rajveer, a proprietorship has two units namely, Unit X & Unit Y. Unit X located in SEZ & Unit Y in DTA. Following are the details for FY 2021-22:

Particulars	Unit Y (Rs.)	M/s Rajveer (Rs.)
Total sales	50,00,000	85,00,000
Export sales	28,00,000	55,00,000
Domestic sales	12,00,000	30,00,000
Net Profit	4,00,000	10,00,000

Total Sales of FY 2021-22 include freight of 5 lacs for delivery of goods outside India w.r.t. Unit X.
Both units were set up & started manufacturing from 20.6.2017. Compute amount of deduction available to M/s Rajveer u/s 10AA for AY 2022-23.

Answer:

Since AY 2022-23 is 5th AY from AY 2018-19, relevant to the PY 2017-18, in which the SEZ unit began manufacturing of articles or things or provide any services, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things or from services, assuming all the other conditions specified in section 10AA are fulfilled.

Computation of deduction u/s 10AA for AY 2022-23:

$$\text{Deduction u/s 10AA} = \text{Profit of Unit in SEZ} \times \frac{\text{Expert Turnover of unit in SEZ}}{\text{Total tunover of unit in SEZ}} \times 100$$

$$= 6{,}00{,}000 \times \frac{22{,}00{,}000}{30{,}00{,}000} = \text{Rs. } 4{,}40{,}000.$$

Working Note: Computation of total sales, export sales & net profit of Unit X

Particulars	M/s Rajveer (Rs.)	Unit Y (Rs.)	Unit X (Rs.)
Total sales	85,00,000	50,00,000	35,00,000
Export sales	55,00,000	28,00,000	27,00,000
Domestic sales	30,00,000	12,00,000	18,00,000
Net Profit	10,00,000	4,00,000	6,00,000

Export Turnover: Sale proceed - Freight not includible in export turnover = 27 Lacs – 5 Lacs	22 Lacs
Total turnover: Sale proceed - Freight not includible in total turnover = 35 Lacs – 5 Lacs	30 Lacs

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M15

Q1. Same as Q4 of Section C [Rudra Ltd, has one unit at SEZ & other unit at DTA]

N15

No Direct Question was asked.

M16

Q2. Mr. Suresh has set up an undertaking in SEZ (Unit A) & another undertaking in DTA (Unit B) in FY 2016-17. In PY 2021-22, total turnover of unit A is 180 lacs & of unit B is 120 lacs. Export turnover of unit A for the year is 150 lacs & the profit for unit A is 60 lacs. Calculate the deduction available, if any, to Mr. Suresh u/s 10AA of Income-tax Act, 1961, for AY 2022-23, if the manufacturing started in Unit A in FY 2016-17.

Answer:

Deduction available to Mr. Suresh u/s I0AA for AY 2022-23:

PY 2021-22 is the sixth year of operation of unit A set up in SEZ. Therefore, the deduction available u/s 10AA shall be 50% of the profits derived from export of articles of things. Deduction shall be computed as under:

Computation of deduction u/s 10AA for AY 2022-23:

$$\text{Deduction u/s 10AA} = \text{Profit of Unit in SEZ} \times \frac{\text{Expert Turnover of unit in SEZ}}{\text{Total tunover of unit in SEZ}} \times 100$$

$$= 60{,}00{,}000 \times \frac{150}{180} = \text{Rs. } 50{,}00{,}000.$$

Deduction = 50% of 50,00,000 = 25,00,000.

Q3. Any amount received by an individual or his legal heir as compensation for natural disaster from the Government, is taxable. State True or False.

Answer: False. It is exempt u/s 10(10BC).

N16

No Direct Question was asked.

M17

Q4. Discuss with brief reasons, whether rent received for letting out Agricultural Land for a movie shooting & amounts received from sale of seedlings in a Nursery adjacent to Agricultural Lands owned by an assessee can be regarded as Agricultural Income, as per the provisions of the Income-Tax Act, 1961.

Answer: Rent from letting out agricultural land for a Movie Shooting: It is not an agricultural income as it is not an income derived from land which is used for agricultural purposes. It is not an Agricultural Income, since it is not an income derived "through Agriculture. It is taxable..

Sale of Seedlings in Nursery: As per Explanation 3 to section 2(1A), any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income. Accordingly, irrespective of whether the basic operations have been carried out on land, such income will be treated as agricultural income.

As such income constitutes Agricultural Income as per decision in Soundarya Nursery 241 ITR 530 (Mad). It was held that plants sold by the assessee in pots were the result of primary as well as subsequent operations comprehended within the term "agriculture" & they are clearly the products of agriculture.

N17

No Direct Question was asked.

M18

Q5. Mr. Avani, a resident aged 25 years, manufactures tea leaves from the tea plants grown by him in India. These are then sold in Indian market for 40 lakhs. The cost of growing tea plants was 15 lakhs & cost of manufacturing tea leaves was 10 lakhs. Compute his tax liability for AY 2022-23. Assume Mr. Avani:
(a) does not opt to be taxed u/s 115BA; (b) opts to be taxed u/s 115BAC

Answer: **Computation of income of Mr. Avani**

Particulars			not opts 115BAC	Opts 115BAC
Actual income				
Revenue	40,00,000			
Less: Cost of growing tea	(15,00,000)			
Less: Cost of manufacturing tea	(10,00,000)			
Profit	15,00,000			
Less: 60% agri. income + 40% as non-agri. income	(9,00,000)	6,00,000		
U/s 44AD is applicable				
Revenue	40,00,000			

Business income @ 8%	3,20,000			
Less: 60% as agriculture income	(1,92,000)	1,28,000		
Higher of (A) or (B)			6,00,000	6,00,000
Computation of tax (using partial integration)				
Aggregate of agri. & non-agricultural income (6L + 9L)	15,00,000			
Tax on 15,00,000 (1)			2,62,500	1,87,500
Add: 2,50,000 to agriculture income of 9,00,000	11,50,000			
Tax on 11,50,000 (2)			1,57,500	1,05,000
Tax on non-agriculture income [(1) - (2)]			1,05,000	82,500
Add: Health & education cess @ 4%			4,200	3,300
Total Tax Payable			**1,09,200**	**85,800**

N18

Q6. Examine with brief reasons, whether following are chargeable to income-tax & the amount liable to tax:

(a) Allowance received by an employee Mr. Ram working in a transport system at 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer. Assume Mr. Ram (a) does not opt to be taxed u/s 115BAC; (b) opts section 115BAC.

(b) During PY 2021-22, Mrs. Aishwarya, resident, received a sum of 8,50,000 as dividend from Indian companies & 4,00,000 as dividend from Indian equity oriented mutual fund units.

Answer:

(a) As per section 10(14)/ Rule 2BB, any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in course of running of such transport from one place to another place is called outstation allowance. Such allowance is given in lieu of daily allowance. It is exempt to the extent of least of the following: (i) 70% of the allowance; (ii) 10,000 p.m.

(b) W.e.f. 1.4.2020, dividend received from domestic company shall be taxable u/h IFOS. Further, dividend received from equity oriented mutual fund shall also be taxable u/h IFOS.

Q7. Mrs. Vibha Gupta, a resident individual, is running a SEZ unit, as well as a unit in DTA. She furnishes following details relating to the year ended 31.3.2022, pertaining to these two units (in lakhs)

Particulars	DTA Unit	SEZ Unit
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute deduction available u/s 10AA when SEZ unit had been set up on (a) 12.03.2014 & (b) 12.08.2019.

Answer:

(a) Where SEZ Unit has been set up on 12.03.2014, PY 2021-22 would falls in next 5-year period commencing from year of manufacture/production of articles/things/provision of services by unit in SEZ. Thus, for PY 2021-22, 50% of profit derived from export is eligible for deduction u/s 10AA.
= Profit of business of unit in SEZ x Export Turnover of Unit in SEZ/Total Turnover of Unit in SEZ
= 50% of 220 lakhs x 1000 lakhs/1100 lakhs = 50% x 200 lakhs = 100 lakhs.

(b) Where SEZ unit has been set up on 12.8.2019, PY 2021-22 would fall in first 5 year period commencing from year of manufacture/production of articles/things/provision of services by unit in SEZ. Thus, for PY 2021-22, 100% of profit derived from export of articles/things/services is eligible for deduction u/s 10AA.
= Profit of business of unit in SEZ x Export Turnover of unit in SEZ/Total Turnover of unit in SEZ
= 100% of 220 lakhs x 1000 lakhs/1100 lakhs = 100% x 200 lakhs = 200 lakhs.

M19	**No Direct Question was asked.**
N19	**No Direct Question was asked.**

CHAPTER 12. TDS, TCS & ADVANCE TAX

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Examine the TDS implications u/s 194A in the cases mentioned hereunder-

(a) On 1.10.2021, Mr. Harish made 6-months FD of Rs. 10 lacs @ 9% p.a. with ABC Bank. FD matures on 31.3.2022.

(b) On 1.6.2021, Mr. Ganesh made 3 nine-months FD of Rs. 3 lacs each, carrying interest @ 9% with Dwarka Branch, Janakpuri Branch & Rohini Branch of XYZ Bank, a bank which has adopted CBS. FD mature on 28.2.2022.

(c) On 1.10.2021, Mr. Rajesh started a 6-months recurring deposit (RD) of Rs. 2 lacs p.m. @8% p.a. with PQR Bank. The RD matures on 31.3.2022.

Answer:

(a) ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of Rs. 45,000 (9% × Rs. 10 Lacs × ½) u/s 194A. The tax deductible at source u/s 194A from such interest is, therefore, Rs. 4,500.

(b) XYZ Bank has to deduct tax at source @10% u/s 194A, since the aggregate interest on FD with the three branches of the bank is Rs. 60,750 [3,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of Rs. 40,000. Since XYZ Bank has adopted CBS, aggregate interest credited/paid by all branches has to be considered. Since aggregate interest of Rs. 60,750 exceeds the threshold limit of Rs. 40,000, tax has to be deducted @10% u/s 194A.

(c) No tax has to be deducted u/s 194A by PQR Bank on the interest of Rs. 28,000 falling due on RD on 31.3.2022 to Mr. Rajesh, since such interest does not exceed the threshold limit of Rs. 40,000.

Q2. ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the PY 2021-22:
Rs. 20,000 on 1.5.2021; Rs. 25,000 on 1.8.2021; Rs. 28,000 on 1.12.2021. On 01.03.2022, a payment of 30,000 is due to Mr. X on account of a contract work. Discuss whether ABC Ltd. is liable to TDS u/s 194C from payments made to Mr. X.

Answer: Individual contract payments made to Mr. X does not exceed Rs. 30,000. However, since the aggregate amount paid to Mr. X during PY 2021-22 exceeds Rs. 1,00,000 (due to last payment of Rs. 30,000, due on 1.03.2022, taking total from Rs. 73,000 to Rs. 1,03,000), TDS provisions u/s 194C are attracted. TDS @ 1% on entire amount of Rs. 1,03,000 from the last payment of Rs. 30,000 & the balance of Rs. 28,970 (i.e., Rs. 30,000 – Rs. 1,030) has to be paid to Mr. X.

Q3. Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) & deduction of tax at source u/s 194-C. Elucidate.

Answer:

- Section 40A(3) provides for disallowance of expenditure incurred i.r.o which payment or aggregate of payments made to a person in day > Rs. 10,000, & such payment/ payments are made otherwise than by A/c payee cheque/draft or use of ECS through bank A/c or through other prescribed electronic modes. However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, disallowance will be attracted only if payment made to a person in a day exceeds Rs. 35,000.
- Therefore, aggregate of payments upto Rs. 35,000 in a day can be made to a transport operator otherwise than by way of A/c payee cheque/bank draft or use of ECS through bank A/c or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).
- Tax had to be deducted u/s 194C i.r.o payments made to contractors @1% (Ind/HUF) or @2% in any other case.
- However, no deduction is required to be made from any sum credited/ paid or likely to be credited/ paid during PY to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:
  (a) He owns ten or less goods carriages at any time during the PY.
  (b) He is engaged in the business of plying, hiring or leasing goods carriages & furnished PAN.

Q4. Examine the applicability of the provisions for TDS u/s 194DA in following cases:

(a) Mr. X, a resident, is due to receive Rs. 4.50 lacs on 31.3.2022, towards maturity proceeds of LIC policy taken on 1.4.2019, for which the sum assured is 4 lacs & the annual premium is Rs. 1,25,000.

(b) Mr. Y, a resident, is due to receive Rs. 3.95 lacs on 31.3.2022 on LIC policy taken on Rs. 31.3.2012, for which the sum assured is Rs. 3.50 lacs & the annual premium is Rs. 30,100.

(c) Mr. Z, a resident, is due to receive 95,000 on 1.8.2021 towards maturity proceeds of LIC policy taken on 1.8.2015 for which the sum assured is Rs. 90,000 & the annual premium was Rs. 10,000.

Answer:

(a) Since the annual premium exceeds 10% of sum assured i.r.o a policy taken after 31.3.2012, the maturity proceeds of 4.50 Lacs due on 31.3.2022 are not exempt u/s 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @5% u/s 194DA on the amount of income comprised therein i.e., on Rs. 75,000 (Rs. 4,50,000, being maturity proceeds - Rs. 3,75,000, being the entire amount of insurance premium paid).

(b) Since the annual premium is less than 20% of sum assured i.r.o a policy taken before 1.4.2012, the sum of Rs. 3.95 lacs due to Mr. Y would be exempt u/s 10(10D) in his hands. Hence, no tax is required to be deducted at source u/s 194DA on such sum payable to Mr. Y.

(c) Even though the annual premium exceeds 10% of sum assured i.r.o a policy taken after 31.3.2012, & consequently, the maturity proceeds of Rs. 95,000 due on 1.8.2021 would not be exempt u/s 10(10D) in the hands of Mr. Z, tax deduction provisions u/s 194DA are not attracted since the maturity proceeds are less than Rs. 1 lac.

Q5. Calculate the amount of tax to be deducted at source (TDS) on payment made to Ricky Ponting, an Australian cricketer NR in India, by a newspaper for contribution of articles Rs. 25,000.

Answer: U/s 194E, person responsible for payment of any amount to a NR sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @ 20%. Further, since Ricky Ponting is a NR, HEC @4% on TDS would also be added. Therefore, tax to be deducted = Rs. 25,000 x 20.8% = Rs. 5,200.

Q6. Moon TV, a television channel, made payment of Rs. 50 lacs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source u/s 194C? Discuss.

Also, examine whether the provisions of tax deduction at source u/s 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Answer:

- Since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, & the copyright is also transferred to the television channel, the same falls within the scope of definition of the term work u/s 194C. Therefore, the payment of Rs. 50 Lacs made by Moon TV to the production house would be subject to tax deduction at source u/s 194C.
- If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for 'carrying out any work', as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source u/s 194C.

Q7. Mr. X sold his HP in Bangalore as well as his rural agricultural land for a consideration of Rs. 60 lacs & Rs. 15 lacs, respectively, to Mr. Y on 1.8.2021. He has purchased the HP & the land in the year 2020 for Rs. 40 lacs & 10 lacs, respectively. SDV on the date of transfer, i.e., 1.8.2021, is Rs. 85 lacs & Rs. 20 lacs for the HP & rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X & Mr. Y & the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X & Mr. Y are resident Indians.

Answer:

(i)	**Tax implications in the hands of Mr. X**
	▪ As per section 50C, SDV of HP (i.e. Rs. 85 lacs) would be deemed to be the full value of consideration arising on transfer of property, since the SDV exceeds 110% of the consideration received. ▪ Therefore, Rs. 45 lacs (i.e., Rs. 85 lacs – Rs. 40 lacs, being the purchase price) would be taxable as STCG in the A.Y.2022-23. ▪ Since rural agricultural land is not a capital asset, gains arising on sale of such land is not taxable in the hands of Mr. X.
(ii)	**Tax implications in the hands of Mr. Y**
	▪ If immovable property is received for inadequate consideration, difference b/w stamp value & actual consideration would be taxable u/s 56(2)(x), if such difference exceeds higher of Rs. 50,000 & 10% of consideration. ▪ Therefore, in this case Rs. 25 Lac (Rs. 85 Lacs – Rs. 60 Lacs) would be taxable in hands of Mr. Y u/s 56(2)(x). ▪ Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted i.r.o receipt of agricultural land for inadequate consideration, since the definition of property u/s 56(2)(x) includes only capital assets specified thereunder.

(iii)	TDS implications in the hands of Mr. Y
	▪ Since sale consideration of HP exceeds Rs. 50 Lac, Mr. Y is required to deduct tax at source u/s 194-IA. Tax to be deducted u/s 194-IA would be 60,000, being 1% of 60 Lac. ▪ TDS provisions u/s 194-IA are not attracted i.r.o transfer of rural agricultural land.

Q8. Mr. X, a salaried individual, pays rent of Rs. 55,000 p.m. to Mr. Y from June, 2021. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.
Would your answer change if Mr. X vacated the premises on 31.12.2021? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Answer:

- Since Mr. X pays rent exceeding Rs. 50,000 p.m. in the FY 2021-22, he is liable to deduct tax at source @5% of such rent for FY 2021-22 u/s 194-IB. Thus, Rs. 27,500 [55,000 x 5% x 10] has to be deducted from rent payable for March, 2022.
- If Mr. X vacated the premises in December, 2021, then tax of Rs. 19,250 [55,000 x 5% x 7] has to be deducted from rent payable for December, 2021.
- In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 5%.
- In case 1 above, this would amount to Rs. 1,10,000 [55,000 x 20% x 10] but the same has to be restricted to 55,000, being rent for March, 2022.
- In case 2 above**,** this would amount to Rs. 77,000 [55,000 x 20% x 7] but the same has to be restricted to 55,000, being rent for December, 2021.

Q9. XYZ Ltd. makes a payment of Rs. 28,000 to Mr. Ganesh on 2.8.2021 towards fees for professional services & another payment of Rs. 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions u/s 194J are attracted.

Answer: TDS provisions u/s 194J would not get attracted, since limit of Rs. 30,000 is applicable for fees for professional services & fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services & fees for technical services during PY 2021-22.

Q10. Examine whether TDS provisions would be attracted in the following cases, & if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the FY 2021-22
(1)	Mr. Ganesh, an individual carrying on retail business with turnover of Rs. 2.5 crores in the PY 2020-21	Contract Payment for repair of residential house	Rs. 5 Lacs
		Payment of commission to Mr. Vallish for business purposes	Rs. 80,000
(2)	Mr. Rajesh, a wholesale trader whose turnover was Rs. 95 Lacs in PY 2020-21.	Contract Payment for reconstruction of residential house (made during the period January- March, 2022)	Rs. 20 Lacs in January, 2022, Rs. 15 Lacs in Feb 2022 & Rs. 20 Lacs in March 2022.
(3)	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2022.	Rs. 51 Lacs
(4)	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2021 for reconstruction of residential house	Rs. 48 Lacs

Answer:

	Particulars of the payer	Nature of payment	Aggregate payments in FY 2021-22	Whether TDS provisions are attracted?
(1)	Mr. Ganesh, an individual carrying on retail business with	Contract Payment for repair of residential house	Rs. 5 Lacs	TDS u/s 194C is not attracted since payment is for personal purpose. TDS u/s 194M is not attracted as aggregate of contract payment to

	turnover of 2.5 crores in the PY 2020-21.			the payee in PY 2021-22 does not exceed Rs. 50 Lacs.
		Payment of commission to Mr. Vallish for business purposes.	Rs. 80,000	Yes, u/s 194H, since payment > Rs. 15,000, & Mr. Ganesh's turnover exceeds Rs. 1 crore in PY 2020-21.
(2)	Mr. Rajesh, a Wholesale trader whose turnover was 95 Lacs in PY 2020-21.	Contract Payment for Reconstruction of residential house.	Rs. 55 Lacs	Yes, u/s 194M, since aggregate of payments (i.e., Rs. 55 Lacs) > Rs. 50 Lacs. Since, his turnover does not exceed Rs. 1 crore in PY 2020-21, section 194C is not attracted i.r.o payments made in PY 2021-22.
(3)	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house.	Rs. 51 Lacs	Yes, u/s 194M, since payment of Rs. 51 Lacs made in March 2022 > 50 Lacs. Since Mr. Satish is a salaried individual, section 194H is not applicable.
(4)	Mr. Dheeraj, a pensioner	Contract payment for Reconstruction of residential house	Rs. 48 Lacs	Section 194C is not attracted since Mr. Dheeraj is a pensioner. Section 194M is not applicable since payment of Rs. 48 Lacs < Rs. 50 Lacs.

Q11. Mr. Sharma, a resident Indian aged 77 years gets pension of 52,000 p.m. from the UP State Government. Same is credited to his savings A/c in SBI, Lucknow Branch. In addition, he gets interest @8% on FD of 20 lakhs with the said bank. Out of the deposit of 20 lakh, 2 lakh represents 5-year term deposit made by him on 1.4.2021. Interest on savings bank credited to his SBI savings A/c for the PY 2021-22 is 9,500.

(1) From the above facts, compute the total income & tax liability of Mr. Sharma for the A.Y. 2022-23. He has not opted for section 115BAC.
(2) What would be the amount of TDS deductible by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2022-23, if tax deductible at source has been fully deducted? Examine.
(3) Would your answer to Q.2 be different if the FD of 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Answer: **Computation of total income of Mr. Sharma for A.Y.2022-23**

Particulars	Amount	Amount
Salaries		
Pension (52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16(ia)	50,000	5,74,000
Income from Other Sources		
Interest on FD (20 lakh x 8%)	1,60,000	
Interest on savings A/c	9,500	1,69,500
Gross total income		**7,43,500**
Less: Deductions under Chapter VI-A		
▪ u/s 80C: 5 years term deposit (2 lakh, restricted to 1.5 lakh)	1,50,000	
▪ u/s 80TTB: Interest on FD & savings A/c, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	5,0000	2,00,000
Total Income		**5,43,500**
Computation of tax liability for A.Y.2022-23		
Tax payable [43,500 x 20% + 10,000]		18,700
Add: Health and Education Cess @4%		748
Tax liability		19,448
Tax liability (rounded off)		**19,450**

(a) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) & remit the same to CG. Mr. Sharma would not be required to file his return of income u/s 139.

(b) If the FD of 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a specified senior citizen, consequent to which SBI would not be liable to deduct tax u/s 194P. In this case, Mr. Sharma would have to file his ROI u/s 139, since his total income (without giving effect to deduction under Chapter VI- A) exceeds the basic exemption limit.
(c) It may be noted that, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax @10% u/s 194A on interest on FD, since the same exceeds 50,000.

Q12. Mr. Gupta, a resident Indian, is in retail business & his turnover for FY 2020-21 was 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, & the aggregate payments during the FY 2021-22 was 95 lakhs (20 lakh on 1.6.2021, 25 lakhs on 12.8.2021, 22 lakhs on 23.11.2021 & 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 FY 2020-21 was 15 crores.
(a) Based on the above facts, examine the TDS/TCS implications, if any.
(b) Would your answer be different if Mr. Gupta's turnover for FY 2020-21 was 8 cr, all other facts remaining same?
(c) Would your answer be different if Mr. Gupta's turnover for FY 2020-21 was 8 cr, all other facts remaining same?

Answer:
(a) Since Mr. Gupta's turnover for FY 2020-21 exceeds 10 crores, & payments made by him to Mr. Agarwal, a resident seller exceeds 50 lakhs in PY 2021-22, he is liable to TDS @ 0.1% of 45 lacs (being sum exceeding 50 lacs):
No tax is to be deducted u/s 194Q on the payments made on 1.6.2021& 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 lakhs 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 & 206C(1H) applies, tax has to be deducted u/s 194Q.
(b) If Mr. Gupta's turnover for FY 2020-21 was only 8 crores, section 194Q is not attracted. However, TCS provisions u/s 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover > 10 crores in FY 2020-21.
No tax is to be collected u/s 206C(1H) on 1.6.2021 &12.8.2021, since aggregate receipts till that date i.e. 45 lacs, 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 lakhs – 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 25.03.2022.
(c) In case (a), 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) & 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 (b), 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) & 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.

Q13. An amount of Rs. 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 Rs. 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 Rs. 9,000 was deposited only on 22.6.2022. Compute the interest chargeable u/s 201(1A).

Answer: Interest u/s 201(1A) would be computed as follows:

Particulars	Rs.
1% on tax deductible but not deducted i.e., 1% on Rs. 4,000 for 8 months	Rs. 320
1½% on tax deducted but not deposited i.e., 1½% on Rs. 9,000 for 4 months	Rs. 540
	Rs. 860

- Such interest should be paid before furnishing the statements in accordance with section 200(3).
- If payer fails to deduct whole/any part of the tax on amount credited/payment made to a payee & is not deemed to be an assessee-in-default u/s 201(1) on account of payment of taxes by such payee, interest u/s 201(1A)(i) i.e., @ 1% p.m. or part, shall be payable by payer from the date on which such tax was deductible to date of filing ROI by such payee. Date on which ROI is filed by the payee shall be deemed to be date of deduction & payment of taxes by payer.
- If tax has not been paid after it is deducted, tax + SI shall be a charge upon all the assets of the person or company.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Income of Mr. PC is Rs. 10 Lacs. In this income, Rs. 50,000 was earned by way of Interest on which the payer of Interest deducted tax @ 10% (Rs. 5,000). He paid Advance Tax of Rs. 25,000 in different instalments. TCS collected at Source was Rs. 10,000. Calculate SAT to be paid u/s 140A at the time of filing ROI.

Answer:

(1) Total Tax liability on Rs. 10 Lacs = Rs. 1,12,500.
(2) TDS + TCS + Advance Tax paid by Mr. Pranav Chandak = Rs. 5,000 + Rs. 25,000 + Rs. 10,000 = Rs. 40,000.
(3) SAT payable u/s 140A = Rs. 1,12,500 – Rs. 40,000 = Rs. 72,500.

PC Note: Since the amount of tax has been already deducted at the time of payment of Interest to Mr. PC, he will get the credit of that amount while calculating tax payable u/s 140A.

Q2. Mr. X is employed in ABC Ltd. getting salary Rs. 50,000 p.m. & he has invested Rs. 50,000 in NSC. In this case, TDS at the time of payment of salary shall be:

Gross Total Income	Rs. 6,00,000
Less: Deduction u/s 80C [NSC]	(Rs. 50,000)
Total Income	Rs. 5,50,000
Tax on 5,50,000 + HEC @ 4%	Rs. 23,400
TDS to be deducted every month = (Rs. 23,400/12)	**Rs. 1,950**

If employer has deducted tax at source for April & salary was increased to Rs. 60,000 p.m. w.e.f. 1.5.2021, tax to be deducted in subsequent instalments shall be:

Salary (50,000 x 1) + (60,000 x 11)	Rs. 7,10,000
Less: Deduction u/s 80C [NSC]	(Rs. 50,000)
Total Income	Rs. 6,60,000
Tax on Rs. 6,60,000 + HEC @ 4%	Rs. 46,280
Less: Tax deducted at source in April	(Rs. 1,950)
Balance Amount of Tax [Rs. 46,280 – Rs. 1,950]	Rs. 44,330
Tax to be deducted in subsequent months (Rs. 44,330/11)	Rs. 4,030

Q3. Mrs. Indira, a landlord, derived income from rent from letting a HP to M/s Vaibhav Corporation Ltd. of Rs. 1,00,000 p.m. She charged GST @ 15% on lease Rent charges. Calculate TDS to be made by M/s Vaibhavi Corporation Ltd. on payment made to Mrs. Indira.

Answer: GST paid by the tenant does not partake the nature of income of the landlord. Landlord only acts as a collecting agency for collection of GST. Therefore, TDS u/s 194I would be required to be made on the amount of rent paid or payable excluding GST (TDS u/s 194I on Rs. 12 lacs only). TDS = 12 Lacs × 10% = Rs. 1,20,000.

Q4. State, in brief, the Applicability of Rate & Amount of TDS in the following cases for PY 2021-22:

(a) Payment of Royalty of Rs. 25,000 & fee for Professional Services of Rs. 28,000 to Mr. Varun.
(b) Payment of Rs. 1,98,000 to Mr. Karan for Compulsory Acquisition of his Urban Land by State Government.
(c) Company pays to a doctor monthly retainership of Rs. 1,500 for attending outpatient clinic at its factory.
(d) Fee paid to Dr. Srivatsan by Sundar (HUF) of Rs. 35000 for surgery performed to a member of the family.
(e) A Ltd paid Rs. 19,000 to its Director as Sitting Fees on 01.01.2022. **[RTP Compilation]**

Answer:

(a) Section 194J will be attracted only if payment made as fees for Professional Services & Royalty **individually,** exceeds Rs. 30,000 during FY. In the given case, since, individual payment for fee of Rs. 28,000 for professional services & royalty of Rs. 25,000 is < Rs. 30,000 each, there is no TDS liability.
(b) U/s 194LA, TDS has to be deducted on compensation on compulsory acquisition, if the aggregate payment exceeds Rs. 2,50,000. In the given case, there is no TDS liability as the payment made does not exceed Rs. 2,50,000.
(c) Section 194J provides that any person, other than Individual/HUF, who is responsible for paying any fees for professional shall deduct tax @ 10%. However, no TDS if aggregate amounts of such fees does not exceed Rs. 30,000 in FY. In this case, total payment is Rs. 18000 (Rs. 1,500 x 12) & thus NO TDS.

(d) As per the provisions of section 194J, Individual/HUF is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit u/s 44AB(a)/(b) in last PY. However, if such payment is made for professional services exclusively for personal purpose of any member of HUF, then liability to deduct tax is not attracted.

Therefore, in the given case, even if Sundar (HUF) is liable to tax audit in last PY, liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Srivatsan is paid for a personal purpose i.e. the surgery of a member of the family.

(e) Under section 194J, tax is deductible for any payment made which is in the nature of any Remuneration or Fees or Commission other than those on which Tax is deductible u/s 192, to a Director of a Company.
- Tax @ 10% should be deducted.
- There is no Exemption Limit for Deduction of Tax on payments to a Director.
- Hence, ABC & Co Ltd should deduct tax of Rs. 1,900 on Sitting Fee paid, being 10% of Rs. 19,000.

Note: If sitting fee is paid to a Whole Time Director in Employment with the Company, the same may be considered as taxable u/s 192, in which case provisions of Section 194J may not be applicable.

Q5. State the applicability of rate & amount of TDS in the following cases for PY 2021-22: **[Nov 2012]**

(a) Payment made by a firm to the sub-contractor of Rs. 3 Lacs with outstanding balance of Rs. 1,20,000 shown in the books as on 31.03.2022.

(b) Rent paid for P&M: Rs. 1.5 Lacs by a firm having Sales Turnover of Rs. 20 Lacs & Net Loss of Rs. 15,000.

Answer:

(a) Payment by firm to sub-contractor of Rs. 3 Lac with outstanding balance on 31.03.2022 of Rs. 1,20,000.
Under section 194C, Tax shall be deducted at the time of payment or credit, whichever is earlier.
For the payment & also for the credit, Tax will have to be deducted.
Thus, tax should be deducted on Rs. 4,20,000. **TDS = 4,20,000 x 1% = 4,200.**

(b) As per section 194I, all assessees except individual & HUF, who are not subject to tax audit u/s 44AB during the preceding FY are liable to deduct tax. Thus, section 194I is always applicable to the Firm whether or not it is subject to Tax Audit. However, since payment < Rs. 2,40,000, no TDS is required.

Q6. Compute amount of TDS on the following payments made by M/s ABC Ltd. during PY 2021-22. **[Nov 2011]**

(a) Payment of Rs. 2,00,000 to Mr. "X" a transporter having PAN & do not own more than 10 goods carriages.

(b) Payment of fee for technical services of Rs. 45,000 to Mr. X who is having PAN on 1.11.2021.

(c) Payment of Rs. 25,000 to M/s X Ltd. for repair of building on 30.12.2021.

(d) Payment of Rs. 2,00,000 made to Mr. Y for purchase of diaries made according to specifications of M/s ABC Ltd. However, no material was supplied for such diaries to Mr. Y by M/s ABC Ltd on 01.01.2022.

(e) Payment of commission of 25,000 to Mr. A on 01.02.2022.

Answer:

(a) No tax shall be deducted at source in case of payment to a transporter who has submitted his PAN.

(b) TDS u/s 194J @ 10% because total amount payable > Rs. 30,000. TDS = 45,000 x 10% = Rs. 4,500.

(c) It is covered u/s 194C but payment is not exceeding Rs. 30,000 & hence no TDS is required.

(d) Tax shall not be deducted at source in case of purchase of goods.

(e) Tax shall be deducted at source u/s 194H & shall be = 25,000 x 5% = Rs. 1,250.

Q7. State whether TDS provisions are applicable to the following transactions: **[May 2010]**

(a) X & Co. (Firm) engaged in wholesale business assigned a contract for construction of its godown building to Mr. X, a contractor. It paid Rs. 25,00,000 to Mr. X as contract payment.

(b) Y & Co. engaged in real estate business conducted a lucky dip & gave Maruti car to a prize winner.

(c) An Insurance Company paid Rs. 45,000 as Insurance Commission to its agent Mr. Y.

(d) AB Ltd. allowed a discount of 50,000 to X & Co. (firm) on prompt payment towards supply of auto parts.

Answer:

(a) Section 194C provides for TDS from payment made to contractors & sub-contractors. Therefore, TDS u/s 194C for the contract payments made for construction of godown building. Rate u/s 194C on payments made to contractors who are individuals/HUF shall be @ 1%. Hence, X & Co. (firm) must deduct tax on contract payments made to Mr. X.

(b) As per Section 194B, winning from lottery or crossword puzzle or card game or other game of any sort exceeding Rs. 10,000 payable by any person to any other person, subject to TDS @ 30%. Since the value of prize i.e. Maruti car would exceed Rs. 10,000 tax is deductible at source @ 30%. As winning is in kind, winner must deposit 30% of prize value to Y & Co. for remitting as tax. Only after such deduction/recovery, Maruti car is to be delivered to prize winner.

(c) As per section 194D, any person paying insurance commission in excess of Rs. 15,000 to any resident person is liable to deduct tax @ 5% in case of all assesses. Therefore, insurance company must deduct tax at source @ 5% i.r.o the insurance commission paid to Mr. Y.

(d) Discount allowed to a customer for prompt payment is not covered by any of the TDS provisions. Thus, AB Ltd. need not deduct TDS since no payment was involved in allowing discount to its customer.

Q8. State the applicability of TDS rate & amount of TDS in the following cases for PY 2021-22: **[Nov 2014]**

(a) Payment of Rs. 27,000 made to a South African cricketer, by Indian newspaper agency on 02.07.2021 for contribution of articles in relation to the sport of cricket.
(b) Winning from horse race - Rs. 1,50,000.
(c) Rs. 2 Lacs paid to Mr. X (resident) on 22.02.2022 by UP State on compulsory acquisition of his urban land.
(d) Mr. PC, an employee of Central government receives arrears of salary for 3 earlier years.
(e) TV channel pays Rs. 11 Lacs on 01.07.2020 as prize money to the winner of quiz, "A Millionaire".
(f) SBI pays Rs. 50,000 pm as rent to the CG for a building in which one of its branches is situated.
(g) Television company pays Rs. 50,000 to cameraman for shooting of film.
(h) A turf club awards a jackpot of Rs. 5 lacs to the winner of one of its races.

Answer:

(a) TDS shall be deducted u/s 194E @ 20% + 4%HEC. TDS shall be 20.8% of Rs. 27,000 = Rs. 5,616.
(b) TDS shall be deducted u/s 194BB @ 30% as the amount exceeds Rs. 10,000. TDS = Rs. 45,000.
(c) As per Section 194LA, No TDS is deductible by State of UP as amount paid does not exceed Rs. 2,50,000.
(d) Arrears of salary are taxable in PY in which there are paid & thus shall be liable for TDS. However, if an employee receives any salary in arrears, he can claim relief as per sec 89 r/w rule 21A provided the employee furnishes the details of such arrears in Form No. 10E to the employer. Further, relief u/s 89 shall be given to concerned employee while deducting tax at source u/s 192.
(e) As per sec 194B, TV channel is required to deduct tax @ 30% at the time of payment of Rs. 11,00,000.
(f) As per sec 196 where payee is Government, there is no requirement to deduct tax at source on income by way of 'rent' & therefore SBI is not liable to deduct tax while paying rent to the CG.
(g) Television company shall deduct tax @ 10% u/s 194J at the time of making payment to the cameraman.
(h) Payer shall deduct tax at source @ 30% u/s 194BB at the time of making payment. TDS = Rs. 1,50,000.

Q9. Ashwin a resident Individual carrying on business, furnishes you the following information:

(i) Total turnover of PY 2020-21: Rs. 120 lacs; (ii) Total turnover of PY 2021-22: Rs. 98 lacs. State whether provisions of TDS are attracted for the under-mentioned expenses during the PY 2021-22:

(a) Commission paid to Babloo	18,500
(b) Payment to Vijay for repair of office building	23,000
(c) Payment of fees for Technical Services, to Vivek	35,000
(d) Interest paid to Indian Bank on Term Loan	92,800
(e) Advertisement expenses to Mr. X (2 individual expense of Rs. 24,000 & Rs. 34,000)	58,000
(f) Factory rent paid to C	2,50,000
(g) Brokerage paid to B, a sub-broker	16,000
(h) Rent paid by a partnership firm for use of plant & machinery	1,70,000

All payments are made to residents. State the amount of tax to be deducted at source for PY 2021-22.

[May 2016 + Nov 2012 + Modified ICAI Exercise Q1]

Answer: As the turnover of Mr. Ashwin for PY 2020-21 (Rs. 120 lacs) has exceeded the limit prescribed u/s 44AB, he has to comply with the tax deduction provisions during PY 2021-22.

(a) **Commission paid to Babloo:** Tax has to be deducted u/s 194-H as the commission exceeds Rs. 15,000. Tax shall be deducted at source u/s 194H & shall be = 18,500 x 5% = Rs. 925.
(b) **Contract payment of Rs. 23,000 to Mr. Vijav:** TDS provisions u/s 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions u/s 194C are not attracted in this case.

(c) **Payment of fees for Technical Services to Vivek:** Tax shall be deducted at source u/s 194J @ 10% because total amount payable is exceeding Rs. 30,000. TDS = 35,000 x 10% = Rs. 3,500.
(d) **Interest paid to Indian Bank on Term Loan:** TDS u/s 194A is not attracted i.r.o. interest paid to a banking company.
(e) **Advertisement expenses to Mr. X:** TDS on Rs. 34,000 @ 1% = Rs. 340 (Sec 194C is applicable if single payment > Rs. 30,000 or aggregate payment > Rs. 1,00,000).
(f) **Factory rent paid to C:** Tax has to be deducted u/s 194I @ 10% as rent > Rs. 2,40,000. TDS = Rs. 25,000.
(g) **Brokerage paid to B (sub-broker):** TDS u/s 194H as commission > Rs. 15,000. TDS @ 5% on 16,000 = Rs. 800.
(h) **Rent of Rs. 1,70,000 paid by a partnership firm for use of plant & machinery:** As per Section 194I TDS is not required to be deducted as the Rent amount does not exceeds Rs. 2,40,000. Thus, NO TDS.

Q10. Discuss the following issues with specific reference to clarification given by CBDT: **[ICAI SM Q6]**
(1) Moon TV, a television channel, made payment of Rs. 50 Lacs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source u/s 194C? Examine whether the provisions of TDS u/s 194C would be Attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by production house.
(2) Mudra Adco Ltd., an advertising company, has retained 15 Lacs, towards charges for procuring & canvassing advertisements, from payment of 1 crore due to Cloud TV, a television channel, & remitted 85 Lacs to television channel. State whether TDS u/s 194H be attracted on 15 Lacs retained by the advertising company?

Answer:
(1) Since programme is produced by production house as per specifications given by Moon TV & copyright is also transfer red to television channel, the same falls within the scope of 'work' u/s 194C. Therefore, payment of 50 Lacs made by Moon TV to production house is subject to TDS u/s 194C.
However, if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source u/s 194C.
(2) Issue of whether fees/charges taken or retained by advertising companies from media companies for canvasing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount' to attract the provisions of TDS has been clarified by the CBDT vide its Circular No.5/2016 dated 29.2.2016.
Relation b/w media company & advertising agency is that of 'principal-to-principal' & thus not liable for TDS u/s 194H.
In view of the same, CBDT has clarified that no liability to deduct tax is attracted on payments made by television channels to advertising agency for booking/procuring of or canvassing for advertisements.
Accordingly, no tax is deductible at source on the amount of 15 Lacs retained by Mudra Adco Ltd., the advertising company, from payment due to Cloud TV, a television channel.

Q11. ABC Ltd. has given orders to Mr. X to stitch uniform for their employees. Mr. X purchased material from the market & has stitched uniform for ABC Ltd & has charged Rs. 7,00,000. Calculate the amount of TDS. What if Mr. X has used material purchased from ABC Ltd. & charged Rs. 1,10,000 as labour charge.

Answer:
- Section 194C deals with the provisions of TDS in case of payment to contractors.
- It deals with payment of any sum for carrying out any work in pursuance of contract for Manufacturing or supplying a product according as per the requirement or Specification of customer using materials purchased from the customer.
- Thus, in this case, since material has been purchased from market, section 194C is not applicable. Thus no tax is required to be deducted if material is supplied by ABC Ltd.
- (b) Mr. X has charged Rs. 1,10,000 as labour charges. Thus, TDS shall be @ 1 % i.e. Rs. 1100.

Q12. A Foreign Enterprise enters into a contract for Fabrication & supply of components for Machinery with X & Co. (a Firm in India). X & Co sub-contracts the work to Y (an Individual & pays him Rs. 20 Lacs during PY 2021-22. X & Co. receives payment of Rs. 50 lacs from a foreign enterprise. Discuss TDS implications. **[Mod. Nov 1998 (Final)]**

Answer:
- U/s 194C, Payments to Contractors (including Sub-Contractors) for contracts shall be subject to TDS @ 1% if the Payee is a Resident Individual/HUF & 2% in case of other Resident Payees.

- Foreign Enterprise is liable to deduct Tax on its payment to Main Contractor (X & Co) @ 2% (Payee - firm)
- Payment made by foreign enterprise to X & Co. shall be subject to TDS at 2% [Rs. 50 lacs × 2 % = 1 lac].
- Amount payable by foreign enterprise to X & Co. = Rs. 50 lacs – Rs. 1 lac = Rs. 49 lacs.
- Payment made by X & Co. to Mr. Y shall be subject to TDS at 1% [i.e. Rs. 20 lacs × 1% = 20,000].
- Since the payment is made to an Individual, Rs. 20 Lacs shall be subject to TDS at 1% i.e. Rs. 20,000.
- X & Co should deduct Rs. 20,000 from the amount payable to Mr. Y & pay the balance of Rs. 19,80,000.

Q13. A Ltd. has taken a building on lease. It has sub-leased the building & furniture & fixtures to B Ltd. from 1.04.2021 but separate agreement has been made for both the sub-leases. A Ltd. receives the following amounts on 31.3.2022 as consideration for the sub-lease from B Ltd. during the PY 2021-22:

Rent for the period 1.4.2021 to 31.3.2022 of building	2,20000
Furniture hire charges for the period 1.4.2021 to 31.3.2022	12000
Non-refundable deposit received during the year	50000

What is the liability of A Ltd. for deduction for tax at source u/s 194-I for PY 2021-22? **[#MustSolve]**

Answer:

- Section 194I provides that where any person, is responsible for paying to any person, any income by way of the rent, amounting in aggregate > Rs. 2,40,000 in a financial year, he shall deduct income-tax thereon.
- Limit of Rs. 2,40,000 for TDS u/s 194-I applies to the aggregate rent of all the assets i.e. whether such asset is building or machinery or plant or equipment, etc.
- If there are separate agreements, one for sub-lease of building & other for hiring of machinery, rent & hire charges under two agreements have to be aggregated for the purpose of application of the limit of Rs. 2,40,000.
- Rate of TDS u/s 194-I in case of rent from land & building & Furniture & fixtures is 10%.
- It is to be noted that Non-refundable deposit received during the year shall also be subject to TDS.
- Tax should be deducted at the time of payment of rent or at the time of its credit whichever is earlier.
- TDS Liability of B Ltd: Total payment = (2,20,000 + 12,000 + 50,000) = 2,82,000. TDS @ 10% = Rs. 28,200.

Q14. Mr. PC has deposited in fixed deposit with the company Rs. 2 Lacs @ 8% p.a. for 3 years. He submits declaration in Form 15G & claims interest payment without tax deduction. The accountant feels that Form 15G submitted is incorrect & wants to ignore the same & deduct tax @ 10%. Is he justified?

Answer: Sec 194A provides for TDS from interest. Where depositor furnish declaration in Form 15G, tax is not deductible u/s 194A. Deductor is not authorized to scrutinize the same. Thus accountant is not justified.

Q15. AB Ltd. has estimated its tax payable to be Rs. 5 Lacs for PY 2021-22 & has paid advance tax accordingly but actual tax liability was found to be Rs. 5.5 Lacs & difference of tax amount was paid on 10.12.2022. Compute interest u/s 234.

Solution:

- Interest u/s 234A shall be computed from 1.11.2022 to 10.12.2022 = 50,000 x 1% x 2 Months = Rs. 1,500.
- Interest u/s 234B: Advance tax paid is more than 90% of actual tax liability, no interest is payable.
- Interest u/s 234C shall be computed in the manner given below:

Date	Tax Payable	Tax Paid	Default
15.06.2021	82,500 (66,000 @12%)	75,000	7,500
Interest u/s 234C = Nil (because advance tax paid is more than 12%)			
15.09.2021	2,47,500 (1,98,000 @ 36%)	2,25,000	22,500
Interest u/s 234C = Nil (because advance tax paid is more than 36%)			
15.12.2021	4,12,500	3,75,000	37,500
Interest u/s 234C = 37,500 x 1 % x 3 months = Rs. **1,125**			
15.03.2022	5,50,000	5,00,000	50,000
Interest u/s 234C = 50,000 x 1% x 1 month = **Rs. 500**			

Q16. Calculate Interest Payable u/s 234B by Mr. Sachal, a Resident Individual (age 54) from the following:
(1) Wholesale Cloth Business, whose turnover is Rs. 150 Lacs. Income from such Business is Rs. 8,10,000;
(2) Income from Other Sources: Rs. 2,70,000;
(3) Tax Deducted at Source: Rs. 25,000;
(4) Advance Tax paid: Rs. 1,03,000 on 14.03.2022;
ROI will be filed on 11.12.2022. Assessee is willing to pay the requisite SAT u/s 140A. **[May 2017]**

Solution:

(1) Total Income = Income from Cloth Business (Rs. 8,10,000) + IFOS (Rs. 2,70,000)	Rs. 10,80,000
(2) Tax thereon = [(Rs, 10,80,000 - Rs. 10,00,000) x 30% + 1,12,500]	Rs. 1,36,500
(3) Add: HEC at 4%	Rs. 5,460
(4) Total Tax & Cess Payable (2+3)	Rs. 1,41,960
Less: Tax Deducted at Source	**(Rs. 25,000)**
Advance Tax liability (Assessed Tax)	Rs. 1,16,960
Advance Tax paid on 14.03.2020	Rs. 1,03,000
Balance Payable before considering Interest	**Rs. 13,960**

Computation of Interest u/s 234B:

- 90% of Assessed Tax = 90% of Rs. 1,16,960 = Rs. 1,05,264.
- Since Advance Tax paid (Rs. 1,03,000) is less than 90% of Assessed Tax, Interest u/s 234B is applicable.
- Interest u/s 234B = Shortfall, i.e. (1,16,960 – 1,03,000) x 1% x 9 months (April to Dec 2021) = Rs. 1,257.

Q17. A Firm made the following payments of Advance Tax during PY 2021-22:

15.06.2021	15.09.2021	15.12.2021	15.03.2022	Total Advance tax
Rs. 4,00,000	Rs. 5,00,000	Rs. 9,00,000	Rs. 12,00,000	Rs. 30,00,000

Income returned is Rs. 100 Lacs u/h 'PGBP' & Rs. 10 Lacs by way of LTCG on sale of a property effected on 01.03.2022. What is interest payable by assessee u/s 234B & 234C? ROI is filed on 31.07.2022 & Tax is fully paid upon self-assessment.

Solution: **1. Computation of Actual Tax Payable by the Firm**

Particulars	Rs.	Rs.
Profits and Gains of Business or Profession		100,00,000
Capital Gains – Long Term Capital Gain		10,00,000
Total Income		**110,00,000**
Tax on LTCG of Rs. 10 Lac at 20% + HEC @ 4%	2,08,000	
On Business Income of Rs. 100 Lacs @ 30% + HEC @ 4%	31,20,000	
Net Tax Payable		**33,28,000**

Calculation of Interest u/s 234B

90% of Tax Payable (Rs. 33,28,000 x 90%)	29,95,200
Advance Tax paid (given)	30,00,000
Since Advance Tax paid (Rs. 30 lacs) > 90% of Assessed Tax, Interest u/s 234B is not applicable.	

Calculation of Interest u/s 234C

Due date	Advance Tax payable	Cumulative Advance tax paid	Difference (2) - (3)	Months	Interest at 1 % p.m
(1)	(2)	(3)	(4)	(5)	(6) = (4) x (5) x 1%
15.6.2021	15% of 31,20,000 = 4,68,000 12% of 31,20,000 = 3,74,400	4,00,000	Nil	3	Nil
15.9.2021	45% of 31,20,000 = 14,04,000 36% of 31,20,000 = 11,23,200	9,00,000	5,04,000	3	15,120
15.12.2021	75% of 31,20,000 = 23,40,000	18,00,000	5,40,000	3	16,200
15.03.2022	100% of 33,28,000 = 33,28,000	30,00,000	3,28,000	1	3,280

Note:
- Tax on Business Income alone considered for computation of 1st, 2nd & 3rd instalments.
- Tax on LTCG has been considered only for 3rd instalment, as such gain had arisen only on 1.3.2020.

Q18. Tax liability of Mr. X (53 years), a resident individual for PY 2021-22 is computed as Rs. 1,00,000.
Mr. X has paid advance tax as follows: (i) 10.09.2021: Rs. 20,000; (ii) 21.12.2021: Rs. 30,000; (iii) 11.03.2022: Rs. 35,000.
Mr. X intends to file his return with balance tax & interest payable. Compute the tax & interest payable if:
(1) Balance tax & interest are paid on 21st July 2022 & return is filed on same date.
(2) Balance tax & interest are paid on 4th Jan 2023 & he files return on same date.
(3) Balance tax & interest are paid on 21st July 2022 but he forgot to file ROI & ROI is filed on 4th Jan 2023.

Solution: **Computation of interest payable u/s 234C for deferment of advance tax**

DD of payment of Advance tax	Amount which should have been paid	Amount actually paid	Difference	Interest (moths)	Interest @ 1 % p.m
15 June 2021	15,000	Nil	15,000	3	450
15 Sep 2021	45,000	20,000	25,000	3	750
15 Dec 2021	75,000	20,000	55,000	3	1,650
15 March 2022	1,00,000	85,000	15,000	1	150
Interest u/s 234C (in all cases)					**3,000**

Computation of interest payable u/s 234B for default in payment of Advance Tax:
- **Case 1**: (on Rs. 15,000 for 4 months @1% per month) = Rs. 600.
- **Case 2:** (on Rs. 15,000 for 10 months @1% per month) = Rs. 1,500.
- **Case 3**: (on Rs. 15,000 for 4 months @1% per month) = Rs. 600.

Computation of interest payable u/s 234A for default in filing Return of Income:
- **Case 1:** No interest u/s 234A as ROI for AY 2022-23 is filed before due date of filing ROI (July 31, 2022).
- **Case 2:** There is delay in filing ROI by 6 months & interest payable u/s 234A is Rs. 900 (15,000 for 6 months @1% p.m)
- **Case 3:** Interest u/s 234A is not applicable as balance tax & interest are paid before DD of filing ROI though the return is actually filed in January 2021.

Final Answer					
Particulars	**Tax payable**	u/s 234A	u/s 234B	u/s 234C	Tax & interest
Case 1	15,000	Nil	600	3,000	18,600
Case 2	15,000	900	1500	3,000	20,400
Case 3	15,000	Nil	600	3,000	18,600

Q19. Mr. Amol Chandak estimates his income for PY 2021-22 at Rs. 5,00,000. Besides this income, he has LTCG of Rs. 1,00,000 on transfer of gold on 1.12.2021. He has won a lottery on 25.3.2022 of Rs. 2,00,000. Compute the advance tax payable by Mr. Amol Chandak in various instalments.

Answer: In this question, Amol Chandak has LTCG on 1.12.2021 which falls after payment of 2 installment of advance Tax. Thus, for calculating first 2 installments, LTCG will not be considered.

Tax Liability of Mr. Amol Chandak for AY 2022-23 for 1st & 2nd Installment: Rs. 12,500 + Rs. 500 = Rs. 13,000.
(1) **First Installment** of Advance Tax payable on 15.6.2021 = 15% of Rs. 13,000 = **Rs. 1950**.
(2) **Second Installment** of Advance Tax payable on 15.9.2021 = 45% of Rs. 13,000 – Rs 1950 = **Rs. 3900**.

Tax Liability of Mr. Amol Chandak for AY 2022-23 for 3rd & 4th Installment:

Tax on Rs. 5,00,000	Rs. 12,500
Tax on LTCG of Rs. 1 Lac @ 20%	Rs. 20,000
Add: HEC @ 4% of Tax	Rs. 1,300
Total Tax Liability	**Rs. 33,800**

(3) **Third Installment payable on 15.12.2021 =** 75% of Rs. 33,800 – Rs 1950 – Rs. 3900 = **Rs. 19,500.**
(4) **Fourth Installment payable on 15.03.2022** = 100% of Rs. 33,800 – Rs 1950 – Rs. 3900 - Rs. 19,500 = **Rs. 8450.**

Now, Mr Amol has won a lottery on 25.3.2022 which falls after the payment of all installments. Thus, he will have to pay the tax on such amount before 31st March. If paid before 31st March, it will be considered to have been paid before the due date & thus no interest u/s 234B or 234C will be levied. Tax on Rs. 2 Lacs @ 30% = Rs. 60,000. Thus Mr. Amol has to pay Rs. 60,000 as tax on lottery before 31st March 2022. Otherwise, Section 234B & 234C will get attracted.
Since Tax on Lottery would have been deducted (TDS) @ 30% [i.e. Rs. 60,000]. Mr Amol effectively will not be required to pay any tax. He will only have to give the details about this transaction (Income & TDS) to the prescribed authority.

Q20. Following are the particulars of estimated income of Mr. Pranav Chandak for PY 2021-22:

(a)	Salary Income (after standard deduction of Rs. 50,000)	Rs. 5,00,000
(b)	Income u/h HP @ Rs. 10,000 p.m.	Rs. 1,20,000
(c)	Income from Interest on Government securities	Rs. 50,000
(d)	Winnings from lotteries (Gross)	Rs. 40,000
(e)	Share of profit from the Income of HUF	Rs. 1,50,000

Calculate the amount of Advance Tax payable by him in various instalments. Tax of Rs. 12,000 has been deducted at source out of the lottery. He has deposited Rs. 10,000 in PPF.

Answer: **Computation of Total Income of Mr. Pranav Chandak for AY 2022-23**

Particulars		Rs.
Salary		Rs. 5,00,000
House Property (Rs. 1,20,000 - 30% Standard Deduction u/s 24(a)		Rs. 84,000
Interest on Govt. Securities		Rs. 50,000
Winning of Lottery		Rs. 40,000
Gross Total Income		**Rs. 6,74,000**
Less: Deduction u/s 80C		(Rs. 10,000)
Taxable Income		**Rs. 6,64,000**
Computation of Advance Tax Liability		
Tax on Lottery Income of Rs. 40,000 @ 30%		Rs. 12,000
Tax on other income of Rs. 6,24,000 [Rs. 12,500 + Rs. 24,800]		Rs. 37,300
Total Tax payable + HEC @ 4% of Tax		Rs. 51,272
Less: TDS		(Rs. 12,000)
Advance Tax Payable (rounded off)		**Rs. 39,270**
Computation of Minimum Installments of Advance Tax		
1st Installment [on/before 15.6.2021]	(15% of Rs. 39,270)	**Rs. 5891**
2nd Installment [on/before 15.9.2021]	(45% of Rs. 39,270) – Rs. 5891	**Rs. 11780**
3rd Installment [on/before 15.12.2021]	(75% of Rs. 39,270) – Rs. 5891- Rs. 11780	**Rs. 11781**
4th Installment [on/before 15.3.2022]	(100% of Rs. 39,270) - Rs. 5891- 11780 –11781	**Rs. 9818**

Q21. Determine the interest payable u/s 234A in the following cases:

Particulars	X	Y	Z
DD of filing ROI	31.07.2022	31.07.2022	30.09.2022
Date of filing ROI	15.08.2022	06.11.2022	15.12.2022
Tax on Assessed Income by AO	Rs. 1,09,000	Rs. 60,000	Rs. 65,000
Advance Tax + TDS	Rs. 74,000	Rs. 35,000	Rs. 35,000
SAT paid u/s 140A	Rs. 35,000	Rs. 20,000	Rs. 20,000
Date of Payment of SAT u/s 140A	25.07.2022	25.07.2022	10.10.2022

Answer:

Particulars	X	Y	Z
Tax on Assessed Income – (Advance Tax + TDS)	Rs. 35,000	Rs. 25,000	Rs. 30,000
Less: SAT u/s 140A paid before DD of filing ROI	(Rs. 35,000)	(Rs. 20,000)	(Rs. 20,000)
Balance Tax payable	Nil	Rs. 5,000	Rs. 10,000

Calculation of Interest u/s 234A

(a) **In case of Mr. X:** Entire outstanding amount is paid by way of SAT on 25.07.2022 (i.e before DD of filing ROI). However, ROI is submitted after DD. Since whole amount of tax has been paid before DD of filing ROI by way of SAT, Interest u/s 234A is not applicable.

(b) **In case of Y:** SAT is paid partly (Rs. 20,000) before DD of filing ROI & ROI is filed belatedly. Thus, Interest u/s 234A is payable on Rs. 5,000 for 4 months @ 1% p.m.

(c) **In case of Z:** SAT is paid partly (Rs. 20,000) after DD of filing ROI & ROI is filed also belatedly. Thus, Interest u/s 234A is payable on Rs. 30,000 @ 1% for 1 month (part thereof) [till date of payment of SAT] & on the remaining balance of tax of Rs. 10,000 for 2 Months @ 1% p.m till ROI is filled. Thus, Interest u/s 234A = Rs. 300 = Rs. 200 = Rs. 500.

Q22. Compute Interest payable u/s 234A by Mr. Thermal Gattu for AY 2022-23.

(a) DD of ROI: 30.9.2022; (b) Actual Date of filing ROI: 20.3.2023; (c) TDS = Rs. 5000;

(d) Advance Tax paid = Rs. 15000; (e) Tax paid on Self-assessment before DD of filing ROI = Rs. 2,000;

(f) Tax determined on Regular Assessment on the basis of Returned Income = Rs. 25,000.

Answer:

- Due Date of filing ROI: 30.9.2022; Date of Filing ROI: 20.3.2023.
- Delay in filing ROI: 5 months & 20 days = 6 months (part of the month is treated as full)
- Interest u/s 234A = [Tax determined on Regular Assessment – TDS – Advance Tax] × 1% p.m * No. of Months.
  = 25,000 – 5,000 – 15,000 – 2,000 (SAT paid before DD) = 3,000 × 1% p.m × 6 Months = Rs. 180.

PC Note: For computing interest u/s 234A, SAT u/s 140A shall be deducted if paid before DD of filing ROI.

Q23. For PY 2021-22, Mr. X has Total Income of Rs. 7,00,000 & he files his return on 10th August 2022.

(a) What will be the penalty or fees payable u/s 234F?

(b) What if he files his return on 16th January 2023.

(c) What if his total income is Rs. 4,50,000?

Answer:

(a) If he files his return on 10th August 2022, Penalty of Rs. 5000 is payable u/s 234F.

(b) If he files his return on 16th January 2023, Penalty payable u/ 234F is Rs. 10,000.

(c) If his total income is Rs. 4,50,000, Penalty shall be Rs. 1000 in both cases.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Ashwin doing manufacture & wholesale trade furnishes you following information:

Particulars	Rs.
Total turnover for FY 2020-21	Rs. 1,05,00,000
Total turnover for FY 2021-22	Rs. 95,00,000

Examine whether TDS provisions are attracted for the below said expenses incurred during FY 2021-22:

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

Answer: As the turnover of business carried on by Ashwin for FY 2020-21, has exceeded 1 crore, he has to comply with the tax deduction provisions during PY 2021-22.

- **Interest paid to UCO Bank:** TDS u/s 194A is not attracted i.r.o interest paid to a banking company.
- **Contract payment of 24,000 to Raj for 2 contracts of 12,000 each:** TDS provisions u/s 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during FY. Therefore, TDS provisions u/s 194C are not attracted in this case.
- **Shop Rent paid to one payee:** Tax has to be deducted @10% u/s 194I as annual rental payment exceeds Rs. 2,40,000.
- **Commission paid to Balu:** No TDS u/s 194H as commission does not exceed Rs. 15,000.

Q2. Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during PY 2021-22:

SN	Date	Nature of Payment
(a)	1.10.2021	Payment of Rs. 2 lacs to Mr. R a transporter who owns 8 goods carriages throughout the PY & furnishes a declaration to this effect along with his PAN.
(b)	1.11. 2021	Payment of fee for technical services of 25,000 & royalty of Rs. 20,000 to Mr. Shyam who is having PAN.
(c)	30.06.2021	Payment of Rs. 25,000 to M/s X Ltd. for repair of building.
(d)	01.01.2022	Payment of Rs. 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.
(e)	01.01.2022	Payment of Rs. 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(f)	01.02.2022	Payment of commission of Rs. 14,000 to Mr. Y.

Answer:

(a) No tax is required to be deducted at source u/s 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- He owns ten or less goods carriages at any time during the PY.
- He is engaged in the business of plying, hiring or leasing goods carriages.
- He has furnished a declaration to this effect along with his PAN.

(b) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services & royalty, individually, exceeds Rs. 30,000 during the FY. In the given case, since, the individual payments for fee of technical services i.e., Rs. 25,000 & royalty Rs. 20,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services & royalty were made during the year to Mr. Shyam.

(c) 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 Rs. 30,000.

(d) As per 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 i.r.o payment of Rs. 2,00,000 to Mr. A, since the contract is a contract for sale.

(e) 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 FY exceeds Rs. 2,50,000. In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed Rs. 2,50,000.
(f) As per section 194H, tax is deductible at source if amount of commission/ brokerage/ aggregate of amounts of commission/ brokerage credited or paid during FY exceeds Rs. 15,000. Since commission payment made to Mr. Y does not exceed Rs. 15,000, provisions of section 194H are not attracted.

Q3. Examine the applicability of TDS provisions & TDS amount in the following cases:
(a) Rent paid for hire of machinery by B Ltd. to Mr. Raman Rs. 2,60,000 on 27.9.2021.
(b) Fee paid on 1.12.2021 to Dr. Srivatsan by Sundar (HUF) Rs. 35,000 for surgery performed on a member of the family.
(c) ABC & Co. Ltd. paid Rs. 19,000 to one of its Directors as sitting fees on 01.01.2022.

Answer:
(a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds Rs. 2,40,000, the provisions of section 194I for deduction of tax at source are attracted. Rate for TDS u/s 194I on rent paid for hire of P&M is 2%, assuming that Mr. Raman had furnished his PAN to B Ltd.
Amount of TDS to be deducted: = Rs. 2,60,000 x 2% = Rs. 5,200.
Note: If Mr. Raman does not furnish his PAN to B Ltd., TDS @ 20% on Rs. 2,60,000, as per section 206AA.
(b) Section 194J provides that HUF is required to deduct TDS on fees paid for professional services only if total sales, gross receipts or turnover from business/profession exceeds Rs. 1 crore in case of business or Rs. 50 lacs in case of profession in a FY preceding the current FY & such payment made is not exclusively for personal purpose.
Section 194M provides for deduction of TDS by HUF (which is not required to deduct TDS u/s 194J) i.r.o fees for professional services if such sum/ aggregate of such sum exceeds 50 lacs during FY. In given case 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/aggregate of payments exceeded 50 Lacs in the PY 2021-22. However, since payment does not exceed Rs. 50 Lacs in this case, there is no liability to deduct TDS u/s 194M also.
(c) Section 194J provides for deduction of TDS @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 u/s 192. The threshold limit of Rs. 30,000 upto which the provisions of tax deduction at source are not attracted i.r.o every other payment covered u/s 194J is, however, not applicable i.r.o sum paid to a director. Therefore, TDS @10% has to be deducted u/s 194J i.r.o the sum of Rs. 19,000 paid by ABC Ltd. to its director.
TDS = Rs. 19,000 x 10% = Rs. 1,900

Q4. Examine the applicability of TDS, rate & amount of tax deduction in following cases for PY 2021-22:
(a) Payment of Rs. 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.
(b) Payment made by a company to Mr. Ram, sub-contractor, Rs. 3,00,000 with outstanding balance of Rs. 1,20,000 shown in the books as on 31.03.2022.
(c) Winning from horse race Rs. 1,50,000 paid to Mr. Shyam, an Indian resident.
(d) Rs. 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.

Answer:
(a) Section 194E provides that person responsible for payment of any amount to a NR sportsman who is not a citizen of India for contribution of articles relating to any game/sport in India in a newspaper has to deduct tax at source @ 20.8%. **TDS = Rs. 27,000 x 20.80% = Rs. 5,616.**
(b) Section 194C are attracted i.r.o payment by a company to a sub-contractor. U/s 194C, tax is deductible at the time of credit or payment, whichever is earlier @1% in case the payment is made to individual. Since aggregate amount credited/paid during PY is Rs. 4,20,000, TDS @ 1% on Rs. 4,20,000. **TDS = Rs. 4,20,000 x 1% = Rs. 4,200.**
(c) U/s 194BB, TDS to be deducted, if the winnings from horse races exceed Rs. 10,000. The rate of deduction of tax at source is 30%. **TDS = Rs. 1,50,000 x 30% = Rs. 45,000.**
(d) 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 TDS, if such aggregate payments during PY > Rs. 2,50,000. Thus, no TDS as payment made to Mr. A < Rs. 2,50,000.

Q5. Discuss the provisions relating to payment of advance tax on income arising from capital gains & casual income.

Answer:

- Proviso to section 234C contains the provisions for advance tax i.r.o. capital gains & casual income.
- Advance tax is payable by an assessee on his/its total income, which includes capital gains & casual income like income from lotteries, crossword puzzles, etc.
- Since it is not possible for the assessee to estimate his capital gains or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering TDS) on such capital gains/casual income should be paid in the remaining instalments of advance tax, which are due.
- Where no such instalment is due, the entire tax should be paid by 31st March of the relevant FY. No interest liability on late payment would arise if the entire tax liability is so paid.
  Note: In case of casual income the entire tax liability is fully deductible at source @ 30% u/s 194B & 194BB. Therefore, advance tax liability would arise only if surcharge (if any) & HEC @ 4% i.r.o. along with tax liability i.r.o other income, if any, is Rs. 10,000 or more.

Q6. Mr. Jay having total income of Rs. 8,70,000, did not pay any advance tax during PY 2021-22. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2022. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2022? Assume that he does not exercise the option u/s 115BAC.

Answer: Obligation to pay advance tax arises in every case, where the advance tax payable is Rs. 10,000 or more. As a consequence of such failure, assessee may be charged with interest u/s 234B & 234C. In the given case, since Mr. Jay did not deposit any amount of advance tax during PY, he will need to pay total tax due on his income along with interest on default of payment of advance tax (section 234B) & interest for deferment of advance tax (section 234C) before filing of ROI. Total tax due on returned income of Rs. 8,70,000 is Rs. 89,960 [(20% of Rs. 3,70,000 + Rs. 12,500) + cess @ 4%]

Interest u/s 234B: Interest u/s 234B is attracted:

(a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or

(b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest u/s 234B at 1% p.m. or part of the month will be levied beginning from 1st April of the following year i.e. 01.04.2022 till the time he deposits the whole tax under self-assessment. Interest will be levied on tax liability of Rs. 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29thJuly. Interest u/s 234B amount to Rs. 3,596.

<u>Interest u/s 234C</u>

Assessees, other than assessee who declares profits & gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 instalments during PY. Section 234C is attracted, if the actual instalment paid by the assessee is less than amount required to be paid by him on such instalments.

Interest shall be calculated at 1% p.m. or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, interest u/s 234C is calculated as under:

Date of Instalment	Specified % Of estimated tax	Amount due & unpaid (rounded off to nearest 100, ignoring fraction)	Period	Interest @ 1%
15th June 2021	15%	Rs. 13,400	3 months	Rs. 402
15th Sep 2021	45%	Rs. 40,400	3 months	Rs. 1,212
15th Dec 2021	75%	Rs. 67,400	3 months	Rs. 2,022
15th March 2022	100%	Rs. 89,900	1 month	Rs. 899
Total interest u/s 234C				Rs. 4,535

Mr. Jay needs to pay Rs. 98,091 as total of tax & interest on/before filing ROI in the month of July, 2022.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

TDS/TCS

May 18

Q1. Mention the significant differences between TDS and TCS.

Answer: **Significant Differences between TDS and TCS**

	TDS	TCS
1	TDS is tax deduction at source	TCS is tax collection at source.
2	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at prescribed rate from the buyer. Person who grants licence or lease (i.r.o any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
3	Generally, tax is required to be deducted at the time of credit to the A/c of the payee or at the time of payment, whichever is earlier. However, in certain cases, tax is required to be deducted at the time of payment. For e.g., in case of payment of salary, payment i.r.o life insurance policy	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the A/c of buyer/at the time of receipt of such amount from the buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding RS. 10 Lacs, tax collection at source is required at the time of receipt of sale consideration.

Nov 18

Q2. Shurya Bank Ltd., a banking company to which Banking Regulations Act, 1949 applies, has paid interest of Rs. 7,000 to Mr. Bhuwan, a resident Indian, from its Lucknow branch & Rs. 8,000 from Kanpur branch. If bank has not adopted core banking solutions, is tax required to be deducted at source from such interest payments made on 31.03.2022? Examine the provisions of the Income-tax Act, 1961 in this regard.

(b) Will your answer be different if the bank has adopted core banking solutions?

Answer:

- TDS @ 10% u/s 194A i.r.o interest credited or paid by a banking company, if it is > Rs. 10,000.
- This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.
- On the other hand, if the bank has adopted core banking solutions, then, the threshold of Rs. 10,000 would apply i.r.o the aggregate interest credited or paid by all the branches of the bank.
- Therefore, if Shurya Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of Rs. 7,000 & Rs. 8,000 paid by its Lucknow Branch & Kanpur Branch, respectively, to Mr. Bhuwan, since the interest paid by each branch does not exceed Rs. 10,000.
- However, if Shurya Bank Ltd. has adopted core banking solutions, it has to deduct TDS @ 10% on Rs. 15,000 (Rs. 7,000 + Rs. 8,000) u/s 194A, since the aggregate interest paid by its Lucknow & Kanpur branches exceed Rs. 10,000.

Q3. When & at what rate, a seller is required to collect tax source on sale of motor vehicle. Discuss whether tax is required to be collected at source on sale of motor vehicle by manufacturers to dealers.

Answer:

- As per section 206(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of value exceeding Rs. 10 lacs, shall collect tax from buyer @ 1% of sale consideration.
- In case of sale of motor vehicle, tax shall be collected at the time of receipt of amount.
- CBDT has clarified that TCS on all transactions of retail sales & accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

May 19

Q4. Mr. P is a professional who is responsible for paying Rs. 2,00,000 as rent for use of building to Mr. Harshit for Feb 2022. Gross receipts of Mr. P are: PY 2020-21: Rs. 55 Lacs & PY 2021-22: Rs. 45 Lacs. Find out whether Mr. P is responsible for TDS from rent of Rs. 2,00,000 payable to Mr. Harshit.

(a) Tax at source is required to be deducted u/s 194-I at the rate of 10%.

(b) Tax at source is required to be deducted u/s 194-IB at the rate of 5%.
(c) Tax at source is required to be deducted u/s 194-IB at the rate of 10%.
(d) No tax is required to be deducted at source.

Nov 19

No Direct Question was asked.

May 20

No Direct Question was asked.

Nov 20

Q5. 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 Rs. 9,000) on entire amount of Rs. 90,000 was deducted. However, this tax of Rs. 9,000 was deposited only on 22.6.2022. Interest chargeable u/s 201(1A) would be:

(a) Rs. 1,080 (b) **Rs. 860** (c) Rs. 1,620 (c) Rs. 840

Q6. Mr. Nihar maintains saving A/c & current A/c in Mera Bank Ltd. Details of withdrawals on various dates during PY 2021-22 are as follows:

Date of Cash withdrawal	Saving A/c	Current A/c
05.04.2021	15,00,000	-
10.05.2021	-	22,00,000
25.06.2021	20,00,000	-
17.07.2021	-	5,00,000
28.10.2021	35,00,000	-
10.11.2021	-	38,00,000
12.12.2021	25,00,000	-

Is Mera Bank Limited required to deduct TDS on withdrawals made by Mr. Nihar during PY 2021-22? If yes, what would the amount of TDS?

(a) No, TDS is not required to be deducted as aggregate cash withdrawal on or after 1.9.2021 does not exceed 1 crore.
(b) No, TDS is not required to be deducted as cash withdrawal does not exceed 1 crore neither in saving A/c nor in current A/c.
(c) TDS of 60,000 is required to be deducted.
(d) TDS of 1,20,000 is required to be deducted.

May 21

Q7. Dr. Sargun, maintained two bank A/c, one current A/c with Canara Bank for her profession & a Saving Bank A/c with SBI. Following are details of her withdrawals from these A/c during PY 2021-22:

Date of withdrawals	Canara Bank	SBI
25.04.2021	25,00,000	
27.04.2021		15,50,000
31.08.2021	29,00,000	
01.09.2021	14,20,000	
05.09.2021		14,00,000
07.10.2021	18,21,000	
11.12.2021	26,23,000	
12.02.2022	7,56,000	
25.03.2022		16,13,000

She furnished her ROI for AY 2021-22 & AY 2020-21 on/before due date u/s 139(1). However, for AY 2019-20 & AY 2018-19, she has furnished her ROI belatedly. Is any TDS u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank & SBI? If yes, at what rate & what amount?

(a) TDS on 33,79,000 @ 5% by Canara Bank & no tax is deductible by SBI.
(b) TDS on 20,20,000 @ 5% by Canara Bank & no tax is deductible by SBI.
(c) TDS on 20,20,000 @ 2% by Canara Bank & no tax is deductible by SBI.
(d) TDS on 75,00,000 @ 5% & on 20,20,000 @ 2% by Canara Bank & TDS @5% on 25,63,000 by SBI.

	Q8. **(a)** Examine & explain TDS implications in following cases along with reasons thereof, assuming that the deductees are residents & having a PAN which they have duly furnished to the respective deductors. ▪ Mr. Kunal received a sum of 10,20,000 on 28.02.2022 as pre-mature withdrawal from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health. ▪ Indian Bank sanctioned & disbursed a loan of 12 crores to B Ltd. on 31.12.2021. B Ltd. paid a sum of 1,20,000 as service fee to Indian Bank for processing the loan application. ▪ Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2021 to February, 2022) at Mumbai where he pays a monthly house rent of 32,000 for those 5 months, totaling to 1,60,000. Rent is paid by him on 1st day of the relevant month. **(b)** Mr. Subhash engaged in business of trading of electrical appliances. His turnover for FY 2020-21 & FY 2021-22 was 12 crore & 9.5 crore, respectively. During the PY, XYZ Ltd. placed order for purchase of electric appliances for 55 lakhs on 01.08.2021. He again placed order for 35 lakhs on 01.11.2021. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd. **Answer:** **(a) TDS implications** ▪ **On pre-mature withdrawal from EPF:** No tax is deductible u/s 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case. ▪ **On payment of service fee to bank:** Even though service fee is included in definition of interest u/s 2(28A), no tax is deductible at source u/s 194A, since service fee is paid to a banking company. ▪ **On payment of rent by a salaried individual:** Mr. Agam, a salaried individual, is not liable to deduct TDS @5% u/s 194-IB on Rs. 1,60,000 (being rent for 5 months from October 2021 to February 2022) from the rent of Rs. 32,000 payable on 1st day of every month, since monthly rent < Rs. 50,000. **(b)** As per section 206(1H), tax is required to be collected at source @0.1% on the sale consideration exceeding 50 lakhs at the time of receipt of consideration. Tax is required to collected at source by a seller, being a person whose total turnover from the business exceeds 10 crores during the FY immediately preceding the FY in which sale of goods is carried out. Since, section 206C(1H) is applicable w.e.f.1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of 50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020. Since the threshold of 50 lakhs is with respect to the PY, calculation of receipt of sale consideration for triggering TCS u/s 206C(1H) shall be computed from 1st April, 2020. Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding 50 lakhs, TCS is required to be collected at source @0.1%, on amount of 35 lakhs, being the amount of consideration received.
Nov 21	**Q9.** Mr. T, an Indian Citizen & resident of India, earned dividend income of 4,500 from an Indian company, which was declared on 1.10.2021 & paid in cash to Mr. T. What are the tax implications with respect to dividend in hands of Mr. T & Indian Company? (a) **Such dividend is taxable in hands of Mr. T & Indian company is required to deduct TDS@7.5%.** (b) Such dividend is taxable in hands of Mr. T & Indian company is required to deduct TDS@10%. (c) Such dividend is taxable in hands of Mr. T. However, Indian company is not required to deduct TDS since it does not exceed 5,000. (d) Such dividend is exempt in hands of Mr. T. Hence, Indian company is not required to deduct TDS.
	ADVANCE TAX
May 18	**Q1.** Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the PY 2021-22: ▪ Income of Rs. 8,10,000 from wholesale cloth business, whose A/c are audited u/s 44AB. ▪ Income from other sources Rs. 2,70,000. ▪ Tax deducted at source Rs. 25,000. ▪ Advance tax paid Rs. 1,03,000 during PY 2021-22. ▪ Return of income filed on 11.12.2022.

	Calculate the interest payable u/s 234B. Assume that ROI would be processed on the same day of filing of return. What are the consequences for delay in furnishing ROI? **Answer: Computation of interest payable u/s 234B by Mr. Sachal**

Particulars	Rs.
Tax on total income of Rs. 10,80,000 [Business income of Rs. 8,10,000 + Income from other sources of Rs. 2,70,000]	1,36,500
Add: HEC @ 4%	5,460
Tax on total income	**1,41,960**
Less: Tax deducted at source	(25,000)
Assessed Tax	**1,16,960**
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest u/s 234B is leviable since advance tax paid < 1,05,264 being 90% of assessed tax	
Number of months from 1st April, 2022 to 11th December, 2022	9
Interest u/s 234B @ 1% p.m. or part for 9 months on Rs. 13,960 [i.e., difference b/w assessed tax of Rs. 1,16,960 & advance tax of Rs. 1,03,000]	1256

Consequences for delay in filing return of income on or before the due date: Interest u/s 234A & fee u/s 234F would be attracted for filing ROI beyond due date specified u/s 139(1).

Interest u/s 234A: Since Mr. Sachal's accounts are audited u/s 44AB, the due date for filing of return for AY 2022-23 is 30.10.2022. Mr. Sachal has filed his return on 11.12.2022 i.e., interest u/s 234A will be payable for 3 months (from 1.10.2022 to 11.12.2022) @ 1% p.m. or part of month on the amount of tax payable on total income - TDS & advance tax paid = i.e., Rs. 13,960. Interest u/s 234A = Rs. 13,960 x 1% x 3 = Rs. 419.

Fee for late filing of return u/s 234F: Since Mr. Sachal has furnished his ROI after due date but before 31.12.2022 & his total income > Rs. 5 lacs, a fee of Rs. 5,000 will be payable.

Nov 18

Q2. Mr. Shikhar, aged 52 years, provides you the following information & requests you to determine his advance tax liability with due dates for PY 2021-22.

- Estimated tax liability for PY 2021-22: Rs. 85,000; TDS = Rs. 15,000;

Would your answer change if Mr. Shikhar is eligible for & has opted for presumptive tax provisions u/s 44AD & his tax liability is entirely on account of such income (ignore TDS)?

What would be your answer if, instead of section 44AD, he is eligible for & has opted for presumptive tax provisions u/s 44AE?

Answer: Determination of Advance Tax Liability of Mr. Shikhar

Tax payable = Estimated tax liability for FY 2021-22 (Rs. 85,000) – TDS (15,000) = Rs. 70,000.

Instalment Date	Cumulative Amount payable	Amount in Rs.
15th June, 2021	15% of advance tax liability	10,500
15 Sep 2021	45% of advance tax liability	21,000 (Rs. 31,500, being 45% of Rs. 70,000 – Rs. 10,500)
15 Dec 2021	75% of advance tax liability	21,000 (52,500, being 60% of Rs. 70,000 – Rs. 31,500)
15 March 2022	100% of advance tax liability	17,500 (70,000, being 100% of Rs. 70,000 - Rs. 52,500)

In case he is eligible for presumptive tax provisions u/s 44AD & his entire tax liability is on account of such income, he can pay his entire advance tax liability in one instalment on or before 15.03.2023, without attracting interest u/s 243C.

This benefit would, however, not be available if he is eligible for & has opted for presumptive tax provisions u/s 44AE, in which case he has to pay his advance tax in four instalments as indicated above, failing which interest u/s 234C would be attracted.

May 19

Q3. Mr. Narayan is engaged in the retail business of groceries. During PY 2021-22, his turnover was Rs. 1.65 crores. Out of this, receipt of Rs. 1.30 crore represents online transactions & Rs. 35 Lacs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during PY 2021-22. Is he liable to pay advance tax & if so, what is the minimum amount of advance tax to be paid & the due date for payment of such advance tax?

Answer:

Advance tax liability in the hands of Mr. Narayan opting for presumptive taxation: As per section 211, eligible assessee, opting for computation of profits or gains of business on presumptive basis i.r.o an eligible business referred to in section 44AD, shall be required to pay advance tax of whole amount in one instalment on/before 15th March of PY. Thus, Mr. Narayan is required to pay advance tax by **15.03.2022.**

However, any amount paid by way of advance tax on/before 31st March shall also be treated as advance tax paid during that PY on/before 15th March 2022.

Advance tax liability = Business Income = (8% of 35 Lacs) + (6% of 130 Lacs) = Rs. 10,60,000.

I.r.o the amount of turnover received by A/c payee cheque/bank draft or use of ECS through a bank A/c, assessee can declare 6% (instead of 8%) of such turnover as presumptive income u/s 44AD. Since Mr. Narayan does not have any other income during PY 2020-21, business income would be the total income.

Tax liability		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 to Rs. 5,00,000 @ 5%	12,500	
Rs.5,00,001 to Rs. 10,00,000 @ 20%	1,00,000	
Above Rs. 10,00,001 @ 30%	18,000	1,30,500
Add: Health & Education cess @ 4%		5,220
Total Tax Payable		**1,35,720**

He required pay Rs. 1,35,720 as minimum amount of advance tax by 15th March 2022.

Nov 19

Q4. Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2021. He is resident in India during PY 2021-22 & earned salary income of Rs.5 lacs (computed). During the year, he earned Rs. 7 lacs from winning of lotteries. Compute his advance tax liability for AY 2022-23:

(a) Rs. 2,20,000 + Cess Rs. 8,800 = Rs. 2,28,800, being the tax payable on total income of Rs. 12 lacs

(b) Rs. 2,10,000 + Cess Rs. 8,400 = Rs. 2,18,400, being the tax payable on lottery income of Rs. 7 lacs

(c) Rs. 10,000 + Cess Rs. 400 = Rs. 20,400, being the tax payable on salary income, since tax would have been deducted at source from lottery income.

(d) Nil

Q5. Mr. Pawan is engaged in the business of roasting & grinding coffee beans. During PY 2021-22, his total income is Rs. 4.5 lacs. Mr. Pawan filed its ROI for AY 2022-23 on 3rd March, 2023. Compute fee payable for default in furnishing in ROI for Mr. Pawan for AY 2022-23:

(a) Rs. 5,000 **(b) Not exceeding Rs. 1,000** (c) Rs. 10,000 (d) No fees.

Q6. Mr. Chandra Prakash, a resident aged 54, is planning to pay SAT & furnish his ROI on 15.12.2022. He furnishes the following details of his income, TDS & advance tax paid for PY 2021-22 as under:

- Toy business whose turnover is Rs. 185 lacs [received Rs. 90 Lacs by A/c payee cheque, Rs. 50 Lacs through ECS & balance in cash]. He opts for presumptive tax u/s 44AD.
- Income from other sources: Rs. 3,05,000.
- Tax deducted at source: Rs.55,000 & Advance tax paid Rs. 1,45,000 on 14.03.2022.

Calculate the interest payable u/s 234B of the income-tax Act, 1961.

Answer: **Computation of interest payable u/s 234B by Mr. Chandra Prakash**

Particulars	**Rs.**
Tax on total income of Rs. 15,05,000 [Business income of Rs. 12 Lacs (See Note below) + Income from other sources of Rs. 3,05,000]	2,64,000
Add: HEC @ 4%	10,560
Tax on total income	2,74,560

Less: Tax deducted at source	55,000
Assessed Tax	2,19,560
90% of assessed tax	1,97,604
Advance tax paid on 14.03.2022	1,45,000
Interest u/s 234B is leviable since advance tax of Rs. 1,45,000 paid < 90% of assessed tax (i.e Rs. 1,97,604)	
Number of months from 1st April 2022 to 15th December 2022	9
Interest u/s 234B @ 1% p.m. or part for 9 months on Rs. 74,500 [i.e., difference b/w assessed tax of Rs. 2,19,560 & advance tax of Rs.1,45,000 paid being RS. 74,560 which is rounded off to RS. 74,5004]	6,705

PC Note: Income u/s 44AD = Rs. 12 lacs, being 8% of RS. 45 lacs & 6% of Rs. 140 lacs.

May 20

Q7. Following details are provided by Mr. Divakar, an individual, for AY 2022-23:
Total estimated tax payable: Rs. 4,40,000; TDS (deductible but not deducted): Rs. 55,000
Determine the advance tax payable with their due dates for AY 2022-23.

Answer: **Computation of Advance Tax Payable for AY 2022-23**

Particulars	Rs.
Tax Payable	4,40,000
TDS (deductible but not deducted) cannot be reduced for computing tax liability	Nil
Net Tax Payable	4,40,000

Due dates for payment of advance tax

Due date	Amount payable
15th June 2021	Rs. 66,000 [15% of Rs. 4,40,000]
15th Sep 2021	Rs. 1,32,000 [Rs. 1,98,000 (45% of Rs. 4,40,000) - Rs. 66,000
15th Dec 2021	Rs. 132,000 [Rs. 3,30,000 (75% of Rs. 4,40,000) - Rs. 1,98,000
15th March 2022	Rs. 1,10,000 [Rs. 4,40,000 (whole amount of advance tax liability - Rs. 3,30,000)

Nov 20 — **No Direct Question was asked.**

May 21 — **No Direct Question was asked.**

Nov 21

Q8. Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During PY 2021-22, total turnover of his business was 105 lakhs (out of which 15 lakhs was received by way of A/c payee cheques & balance in cash). Mr. Ayaansh does not opt to pay tax as per section 115BAC. What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of A/c audited.

Answer:

(A) Computation of Advance tax under Presumptive Income scheme as per section 44AD:

Total turnover of Mr. Ayaansh, a dealer of garments, is 105 lakhs. Since his total turnover from such business is less than 200 lakhs & he does not wish to get his books of A/c audited, he can opt for presumptive tax scheme u/s 44AD.

Profits & gains from business computed u/s 44AD:

Particulars	Amount
6% of 15 lakhs, being turnover effected through A/c payee cheque	90,000
8% of 90 lakhs, being cash turnover	7,20,000
Total	**8,10,000**

An eligible assessee opting for computation of profits & gains of business on presumptive basis u/s 44AD i.r.o. eligible business is required to pay advance tax of the whole amount on or before 15th March of FY.

(B) Computation of tax liability of Mr. Ayaansh as per normal provisions of Act:

Particulars	Amount	Amount
Total Income		8,10,000

Tax on 8,10,000		
Up to 2,50,000	Nil	
2,50,001 – 5,00,000 @5%	12,500	
5,00,001 – 8,10,000 @20%	62,000	74,500
Add: Health & Education cess @4%		2,980
Tax liability		**77,480**

Accordingly, he is required to pay advance tax of 77,480 on/before 15th March of the FY. However, any amount by way of advance tax on/before 31st March of the FY shall also be treated as advance tax paid during the FY ending on that day for all purposes of the Act.

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

TDS/ TCS

M15

Q1. Mr. Madan sold his HP in Surat as well as his rural agricultural land for a consideration of 65 lakhs & 20 lakhs respectively, to Mr. Raman on 01.10.2021. He has purchased the HP for 40 lakhs & the land for 15 lakhs, in year 2012. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians.

Answer: Section 194-IA is not applicable, in case of purchase of rural agricultural land in India. However, on purchase of any other immovable property from a resident transferor whose consideration is 50,00,000 or more, purchaser is liable to deduct tax @ 1% u/s 194-IA. Mr. Raman is required to deduct tax @ 1% on payment of 65,00,000 amounting to 65,000.

Q2. What is the difference between TDS & TCS under the Income Tax Act, 1961?

Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK

N15

Q3. What are the consequences of failure to deduct or pay the tax u/s 201 of the Income Tax Act, 1961?

Answer: Where any person, including the principal officer of a company:

(a) who is required to deduct any sum in accordance with the provisions of this Act; or

(b) referred to in section 192(1 A), being an employer,

- does not deduct, or
- does not pay, or
- after so deducting fails to pay,

whole or any part of the tax, as required by or under this Act, then such person, shall be deemed to be an assessee in default in respect of such tax & hence shall be liable to penalty u/s 221.

M16

Q4. Ashwin a resident Individual carrying on business, furnishes you following information:

Turnover during FY	Amount
2020-21	1,20,00,000
2021-22	98,00,000

State whether TDS provisions are attracted for under-mentioned expenses incurred during FY 2021-22:

Particulars	Amount
Commission paid to Babloo	18,500
Payment to Vijay for repair of office building	23,000
Payment of fees for technical services, to Vivek	35,000

All payments are made to residents. If tax has to be deducted at source, state amount of TDS.

Answer: Tax u/s 194H will have to be deducted on commission paid to Babloo as the payment exceeds 15,000 & Ashwin was covered u/s 44AB(a) for preceding FY. Therefore, tax of 925 shall be deducted at source.

- No TDS is required to be deducted u/s 194C as amount paid is less than 30,000.
- Tax u/s 194J will have to be deducted on fee for technical services paid to Vivek as payment exceeds 30,000 & Ashwin was covered u/s 44AB(a) for preceding FY. Therefore, tax of 700 shall be deducted at source.

N16	**Q5.** Discuss the provisions, relating to the premature withdrawal from Employees Provident Fund, u/s 192A, for A.Y. 2022-23. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**
M17	**No Direct Question was asked.**
N17	**No Direct Question was asked.**
M18	**No Direct Question was asked.**
N18	**Q6.** Mr. Dhanapal wishes to purchase a residential house costing 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for 65 lakhs. He wants to know whether there will be any obligation to deduct TDS in these two situations. Both buyer as well as sellers are residents in India. Advise Mr. Dhanapal suitably. **Answer: TDS in case of payment for purchase of immovable property i.e., section 194-1A:** As per section 194-1 A, every person responsible for making payment to a resident for purchase of an immovable property is liable to deduct TDS @ 1% of consideration so paid, provided the said consideration exceeds 50 lakhs. However, no tax shall be deducted at source in case of payment for purchase of agricultural land which is situated in rural area. ▪ In first case, TDS is required to be deducted on purchase of residential house situated in Chennai. Amount of TDS = 1% of 60,00,000 = Rs. 60,000. ▪ In second case, TDS is not required to be deducted on purchase of agricultural land in rural area. **Q7.** Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for 2 crores from XYZ Ltd., car manufacturers, cost of each car being more than 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations. **Answer:** ▪ As per section 206C(1F), every seller, who receives a consideration in excess of 10 lakhs from sale of a motor vehicle, is liable to collect TCS @ 1% of sales consideration from the buyer. However, provisions of this section are applicable only in case of retail sale & thus, it will not apply on sale of motor vehicle by manufacturer to distributors/ dealers ▪ In given case, TCS shall not be applicable in case of sale of car from manufacturer to dealer. Hence, XYZ Ltd. is not required to collect TCS on sale of motor vehicle to Rahil & Co., being the dealer. ▪ However, on sale of cars to individual buyers, Rahil & Co. shall be required to collect TCS @ 1% on sales consideration, as same exceeds 10 lakhs. Since, sales consideration of each car is 13,20,000 (inclusive of 10% margin on cost of 12 lakhs), Rahil & Co. shall be required to collect TCS @ 1% of 13,20,000 i.e., Rs. 13,200.
M19	**Q8.** Examine TDS implications in following cases along-with reasons thereof: (a) Ms. Varsha received a sum of 95,000 on 31.12.2021 towards maturity proceeds of LIC taken on 1.10.2013 for which sum assured was 80,000 & annual premium was 10,000. (b) Mr. Deepak transferred a residential HP to Mr. Karan for 45 lacs. SDV of such property is 55 lacs. (c) XYZ Private Limited pays the following amounts to Mr. Narayan during PY 2021-22: ▪ 22,000 towards fee for professional services ▪ 18,000 towards royalty (d) Payment of 1,75,000 made to Mr. Vaibhav for purchase of calendar according to specifications of M/s. ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr. Vaibhav. (e) Talent Private Limited pays 12,000 to Ms. Sudha, its director, towards sitting fee which is not taxable u/s 192. (f) Radha Ltd. is engaged for Shyam Ltd. only in business of operation of call centre. On 18.3.2022, total amount credited by Shyam Ltd. in ledger A/c of Radha Ltd. is 70,000 regarding service charges of call centre. The amount is paid through cheque on 28.3.2022 by Shyam Ltd. **Answer:** (a) No TDS shall be deducted as the amount paid does not exceed 1,00,000. (See para 15.12) (b) Mr. Karan is not required to deduct TDS. (c) XYZ Pvt. Ltd. is not required to deduct TDS u/s 194J of Income Tax Act, 1961 as amount paid for each item does not exceed 30,000. (See para 15.21)

	(d) No TDS is required to be deducted u/s 194C of Income Tax Act, 1961 as it is not a contract for work but is a sale transaction. (See para 15.10) (e) Talent Private Limited is required to deduct TDS @ 10% on 12,000 i.e., 1,200 u/s 194J of Income Tax Act, 1961 as there is no threshold limit in case of director siting fee. (See para 15.21) (f) Shyam Ltd. is required to deduct TDS @ 2% of 70,000 i.e., 1,400 u/s 194J of Income Tax Act, 1961 as in case of call centre, rate of TDS is 2% instead of 10%. (See para 15.21)
N19	**Q9.** Examine & explain TDS implications in following cases along with reasons thereof, assuming that the deductees are residents & having a PAN which they have duly furnished to the respective deductors. (a) Mr. Tandon received a sum of 1,75,000 as pre-mature withdrawals from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health. (b) Rs. 42,000 has been credited as interest on RD by a banking company to A/c of Mr. Hasan (aged 63 years). (c) Ms. Kaul won a lucky draw prize of 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. (d) Finance Bank Ltd. sanctioned & disbursed a loan of 10 crores to Borrower Ltd. on 31.3.2022. Borrower Ltd. paid a sum of 1,00,000 as service fee to Finance Bank Ltd. for processing loan application. (e) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2021 to February, 2022) at Hyderabad where he pays a monthly house rent of 52,000 for those three months, totalling to 1,56,000. Rent is paid by him on the first day of the relevant month. **Answer:** **(a) Deduction of tax from accumulated balance of RPF withdrawn by employee [Section 192A]:** The trustees of the Employees' Provident Fund Scheme, 1952; Or Any person authorised under the scheme to make payment of accumulated balance due to employees, shall deduct income-tax thereon at the time of payment of accumulated balance due to the employee @ 10%. However, no tax shall be deducted if, though he has not rendered such continuous service of 5 years, the service has been terminated by reason of the employee's ill health. Hence, no TDS shall be deducted. **(b) Interest other than interest on securities [Section 194A]:** As per section 194A(3)(i), no tax is to be deducted at source on payment of interest on time deposits by a banking company if aggregate amount paid/credited to A/c of senior citizen during FY, does not exceed 50,000. Since, payment to Mr. Hasan (senior citizen) is 42,000, therefore no tax shall be deducted. **Note:** 'Time deposits' means deposits (including RD) repayable on expiry of fixed periods. **(c) Winnings from lottery, crossword puzzle, card game, etc. [Section 194B]:** The person responsible for paying to any person any income by way of winnings from any lottery or crossword puzzle, card game & other game of any sort in an amount exceeding 10,000 shall, deduct income-tax thereon at the time of payment of such income @ 30%. Hence, M/s. Maximus Retail Ltd. shall have to deduct tax @ 30% on 21,000 = 6,300. Note: 'Lottery' includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called. **(d) TDS on payment of processing fee to a banking company [Section 194A]:** Section 194A clearly provides that no TDS shall be deducted on payment of interest (which includes processing fee also) by a person to a banking company. Hence, in given case no TDS shall be deducted on payment of processing fee to Finance Bank Limited by Borrower Limited. **(e) TDS on payment of rent by certain Individuals or HUF [Section 194-IB]:** Any person, being individual/HUF, responsible for paying to a resident any income by way of rent @ 5%. Tax is to be deducted: ▪ at the time of credit of rent, for last month of PY or last month of tenancy, if property is vacated during the year, as the case may be to the A/c of payee or ▪ at the time of payment thereof (i.e., rent of last month) in cash or by issue of a cheque or draft or by any other mode, whichever is earlier. However, no tax is required to be deducted at source under this section where rent does not exceed 50,000 for a month or part of a month during PY. Since, in the given case monthly rent is 52,000, tax shall be deducted @ 5% on 1,56,000 i.e., 7,800 at the time of payment of rent in the last month of tenancy.

	Q10. What are the clarifications made by CBDT with respect to section 206C(IF) relating to following issues? (a) Whether TCS on sale of motor vehicle is applicable only to luxury car? (b) Whether TCS is applicable on each sale or aggregate value of sale of motor vehicle, exceeding 10 lakhs? (c) Whether TCS is applicable in case of an individual? (d) Whether TCS on sale of motor vehicle is at retail level also or only by manufacturer to distributor or dealer? **Answer:** (a) No, as per section 206C(1F), seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of value exceeding 10 lakhs. (b) Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding 10 lakhs. It is applicable to each sale & not to aggregate value of sale made during the year. (c) The definition of 'Seller' as given in clause (c) of Explanation below sub-section (11) of section 206C shall be applicable in case of sale of motor vehicles also. Accordingly, an individual who is liable to audit as per provisions of section 44AB during FY immediately preceding the FY in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him. (d) To bring high value transactions within the tax net, section 206C has been amended to provide that seller shall collect tax @ 1% from the purchaser on sale of motor vehicle of value exceeding 10 lakhs. This is brought to cover all transactions of retail sales & accordingly; it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.
N20	**Q11.** State in brief applicability of TDS provisions, rate & amount of tax deduction in the following cases for FY 2021-2022 under Income-tax Act, 1961. Assume that all payments are made to residents: (a) Sanjay, a resident Indian individual, not deriving any income from business or profession makes payments of 12 lakhs in January, 2022, 20 lakhs in February, 2022 & 20 lakhs in March, 2022 to Mohan, a contractor for reconstruction of his residential house. (b) ABC Ltd. makes the payment of 1,50,000 to Ramlal, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN. (c) Smt. Sarita paid 5,000 on 17.4.2021 to Smt. Deepa from the deposits in National Savings Scheme A/c. **Answer:** (a) As per section 194M, any person, being an individual or a HUF (other than those who are required to deduct income-tax as per provisions of section 194C, section 194H or section 194J) responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract, during FY is liable to deduct TDS if aggregate of such sum exceeds 50,00,000. In this case, as the payment is of 52,00,000, he should deduct tax @ 5% of 52,00,000 i.e., 2,60,000. (b) As the transporter has not furnished his PAN, he will not be eligible for the benefit provided u/s 194C (6) to a transporter owning ≤ 10 goods carriages. ABC Ltd. should deduct tax @ 20% of 1,50,000 i.e., 30,000. (c) As per section 194EE, the person responsible for payment in respect of deposits under National Savings Scheme A/c required to deduct tax @ 10% if the amount exceeds 2,500. However, in this case the person responsible for payment is Post Master. It is not understandable how Smt. Sarita could make the payment of deposit from National Savings Scheme A/c. **Q12.** Briefly explain the provisions relating to TDS on cash withdrawal u/s 194N of the Income Tax Act, 1961. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**
	Advance Tax
M15	**No Direct Question was asked.**
N15	**Q1.** Explain briefly the provisions of advance tax on capital gains & casual income. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**
M16	**Q2.** Discuss provisions of section 234B for short-payment or non-payment of advance tax. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**
N16	**Q3.** Discuss provision under the Income-tax Act, 1961 for payment of advance tax in case of capital gains. **Answer:** Advance tax is payable by an assessee on his current income. Current income includes all items of income including capital gain both long term & short term.

It is not normally possible for assessee to estimate his capital gains, etc. Therefore, proviso to section 234C provides that if any such income arises after due date for any instalment, then entire amount of tax payable (after deduction of TDS, if any) on such capital gains should be paid in remaining instalments of advance tax, which are due. Where no such instalment is due, entire tax should be paid by 31st March of relevant FY. If entire amount of tax payable is so paid, then no interest on late payment will be leviable.

Q4. Determine Advance Tax liability with due dates for PY 2021-22 of Mr. Barun

Estimated tax liability for FY 2021-22	65,000
TDS for this year	5,000

Answer: **Determination of Advance Tax Liability of Mr. Barun**

Particulars			Amount
Estimated tax liability for FY 2021-22			65,000
Less: TDS			5,000
Tax payable			**60,000**
Instalment	**Cumulative Amount payable**	**Calculation**	**Amount**
15.6.2021	15% of advance tax liability	9,000	9,000
15.9.2021	45% of advance tax liability	27,000 - 9,000	18,000
15.12.2021	75% of advance tax liability	45,000-9,000- 18,000	18,000
15.3.2022	100% of the advance tax liability	60,000 - 9,000 - 18,000 - 18,000	15,000

M17 **Q5.** S, a resident individual aged 54, furnishes income details as under:

- Wholesale cloth business, whose turnover is 150 lakhs, for which A/c are audited u/s 44AB. Income from such business 8,10,000.
- IFOS is Rs. 2,70,000.
- TDS is Rs. 25,000.
- Advance tax paid Rs. 1,03,000 on 14.03.2022.
- ROI will be filed on 11.12.2022.

Assessee is willing to pay, requisite self-assessment tax. Calculate interest payable u/s 234B of Income-Tax Act, 1961. Assume, ROI would be processed on the same day of filing of return.

Answer:

Particulars	Amount	Amount
Income from cloth business	8,10,000	
Income from other sources	2,70,000	
Total Income		**10,80,000**
Tax on Rs. 10,80,000		1,36,500
Add: Health & education cess @ 4%		5,460
Total tax payable		1,41,960
Less: TDS		(25,000)
Assessed Tax (rounded off)		1,16,960
Less: Advance Tax paid on 14.03.2022		(1,03,000)
Balance tax payable		**13,960**

Computation of Interest u/s 234B: Interest on 13,960 for 9 months @ 1% p.m. **Note:** As advance tax paid is less than 90% of assessed tax, interest shall be payable u/s 234B.	1,251

<table>
<tr><td>N17</td><td>Q6. Answer the following:
(a) U/s 208, obligation to pay advance tax arises in every case where advance tax payable is 10,000 or more. State exception to this rule.
(b) Mr. Subramany is engaged in business of producing & selling toys. During PY 2021-22 his turnover was 1.80 crores. He opted for paying tax as per presumptive taxation scheme laid down in u/s 44AD. He has no other income during PY. Is he liable to pay advance tax & if so, what is minimum amount of advance tax to be paid & due date for payment of such advance tax?
Answer:
(a) Although in every case, advance tax is payable if advance tax payable is 10,000 or more, but in case of senior citizen, no advance tax is payable provided such individual does not have income taxable u/h PGBP.
(b) Yes, Mr. Subramany is liable to pay advance tax. As per section 211 (1)(b), an eligible assessee i.r.o. an eligible business referred to in section 44AD has to pay advance tax, to the extent of the whole amount of such advance tax during each FY on or before 15th March. Advance tax shall be computed as under:
<table>
<tr><th>Particulars</th><th>Amount</th></tr>
<tr><td>Presumptive business income (8% of 1.80 crore)</td><td>14,40,000</td></tr>
<tr><td>Tax on 14,40,000</td><td>2,44,500</td></tr>
<tr><td>Add: Health & education cess @ 4%</td><td>9,780</td></tr>
<tr><td>Total tax (rounded off)</td><td>2,54,280</td></tr>
</table></td></tr>
<tr><td>M18</td><td>No Direct Question was asked.</td></tr>
<tr><td>N18</td><td>No Direct Question was asked.</td></tr>
<tr><td>M19</td><td>No Direct Question was asked.</td></tr>
<tr><td>N19</td><td>No Direct Question was asked.</td></tr>
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CHAPTER 13. RETURN OF INCOME

SECTION A: ICAI MODULE "ILLUSTRATIONS" [COMPILED BY CA PRANAV CHANDAK]

Q1. Paras aged 55 years is a resident of India. During PY 2021-22, interest of Rs. 2,88,000 was credited to his NR (External) A/c with SBI. Rs. 30,000, being interest on FD with SBI, was credited to his saving A/c during this period. He also earned Rs. 3,000 as interest on this saving A/c. Is Paras required to file return of income?

What will be your answer, if he has incurred Rs. 3 Lacs as travel expenditure of self & spouse to US to stay with his married daughter for some time?

Answer: An individual is required to furnish a return of income u/s 139(1) if his total income, before giving effect to deductions under Chapter VI-A or exemption u/s 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. Rs. 2,50,000 (for AY 2022-23).

Computation of total income of Mr. Paras for AY 2022-23	
Income from other sources	
Interest from NR External A/c: Rs. 2,88,000 [Exempt u/s 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on FD with SBI	Rs. 30,000
Interest on savings A/c	Rs. 3,000
Gross Total Income	**Rs. 33,000**
Less: Deduction u/s 80TTA (Interest on saving A/c)	Rs. 3,000
Total Income	**Rs. 30,000**

Since total income of Mr. Paras for AY 2022-23, before giving effect to the deductions under Chapter VI-A, is less than basic exemption limit of Rs. 2,50,000, he is not required to file ROI for AY 2022-23.

Note: In the above solution, interest of Rs. 2,88,000 earned from NR (External) A/c has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect, inter alia, to the deductions under Chapter VI-A, would be Rs. 3,21,000 (Rs. 30,000 + Rs. 2,88,000 + Rs. 3,000), which is higher than the basic exemption limit of Rs. 2,50,000. Consequently, he would be required to file return of income for AY 2022-23. If he has incurred expenditure of Rs. 3 Lacs on foreign travel of self & spouse, he has to mandatorily file his return of income on or before the due date u/s 139(1).

Q2. Explain with brief reasons whether ROI can be revised u/s 139(5) in following cases:

(a) Belated return filed u/s 139(4).

(b) Return already revised once u/s 139(5).

(c) Return of loss filed u/s 139(3)

Answer:

(a) Any person who has furnished a return u/s 139(1) or 139(4) can file a revised return at any time before 3 months prior to end of relevant AY or before completion of assessment (whichever is earlier) if he discovers any omission or any wrong statement in ROI filed earlier. Thus, belated ROI filed u/s 139(4) can be revised.

(b) Return revised earlier can be revised again as revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish second revised ROI within prescribed time [i.e., 3 months prior to end of relevant AY or before completion of assessment, whichever is earlier]. Thus, ROI can be revised more than once within prescribed time.

(c) A return of loss filed u/s 139(3) is deemed to be return filed u/s 139(1), & therefore, can be revised.

Q3. Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of A/c for FY ended on 31st March 2022 audited u/s 44AB. Her total income for AY 2022-23 is Rs. 6,35,000. She wants to furnish her ROI for AY 2022-23 through a tax return preparer. Can she do so?

Answer: Section 139B provides a scheme for submission of ROI for any AY through a Tax Return Preparer. However, it is not applicable to persons whose books of A/c are required to be audited u/s 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for AY 2022-23 through a Tax Return Preparer.

SECTION B: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Mr. X, a NR (age 82 years) having total income of Rs. 1,60,000 after deduction of Rs. 1,20,000 u/c VI-A. His total income comprises of property & interest income. Whether he is required to file ROI.

Answer:

- As per section 139(1), every person, whose total income without giving effect to the provisions of Chapter VI-A exceeds BEL is required to furnish ROI for the relevant AY on/before the due date.
- GTI of Mr. X (before deduction under Chapter VI-A) is Rs. 2,80,000 which exceeds BEL of Rs. 2,50,000. Therefore, Mr. X has to furnish his ROI for AY 2022-23.

PC Note: Even though Mr. X is over 80 years of age, he is not entitled to BEL of Rs. 5 lacs, since he is a NR.

Q2. Whether loss can be carried forward if ROI is furnished after DD specified in section 139(1)?

Answer:

- Section 80 r/w section 139(3) provides that the loss u/s **72(1)/73(2)/73A (2)/74(1)/74A (3**) cannot be c/f if ROL is filed after DD u/s 139(1).
- However, House Property loss & unabsorbed depreciation can be C/f even if ROI is furnished after DD of filing ROI.

Q3. Can loss be set off if ROI is furnished after the due date specified in Section 139(1)?

Answer:

- Section 80 r/w section 139(3) prohibits the "carry forward of losses" if ROI is filed after DD u/s 139(1).
- It does not prohibit the set off of losses.
- Therefore, losses can be set-off even if ROI is furnished after DD.

Q4. DD of filing ROI is 30.09.2022 of Mr. A. ROI is filed on 15.10.2022 as follows: Loss from Business: (Rs. 8 Lacs); IFOS: Rs. 6 Lacs; Total Income: (Rs. 2 lacs). Is set off of loss u/h "PGBP" correct as per section 80 r/w Sec 139(3)?

Answer: Yes.

- Loss can be set off (Inter source set off u/s 70 & Inter head set off u/s 71) even if ROL is filed after the DD u/s 139(1).
- However, loss of Rs. 2 Lacs cannot be c/f.

Q5. Due Date of filing ROI is 30.9.2022 in case of Mr. C. ROI is filed on 1510.2022 as follows:
Current Year Business Loss: (Rs. 1 Lacs); B/F losses for AY 2021-22 (ROL filed w/I DD): (Rs. 3,00,000). Whether losses can be c/f?

Answer:

- Losses of AY 2021-22 of Rs. 3,00,000 are c/f to AY 2022-23 as ROI for AY 2021-22 has been filed within the due date.
- However, Loss of AY 2022-23 shall not be c/f to AY 2023-24.

Q6. For PY 2021-22, upto what date can the assessee file ROI if no ROI has been filed & no assessment order has been made u/s 144 till date.

Answer: Belated ROI can be filed before 3 months prior to the end of AY 2022-23. i.e. before 31.12.2022.

Q7. For PY 2021-22, no ROI has been filed. AO makes a BJA u/s 144 on 25.12.2022. Upto what date can assessee file Belated ROI u/s 139(4)?

Answer: Belated ROI can be filed before 3 months prior to the end of AY 2022-23. (i.e. before 31.12.2022) OR before completion of assessment (i.e., before 25.12.2022) whichever is earlier. Thus, belated ROI can be filed before 25.12.2022.

Q8. Mr. X filed a ROI for PY 2021-22 on 31.7.2022. He later files a revised return on 15.12.2022 declaring a loss of Rs. 1,00,000. Can the loss be allowed to be carried forward?

Answer: Revised return substitutes the original return. Since original ROI was filed within DD u/s 139(1), revised ROL shall be deemed to have been filed within DD & thus loss of Rs. 1,00,000 shall be allowed to be carried forward.

Q9. Original return for PY 2021-22 was submitted by X on 15.6.2022. Return was processed u/s 143(1) on 5.8.2022. X wishes to file revised return. **(a)** Upto what time can he do? **(b)** What if regular assessment is completed on 31.8.2022.

Answer:

(a) He can file a revised return, processing of return u/s 143(1) is not treated as assessment for this purpose. Revised return can be filed at any time before 3 months prior to the end of AY 2022-23 i.e. up to 31.12.2022 or completion of assessment whichever is earlier.

(b) In this case revised return can be filed before completion of Assessment i.e. upto 30.8.2022.

Q10. How many times can a return be revised?
Answer: Any Number of times but within the time limit of section 139(5).

Q11. Can a return filed within time extended by CBDT u/s 119 be revised?
Answer: Yes, as return filed within the extended time limit is deemed to be filed within time limit of 139(1).

Q12. Mr. Yogesh, 80 years of age, carrying on retail trade business with turnover of Rs. 160 lacs for PY 2021-22, declares his business income from such trade u/s 44AD as Rs. 4,80,000 (which also represents his taxable income) in his ROI. What will be the Due Date of filing ROI to Mr. Yogesh for AY 2022-23?
Answer:

- Although Mr. Yogesh is showing his income lower than 8% of total turnover, his total income is not exceeding the BEL of Rs. 5,00,000 (since Mr. Yogesh is 80 years of age).
- Therefore, he is not required to maintain books of A/c as per section 44AA & get his accounts audited u/s 44AB.
- In such case, due date for filing return would be **31st July, 2022**.

Q13. X & Co. is a partnership firm of chartered accountants. For PY 2021-22, taxable income is Rs. 7,10,000 & gross receipt is Rs. 24,50,000. What is the due date of submission of ROI?
Answer:

- Since gross receipt is not more than Rs. 50 Lacs, books of the firm are not required to be audited.
- Due date of submission of return of income is **31st July 2022**.

Q14. What will be the Time limit for filing ROI u/s 139(1) in the case of a firm having total turnover of Rs. 80 lacs for PY 2021-22, whether or not opting to offer presumptive income u/s 44AD.
Answer:

- In case an assessee opts to offer his income as per the presumptive taxation provisions of section 44AD, then, due date u/s 139(1) for filing of ROI for PY 2021-22 shall be **31st July, 2022**.
- Where an assessee does not opt for presumptive taxation u/s 44AD & offers income lower than 8% of total turnover & his total income exceeds BEL, he has to maintain books of A/c as per section 44AA & get his A/c audited u/s 44AB. In such case, due date for filing return would **be 31st October 2022.**

Q15. Mr. X is a working partner in a firm: X & Co. Turnover of the firm for PY 2021-22 is 107 lacs. X gets 5 lacs as salary & 10 lacs as interest from firm. Payment of interest is authorized by partnership deed. However, there is no provision in partnership deed to pay any remuneration to working partners.
Other incomes of X are: (i) Capital gains: Rs. 80,000; (ii) HP Income: Rs. 2,70,000; (iii) Interest: Rs. 23,000.
What is the due date of submission of ROI?
Answer:

- X is a partner in a firm whose books of A/c are required to be audited.
- Due date of submission of ROI by X is, therefore, 31st October 2022.
- This rule is applicable even if salary paid to working partner is not deductible in the hands of firm.
- Since turnover of the firm is more than Rs. 1 crore, return should be submitted on/before 31.10.2022.

Q16. Return of loss of Mr. X for AY 2022-23 was filed in December 2022, in which he has claimed c/f of current year non-speculation business loss of Rs. 1 lac & unabsorbed depreciation of Rs. 50,000 (relating to AY 2012-13). Discuss provisions of c/f for current year non-speculation business loss & b/f unabsorbed depreciation?
Answer:
As per section 139(3), any person who has sustained loss u/h 'PGBP' is allowed to c/f such a loss u/s 72(1), only if he has filed the return of loss within the time allowed u/s 139(1).

- Also, section 80 specifies that a loss which has not been determined as per the return filed u/s 139(3) shall not be allowed to be c/f & set-off u/s 72(1).
- However, there is no such condition for c/f of unabsorbed depreciation u/s 32(2).
- In the given case, assessee has filed its return of loss in December 2022, which is a belated return filed u/s 139(4) & therefore, the benefit of c/f of business loss u/s 72(1) shall not be available.
- However, assessee shall be entitled to c/f unabsorbed depreciation as per section 32(2).

Q17. X whose Income consists of Salary only, files ROI for AY 2022-23 on 02.04.2023. Is it a valid return?
Answer:
- As per section 139(4), where an assessee who fails to file ROI within the due date u/s 139(1), may file a belated return u/s 139(4) either before the completion of assessment or 3 months prior to the end of the relevant AY.
- In the given case, Mr. X filed ROI for AY 2022-23 on 02.04.2023, i.e. after time limit u/s 139(4).
- Thus, it is an invalid ROI.

Q18. Mr. Sachin filed his ROI on 30.09.2022 related to AY 2022-23. In October 2022, his tax consultant found that the interest on FD was omitted in the tax return. **[Nov 2017]**
(a) What is the time limit for filing a belated return? (b) Can Mr. Sachin file a revised return?
Answer:
(a) As per sec 139(4), any person who has not furnished ROI within the time allowed to him u/s 139(1) may furnish ROI for any PY at any time before 3 months prior to the end of relevant AY or before completion of the assessment whichever is earlier. Therefore, in the given question, Mr. Sachin can file his belated return on or before **31.12.2022.**
(b) As per sec 139(5), if any person having furnished a return u/s 139(1) or belated return u/s 139(4), discover any omission/wrong statement, he may furnish a revised return at any time before 3 months prior to the end of the relevant AY or before completion of assessment, whichever is earlier. **Hence Mr. Sachin can revise his return on/before 31.12.2022.**

Q19. Mr. X submits his ROI on 12.09.2022 for AY 2022-23 consisting of Income u/h 'HP' & 'IFOS'. On 21.12.2022, he realized that he had not claimed deduction u/s 80 TTA i.r.o. his interest on Savings Bank A/c. He wants to revise his ROI since one year has not elapsed from the end of relevant AY. **[May 2014 & Nov 2016]**
Answer:
- Since Mr. X has income only u/h 'HP' & 'IFOS', he does not fall under the category of a person whose A/c are required to be audited.
- Therefore, the due date of filing return for AY 2022-23 u/s 139(1) is 31st July, 2022.
- Since Mr. X had submitted his return only on 12.09.2022, the said return is a belated return u/s 139(4).
- U/s 139(5), any Return filed u/s 139(1) or u/s 139(4) can be revised before 3 months prior to the end of relevant AY or completion of assessment whichever is earlier.
- Therefore, Mr. X can revise ROI filed by him u/s 139(4), to claim deduction u/s 80TTA.

Q20. Mr. X filed a ROI for PY 2021-22 on 31.7.2022. He later files a revised return on 15.12.2022 declaring a loss of Rs. 1,00,000. Can the loss be allowed to be c/f?
Answer:
- Revised return substitutes the original return.
- Since original ROI was filed within DD u/s 139(1), revised ROL shall be deemed to have been filed within DD & thus, loss of Rs. 1,00,000 shall be allowed to be c/f.

Q21. By whom should the return of income be signed in the case of following persons: **[May 2017]**
(a) Political Party; (b) Company which is being wound up;
(c) HUF, when karta is unable to sign ; (d) Scientific research association;
Answer: As per section 140, Return should be signed by the authorised person, as given below:
(a) Political Party: In the case of a political party, Return can be signed by Chief Executive Officer.
(b) Company which is being wound up: If company is in liquidation, ROI can be signed by Official liquidator.
(c) HUF when karta is unable to sign: By any other adult member (male/female) of such family.

(d) Scientific research association: If such Association is -
- A Company: MD or Any other Director if MD not able to sign or there is no MD.
- An AOP: Any Member or Principal Officer.
- Any other Person: That Other Person or some other person who is competent to sign on his behalf.

Q22. X, an individual, filed his ROI for AY 2022-23 on 15.06.2022. He later discovered that he had not claimed deduction u/s 80C in the said return. He claimed the said deduction through a letter addressed to AO. AO completed the assessment without allowing deduction claimed by X. Is AO justified in doing so?

Answer:
- AO does not have the power to entertain a claim for deduction made after filing of return of income in a way other than by way of a revised return u/s 139(5). Thus, AO is justified in his action.
- Thus, Mr. X should have filed revised ROI u/s 139(5) with the prescribed time limit.

Q23. ROI for AY 2022-23 was filed in time as per sec 139(1). Assessee during the course of assessment proceeding u/s 143(2), noticed certain omissions &, therefore, filed a revised return on 18.04.2023. AO ignoring the revised return so filed framed the order on 27.4.2023. Is the action of AO correct?

Answer:
- In this case, Revised return can be filed up to 31.12.2022.
- Since the revised return is filed after the said date, it is not a valid revised return.
- The action of the AO is legally correct.

SECTION C: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. State with reasons whether you agree/disagree with the following statements:

(a) ROI of Limited Liability Partnership (LLP) could be verified by any partner.

(b) Time limit for filing return u/s 139(1) in the case of Mr. A having total turnover of Rs. 160 Lacs (Rs. 100 Lacs received in cash) for PY 2021-22, whether or not opting to offer presumptive income u/s 44AD, is 31st October 2022.

Answer:

(a) **Disagree:** ROI of LLP should be verified by a designated partner.
Any other partner can verify the ROI of LLP only in the following cases:
- where for any unavoidable reason such designated partner is not able to verify or,
- 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 u/s 139(1) for filing ROI for PY 2021-22 shall be 31st July, 2022.
- In case, Mr. A does not opt for presumptive taxation provisions u/s 44AD, he has to get his accounts audited u/s 44AB, since his turnover exceeds 1 crore, due date for filing ROI would be **31st October, 2022**.

Q2. Mr. Vineet submits his ROI on 12.09.2022 for AY 2022-23 consisting of income u/h 'Salaries', 'Income from HP' & bank interest. On 21.12.2022, he realized that he had not claimed deduction u/s 80TTA i.r.o. his interest income on the Savings A/c. He wants to revise his ROI. Can he do so? Examine. Would your answer be different if he discovered this omission on 21.03.2023?

Answer:
- Since Mr. Vineet has income only u/h 'Salaries', 'Income from HP' & IFOS, 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, due date of filing return for AY 2022-23 u/s 139(1) is 31st July, 2022.
- Since Mr. Vineet had submitted his return only on 12.09.2022, the said return is a belated return u/s 139(4).
- As per section 139(5), a return u/s 139(1) or 139(4) can be revised. Thus, belated return u/s 139(4) can be revised.
- Therefore, Mr. Vineet can revise the return of income filed by him u/s 139(4) in December 2022, to claim deduction u/s 80TTA, since the time limit for filing a revised return is 3 months prior to the end of AY, 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.

Q3. Examine with reasons, whether the following statements are true or false:
(a) AO has the power, inter alia, to allot PAN to any person bywhom no tax is payable.
(b) Where the Karta of a HUF is absent from India, ROI can be verified by any male member of the family.

Answer:

(a) **True:** Section 139A (2) provides that the AO 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 & in accordance with the procedure as may be prescribed.

(b) **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the ROI can be verified by any other adult member of the family; such member can be a male/female member.

Q4. Explain term 'return of loss'. Can any loss be c/f even if return of loss has not been filed?

Answer:

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

Section 139(3) states that to c/f 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 u/s 72(1),
- speculation business loss to be carried forward u/s 73(2),
- loss from specified business to be carried forward u/s 73A (2).
- loss under the head 'Capital Gains' to be carried forward u/s 74(1); &
- loss incurred in the activity of owning & maintaining race horses to be carried forward u/s 74A (3).

However, loss from HP to be carried forward u/s 71B & unabsorbed depreciation u/s 32 can be carried forward even if return of loss has not been filed as required u/s 139(3).

Q5. Mr. Aakash has undertaken certain transactions during PY 2021-22, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents-

SN	Transaction
1	Payment of LIC premium of 45,000 in the PY 2021-22 by A/c payee cheque to LIC for insuring life of self & spouse.
2	Payment of 1,00,000 to a five-star hotel for stay for 5 days with family, out of which 60,000 was paid in cash.
3	Payment of 80,000 by ECS through bank A/c for acquiring the debentures of A Ltd., an Indian company.
4	Payment of 95,000 by A/c payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives.
5	Applied to SBI for issue of credit card.

Answer:

SN	Transaction	Quoting of PAN mandatory?
1	Payment of LIC premium of 45,000 in the PY 2021-22 by A/c payee cheque to LIC for insuring life of self & spouse.	No, since the amount paid does not exceed 50,000 in the PY 2021-22.
2	Payment of 1,00,000 to a five-star hotel for stay for 5 days with family, out of which 60,000 was paid in cash.	Yes, since the amount paid in cash exceeds 50,000.
3	Payment of 80,000, by ECS through bank A/c, for acquiring the debentures of A Ltd., an Indian company.	Yes, since the amount paid for acquiring debenture exceeds 50,000. Mode of payment is not relevant in this case.
4	Payment of 95,000 by A/c payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives.	No, since the amount was paid by A/c payee cheque, quoting of PAN is not mandatory even though the payment exceeds 50,000.
5	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a bank for issue of credit card.

SECTION D: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]	
May 18	**Q1.** Ms. Geetha submits her ROI on 29.09.2022 for AY 2022-23 consisting of income u/h Salaries, Income from HP & bank interest. On 21.12.2022, she realized that she had not claimed deduction u/s 80D i.r.o. medical insurance premium of Rs. 15,000 paid for her mother. She wants to revise her ROI. Can she do so? (b) Would your answer be different if she discovered this omission on 21.03.2023? **Answer:** ▪ Since Ms. Geetha has income only u/s Salaries, Income from HP & Income from other sources, she does not fall under the category of a person whose A/c are required to be audited under the Income-tax Act, 1961. Therefore, due date of filing return for AY 2022-23 u/s 139(1), in her case, is 31st July, 2022. ▪ Since Ms. Geetha had submitted her ROI on 29.09.2022, the said return is a belated return u/s 139(4). ▪ As per section 139(5), a return furnished u/s 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, belated return u/s 139(4) can also be revised. ▪ Therefore, Ms. Geetha can revise the ROI filed by her u/s 139(4) on/before 31.12.2022 to claim deduction u/s 80D, since time limit for filing revised ROI is 3 months prior to the end of the AY, which is 31.12.2022. ▪ However, she cannot revise return had she discovered this omission only on 21.03.2023, since it is beyond 31.12.2022.
Nov 18	**Q2.** Mr. Atharv filed his ROI on 30th September 2022 related to AY 2022-23. In October 2022, his tax consultant found that interest on FD was omitted in ROI. Can Mr. Atharv file a revised return? Assume that the due date for furnishing return of income in his case, was 31st July 2022 & assessment was not completed till the month of October 2022. **Answer:** ▪ As per section 139(5), if any person, having furnished a return u/s 139(1), within the due date or a belated return u/s 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time: (a) before 3 months prior to end of the relevant AY or (b) before the completion of assessment, whichever is earlier. ▪ For AY 2022-23, belated return has to be **furnished before 31st December 2022 or before completion of assessment**, whichever is earlier. ▪ Since Mr. Atharv has filed **his return after 31.7.2022**, being due date of filing return of income u/s 139(1) in his case, **but before 31.12.2022 or completion of assessment**, it is a **belated return**. ▪ Thus, Mr. Atharv **can file a revised return**, since he has found an omission in belated return filed by him for AY 2022-23 & assessment is yet to be completed.
May 19	**Q3.** Mr. Shivpal, a very senior citizen, has reported a Total Income Rs. 4,90,000 & deductions eligible under Chapter VI-A amounting to Rs. 1,70,000 for PY 2021-22. Is he liable to file his ROI u/s 139(1) for AY 2022-23? If so why? **Answer:** ▪ As per 6th proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of Chapter VI-A & deductions u/s 54 exceeds BEL, is compulsorily required to furnish ROI on or before due date. ▪ Therefore. Mr. Shivpal, a very senior citizen is required to file ROI, since his total income of Rs. 6,60,000 before giving effect to the deduction of Rs. 1,70,000 under Chapter VI-A > BEL of Rs. 5,00,000.
Nov 19	**Q4.** Mr. Suhaan (aged 35 years), a NR earned dividend income of Rs. 12,50,000 from an Indian Company which is credited directly to its bank A/c in France & Rs. 15,000 as interest in Saving A/c from SBI during PY 2021-22. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for AY 2022-23? (a) Rs. 2,55,000 (b) Rs. 2,65,000 (c) Rs. 15,000 **(d) Rs. 5,000** **Q5.** Examine whether the following losses/deductions can be carried forward/claimed by Mr. Sharma. These losses/deductions are i.r.o. PY 2021-22. ▪ Loss from the business carried on by him as a proprietor: Rs. 9,80,000 (computed). ▪ Unabsorbed Depreciation: Rs. 3,25,000 (computed). ▪ Loss from HP: Rs. 50,000 (computed). Due date for filing ROI for Mr. Sharma was 31st July 2022 u/s 139(1). However, he filed it on 25.09.2022.

	Answer: ▪ Mr. Sharma has furnished his ROI for AY 2022-23 on 25.09.2022, i.e., after 31st July 2022, being the due date specified u/s 139(1). Hence, it is a belated return u/s 139(4). As per section 80 r/w section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be c/f to the subsequent year for set-off against income of that year. ▪ Specified losses include business loss but does not include loss from HP & unabsorbed depreciation. ▪ Accordingly, business loss of Rs. 9,80,000 of Mr. Sharma for AY 2022-23, not determined in pursuance of a return of loss, filed within time specified in sec. 139(1), cannot be c/f to AY 2023-24. ▪ However, loss of Rs. 50,000 from HP & unabsorbed depreciation of Rs. 3,25,000 pertaining to AY 2022-23 can be c/f to AY 2023-24 for set-off, even though Mr. Sharma has filed ROL for AY 2022-23 belatedly.
May 20	**Q6.** Arun's GTI of PY 2021-22 is Rs. 2,45,000. He deposits Rs. 45,000 in PPF. He pays electricity bills aggregating to Rs. 1.20 Lacs in PY 2021-22. Which of the statements is correct? (a) Arun is not required to file his ROI u/s 139(1) for PY 2021-22, since his total income before giving effect to deduction u/s 80C does not exceed the basic exemption limit. (b) Arun is not required to file his ROI u/s 139(1) for PY 2021-22, since his electricity bills do not exceed Rs. 2,00,000 for the PY 2021-22. (c) Arun is not required to file his ROI u/s 139(1) for PY 2021-22, since neither his total income before giving effect to deduction u/s 80C exceeds BEL nor his electricity bills exceed Rs. 2 lacs for PY 2021-22. **(d) Arun is required to file his ROI u/s 139(1) for PY 2021-22, since his electricity bills exceed Rs. 1 lac for PY 2021-22.** **Q7.** Mr. Sudarshan failed to file his ROI for AY 2022-23 on or before DD of filing such ROI. (a) Can he file the above return after due date of filing ROI? If yes, which is the last date? (b) What are the consequences of non-filing the return within the due date u/s 139(1)? **Answer:** (a) If any person fails to furnish a return within the time limit u/s 139(1), he may furnish belated return for any PY at any time before 3 months prior to end of the relevant AY; or before completion of the assessment, whichever is earlier. Last date for filing belated return of income for AY 2022-23 is 31.12.2022. Thereafter, Mr. Sudarshan cannot furnish a belated return after this date. (b) **Consequences for non-filling ROI Within due date u/s 139(1).** ▪ Carry forward & set-off of certain losses: Business loss, speculation business loss, loss from specified business u/s 35AD, loss u/h Capital Gains & loss from activity of owning & maintaining race horses, would not be allowed to be c/f for set-off against income of subsequent years, where ROI is not furnished within the time allowed u/s 139(1). ▪ Interest u/s 234A: Interest u/s 234A@1% p.m. or part for the period commencing from the date immediately following the due date u/s 139(1) till the date of furnishing of ROI is payable, where the ROI is furnished after the due date. ▪ **Fee u/s 234F:** Fee of Rs. 5,000 would be payable u/s 234F, if ROI is not filed on/before DD specified u/s 139(1). If total income of a person does not exceed 5 lacs fee payable shall not exceed Rs. 1,000.
Nov 20	**Q8.** Mr. Dinesh, a resident in India, has gross total income of 2,30,000 comprising of interest on saving A/c & rental income during PY 2021-22. He incurred expenditure of 2,00,000 for his son for a study tour to Europe. Whether he is required to file ROI for AY 2022-23? If yes, what is the due date? (a) Yes, 31st July of AY (b) Yes, 30th September of AY (c) Yes, 31st October of AY **(d) No, he is not required to file ROI**
May 21	**No Direct Question Was Asked**
Nov 21	**Q9.** Mr. X is a working partner & Mr. Y is a non-working partner of XYZ p'ship firm. XYZ firm is subjected to tax audit u/s 44AB for PY 2021-22. What is the due date for filing ROI for Mr. X & Mr. Y for AY 2022 -23? (a) 31.07.2022 for both Mr. X & Mr. Y (b) **31.10.2022 for both Mr. X & Mr. Y** (c) 31.07.2022 for Mr. X & 31.10.2022 for Mr. Y (d) **31.07.2022** for Mr. Y & 31.10.2022 for Mr. X

	Q10. Can Mr. Raghuram file his ROI for AY 2022-23 belatedly u/s 139(4) in PY 2023-24, if he has failed to file said return on/ before the due date of filing ROI for AY 2022-23, due to inadvertent reasons? Also, specify the consequences of non-filing of return within the due date u/s 139(1). **Answer:** If any person fails to furnish return within the time allowed to him u/s 139(1), he may furnish belated return for any PY at any time – ▪ before 3 months prior to the end of relevant AY; or ▪ before the completion of the assessment, whichever is earlier. The last date for filing ROI for AY 2022-23 is 31st Dec 2022. Thereafter, Mr. Raghuram cannot furnish his belated return in PY 2023-24. Since PY 2023-24 begins on 1st April, 2023, Mr. Raghuram cannot file his ROI for AY 2022-23 u/s 139(4) in PY 2023-24. **Consequences for non-filing return of Income within the due date u/s 139(1): Discussed Above.**

SECTION E: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS	
M15	**Q1.** 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? **Answer:** Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK
N15	**Q2.** Who are the persons authorized to verify ROI in case of individual u/s 139 of the Act? **Answer:** Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK
M16	**No Direct Question was asked.**
N16	**Q3.** Specify the persons who are authorized to verify u/s 140, the ROI filed u/s 139 of Income-tax Act, 1961 in case of a company. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK** **Q4.** Answer the Following: (a) Mr. Kamal filed his ROI for AY 2022-23 on 30.12.2022. Can he revise such ROI? If so, why? (b) Mr. Atal, a super senior citizen, has reported GTI of 5,60,000 & the deductions eligible under Chapter VI-A amounted to 70,000 for PY 2021-22. Is he liable to file his ROI u/s 139(1) for AY 2022-23? If so, why? **Answer:** (a) Yes. For detailed answer, refer same type of questions has been discussed above. (b) Yes. For detailed answer, refer same type of questions has been discussed above.
M17	**Q5.** Who should verify ROI in case of following persons: (a) Political party; (b) Scientific research Association (c) Company which is being would up; (d) HUF, when Karta is unable to sign **Answer:** Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK
N17	**Q6.** Mr. Sachin filed return on 30.9.2022 related to AY 2022-23. In october 2022, his tax consultant found that interest on FD was omitted in the tax return. (a) What is the time limit for filing a belated return? (b) Can Mr. Sachin file a revised return? **Answer:** (a) As per section 139(4), any person who has not submitted his ROI on/before due date u/s 139(1), can still file ROI. Such a return is called belated/late return. Belated return can be filed at any time before the: (i) 3 months prior to end of relevant AY, or (ii) completion of assessment, whichever is earlier. (b) Further, if an assessee, after furnishing ROI u/s 139(1) u/s 139(4), discovers any omission or any wrong statement in the return filed, he may furnish a revised return. Such revised return can be filed at any time before the: (i) 3 months prior to end of relevant AY, or (ii) completion of assessment, whichever is earlier. Thus, in the above case, belated return can be revised 3 months before end of relevant AY i.e., 31.12.2022. **Q7.** Mr. Prakash furnishes you following details for PY 2021-22: ▪ Loss from business carried on by him as a proprietor: Rs. 11,20,000. ▪ Deduction u/s 80-IB: Rs. 5,50,000. ▪ Unabsorbed Depreciation: Rs. 4,80,000. ▪ Loss from HP: Rs. 2,50,000.

	Due date for filing return for Mr. Prakash was 31.7.2022 u/s 139(1). However, he filed the return on 29.9.2022. Discuss if the losses & deductions could be c/f or claimed by Mr. Prakash. **Answer:** ▪ If a person has sustained a loss u/h PGBP or Capital Gains & claims that such loss should be carried forward, then he may furnish a return of loss within the time limit u/s 139(1) & all the provisions of this Act shall apply as if it were a return u/s 139(1). [Section 139(3)] ▪ It is not mandatory to file a return of loss (except for company or a firm) as there is no taxable income. ▪ However, business losses cannot be c/f unless ROL is filed on/before the due date u/s 139(1) & it is duly assessed. If return of loss is not submitted or is submitted after the due date, losses cannot be c/f. ▪ However, Loss from House Property & unabsorbed depreciation can be carried forward even if return of loss is submitted after the time limit u/s 139(1). ▪ Since, ROL has been furnished after due date, business loss of Rs. 11,20,000 shall not be allowed to be c/f. ▪ However, loss from HP amounting to 2,50,000 & unabsorbed depreciation amounting to 4,80,000 shall be allowed to be c/f even if ROI has been furnished after the due date. ▪ Further, as per section 80AC, deduction u/s 80-IA or 80-1AB or 80-IB or 80-IC or 80-ID or 80-IE shall not be allowed unless the assessee furnishes a return of his income for such AY on/before the due date specified u/s 139(1). Hence, deduction of 5,50,000 shall not be allowed as ROI has been filed after the due date.
M18	**Q8.** Mention the provisions of Income Tax Act with regard to Quoting Aadhar Number u/s 139 AA of the Act. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK** **Q9.** State whether quoting of PAN in following transactions is mandatory or not, as per provisions of Income Tax Act, 1961 for A.Y. 2022-23: (a) Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of 50,000 against bill raised by the hotel. (b) Mr. Abhishek, in a single transaction, makes contract of 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of Securities Contracts (Regulation) Act, 1956. (c) Payment to Mutual Funds of 70,000 for purchase of its units. **Answer:** (a) No, as payment to hotel Radisson Blue does not exceed 50,000. (b) Yes, as transaction value of sale/purchase of securities exceed 1,00,000. (c) Yes, as payment exceeds 50,000.
N18	**Q10.** Explain late fees u/s 234F for delay in filing ROI within time limit u/s 139(1) for AY 2022-23. **Answer:** As per section 234F, where a person fails to furnish ROI within the time specified u/s 139(1), he shall be liable to pay late fee of 5,000. However, if total income ≤ Rs. 5,00,000, fee payable shall not exceed 1,000. **Q11.** Every person is required to file a ROI on/before due date specified u/s 139(1). What is the meaning of due date of filing returns for different categories of assesses as per section 139(1) of Income Tax Act 1961? **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**
M19	**Q12.** Discuss the provisions of section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK** **Q13.** Answer the following: (a) What is the fee for default in furnishing ROI u/s 234F? (b) To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply? **Answer:** (a) As per section 234F, where a person fails to furnish ROI within the time specified u/s 139(1), he shall be liable to pay late fee of 5,000. However, if total income ≤ Rs. 5,00,000, fee payable shall not exceed 1,000. (b) **Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**
N19	**Q14.** Elaborate the conditions, non-fulfilment of which would render ROI filed by an assessee not maintaining regular books of A/c, defective. **Answer: Refer ERRORLESS TAXATION – CONCEPT BOOK BY CA PRANAV CHANDAK**

CHAPTER 14. TOTAL COMPUTATION & AMT QB

SECTION A: PRACTICE QUESTION BANK [COMPILED BY CA PRANAV CHANDAK]

Q1. Following is the P&L A/c of Mr. Aditya, aged 58 years, a resident, for PY 2021-22:

Particulars	Rs	Particulars	Rs.
Rent	60,000	Gross Profit	1,85,000
Repair of Car	3,000	Gift of Cash from a Friend (received on 15.09.2021)	25,000
Wealth Tax	5,000	Sale of Car	17,000
Medical Expenses	4,500	Interest on Income-Tax refund	3,000
Salary	18,000		
Depreciation on Car	3,000		
Advance Income-Tax	1,500		
Net Profit	1,35,000		
Total	**2,30,000**	**Total**	**2,30,000**

Other information:

(1) Aditya bought a car during PY 2021-22 for Rs. 20,000. He charged depreciation @ 15%. The above Car was sold during PY for Rs. 17,000. The use of the car was 3/4th for business & 1/4th for personal use.
(2) Medical Expenses were incurred for the treatment of Nikita, his wife.
(3) Salary had been paid on account of Car Driver.
(4) Rent includes Arrears of Rent from April 2021 to October 2021 @ Rs. 5,000 p.m. paid in cash on 1.11.2021.
(5) Mr. Aditya had let out a HP @ monthly rent of Rs. 25,000. Annual letting value is considered to be Rs. 2,50,000. Municipal Taxes are Rs. 6,000, out of which Rs. 3,000 are paid by tenant & Rs. 3,000 are yet to be paid by Mr. Aditya.
(6) Interest on Loan taken for the HP is Rs. 20,000.
(7) Mr. Aditya's Minor Daughter received Rs. 75,000 from Stage Acting. Interest on Company Deposits of Mr. Aditya's daughter (Deposit was made out of Income from Stage Acting) was Rs. 10,000.
(8) Aditya incurred Rs. 50,000 on the medical treatment of his dependent son, who has disability of > 80%.
(9) Aditya had taken a Loan during PY 2021-22 for education of his son, who is pursuing B.Com. in Delhi University. Interest paid during the year was Rs. 10,000. Compute Total Income of Mr. Aditya for AY 2022-23. **[Nov 2013]**

Answer: **Computation of Total Income**

Particulars	Rs.	Rs.
Income from HP		
Gross Annual Value (25000 x 12)	3,00,000	
Less: Municipal Taxes paid (Amount paid by tenant is not allowable as deduction)	Nil	
Net Annual Value	3,00,000	
Less: Deduction u/s 24(a): 30% of NAV (Rs. 3,00,000 × 30%)	(90,000)	
Less: Deduction u/s 24(b): Interest on Borrowed Capital	(20,000)	**1,90,000**
PGBP		
Net Profit as per P&L A/c	1,35,000	
Add: Inadmissible expenses debited to P&L A/c		
Repairs of Car: $1/4^{th}$ not allowed being personal use = $1/4^{th}$ of 3,000	750	
Wealth Tax, not allowable u/s 40(a)(iia)	5,000	
Medical Expenses incurred for Spouse, being personal expenses disallowed	4,500	
Car Driver Salary: $1/4^{th}$ of Driver Salary not allowed being used for personal use	4,500	
Depreciation on Car: considered separately	3,000	
Advance Income Tax [not allowable u/s 40(a)(ii)]	1,500	
Arrears of Rent paid in Cash, disallowed u/s 40A(3) (Apr to Oct = 7 x 5,000 p.m.)	35,000	
Less: Incomes considered under other heads/Exempt Incomes		

Gift from Friend – considered separately	(25,000)	
Sale of Car – considered separately	(17,000)	
Interest on Income Tax Refund – considered separately	(3,000)	**1,44,250**
IFOS		
Interest on Income Tax Refund	3,000	
Cash Gift from Friend (not taxable since amount is less than Rs. 50,000)	Nil	
Interest on Bank Deposit shall be clubbed in Parent's hands u/s 64(1A)	10,000	
Less: Exemption u/s 10(32)	(1,500)	**11,500**
Gross Total Income		**3,45,750**
Less: Deduction under chapter VI-A: 80E: Interest on Education Loan	**(10,000)**	
80DD: Expenses on Medical Treatment of Son (Severe Disability)	(1,25,000)	(1,35,000)
Total Income		**2,10,750**

Note:
1. STCL can be set off only against Capital Gain. Rs. 3,000 [20,000 – 17,000] will be c/f to succeeding AYs.
2. Income earned by Minor Daughter from Stage Acting (i.e., by exercise of Skill, Talent, etc.), is assessable only in her hands & not clubbed in the parent's hands.

Q2. Mr. Devansh, an Indian Resident aged 38 years carries on his own business. He gives the following details:

Particulars	Rs.	Particulars	Rs.
Salary	48,000	Gross Profit	4,30,400
Advertisement	24,000	Cash Gift (on Marriage)	1,20,000
Sundry Expenses	54,500	Interest on Listed Debentures [Net]	3,600
Fire Insurance (Rs. 10,000 relates to House)	30,000		
Income Tax & Wealth Tax	27,000		
Household Expenses	42,500		
Depreciation (Allowable)	23,800		
Contribution to University approved u/s 35(1)(ii)	1,00,000		
Municipal Taxes paid for House	36,000		
Printing & Stationery	12,000		
Repairs & Maintenance	24,000		
Net Profit	**1,32,200**		

Other Information:
(1) Mr. Devansh owns a HP which is being used by him for the following purposes:
- 25% for Own Business; - 25% for Self-Residence; - 50% Let Out for Residential Purpose.

(2) Rent Received from 50% Let Out Portion during the year was Rs. 1,65,000.
(3) On 1.12.2021, he acquired a vacant site from his friend for Rs. 1,05,000. SDV is Rs. 2,55,000.
(4) He received interest on Post Office Savings Bank A/c amounting to Rs. 500.
(5) Cash Gift on the occasion of Marriage includes gift of Rs. 20,000 from NR.
(6) LIC Premium Paid (Policy Value - 3,00,000 taken on 1.6.2019) - 60,000 for his handicapped son.
(7) He purchased 10,000 Shares of a Company on 1.1.2016 for Rs. 1,00,000 & received a 1:1 Bonus on 1.1.2020. He sold 5,000 Bonus Shares in September 2021 for Rs. 2,20,000. (Shares are not listed & STT not paid)

Compute Total Income & Net Tax Payable of Mr. Devansh for AY 2022-23. **[Nov 2014]**

Answer: **Computation of Taxable Income & Tax Liability**

Particulars	Rs.
(1) Income from HP [Note 1]	1,02,000
(2) PGBP [Note 2]	1,12,600

(3) IFOS [Note 3]	1,54,000
(4) Income u/h Capital Gains [Note 4]	2,20,000
Gross Total Income	**5,39,500**
Less: Deductions under Chapter VI-A [Note 5]	(1,20,000)
Total Income	**4,69,500**
Computation of Tax Liability	
Tax thereon = (4,69,500 – Rs. 2,50,000) x 5% [Note 6]	10,950
Less: Rebate u/s 87A	(10,950)
Net Tax Payable	Nil
Less: TDS on Interest on Debentures (4,000 – 3,600)	(400)
Tax Refund	**400**

Notes:

1. **Income from HP: (25% used for Business, so such Portion is not covered under this Head).**

Particulars	SOP	LOP
Gross Annual Value	-	1,65,000
Less: Municipal Taxes for let out portion = (Rs. 36,000 x 50%)	-	(18,000)
Net Annual Value	Nil	1,47,000
Less: Deduction u/s 24(a): 30% of Net Annual Value	-	(44,100)
Less: Deduction u/s 24(b): Interest on Borrowed Capital	Nil	Nil
Income from HP	**Nil**	**1,02,900**

2. **Profits & Cains from Business or Profession.**

Profit as per P&L A/c		**1,32,200**
Add: Inadmissible expenses debited to P&L A/c		
Fire Insurance relating to House disallowed (10,000x75%) [Personal]	7,500	
Income Tax & Wealth Tax disallowed u/s 40	27,000	
Household Expenses, Personal in nature, disallowed	42,500	
Contribution to Notified University	1,00,000	
Municipal Tax relating to House is disallowed (36,000x 75%)	27,000	2,04,000
Less: Admissible Expenses not debited to P&L A/c		
Contribution to University notified u/s 35(1)(ii) [100% ×1,00,000]	(1,00,000)	(1,00,000)
Less: Incomes considered under other heads/ Exempt Incomes		
Cash Gifts considered under IFOS	(1,20,000)	
Interest on Debentures considered under IFOS	(3,600)	(1,23,600)
Income from PGBP		**1,12,600**

3. **Income from Other Sources**

	Particulars	Rs.
1	Cash Gifts on Marriage [exempt under proviso to section 56(2)(vii)]	NIL
2	Interest on Debentures received [Rs. 3,600/90%] after grossing up	4,000
3	Interest on Post Office Savings Bank A/c Rs. 500 - Exempt u/s 10(15) upto Rs. 3,500	Nil
4	Acquisition of Immovable Property @ < SDV [Sec. 56(2)(vii)(b)] (2,55,000 – 1,05,000)	1,50,000
	Total	**1,54,000**

4. **Cost of Acquisition of Bonus shares** = Nil since allotted after 1.4.2001. Thus, whole Sale Proceeds shall be taxable. [Date of Allotment: 1.1.2020 & Date of Sale: September 2021; Holding Period < 24 months & hence it is STCA].

5. **Deductions under Chapter VI A**

Particulars	Rs.
80C: LIC Premium (Assessee's son is handicapped with Section 80U disability, Premium deductible = least of 15% of Sum Assured or Sum Paid, i.e. (3,00,000x 15%) or Rs. 60,000.	45,000
80DD: Assessee's son is handicapped with Section 80U disability. It is assumed that no separate assessment for son & thus assessee is eligible for deduction u/s 80DD	75,000
Total	**1,20,000**

Note: If it is assumed that son claims 80U deduction in his assessment & he is not dependent on Mr. Devansh, above 80DD deduction shall not be available to Mr. Devansh.

6. Since STCG **Shares** are not listed & STT not paid, normal slab rate of tax is applicable.

Q3. Mr. DK, resident individual aged 45, Partner in B & Co has received the following amounts from the Firm:
- Interest on Capital at 15%: Rs. 3,00,000;
- Salary as Working Partner (At 0.75% of Firm's Sales): Rs. 90,000
- He is engaged in a business in which he manufactures wheat flour from wheat.

Profit & Loss A/c pertaining to this business (Summarized Form)

Particulars	Amount	Particulars	Amount
Salaries	1,20,000	Gross Profit	12,50,000
Bonus	48,000	Interest on Bank FD (Net)	45,000
Car Expenses	50,000	Agriculture Income	60,000
Machinery Repairs	2,34,000	Pension from LIC Jeevandhara	24,000
Advance Tax	70,000		
Depreciation: Car	3,00,000		
Depreciation: Machinery	1,25,000		
Net profit	**4,32000**		

Opening WDV of Assets

Car	3,00,000
Machinery (Used during the year for 170 days) Addition to Machinery	6,50,000
New purchased on 23.09.2021	2,00,000
New purchased on 12.11.2021	3,00,000
Old purchased on 12.04.2021 (All assets added were put to use immediately after purchase)	1,25,000

Out of the total bonus amount, Rs. 15,000 was paid on 11.10.2021. One-fifth of the car expenses are towards estimated personal use of the assessee. In March 2021, he sold a house at Chennai. Arrears of rent relating to this house amounting to Rs. 75,000 was received in February, 2022.

Details of his Saving & Investments

Life Insurance Premium for policy in the name of his major son employed in LMN Ltd at a Salary of Rs. 6 Lacs p.a. – Sum assured Rs. 2,00,000.	50,000
Contribution to Pension Fund of National Housing Bank (This was met partially from out of premature withdrawal of deposit in Post Office Time Deposit made on 12.3.2014: Principal component Rs. 55,000 & Interest Rs. 5,000)	70,000
Medical Expenditure for his father aged 85 (being very Senior Citizen)	22,000

Compute the total income of Mr. Dinesh Karthik for AY 2022-23 & tax payable by him. Also indicate whether Interest, if any, u/s 234A & 234B are payable, assuming that the return was filed on 28.9.2022. **[May 2010]**

Answer: **Computation of Total Income & Tax Liability**

Income from HP		
Arrears of Rent received for sold property taxable in PY of receipt @ 70%		52,500
PGBP		
Interest on capital from the firm M/s Badrinath & Co (to the extent allowed as deduction for Firm) [Rs. 3,00,000 x 12%/15%]	2,40,000	
Salary as working partner (to the extent deductible to the Firm) [assumed that Salary is fully deductible for firm & is within the limits u/s 40(b)]	90,000	
PGBP from Wheat Flour Business		
Net Profit as per P&L A/c	4,32,000	
Add: Inadmissible expenses debited to P&L A/c		
Bonus [Assumed balance of Rs. 33,000 (48,000 – 15,000) is not paid]	33,000	
Car Expenses disallowed – Used for personal purposes ($1/5^{th}$ of 50,000)	10,000	
Advance Tax disallowed, as it is not a business expense u/s 40(a)	70,000	
Depreciation as per Books [3,00,000 (Car) +1,25,000 (Machinery)]	4,25,000	
Less: Admissible expenses not debited to P&L A/c		
Depreciation as per Income Tax Act, 1961 (WN 1)	(2,74,750)	
Less: Incomes considered under other heads/ Exempt Incomes		
Interest on Bank FD – Considered as IFOS	(45,000)	
Agricultural Income – Exempt u/s 10(1)	(60,000)	
Pension from LIC Jeevandhara – as IFOS	(24,000)	8,96,250
IFOS		
Interest on Bank FD – [45,000/90%]	50,000	
Pension from LIC Jeevandhara – Taxable as it is not a Life Insurance Policy	24,000	
Premature Withdrawal of Post Office Time Deposits – Principal amount is taxable whereas interest is not taxable	55,000	
Interest on Post Office Time Deposit – Not taxable [assumed to be taxed in year of accrual]	Nil	1,29,000
Gross Total Income		**10,77,750**
Less: Deductions under Chapter VI-A		
80C: LIC Premium for son – [to the extent of 10% of sum assured]	(20,000)	
80C: Contribution to Pension Fund of National Housing Bank	(70,000)	
80D: Medical Expenditure on Senior Citizen: [Max. 50,000]	(22,000)	(1,12,000)
Total Income		**9,65,750**
Add: Agricultural Income		60,000
Total Income including Agricultural Income		**10,25,750**

Computation of Tax Liability

Tax on Rs. 10,25,750 [Rs. 1,12,500 + [(10,25,750 – 10,00,000) x 30%]	1,20,225	
Less: Tax on (BEL + Agri. Income) = Tax on Rs. [(2,50,000 + 60,000) – 2,50,000] x 5%	(3,000)	1,17,225
Tax Payable + HEC @ 4%		1,21,914
Less: TDS on Interest on FD	(5,000)	
Less: Advance Tax Paid	(70,000)	(75,000)
Net Tax Payable (Rounded Off)		46,914

Working Notes:

(1) **Computation of Depreciation:**

Particulars	Car (15%)	Machinery (15%)
Opening WDV	3,00,000	6,50,000
Add: Additions during PY	Nil	6,25,000
Less: Sale Value during PY	Nil	Nil
WDV for depreciation	3,00,000	12,75,000
(i) WDV of asset used < 180 days	Nil = Nil	3,00,000 × 15 × ½ = 22,500
(ii) Balance WDV	3,00,000 × 15 % = 45,000 × 4/5	9,75,000 × 15 = 1,46,250
Total Normal Depreciation	36,000	1,68,750
Addition Depreciation	-	2L × 20% = 40,000 + 3L × 20% × ½ = 30,000
Total Depreciation	**36,000**	**2,38,750**

Note:

1. Car used for personal purposes: Only 4/5 of actual depreciation shall be allowed as deduction u/s 32.
2. Opening WDV used for 170 days: Restriction of 50% shall be applicable only for new machinery bought during PY & used for less than 180 days during that PY.
3. Additional Depreciation: Opening WDV shall be eligible for full depreciation. However, additional Depreciation shall be allowed only for new P&M purchased & not for second-hand machinery. Since new machinery of Rs. 3 lacs is used for < 180 days, only 50% of additional depreciation is allowable. Balance 50% shall be allowed in next PY.
4. Production of Wheat Flour from wheat is considered as business, & not as agriculture.
5. **Interest u/s 234A:** Assessee is a partner of M/s Badrinath & Co, which is subject to tax audit u/s 44AB during PY 2021-22, as turnover of the firm (i.e. 90,000 = 0.75% = 120 Lacs) exceeds Rs. 1 Cr. Hence, due date of filing ROI shall be 30th Sep 2022. As he had filed his Return on 28.09.2022, he need not pay interest u/s 234A.
6. **Interest u/s 234B:** Interest u/s 234B is attracted when the total Advance Tax paid is < 90% of Assessed Tax. Total Advance Tax paid (Rs. 70,000) is less than 90% of Tax Payable [90% of (Rs. 1,21,914 – Rs. 5,000) = Rs. 1,05,226], Interest u/s 234B shall get attracted.

Q4. Dr. Shuba is medical practitioner (age 64). Her Receipts & Payments A/c of PY 2021-22 is as under:

Receipts (To)	Amount	Payment (By)	Amount
Balance B/f	10,000	Purchase of Commercial Vehicle	4,00,000
Receipts from Sale of Medicine	2,50,000	Drawings	2,50,000
Consultation Fee	50,000	Deposit in Bank for 5 years	1,50,000
Visiting Fee	2,00,000	Surgical Instrument purchased (RoD = 40%) [Used > 180 days]	50,000
Lectures (Part-time employment)	5,000	Loan Repayment (Including Interest of Rs. 22,333)	1,21,000
Family Pension	2,80,000	Medical Insurance Premium	32,000
Saving Bank Interest	1,000	Instalment of Housing Loan (Principal component Rs. 48,000)	1,08,000
Loan from Bank @ 8%	3,00,000	Advance Income Tax paid	20,000
Share from HUF	50,000	Purchase of Medicine	47,000
Income from Lottery (Net)	35,000	Payment of Medical Journal	5,000
		Expenses of Commercial Vehicle	50,000
		Balance C/f	**48,000**

(1) She resides in her own house which was constructed in 2014 with Loan of Rs. 10 lacs out of which 6 lacs was still due. She got it refinanced from SBI on 1.4.2021 @ 10%. 1/4th portion of house is used for clinic purposes.

(2) She invested in Term Deposit 1,50,000 in BOI on 1.7.2021 for 5 years in name of her minor daughter @ 9% p.a.

(3) She purchased a commercial vehicle on 1.7.2021 at Rs. 4,00,000. A Loan of Rs. 3,00,000 was taken to buy the van at 8% interest. 1/4th use of vehicle is estimated to be personal.
(4) She paid Medical Insurance Premium for herself: 46,000 & Mother: 30,000. Her mother is dependent on her.
(5) She got her share from HUF's Income of Rs. 50,000. Compute the Total Income of Dr. Shuba. **[Nov 2010]**

Answer: **Computation of Total Income**

Particulars	Rs.	Rs.	Rs.
(1) Income u/h Salaries: Part – time Lectures [WN1]		5,000	
Less: Deduction u/s 16(ia) Standard Deduction		(5,000)	Nil
(2) Income from HP: SOP & thus NAV = Nil.		Nil	
Less: Deduction u/s 24(b) = Interest (6,00,000 x 10% x 3/4)		(45,000)	(45,000)
(3) Income u/h PGBP:			
A. Receipts from profession			
Receipts from Sale of Medicine	2,50,000		
Consultation Fee	50,000		
Visiting Fee	2,00,000	5,00,000	
B. Expenditures incurred for profession			
Interest Paid on HP used for Clinic (60,000 x 1/4)	(15,000)		
Medicines Consumed (Assumed to be fully consumed)	(47,000)		
Payment fee Medical Journal	(5,000)		
Depreciation on Surgical Lazer (50,000 x 40%)	(20,000)		
Depreciation on Motor Car (4,00,000 x 15% x 3/4)	(45,000)		
Vehicle Expenses: For Business Purposes – (50,000 x 3/4)	(37,500)		
Interest paid on Vehicle Loan: (3 lacs x 8 % x 9/12) = 18,000 x ¾	(13,500)	(1,83,000)	3,17,000
(4) IFOS:			
(i) Family Pension	2,80,000		
Less: Exempt u/s 57 = Least of 15,000 or 1/3rd of 2,80,000	(15,000)	2,65,000	
(ii) Savings Bank Interest		1,000	
(iii) Interest on Deposit in BOI Clubbed (1,50,000 x 9% x 9/12)	10,125		
Less: Exempt u/s 10(32) = Rs. 1,500 per Child	(1,500)	8,625	
(iv) Income from Lottery: Gross = (35,000/70%)		50,000	3,24,625
Gross Total Income			**5,96,625**
Less: Deduction under Chapter VI-A			
80C: Housing Loan Repayment (Principal Portion)		(48,000)	
80D: Medical Insurance Premium			
- Herself, being senior citizen (Lower of 46,000 or 50,000)	(46,000)		
- Mother (Senior Citizen Max. deduction is Rs. 50,000)	(30,000)	(76,000)	
80EE: Repayment of Housing Loan Interest [Refinance is also eligible] subject to a maximum of Rs. 50,000		(50,000)	
80TTB: Interest on Savings Bank A/c		(1,000)	(1,75,000)
Total Income (Rounded off)			**4,21,625**

Working Notes:
1. Amount of Salary or Rs. 50,000 whichever is less, shall be allowed as deduction u/s 16(ia).
2. Share Income from HUF is exempt u/s 10(2).
3. Drawings, advance tax paid are not allowable expenditures.
4. Loan taken of Rs. 3,00,000 is not an income & thus not taxable under any head of Income.
5. Advance Income Tax paid is not deductible.

Q5. Following is the P&L A/c for PY 2021-22 of Western Sugar Mills, of which Shri. Daga is the owner:

Particulars	Rs.	Particulars	Rs
To Manufacturing Expenses	7,01,000	By Sale of Sugar & Molasses	11,62,300
To Excise Duty	92,795	By Rent from Agricultural Land	950
To Establishment Charges	49,200	By Revenue from Fisheries	4,000
To Fine paid to Excise Department	2,000	By Sale Proceeds from Canes	6,05,055
To Salary & Wages	1,21,445	By Profit on Sale of Motor Truck	3,230
To General Charges	16,750		
To Interest on Bank Loan	21,000		
To Daga's Remuneration	38,750		
To Depreciation	91,000		
To Income Tax	25,000		
To Cultivation Expenses	4,37,500		
To Net Profit	**1,79,095**		

Compute the Income from Business of Shri Daga from Sugar Mill for AY 2022-23 after considering the following:

(a) Sale Proceeds of Cane include Rs. 5,32,000 on A/c of cane produced & consumed in the factory, & debited to manufacturing expenses, the average market price of such Cane being Rs. 6,00,000.

(b) Motor truck sold during the year for Rs. 7,230 was purchased in the past for Rs. 19,000. Depreciation claimed in respect thereof in past assessment was Rs. 15,000.

(c) General Charges include: (i) Rs. 2,000 being the legal expenses incurred in defending a suit regarding the Company's title to certain agricultural lands, & (ii) Rs. 10,000 paid to Daga's son who is an employee in the Sugar Mill, for a trip to Hawaii to study modern methods of manufacture.

(d) Depreciation in respect of all assets has been ascertained at Rs. 50,000 as per Income Tax Rules.

Answer: **Computation of Profits & Gains of Business or Profession**

Particulars	Rs.	Rs.
(1)Income under the head PGBP		
Net Profit as per P&L A/c		1,79,095
Add: Inadmissible Expenses debited to P & L A/c		
(i) Depreciation as per Books of A/c	91,000	
(ii) Expenditure incurred to protect the title of the assets of the Company related to Agricultural Land shall not be allowed as a deduction.	2,000	
(iii) Fine paid to Excise Department = Disallowed since it is spent for violation of law	2,000	
(iv) Daga's Remuneration – Personal in nature & hence not eligible u/s 37	38,750	
(v) Income Tax – Not allowed as an expenditure u/s 40(a)	25,000	
(vi) Cultivation Expenses (WN 1) (disallowed since FMV is considered)	4,37,500	5,96,250
Less: Admissible Expenses but not debited to P & L A/c		
(i) Depreciation as per IT Act	(50,000)	
(ii) Difference in Average Market Price of Agricultural Produce (WN 1)	(68,000)	(1,18,000)
Less: Incomes taxable under other heads or Exempt Incomes		
(i) STCG on sale of Truck to be considered separately (WN 2)	(3,230)	
(ii) Rent from Agricultural Land [Exempt from tax u/s 10(1)]	(950)	
(iii) Revenue from Fisheries = Taxable as IFOS	(4,000)	
(iv) Sale Proceeds of Sugarcane [Exempt] (FMV is considered in WN 1)	(6,05,055)	(6,13,235)
Profits & Gains of Business or Profession (7,75,345 – 7,31,235)		**(44,120)**

Working Notes:

1. **Adjustment in respect of Average Market Price:** Under Rule 7, where agricultural produce is used as a raw material for consumption, FMV of Agricultural Produce consumed shall be charged to Manufacturing A/c. No other expenditure relating to agricultural activity shall be considered. Adjustment for this item is as under:
   FMV of agricultural produce consumed - Amount already debited as manufacturing expenses
   = 6,00,000 - 5,32,000 = **68,000** (Balance to be debited to P&L A/c).
2. **Computation of STCG:**

Particulars	Rs.
WDV of Motor Truck = Cost – Depreciation [19,000 – 15,000]	4,000
Less: Sale Value	7,230
STCG [Sale Value Rs. 7,230 – WDV Rs. 4,000]	**3,230**

3. Expenditure relating to Mr. Daga's son, who is an employee, is incurred for the purpose of business & no portion of the expenditure is considered to be excessive u/s 40A (2). Hence, it is fully allowed as a deduction.

Q6. Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading & P&L A/c for PY 2021-22.

Manufacturing & Trading & Profit & Loss Account for PY 2021-22

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	42,00,000
To Purchase of Raw Materials	16,99,000	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	**20,60,000**		
To Administrative Charges	2,86,000	By Gross Profit	20,60,000
To State VAT penalty paid	5,000	By Dividend from Domestic Companies	15,000
To State VAT paid	1,10,000		
To General Expenses	54,000		
To Interest to Bank (on Machinery Loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	**15,40,000**		

Following are the further information relating to PY 2021-22:

(1) Administrative charges include 46,000 paid as commission to brother. Commission @ market rate is 36,000.

(2) Assessee paid 33,000 in cash to transport carrier on 29.12.2021. This is included in manufacturing expenses. Rs. 4000 p.m. was paid as Salary to a Staff throughout the year & this has not been recorded in the books.

(3) Bank Term Loan Interest actually paid up to 31.3.2022 was Rs. 20,000 & the balance was paid in October 2022.

(4) Housing Loan Principal repaid during the year was 50,000 & it relates to residential property occupied by him. Interest on Housing Loan was Rs. 2,60,000. Housing Loan was taken from Canara Bank. (Value of HP = Rs. 45 Lacs, Loan Value = Rs. 25 Lacs & Sanction date = 31.03.2017). (Assume housing loan is eligible for 80EE).
These amounts were not dealt with in the Profit & Loss Account given above.
Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @ 15%)	
Opening WDV (as on 1.4.2021)	12,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total Additions during the year	4,00,000

Ignore Additional Depreciation. Compute Taxable Income & Tax Liability of Mr. Raju for AY 2022-23. **[Nov 2010]**

Note: Ignore application of Section 14A for disallowance of expenditures in respect of any Exempt Income.

Answer: **Computation of Taxable Income & Tax Liability**

Particulars	Rs.	Rs.
(1) Income from HP		
Net Annual Value	Nil	
Less: Deduction u/s 24(b) - Interest on Housing Loan	(200000)	
Income from HP (A)		(200000)
(2) PGBP		
Net profit as per P&L A/c	15,40,000	
Add: Inadmissible Expenses debited to P&L A/c		
State VAT Penalty	5,000	
Interest to bank (WN 1)	40,000	
Commission to brother (46,000 – 36,000) – Disallowed u/s 40A(2)	10,000	
Depreciation as per books of A/c	2,00,000	
Less: Admissible Expenses not debited to P & L A/c		
Salary to staff not deducted	(48,000)	
Depreciation as per Income Tax Act	(2,25,000)	
Less: Income taxable under different head or Exempt Incomes:		
Dividend from domestic companies - Taxable u/h IFOS	(15,000)	
Income from Agriculture	(1,80,000)	13,27,000
(3) IFOS: Dividend from domestic companies		15,000
Gross Total Income		**11,42,000**
Less: Deduction u/s 80C – Housing Loan Principal Repayment		(50,000)
Total Income (Excluding Agricultural Income)		10,92,000
Computation of Tax Payable		
(a) Tax on Total Income including Agricultural Income [10,92,000 + 1,80,000] [Tax on 12,72,000]		1,94,100
(b) Tax on Agricultural Income + BEL = [Rs. 1,80,000 + Rs. 2,50,000]		9,000
Net Tax Payable [Tax on A – Tax on B] [Rs. 1,94,100 – Rs. 9,000] = 1,85,100 + 4 % HEC		1,92,504

Working Notes:

1. As per Section 43B, payments not made within DD u/s 139 are not allowed as deduction. Thus, Rs. 40,000 is not allowed as deduction in the current year.
2. Depreciation: Rs. 14,00,000 × 15% = 2,10,000 + Rs. 2,00,000 × 7.5% = 15,000.
3. Where an Assessee incurs any expenditure, for which aggregate of payments is made to a person in a day is in excess of Rs. 10,000. (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages), otherwise than by an A/C Payee Cheque/draft or ECS, whole of such expenditure shall not be allowed as a deduction. Since payment is < Rs. 35,000, (being made to a Transport Carrier) it is an allowable expenditure. Since it is already debited in P & L A/c, no adjustment need be made.
4. U/s 80EE Repayment of Interest on eligible Housing loan is restricted to Rs. 50,000 only.

Q7. Mr. Janak, working as Finance Manager in Thilak Reality Ltd, Jaipur, retired from the Company on 31.10.2021 at the age of 58. The following amounts were received from the employer from 1st April 2021 to 31st Oct 2021:

- Basic Salary: Rs. 90,000 p.m.; Dearness Allowance: Rs. 60,000 p.m. (40% reckoned for Superannuation Benefit)
- Ex-gratia (lump sum): Rs. 45,000.

In addition to the above:

(1) Company had taken on lease a Residential House at Jaipur, paying a Lease Rent of 27,000 p.m. Mr. Janak, who was paying to the Company Rs. 18,000 p.m. towards the aforesaid Rent, vacated the premises on 31.10.2021.

(2) The Company had also provided to Mr. Janak a Cooking Range & Microwave Oven by it. The original cost of these assets was Rs. 1,20,000 & the Written Down Value as on 1.4.2021 was Rs. 66,000.
(3) Mr. Janak has 2 sons. His second son was studying in a school run by the Employer Company throughout PY 2021-22. Cost of such education in a similar school is Rs. 5,400 p.m.
(4) Employer-Company was contributing Rs. 21,000 p.m to Central Government Pension Scheme.
(5) Profession Tax paid by the Employer: Rs. 9,000.
(6) Subsequent to his retirement, Mr. Janak started his own business on 15.11.2021 to 31.03.2022: Business Loss (excluding Current Depreciation): Rs. 2,70,000 Current year's Depreciation: Rs. 1,80,000.
(7) Mr. Janak won a prize in a TV Game Show. Rs. 1,26,000 after deduction of tax at source of Rs. 54,000.
(8) **Mr. Janak furnishes the under-mentioned data relating to savings investments & outgoings:**
- Life Insurance Premium, with a Private Insurance Company Rs. 30,000 for his son & Rs. 20,000 for his married daughter. PPF contribution: Rs. 60,000.
- Medical Insurance Premium of Rs. 12,000 for himself & Rs. 16,000 for his father (aged 82) paid by credit card. His father is however not dependent on him.

You are required to compute Total Income of Mr. Janak & tax payable by him for AY 2022-23. **[May 2009]**

Answer: **Computation of Total Income**

Particulars	Rs.	Rs.	Rs.
Income u/h Salaries			
Basic Salary (Rs. 90,000 x 7 months)	6,30,000		
Dearness Allowance (Rs. 60,000 x 7 months)	4,20,000		
Ex-gratia received in lumpsum	45,000		
Contribution by Employer to CG Pension Scheme (21,000 x 7 Months)	1,47,000	12,42,000	
Value of Accommodation leased by employer (WN 1)	23,850		
Use of Movable Assets (WN 2)	7,000		
Free Education to son in School owned by Employer (WN 3)	37,800		
Professional Tax paid by Employer	9,000		
Gross Salary		**13,19,650**	
Less: Deduction u/s 16(ia) Standard Deduction	(50,000)		
Less: Deduction u/s 16(iii): Professional Tax paid by employer	(9,000)	(59,000)	**12,60,650**
Business Income Current Year's Depreciation set off (WN 4)			**(1,80,000)**
IFOS: Winnings from Game Shows on TV [1,26,000/70%]			**1,80,000**
Gross Total Income			**12,60,650**
Less: Deductions under Chapter VI-A			
80C: Premium on Life Insurance Policy (30,000 + 20,000) + PPF 60,000		(1,10,000)	
80CCD: Employer's Contribution to Central Government Pension Scheme [Maximum of 10% of Basic Salary + DA for Retirement Benefits] 10% of Rs. 6,30,000 + (4,20,000 x 40%)] i.e. 79,800 or Rs. 1,47,000 (WN 6)		(79,800)	
80D: (Himself – 12,000 & Father Senior Citizen- 16,000)		(28,000)	(2,17,800)
Total Income (Rounded off)			**10,42,850**
Income Tax payable			
(a) Special Rates: Winnings from Game Shows [30% of Rs. 1,80,000]		54,000	
(b) Normal Rates: Rs. 12,500 + [(10,42,850 – 1,80,000 -5,00,000) x 20%]		85,070	1,39,070
Add: HEC at 4%			5,563
Total Tax Payable			1,44,633
Less: Tax Deducted at Source on Winnings from Game Shows			(54,000)
Net Tax Payable (Rounded Off)			**90,630**

Working Notes:

1	**Value of Accommodation taken on lease by Employer**	
	Basic Salary (Rs. 90,000 x 7 months)	6,30,000
	Dearness Allowance forming part of retirement benefits (Rs. 60,000 x 7 months x 40%)	1,68,000
	Ex-Gratia	45,000
	Contribution by the employer to CG Pension Scheme (See Note)	1,47,000
	Professional Tax Paid by the employer	9,000
	Salary	9,99,000
	Lower of Rent paid by employer or 15% of Salary = (27,000 x 7 = 1,89,000) or (9,99,000 x 15% = 1,49,850	
	Less: Rent recovered from employee (18,000 x 7 months)	(1,26,000)
	Taxable Value of Leased Accommodation	23,850
	Note: Contribution by the Employer to CG Pension Scheme & Professional Tax paid by employer comes within the meaning of 'Monetary Payment from the Employer'.	
2	**Use of Movable Asset:** Taxable value [10% p.a. of Actual Cost] = 1,20,000 x 10% x 7/12 = Rs. 7,000.	
3	If cost of education exceeds Rs. 1,000 p.m., the entire amount is taxable in the employee's hands, i.e., without any reduction of Rs. 1,000 p.m., per child. [CIT (TDS) vs Delhi Public School (2011) 14 taxmann.com 45 (P&H)|. Perquisites shall be taxable as salaries only during the subsistence of employer-employee relationship. Hence, the valuation is considered for only 7 months [(Rs. 5,400 x 7 months= Rs. 37,800).	
4	**Set off of Depreciation Loss:** Since section 32(2) is silent about set off of current year depreciation against income under any other head, & no court decisions are available in that regard, the benefit of set off is given to the assessee in above question. However, alternative assumption of non-availability of set off could also be followed.	
5	**Set off current year business losses:** (a) Against Salary: Business losses cannot be set off against salary income as per section 71. (b) Against Winnings from Game Show: Not possible.	
6	Amount contributed by employer to CG Pension Scheme u/s 80CCD is excluded while computing the deduction limit of Rs. 1,50,000 u/s 80CCE.	

SECTION B: ICAI MODULE "TEST YOUR KNOWLEDGE" [COMPILED BY CA PRANAV CHANDAK]

Q1. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2021 & came to India for the first time on 16.03.2021. She left for USA on 19.9.2021. She returned to India again on 27.03.2022. While in India, she had purchased a show room in Mumbai on 30.04.2021, which was leased out to a company on a rent of Rs. 25,000 p.m. from 1.05.2021. She had taken loan from a bank for purchase of this show room on which bank had charged interest of Rs. 97,500 upto 31.03.2022. She had received the following cash gifts from her relatives & friends during 1.4.2021 to 31.3.2022:

From parents of husband	Rs. 51,000
From married sister of husband	Rs. 11,000
From two very close friends of her husband (Rs. 1,51,000 & Rs. 21,000)	Rs. 1,72,000

(a) Determine her residential status & compute the total income chargeable to tax along with the amount of tax liability on such income for AY 2022- 23.

(b) Would her residential status undergo any change, assuming that she is a person of Indian origin & her total income from Indian sources is Rs. 18,00,000 & she is not liable to tax in USA?

Answer:

(a) U/s 6(1), an individual is said to be resident in India in any PY, if he satisfies any one of the following conditions:

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

If an individual satisfies any one of the conditions mentioned above, he is a resident.

If both the above conditions are not satisfied, the individual is a NR.

Therefore, residential status of Miss Charlie, an American National, for AY 2022-23 has to be determined on the basis of her stay in India during PY 2021-22 & in the preceding 4 AYs.

Her stay in India during PY 2021-22 & in the preceding 4 years are as under:

Stay in PY 2021-22

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

Stay in Last 4 PYs

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

Total stay of the assessee during PY 2021-22 in India < 182 days & during last 4 PYs = 16 days. Therefore, due to non-fulfilment of any of the two conditions for a resident, she would be treated as NR for AY 2022-23.

Computation of total income of Miss Charlie for AY 2022-23		
Income from house property		
Gross Annual Value [Rs. 25,000 x 11] (See Note 1) [Show room located in Mumbai on rent from 01.05.2021 to 31.03.2022 @ Rs. 25,000 p.m.]	Rs. 2,75,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	Rs. 2,75,000	
Less: Deduction u/s 24(a): 30% of NAV	Rs. 82,500	
Less: Deduction u/s 24(b): Interest on loan	Rs. 97,500	Rs. 95,000

IFOS		
Rs. 50,000 received from parents of husband would be exempt, since parents of husband are 'relative' & gifts from a relative are not taxable.	Nil	
Rs. 11,000 received from married sister of husband is exempt, since sister-in-law falls in relative & gifts from a relative are not taxable.	Nil	
Gift received from 2 friends of husband Rs. 1,51,000 & Rs. 21,000 aggregating to Rs. 1,72,000 is taxable u/s 56(2)(x) since > Rs. 50,000	Rs. 1,72,000	Rs. 1,72,000
Total Income		**Rs. 2,67,000**

Computation of tax liability by Miss Charlie for AY 2022-23	
Tax on total income of Rs. 2,67,000	Rs. 850
Add: Health & Education cess@4%	Rs. 34
Total tax liability	Rs. 884

Notes:
1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e., Municipal value, fair rental value & standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed Rs. 50,000 during the year, the entire amount received (i.e., the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of Rs. 1,72,000 is taxable u/s 56(2)(x).
3. Since Miss Charlie is a NR for the AY 2022-23, rebate u/s 87A would not be available to her, even though her total income does not exceed 5 lacs.
4. Tax liability of Miss Charlie would be the same even if she opts to pay tax as per section 115BAC, since she would be eligible for deduction u/s 24(b), for interest on housing loan i.r.o. let out property under regular provisions as well as u/s 115BAC of the Income- tax Act, 1961.

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

- If she is a person of Indian origin & her total income from Indian sources exceeds Rs. 15,00,000 (Rs. 18,00,000, in her case), condition of stay in India for a period exceeding 120 days during PY & 365 days during last 4 PYs would be applicable for being treated as a resident.
- Since her stay in India exceeds 120 days in PY 2021-22 but her stay in India during last 4 PYs < 365 days (only 16 days), her residential status would continue to be same i.e., NR in India.
- Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin & her total income from Indian sources exceeds Rs. 15,00,000 & she is not liable to pay tax in USA.
- Therefore, her residential status would be NR in India for PY 2021-22.

Q2. Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income & Expenditure A/c for PY 2021-22 is as under:

Expenditure	Rs.	Income	Rs.
To Medicine consumed	Rs. 35,38,400	By Consultation & medical charges	Rs. 58,85,850
To Staff salary	Rs. 13,80,000	By Income tax refund (Principal: Rs. 5,000 & Interest: Rs. 450)	Rs. 5,450
To Clinic consumables	Rs. 1,10,000	By Dividend from units of UTI (Gross)	Rs. 10,500
To Rent paid	Rs. 90,000	By Winning from game show on TV (Net of TDS of Rs.15,000)	Rs. 35,000
Administrative expenses	Rs. 2,55,000	By Rent	Rs. 27,000

To Amount paid to scientific Research association u/s 35	Rs. 1,50,000		
To Net profit	Rs. 4,40,000		
	Rs. 59,63,800		**Rs. 59,63,800**

(1) Rent paid includes Rs. 30,000 paid by cheque towards rent for her residential house in Surat.

(2) Clinic equipment's are:

01.04.2021	Opening WDV	Rs. 5,00,000
07.12.2021	Acquired (cost) by cheque	Rs. 2,00,000

(3) Rent received relates to property situated at Surat. GAV Rs. 27,000. Municipal tax of Rs. 2,000, paid in December, 2021, has been included in "administrative expenses".

(4) She received salary of Rs. 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation & medical charges".

(5) Dr. Niranjana availed a loan of Rs. 5,50,000 from a bank for higher education of her daughter. She repaid principal of Rs. 1,00,000, & interest thereon Rs. 55,000 during PY 2021-22.

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

(7) Rs. 28,000 has also been paid by cheque on 27th March, 2022 for her medical insurance premium.

Compute total income of Dr. Smt. Niranjana for AY 2022-23 under the regular provisions of the Income-tax Act, 1961, assuming that she has not opted for to pay tax u/s 115BAC.

Answer: **Computation of total income of Dr. Niranjana for AY 2022-23**

SN	Particulars	Rs.	Rs.	Rs.
1	**Income from Salary**			
	Basic Salary (Rs. 7,500 x 12)		Rs. 90,000	
	Less: Standard deduction u/s 16(ia)		Rs. 50,000	Rs. 40,000
2	**Income from house property**			
	Gross Annual Value (GAV)		Rs. 27,000	
	Less: Municipal taxes		Rs. 2,000	
	Net Annual Value (NAV)		Rs. 25,000	
	Less: Deduction u/s 24 @ 30% of Rs. 25,000		Rs. 7,500	Rs. 17,500
3	**Income from profession**			
	Net profit as per Income & Expenditure A/c		Rs. 4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable u/h 'HP')	Rs. 27,000		
	(ii) Dividend from units of UTI (taxable u/h 'IFOS')	Rs. 10,500		
	(iii) Winning from game show (Net) [Taxable u/h 'IFOS']	Rs. 35,000		
	(iv) Income tax refund	Rs. 5,450	Rs. 77,950	
	Less: Allowable expenditure			
	Depreciation on clinic equipment's			
	▪ on Rs. 5,00,000@15%	Rs. 75,000		
	▪ **on Rs. 2,00,000 @ 7.5%** (On equipment's acquired in December 2021, she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for < 180 days during the year)	Rs. 15,000	(Rs. 90,000)	

	Add: Expenditure not allowable while computing business income			
	(i) Rent for her residential accommodation included in Income & Expenditure A/c	Rs. 30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	Rs. 2,000	Rs. 32,000	Rs. 3,04,450
4	**IFOS**			
	(a) Interest on income-tax refund		Rs. 450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		Rs. 10,500	
	(c) Winnings from TV game show (Rs. 35,000 + Rs. 15,000)		Rs. 50,000	Rs. 60,950
	Gross Total Income			Rs. **4,22,900**
	Less: Deductions under Chapter VI-A:			
	(a) Section 80C: Tuition fee paid to university for full time education of her daughter		Rs. 1,00,000	
	(b) Section 80D: Medical insurance premium (fully allowed since she is a senior citizen)		Rs. 28,000	
	(c) Section 80E: Interest on loan taken for higher education is deductible		Rs. 55,000	Rs. 1,83,000
	Total income			Rs. **2,39,900**

Notes:
1. The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed u/h 'IFOS'.
2. Winnings from game show on T.V. should be grossed up for the chargeability u/h 'IFOS' (Rs. 35,000 + Rs. 15,000). Thereafter, while computing tax liability, TDS of Rs. 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
3. Dr. Niranjana would not be eligible for deduction u/s 80GG, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.
4. 100% deduction is allowable i.r.o. the amount paid to scientific research association allowable, since whole of the amount is already debited to Income & Expenditure A/c, no further adjustment is required.

Q3. Ms. Purvi, aged 55 years, is a CA in practice. She maintains her A/c on cash basis. Her Income & Expenditure A/c for the year ended March 31, 2022 reads as follows:

Expenditure	Rs.	Income	Rs.	Rs.
Salary to staff	Rs.15,50,000	Fees earned:		
Stipend to articled Assistants	Rs. 1,37,000	Audit	Rs. 27,88,000	
Incentive to articled Assistants	Rs. 13,000	Taxation services	Rs. 15,40,300	
Office rent	Rs.12,24,000	Consultancy	Rs. 12,70,000	Rs. 55,98,300
Printing & stationery	Rs.12,22,000	Dividend on shares of X Ltd., an Indian company (Gross)		Rs. 10,524
Meeting, seminar & Conference	Rs. 31,600	Income from UTI (Gross)		Rs. 7,600
Purchase of car (for official use)	Rs. 80,000	Honorarium received from various institutions for Valuation of answer papers		Rs. 15,800
Repair, maintenance & petrol of car	Rs. 4,000	Rent received from residential flat let out		Rs. 85,600
Travelling expenses	Rs. 5,25,000			

Municipal tax paid i.r.o. HP	Rs. 3,000			
Net Profit	Rs. 9,28,224			
	Rs.57,17,824			**Rs.57,17,824**

(1) Allowable rate of depreciation on motor car is 15%.
(2) Value of benefits received from clients during the course of profession is Rs. 10,500.
(3) Incentives to articled assistants represent amount paid to 2 articled assistants for passing IPCC Examination at first attempt.
(4) Repairs & maintenance of car include Rs. 2,000 for the period from 01.10.2021 to 30.09.2022.
(5) Salary include Rs. 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
(6) Travelling expenses include expenditure incurred on foreign tour of Rs. 32,000 which was within the RBI norms.
(7) Medical Insurance Premium on the health of dependent brother & major son dependent on her amounts to Rs. 5,000 & Rs. 10,000, respectively, paid in cash.
(8) She invested an amount of Rs. 10,000 in National Saving Certificate.
(9) She has paid Rs. 70,000 towards advance tax during the PY 2021-22.

Compute the total income & tax payable of Ms. Purvi for AY 2022-23.

Answer: **Computation of total income & tax payable of Ms. Purvi for AY 2022-23**

Particulars	Rs.	Rs.
Income from HP (See Working Note 1)		Rs.57,820
PGBP (See Working Note 2)		Rs. 9,20,200
IFOS (See Working Note 3)		Rs. 33,924
Gross Total Income		Rs. **10,11,944**
Less: Deductions under Chapter VI-A (See Working Note 4)		Rs. 10,000
Total Income		Rs. **10,01,944**
Total Income (rounded off)		**Rs. 10,01,940**
Tax on total income		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 - Rs. 5,00,000 @5%	Rs. 12,500	
Rs. 5,00,001 - Rs. 10,00,000 @20%	Rs. 1,00,000	
Rs. 10,00,001 - Rs. 10,01,940 @ 30%	Rs. 582	Rs. 1,13,082
Add: HEC @4%		Rs. 4,523
Total tax liability		**Rs. 1,17,605**
Less: Advance tax paid		Rs. 70,000
Less: TDS on dividend from Indian Company u/s 194	Rs. 1,052	
Less: TDS on income from UTI u/s 194K	Rs. 760	Rs. 1,812
Tax Payable		**Rs. 45,793**
Tax Payable (rounded off)		**Rs. 45,790**

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

Particulars	Rs.	Rs.
Gross Total Income [Income u/h 'Income from HP', 'PGBP' & 'IFOS' would remain the same even if Ms. Purvi opts for special provisions u/s 115BAC, since deduction claimed by her under these heads is allowable even u/s 115BAC]		**10,11,944**
Less: Deductions under Chapter VI-A [No deduction is allowable under Chapter VI-A u/s 115BAC]		Nil

Total Income		**Rs.10,11,944**
Total Income (rounded off)		**Rs.10,11,940**
Tax on total income		
Up to Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 @5%	Rs. 12,500	
Rs. 5,00,000 - Rs. 7,50,000 @10%	Rs. 25,000	
Rs. 7,50,000 - Rs. 10,00,000 @15%	Rs. 37,500	
Rs. 10,00,000 – Rs. 10,11,940 @ 20%	Rs. 2,388	Rs. 77,388
Add: HEC @4%		Rs. 3,096
Total tax liability		**Rs. 80,484**
Less: Advance tax paid		Rs. 70,000
Less: TDS on dividend income from Indian Companies u/s 194	Rs. 1,052	
Tax deducted at source on income from UTI u/s 194K	Rs. 760	Rs. 1,812
Tax Payable		**Rs. 8,672**
Tax Payable (rounded off)		**Rs. 8,670**

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

Working Notes:

(1) Income from HP

Particulars	Rs.	Rs.
Gross Annual Value u/s 23(1) (GAV)	Rs. 85,600	
Less: Municipal taxes	Rs. 3,000	
Net Annual Value (NAV)	Rs. 82,600	
Less: Deduction u/s 24 @30% of NAV	Rs. 24,780	Rs. 57,820

Note: Rent received is taken as GAV in absence of other information relating to MV, FR & SR.

(2) Income u/h 'PGBP'

Particulars	Rs.	Rs.
Net profit as per Income & Expenditure A/c		Rs. 9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A (3), since such cash payment exceeds Rs. 10,000	Rs. 30,000	
(ii) Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	Rs. 80,000	
(ii) Municipal Taxes paid i.r.o. residential flat let out	Rs. 3,000	
Add: Value of benefit received from clients during the course of profession [taxable as business income u/s 28(iv)]	Rs. 10,500	
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable u/h 'IFOS')	Rs. 10,524	

(ii) Income from UTI (taxable u/h 'IFOS')	Rs. 7,600	
(iii) Honorarium for valuation of answer papers	Rs. 15,800	
(iv) Rent received from letting out of residential flat	Rs. 85,600	Rs. 1,19,524
Less: Depreciation on motor car @15% (See Note (i) below)		Rs. 12,000
		Rs. **9,20,200**

Notes:

1. It has been assumed that the motor car was put to use for more than 180 days during PY & hence, full depreciation @ 15% has been provided for u/s 32(1)(ii).
   Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days & accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).
2. Incentive to articled assistants for passing IPCC examination in their first attempt is deductible u/s 37(1).
3. Repairs & maintenance paid in advance for the period 1.4.2022 to 30.9.2022 i.e. for 6 months amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
4. Rs. 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income & expenditure A/c, no further adjustment is required.

(3) IFOS

Particulars	Rs.
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	Rs. 10,524
Income from UTI (taxable in the hands of unit holders)	Rs. 7,600
Honorarium for valuation of answer papers	Rs. 15,800
	Rs. 33,924

(4) Deduction under Chapter VI-A

Particulars	Rs.
Deduction u/s 80C (Investment in NSC)	Rs. 10,000
Deduction u/s 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	**Rs. 10,000**

Notes:

1. Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in the definition of family u/s 80D.
2. Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Q4. Mr. Y carries on his own business. Analysis of his trading & P&L A/c for PY 2021-22 reveals the following:

1	Net profit was Rs. 11,20,000 **[Mod. May 2012]**
2	following incomes were credited in P&L A/c: (a) Dividend from UTI Rs. 22,000 (Gross) (b) Interest on debentures Rs. 17,500 (Gross) (c) Winnings from horse races Rs. 15,000 (Gross)
3	It was found that some stocks were omitted to be included in both the opening & closing stocks, the value of which were: Opening stock Rs. 8,000 & Closing stock Rs. 12,000
4	Rs. 1,00,000 was debited in P&L A/c being contribution to University approved u/s 35 (1) (ii)
5	Salary includes Rs. 20,000 paid to his brother which is unreasonable to the extent of Rs. 2,500

6	Advertisement expenses include 15 gift packets of dry fruits of Rs. 1,000/packet presented to important customers.
7	Total expenses on car were Rs.78,000. The car was used both for business & personal purposes. ¾th is for business purposes
8	Miscellaneous expenses included Rs. 30,000 paid to A &Co., a goods transport operator in cash on 31.01.2022 for distribution of the company's product to the warehouses
9	Depreciation debited in books = Rs. 55,000. Depreciation allowed as per Income tax = Rs. 50,000.
10	Drawings Rs. 10,000
11	Investment in NSC Rs. 15,000

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

Answer:

Computation of total income of Mr. Y for the AY 2022-23	
PGBP (See Working Note 1)	Rs. 11,21,500
IFOS (See Working Note 2)	Rs. 54,500
Gross Total Income	Rs. 11,76,000
Less: Deduction u/s 80C (Investment in NSC)	Rs. 15,000
Total Income	Rs. **11,61,000**

Working Note: Computation of PGBP Income	**Rs.**	**Rs.**
Net profit as per P&L A/c		Rs. 11,20,000
Add: Expenses debited to P&L A/c but not allowable as deduction		
Salary paid to brother disallowed to the extent unreasonable [Sec 40A(2)]	Rs. 2,500	
Motor car expenses related to personal use - Disallowed (Rs. 78,000 × ¼)	Rs. 19,500	
Depreciation debited in the books of A/c	Rs. 55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	Rs. 10,000	
Investment in NSC **[See Note (iii)]**	Rs. 15,000	Rs. 1,02,000
Add: Under statement of closing stock		Rs. 12,000
Less: Under statement of opening stock		(Rs. 8,000)
Less: Incomes credited to P&L A/c but not taxable as business income		
Income from UTI [taxable u/h 'FOS']	Rs. 22,000	
Interest on debentures (taxable u/h 'IFOS')	Rs. 17,500	
Winnings from horse races (taxable u/h 'IFOS')	Rs. 15,000	(Rs. 54,500)
Less: Depreciation allowable under the Income-tax Rules, 1962		(Rs. 50,000)
		Rs. 11,21,500

Notes:

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

been assumed that, in the said figure of Rs. 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included i.r.o. motor car.

Computation of 'IFOS'	
Dividend from UTI	Rs. 22,000
Interest on debentures	Rs. 17,500
Winnings from races	Rs. 15,000
'IFOS'	Rs. **54,500**

Q5. Balamurugan furnishes the following information for the year ended 31-03-2022.

Particulars	**Rs.**
Income from textile business	Rs. (1,35,000)
Income from HP	Rs. (15,000)
Lottery winning (Gross)	Rs. 5,00,000
Speculation business income	Rs. 1,00,000
Income by way of salary (Computed)	Rs. 60,000
LTCG u/s 112	Rs. 70,000

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

Answer:

Computation of total income of Balamurugan for the PY 2021-22		
Salaries	Rs. 60,000	
Less: Loss from HP	Rs. (15,000)	
Net Salary (after set off of loss from HP)		**Rs. 45,000**
PGBP		
Speculation business income	Rs. 1,00,000	
Less: Business loss set-off	Rs. (1,35,000)	-
Net business loss to be set-off against LTCG	Rs. (35,000)	
Capital Gains		
LTCG	Rs. 70,000	
Less: Business loss set-off	Rs. (35,000)	
LTCG after set off of business loss		**Rs. 35,000**
IFOS		
Lottery winnings (Gross)		**Rs. 5,00,000**
Total Income		**Rs. 5,80,000**

Computation of tax liability for AY 2022-23	
On total income of Rs. 45,000 (excluding lottery winning & LTCG)	Nil
On LTCG of Rs. 35,000 (unexhausted BEL can be adjusted against LTCG taxable u/s 112)	Nil
On lottery winnings of Rs. 5,00,000 @ 30%	Rs. 1,50,000
	Rs. 1,50,000
Add: HEC @ 4%	Rs. 6,000
Total tax liability	Rs. **1,56,000**

Assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the BEL. Further, i.r.o. lottery income, TDS would have been deducted @ 30% u/s 194B. Since the remaining tax liability of Rs. 6,000 (Rs. 1,56,000 – Rs. 1,50,000) is less than Rs. 10,000, advance tax liability is not attracted.

Notes:

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

Q6. Mr. Rajiv, aged 50 years, a resident individual & practicing CA, furnishes you the receipts & payments A/c for the FY 2021-22. **[May 11 + Nov 18 + ICAI Ex. Q6]**

Receipts & Payments A/c			
Receipts	**Rs.**	**Payments**	**Rs.**
Opening balance (1.4.2021) Cash on hand & at Bank	Rs. 12,000	Staff salary, bonus & stipend to articled clerks	Rs. 21,50,000
Fee from professional services (Gross)	Rs. 59,38,000	Other administrative expenses	Rs. 11,48,000
Rent	Rs. 50,000	Office rent	Rs. 30,000
Motor car loan from Canara Bank (@ 9% p.a.)	Rs. 2,50,000	Housing loan repaid to SBI (includes interest of Rs. 88,000)	Rs. 1,88,000
		Life insurance premium (10% of sum assured)	Rs. 24,000
		Motor car (acquired in Jan. 2022 by A/c payee cheque)	Rs. 4,25,000
		Medical insurance premium (for self & wife) (paid by A/c Payee cheque)	Rs. 18,000
		Books bought on 1.07.2021 (annual publications by A/c payee cheque)	Rs. 20,000
		Computer acquired on 1.11.2021 by A/c payee cheque (for professional use)	Rs. 30,000
		Domestic drawings	Rs. 2,72,000
		PPF subscription	Rs. 20,000
		Motor car maintenance	Rs. 10,000
		Closing balance (31.3.2022) Cash on hand & at Bank	Rs. 19,15,000
	Rs. 62,50,000		**Rs. 62,50,000**

Following further information is given to you:

(1) He occupies 50% of the building for own residence & let out the balance for residential use at a monthly rent of Rs. 5,000. Building was constructed during the year 1997-98, when the housing loan was taken.

(2) Motor car was put to use both for official & personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.

(3) Written down value of assets as on 1-4-2021 are given below.

Furniture & Fittings	Rs. 60,000

P&M (Air-conditioners, Photocopiers, etc.)	Rs. 80,000
Computers	Rs. 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting. Compute the total income of Mr. Rajiv for AY 2022-23 assuming that he has not opted to pay tax u/s 115BAC.

Answer: **Computation of Taxable Income and Tax Liability**

1	**Income from HP**			
	(a) **Self-occupied Property:** Annual value	Nil		
	Less: Deduction u/s 24(b): Interest on housing loan 50% of Rs. 88,000 = 44,000 but limited to	(30,000)		
	Loss from self-occupied property		**(30,000)**	
	(b) **Let out property:** Annual value (Rent receivable has been taken as the annual value in the absence of other information)	Rs. 60,000		
	Sec 24(a): 30% of Net Annual Value:	Rs. 18,000		
	Sec 24(b): Interest on housing loan (50% of Rs. 88,000)	Rs. 44,000	**(2,000)**	
	Loss from house property			**(32,000)**
2	**PGBP**			
	Fees from professional services		59,38,000	
	Less: Expenses allowable as deduction			
	Staff salary, bonus & stipend	(21,50,000)		
	Other administrative expenses	(11,48,000)		
	Office rent	(30,000)		
	Motor car maintenance (10,000 x 4/5)	(8,000)		
	Car loan interest – not allowable (since the same has not been paid & the assessee follows cash system of accounting)	Nil	(33,36,000)	
	Motor car (Rs. 4,25,000 x 7.5% x 4/5)	25,500		
	Books being annual publications @ 40%	8,000		
	Furniture and fittings @ 10% of Rs. 60,000	6,000		
	Plant and machinery @ 15% of Rs. 80,000	12,000		
	Computer @ 40% of Rs. 50,000	20,000		
	Computer (New) Rs. 30,000 @ 40% x 50%	6,000	(77,500)	25,24,500
	Gross Total income			**24,92,500**
3	**Less: Deduction under Chapter VI-A**			
	(1) Deduction u/s 80C			
	Housing loan principal repayment	1,00,000		
	PPF subscription	20,000		
	Life insurance premium	24,000	1,44,000	
	(2) Deduction u/s 80D: Medical insurance premium paid	18,000	18,000	(1,62,000)
	Total income			**23,30,500**

Q7. From the following details, compute the total income & tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income-tax Act, 1961 & as per section 115BAC for AY 2022-23. Advise Mr. Siddhant whether he would opt for section 115BAC: **[Mod. Nov 2007]**

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

Siddhant purchased a flat in a co-operative housing society in Delhi for Rs. 4,75,000 in April, 2015, which was financed by a loan from LIC of India of Rs. 1,60,000 @ 15% interest, his own savings of Rs. 65,000 & a deposit from nationalized bank for Rs. 2,50,000 to whom this flat was given on lease for 10 years. Rent payable by bank was Rs. 3,500 p.m.

The following particulars are relevant:

(1) Municipal taxes paid by Mr. Siddhant: Rs. 4,300 (p.a.)
(2) House Insurance: Rs. 860
(3) He earned Rs. 2,700 in share speculation business & lost Rs. 4,200 in cotton speculation business.
(4) In PY 2016-17, he had gifted Rs. 30,000 to his wife & Rs. 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% p.a.
(5) Siddhant received a gift of Rs. 30,000 each from four friends.
(6) He contributed Rs. 50,000 to PPF.

Answer:

Computation of total income & tax liability of Siddhant for AY 2022-23		
Salary Income		
Salary including dearness allowance	Rs. 3,35,000	
Bonus	Rs. 11,000	
Value of perquisites: (i) Salary of servant	Rs. 12,000	
Value of perquisites: (ii) Free gas, electricity & water	Rs. 11,000	
Less: Standard deduction u/s 16(ia)	(Rs. 50,000)	**Rs. 3,19,000**
Income from HP		
Gross Annual Value (GAV) (Rent receivable is taken as GAV) (3,500 × 12)	Rs. 42,000	
Less: Municipal taxes paid	Rs. 4,300	
Net Annual Value (NAV)	Rs. 37,700	
Less: Deduction u/s 24(a): 30% of NAV	Rs. 11,310	
Less: 24(b): Interest on loan from LIC @ 15% of Rs. 1,60,000 [Note 2]	Rs. 24,000	**Rs. 2,390**
Income from speculative business		
Income from share speculation business	Rs. 2,700	
Less: Loss from cotton speculation business	(Rs. 4,200)	--
Net Loss	**Rs. 1,500**	
Net loss from speculative business has to be c/f as it can't be set off against any other head of income.		
IFOS		
(i) Income on A/c of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)	Rs. 3,800	
Less: Exempt u/s 10(32)	(Rs. 1,500)	

(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)	Rs. 5,700	
(iii) Gift received from four friends (taxable u/s 56(2)(x) as the aggregate amount received during the year exceeds Rs. 50,000)	Rs. 1,20,000	Rs. 1,28,000
Gross Total Income		**Rs. 4,49,390**
Less: Deduction u/s 80C: Contribution to PPF		(Rs. 50,000)
Total Income		**Rs. 3,99,390**

Particulars	**Rs.**
Tax on total income of Rs. 3,99,390 @ 5%	Rs. 7,470
Less: Rebate u/s 87A, since total income does not exceed Rs. 5,00,000	Rs. 7,470
Tax liability	Nil

Computation of total income & tax liability of Siddhant as per section 115BAC for AY 2022-23

Particulars	**Rs.**	**Rs.**
Salary Income		
Salary including dearness allowance		Rs. 3,35,000
Bonus		Rs. 11,000
Value of perquisites:		
(i) Salary of servant	Rs. 12,000	
(ii) Free gas, electricity & water	Rs. 11,000	Rs. 23,000
		Rs. 3,69,000
Less: Standard deduction u/s 16(ia) [not allowable as per section 115BAC(2)]		Nil
		Rs. 3,69,000
Income from HP		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (3,500 × 12)	Rs. 42,000	
Less: Municipal taxes paid	(Rs. 4,300)	
Net Annual Value (NAV)	Rs. 37,700	
Less: Deductions u/s 24: (i) 30% of NAV	(Rs. 11,310)	
(ii) Interest on loan from LIC @15% of 1,60,000 [See Note 2] Rs. 24,000	(Rs. 35,310)	Rs. 2,390
Income from speculative business		
Income from share speculation business	Rs. 2,700	
Less: Loss from cotton speculation business	(Rs. 4,200)	--
Net Loss	Rs. 1,500	
Net loss from speculative business has to be c/f as it cannot be set off against any other head of income.		
IFOS		
(i) Income on A/c of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption u/s 10(32) would not be available]	Rs. 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)	Rs. 5,700	
(iii) Gift received from four friends (taxable u/s 56(2)(x) as the aggregate amount received during the year exceeds Rs. 50,000)	Rs. 1,20,000	Rs. 1,29,500
Gross Total Income		**Rs. 5,00,890**
Deduction u/s 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		**Rs. 5,00,890**
Particulars		
Tax on total income		Rs. 12,589
Less: Rebate u/s 87A (not available, since total income exceeds Rs. 5,00,000)		Nil
Add: Health & education cess @4%		Rs. 504
Tax liability		Rs. **13,093**
Tax liability (rounded off)		Rs. **13,090**

Since Mr. Siddhant is not liable to pay any tax as per the regular provisions of the Income-tax Act, 1961, it would be beneficial for him to not opt for section 115BAC for AY2022-23.

Notes:
1. It is assumed that the entire loan of Rs. 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 u/s 80GG i.r.o. rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction u/s 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:

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

Q8. Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides following information for PY 2021-22:

Basic Salary	Rs. 15,000 p.m.
DA (50% of it is meant for retirement benefits)	Rs. 2,000 p.m.
Commission as percentage of turnover of Company	0.5 %
Turnover of the Company	Rs. 50 lacs
Bonus	Rs. 50,000
Gratuity	Rs. 30,000
Own Contribution to R.P.F.	Rs. 30,000
Employer's contribution to R.P.F.	20% of basic salary

Interest credited in the R.P.F. account @ 15% p.a	Rs. 15,000
Gold Ring given by employer on his 25th wedding anniversary	Rs. 10,000
Music System purchased on 01.04.2021 by the company for personal use	Rs. 85,000
Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of Rs. 6,500 p.m. Books of A/c are not maintained.	Rs. 6,500 p.m.
Received interest on bank FDRs on 24.4.2021 (net)	Rs. 5,860
Received interest from debentures of Indian Companies on 5.5.2021 (net)	Rs. 6,786
Made payment by cheques towards premium on Life Insurance policies	Rs. 15,370
Mediclaim Insurance policy for self & spouse	Rs. 22,500
Invested in NSC	Rs. 30,000
In FDR of SBI for 5 years	Rs. 50,000
Donation to an institution approved u/s 80G was given during the year by way of cheque.	Rs. 11,000
Donation to PM's National Relief Fund was given during the year by way of cheque.	Rs. 5,100

Compute the total income & tax payable for AY 2022-23. Assume Ramdin does not opt for section 115BAC

Answer:

Computation of Total Income for the AY2022-23		
Income from Salaries		
Basic Salary (Rs. 15,000 x 12)		Rs. 1,80,000
Dearness Allowance (Rs. 12,000 x12)		Rs. 1,44,000
Commission on Turnover (0.5% of 50 lacs)		Rs. 25,000
Bonus		Rs. 50,000
Gratuity (See Note 1)		Rs. 30,000
Employer's contribution to recognized PF		
Actual contribution [20% of Rs. 1,80,000]	Rs. 36,000	
Less: Exempt (See Note 2)	Rs. 33,240	Rs. 2,760
Interest credited in RPF A/c @15% p.a.	Rs. 15,000	
Less: Exempt upto 9.5% p.a.	Rs. 9,500	Rs. 5,500
Gift of gold ring worth Rs. 10,000 on 25th wedding anniversary by employer (See Note 3)		Rs. 10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs. 85,000		Rs. 8,500
Less: Standard deduction u/s 16(ia)		Rs. 50,000
		Rs. 4,05,760
PGBP		
Lease of 2 light goods vehicles on contract basis against fixed charges of Rs. 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs. 7,500 p.m. for each of the two light goods vehicle (Rs. 7,500 x 2 x 12). He cannot claim lower profits & gains since he has not maintained books of A/c.		Rs. 1,80,000
IFOS		
Interest on bank FDRs	Rs. 5,860	
Interest from debentures (Rs. 6786 x 100/90)	Rs. 7,540	Rs. 13,400
Gross total Income		Rs. **5,99,160**

Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	Rs. 15,370	
Investment in NSC	Rs. 30,000	
FDR of SBI for 5 years	Rs. 50,000	
Employee's contribution to RPF	Rs. 30,000	Rs. 1,25,370
Section 80D – Mediclaim Insurance		**Rs. 22,500**
Section 80G (See Note 4)		**Rs. 10,600**
Total Income		**Rs. 4,40,690**
Tax on total income		
Income-tax		Rs. 9,535
Add: Rebate u/s 87A, since total income does not exceed Rs. 5,00,000		Rs. 9,535
Total Tax Payable		Nil
Less: Tax deducted at source (Rs. 7,540 – Rs. 6,786)		Rs. 754
Net tax refundable		**Rs. 754**
Tax refundable (rounded off)		**Rs. 750**

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in RPF is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
   =12% of (Rs. 1,80,000+ (50% of Rs. 1,44,000) + Rs. 25,000)
   =12% of Rs. 2,77,000 = Rs. 33,240
3. An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto Rs. 5,000 in the aggregate p.a. 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 Rs. 4,00,760.
4. Deduction u/s 80G is computed as under:

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

Adjusted GTI =GTI - Deductions u/s 80C & 80D= Rs. 5,99,160 - Rs. 1,47,870 = Rs. 4,51,290

Q9. From the following particulars furnished by Mr. X for PY 2021-2022, you are requested to compute his total income & tax payable for AY 2022-23, assuming that he does not opt for paying tax u/s 115BAC.

(1) Mr. X retired on 31.12.2021 at age of 58, after putting in 26 years & 1 month of service, from a private company at Mumbai.

(2) He was paid a salary of Rs. 25,000 p.m. & house rent allowance of Rs. 6,000 p.m. He paid rent of Rs. 6,500 p.m. during his tenure of service.

(3) On retirement, he was paid a gratuity of Rs. 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.

(4) He had accumulated leave of 15 days p.a. during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of Rs. 3,15,000 was received by him in this regard. His average salary may be taken as 24,500. Employer allowed 30 days leave p.a.

(5) After retirement, he ventured into textile business & incurred a loss of Rs. 80,000 upto 31.3.2022.
(6) Mr. X has deposited Rs. 1,00,000 in PPF.

Answer:

Computation of total income of Mr. X for AY 2022-23		
Income from Salaries		
Basic salary (Rs. 25,000 x 9 months)		Rs. 2,25,000
House rent allowance:		
Actual amount received (Rs. 6,000 x 9 months)	Rs. 54,000	
Less: Exemption u/s 10(13A) (Note 1)	Rs. 36,000	Rs. 18,000
Gratuity:		
Actual amount received	Rs. 3,50,000	
Less: Exemption u/s 10(10)(ii) (Note 2)	Rs. 3,50,000	-
Leave encashment:	Rs. 3,15,000	
Actual amount received		
Less: Exemption u/s 10(10AA) (Note 3)	Rs. 2,45,000	Rs. 70,000
Gross Salary		**Rs. 3,13,000**
Less: Standard deduction u/s 16(ia)		Rs. 50,000
		Rs. 2,63,000
PGBP		
Business loss of Rs. 80,000 to be c/f as the same cannot be set off against salary income		Nil
Gross Total income		**Rs. 2,63,000**
Less: Deduction u/s 80C: Deposit in PPF		Rs. 1,00,000
Total income		**Rs. 1,63,000**
Tax on total income		**Nil**

Notes:

1. House rent allowance will be exempt to the extent of least of the following three amounts:

(i) HRA actually received (Rs. 6,000 x 9)	Rs. 54,000
(ii) Rent paid in excess of 10% of salary (Rs. 6,500 – Rs. 2,500) x 9 months	Rs. 36,000
(iii) 50% of salary	Rs. 1,12,500

2. Gratuity of Rs. 3,50,000 is exempt u/s 10(10)(ii), being the minimum of the following amounts:

(i) Actual amount received	Rs. 3,50,000
(ii) 15 days salary x Length of Service [(Rs. 25,000 x 15/26) x 26 years]	Rs. 3,75,000
(iii) Statutory limit	Rs. 20,00,000

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

Actual amount received	Rs. 3,15,000
10 months average salary (Rs. 24,500 x 10)	Rs. 2,45,000
Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	Rs. 3,18,500
Statutory limit	Rs. 3,00,000

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

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

Q10. Rosy & Mary are sisters, born & brought up at Mumbai. Rosy got married in 1982 & settled at Canada since 1982. Mary got married & settled in Mumbai. Both of them are below 60 years. The following are the details of their income for PY ended 31.3.2022:

SN	Particulars	Rosy	Mary
(1)	Pension received from State Government	--	60,000
(2)	Pension received from Canadian Government	Rs. 20,000	--
(3)	LTCG on sale of land at Mumbai	Rs. 1 Lac	Rs. 1 Lac
(4)	STCG on sale of shares of Indian listed companies i.r.o. which STT was paid	Rs. 20,000	Rs. 2.5 Lacs
(5)	LIC premium paid	--	Rs. 10,000
(6)	Premium paid to Canadian LIC at Canada	Rs. 40,000	--
(7)	Mediclaim policy premium paid by A/c Payee Cheque	--	Rs. 25,000
(8)	Deposit in PPF	--	Rs. 20,000
(9)	Rent received i.r.o. HP at Mumbai	Rs. 60,000	Rs. 30,000

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

Answer: **Computation of taxable income of Mrs. Rosy & Mrs. Mary for AY 2022-23**

Particulars		Rosy [NR]	Marry [ROR]
(1) Income u/h Salaries:			
Pension from State Government	60,000		
Less: Standard deduction u/s 16(ia)	(50,000)	**Nil**	**10,000**
Mrs. Rosy is a NR. Hence, Pension received from Canadian Government is not taxable.			
(2) Income from HP:			
Gross Annual Value		60,000	30,000
Less: Municipal Tax paid		Nil	Nil
Net Annual Value		60,000	30,000
Less: Deduction u/s 24(a): 30% of NAV – [60,000 x 30% & 30,000 x 30%]		(18,000)	(9,000)
Income from HP		**42,000**	**21,000**
(3) Income u/h Capital Gains			
STCG on sale of Listed Securities of Indian Co. [STT paid]		20,000	2,50,000
LTCG on sale of Land at Mumbai		1,00,000	1,00,000
Income u/h Capital Gains		**1,20,000**	**3,50,000**
Gross Total Income		**1,62,000**	**3,81,000**
Less: Deduction under Chapter VI-A			

80C: Life Insurance Premium		(10,000)
80C: PPF		(20,000)
80C: Premium paid to Canadian Life insurance corporation	(40,000)	
80D: Mediclaim Premium paid	-	(25,000)
Chapter VIA deduction is restricted to incomes other than CG	(40,000)	(31,000)
Total Income	**1,22,000**	**3,50,000**

Tax on Total Income of Mrs. Rosy for AY 2022-23		
LTCG u/s 112 at 20% = [1,00,000 x 20%]	20,000	
STCG u/s 111A at 15% = [20,000 x 15%]	3,000	
Tax on Balance Income of Rs. 2,000	Nil	23,000
Add: HEC at 4%		920
Net Tax Payable (rounded off)		**23,920**

Tax on Total Income of Mrs. Marry for AY 2022-23		
STCG u/s 111A @ 15% of Rs. 1 Lac [Rs. 2.5 Lacs - Rs. 1.5 Lacs (being unexhausted BEL)]	15,000	
Less: Rebate u/s 87A	(12,500)	2,500
Add: HEC at 4%		100
Net Tax Payable (rounded off)		**2,600**

Notes:

1. LTCG on sale of land is chargeable to tax @ 20% as per section 112.
2. STCG on transfer of equity shares i.r.o. which STT is paid is subject to tax@15% as per section 111A.
3. In case of resident individuals, if BEL is not fully exhausted against other income, then, the LTCG/STCG will be reduced by the unexhausted BEL & only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to NR. Therefore, while Mrs. Mary can adjust unexhausted BEL against LTCG taxable u/s 112 & STCG taxable u/s 111A, Mrs. Rosy cannot do so.
4. Since LTCG is taxable at the rate of 20% & STCG is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her BEL of Rs. 2,50,000 against LTCG of Rs. 100,000 & the balance limit of Rs. 1,50,000 (i.e., Rs. 2,50,000 – Rs. 1,50,000) against STCG.
5. Rebate u/s 87A would not be available to Mrs. Rosy even though her total income does not exceed Rs. 5 lacs, since she is NR for the AY 2022-23.

Q11. Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in PY 2017-18 for production of washing machines. The unit fulfils all the conditions of section 10AA. During the FY 2020-21, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfils all the conditions of section 35AD. Capital expenditure i.r.o. warehouse amounted to 75 Lacs (including cost of land 10 Lacs). The warehouse became operational w.e.f. 1st April, 2021 & expenditure of Rs. 75 Lacs was capitalized in the books on that date. Relevant details for PY 2021-22 are as follows:

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

Compute income tax (including AMT u/s 115JC) payable by Mr. X for AY 2022-23 both as per regular provisions & u/s 115BAC. Advise him whether he should opt for section 115BAC.

Answer: **Computation of total income & tax liability of Mr. X for AY 2022-23** (under regular provisions)

Particulars	Rs.	Rs.
PGBP		
Profit from unit in SEZ	40,00,000	
Less: Deduction under section 10AA [See Note 1]	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	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		**48,00,000**
Computation of tax liability (under the normal/ regular provisions)		
Tax on Rs. 48,00,000		12,52,500
Add: HEC @ 4%		50,100
Total tax liability		**13,02,500**

Computation of Adjusted Total Income of Mr. X for levy of Alternate Minimum Tax		
Particulars	**Rs.**	**Rs.**
Total Income (as computed above)		48,00,000
Add: Deduction u/s 10AA		32,00,000
		80,00,000
Add: Deduction u/s 35AD	65,00,000	
Less: Depreciation u/s 32 (On building @ 10% of Rs. 65 lakhs)	6,50,000	58,50,000
Adjusted Total Income		1,38,50,00
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > Rs. 1 crore)		3,84,338
		29,46,588
Add: HEC @ 4%		1,17,863
Tax liability under section 115JC (rounded off)		**30,64,450**

Note:
1. It is assumed that the capital expenditure of Rs. 65 lakhs is incurred entirely on buildings.
2. Since regular tax payable is < AMT, adjusted total income shall be deemed to be total income & tax is leviable @ 18.5% + surcharge @ 15% & HEC @ 4%. Therefore, tax liability is **Rs. 30,64,450.**

Computation of total income & tax liability of Mr. X for A.Y.2022-23 (u/s 115BAC)

Particulars	Rs.	Rs.
Total Income (as computed above as per regular provisions)		**48,00,000**
Add: Deduction u/s 10AA (not allowable)		32,00,000
Add: Deduction u/s 35AD	65,00,000	
Less: Depreciation u/s 32: On building @10% of 65 lakhs (normal depreciation u/s 32 is allowable)	(6,50,000)	58,50,000
Total Income		**1,38,50,000**

Computation of tax liability as per section 115BAC		
Tax on 1,38,50,000		38,92,500
Add: Surcharge@15%		5,83,875
Add: Health and Education cess@4%		1,79,055
Total tax liability		**46,55,430**

Notes:

1. Deduction's u/s 10AA & 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 u/s 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 c/f u/s 115JEE = Tax liability u/s 115JC - Tax liability under regular provisions = **Rs. 17,61,850.**

Notes:

1. Deduction u/s 10AA i.r.o. Unit in SEZ = Profits from unit in SEZ × (Export Turnover of unit in SEZ)/ (Total turnover of Unit in SEZ) = Rs. 40,00,000 × 80L/100L = Rs. 32,00,000.
2. Deduction @100% of capital expenditure is available u/s 35ADfr A.Y.2022-23 in respect of specified business of setting up & operating awarehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

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

   Deduction u/s 35AD would not be available on expenditure incurred on acquisition of land. Since capital expenditure of Rs. 65 lacs (i.e. Rs. 75 lacs – Rs. 10 lacs being expenditure on acquisition of land) has been incurred in PY 2020-21 & capitalized in books of A/c on 1.4.2021, being the date when the warehouse became operational, Rs. 65 lakhs, being 100% of Rs. 65 lakhs would qualify for deduction u/s 35AD.

SECTION C: COMPILATION OF RTPs – MAY 2018 ONWARDS [COMPILED BY CA PRANAV CHANDAK]

M18	**INCLUDED IN PGBP CHAPTER**
N18	**INCLUDED IN PGBP CHAPTER**
M19	**INCLUDED IN PGBP CHAPTER**
N19	**INCLUDED IN PGBP CHAPTER**
M20	**INCLUDED IN PGBP CHAPTER**
N20	**Q1.** Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During PY 2021-22, he earned salary of 1,65,00,000 & LTCG on sale of listed equity shares amounting to 1,06,500. He earned interest of 4,82,778 on saving A/c. Further, he has provided following other information for filing his ROI: He does not receive HRA from his employer. Mr. A took a loan from SBI on 27th October 2019 for repairing his house (self-occupied) at Delhi & paid interest on such borrowings of 80,000 & 1,50,000 towards principal amount during PY 2021-22. Mr. A has made following payments towards medical insurance premium for health policies taken for his family members: Medical premium for his brother: 13,500 (by cheque) Medical premium for his parents: 17,670 (by cheque) Medical premium for self & his wife: 21,000 (by cheque) He also incurred 6,400 towards preventive health check-up of his wife in cash. He deposited 1,00,000 towards PPF. He also deposited 50,000 & 2,50,000 towards Tier I & Tier II NPS A/c, respectively.

He has paid 5,30,000 as advance tax. His employer has deducted TDS of 51,89,000. He is of the opinion, balance amount of tax, if any he will pay on 27 July 2022 (i.e., before due date for filing of ROI). From the details given above, choose most appropriate option to the questions given below:

1. Compute amount of deduction available to Mr. A under Chapter VI-A for AY 2022-23:
   (a) Rs. 2,04,070 (b) Rs. 2,42,670 (c) Rs. 2,52,670 **(d) Rs. 2,02,670**

2. Assuming Mr. A pays rent of 65,000 p.m. for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate & amount of TDS?
   (a) Yes, Mr. A is liable to deduct TDS @ 5% amounting to 3,250 every month i.e., at the time of payment of such rent
   (b) Yes, Mr. A is liable to deduct TDS @ 10% amounting to 6,500 every month i.e., at the time of payment of such rent
   (c) Yes, Mr. A is liable to deduct TDS @ 5% amounting to 39,000 in the month of March 2020
   (d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of A/c audited u/s 44AB

3. What would be the amount of net tax payable for AY 2022-23 in hands of Mr. A?
   (a) Tax payable of Rs. 78,230 (b) Tax payable of Rs. 60,290
   (c) **Tax payable of Rs. 49,530** (d) Tax payable of Rs. 67,470

4. Compute amount of interest chargeable u/s 234B on account of short payment of advance tax:
   (a) Rs. 1,980 **(b) Nil** (c) Rs. 3130 (d) Rs. 2410

Q2. Ms. Chanchal, aged 45, provides following data of her gross receipts for PY 2020-21 & PY 2021-22. She is engaged in agency business along with providing services as tarot card reader.

	Receipts from business	Receipts from profession	Total Gross Receipts
PY 2020-21	78,00,000	43,00,000	1,21,00,000
PY 2021-22	85,00,000	47,00,000	1,32,00,000

During PY 2021-22, she paid an amount of 1,20,000 to a contractor for polishing her old furniture. She has taken services from renowned interior designers for her self-occupied residential HP for which she paid Rs. 2,50,000. Further on 28.05.2021 she sold one commercial property for Rs. 50,00,000. The value adopted for stamp duty was 52,00,000. It was purchased for 40,00,000 on 28.04.2019. Brought forward LTCL from unlisted shares of FY 2020-21 is 7,80,000. During the year, Ms. Chanchal incurred a loss of 70,00,000 while trading in agricultural commodity derivatives (no CTT paid).

1. Is Ms. Chanchal liable to tax audit under Income-tax Act, 1961 for PY 2021-22?
   (a) Yes, as the total gross receipts exceeds 1,00,00,000
   (b) **No, as the gross receipts from business or profession are below the specified threshold limits.**
   (c) Yes, as the gross receipts from business exceed 50,00,000
   (d) Yes, as the gross receipts from profession exceed 25,00,000

2. What is the total amount of tax to be deducted by Ms. Chanchal for PY 2021-22?
   (a) Rs. 1200 (b) Rs. 26200 (c) Nil **(d) Rs. 27400**

3. What is the amount & nature of Capital gain chargeable to tax in hands of Ms. Chanchal?
   (a) 10,00,000 & STCG (b) 12,00,000 & STCG **(c) 7,50,000 & LTCG** (c) 9,50,000 & LTCG

4. What is the amount of losses which can be c/f to AY 2023-24, assuming that business income is 45,00,000 & income from profession is 25,00,000 for PY 2021-22?
   (a) 7,80,000 u/s 74 (b) 70,00,000 u/s 73 (c) **30,000 u/s 74** **(d) 70 Lacs**

Q3. Mr. Arjun holding 1000 shares of X Ltd acquired on 01.07.2020 for 600 per share, sold 500 shares to Mr. Shaurya, on 01.05.2021 for 550 per share. X Ltd. declared dividend @ 65 per share on 20.07.2021, being the record date for declaration of dividend. Mr. Shaurya sold 300 equity shares at 475 per share on 28.09.2021 & the balance 200 equity shares at 450 per share on 28.10.2021. Apart from above mentioned information, Mr. Shaurya was having only LTCGs from sale of unlisted shares of 50,000. Assuming that Mr. Shaurya has no other income, his total income for AY 2022-23 is:

(a) 7,500 (b) **27,000** (c) 50,000 (d) 30,000

Q4. Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. Following details are made available for year ended 31.3.2022:

SN	Particulars	Amount	Amount
1	Interest on capital received from XYZ & Co., at 15% [as per p'ship deed]		1,50,000
2	Share of profit from the firm		35,000
3	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
4	Interest from bank on fixed deposit (Net of TDS)		40,500
5	Interest on saving bank A/c		12,300
6	Income-tax refund received for AY 2021-22 including interest of 2,300		34,500
7	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop (For two half years; payment for one half year made on 12.7.2022 & for the other on 31.12.2022)	7,000	
	Salary to manager by way of a single cash payment	21,000	
8	WDV of assets (as on 1.4.2021) used in above wholesale business is:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
9	Motor car acquired on 31.12.2021 (20% used for personal use)	6,80,000	
10	He owned a HP in Mumbai which was sold in January, 2017. He received arrears of rent in respect of the said property in October, 2021.		1,15,000
11	LIP paid for independent son	60,000	
12	PPF of his wife	70,000	
13	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependent on him.	35,000	
14	Contribution toward Prime Minister National Relief Fund	50,000	

Answer: **Computation of total income of Mr. Suraj for AY 2022-23**

Particulars	Amount	Amount
Income from HP		
Arrears of rent (u/s 25A even if Mr. Suraj is not owner of HP in PY 2021-22)	1,15,000	
Less: Deduction @30%	(34,500)	**80,500**
PGBP		
Income from wholesale business		
Net profit as per books	5,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
Depreciation as per books	34,000	
Disallowance of municipal taxes paid for second half year u/s 43B, since the same was paid after the due date of filing of return (7,000/2)	3,500	

Disallowance u/s 40A(3) in respect of salary paid in cash since it is > 10,000	21,000	
20% of car expenses for personal use	8,000	
Less: Depreciation allowable (Note 1)	(1,96,800)	
	4,29,700	
Income from firm		
Share of profit from firm is exempt u/s 10(2A)	-	
Interest on capital from partnership firm **(Note 2)**	1,20,000	
Salary as working partner fully taxable	1,00,000	6,49,700
IFOS		
Interest on bank fixed deposit (Gross)	45,000	
Interest on saving bank account	12,300	
Interest on income-tax refund	2,300	59,600
Gross total income		7,89,800
Less: Deduction under Chapter VIA (Note 3)		(2,25,000)
Total Income		**5,64,800**

Notes:

1. **Depreciation allowable under Income-tax Rules, 1962:**

		Op. WDV	Rate	Depreciation	Cl. WDV
Block 1	Computers	2,40,000	40%	96,000	1,44,000
	Computer printer	1,50,000	40%	60,000	90,000
Block 2	Motor Car	6,80,000	15% x ½	40800	6,39,200
	Only 80% is allowed. 20% not allowed as it was for personal use			**1,96,800**	**8,73,200**

2. Only to the extent the interest is allowed as deduction in hands of firm, same is includible as business income in hands of partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in hands of firm is 12% p.a. Therefore, interest @12% p.a. amounting to 1,20,000 would be treated as the business income of Mr. Suraj.

3. **Deduction under Chapter VI-A:**

Particulars	Amount	Amount
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
Since the maximum deduction u/s 80C & 80CCE is 1,50,000, entire sum of 1,30,000 would be allowed as deduction	1,30,000	1,30,000
Under section 80D		
Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependent on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of 50,000.		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTA		
Interest on saving bank account, restricted to		10,000
Total deduction		**2,25,000**

May 21

Q5. Mr. Sarthak, aged 38 years, working in Nobita Pvt. Ltd. as Senior Finance Manager. His yearly pay slip for FY 2021-22 is as follows:

Earnings	Total	Deduction	Total
Basic Pay	6,34,068	Employee's contribution to PF	1,14,132
Dearness allowance	1,26,814	Profession tax	2,400
HRA	3,17,040	Income-tax	2,32,830
Transport Allowance	19,200	Net Pay	13,03,848
Personal Allowance	5,09,088		
Children Education Allowance for 2 children	12,000		
Medical Allowance	15,000		
Bonus	20,000		
Total Earnings	16,53,210		16,53,210

(a) His employer also contributes equivalent amount of contribution towards PF.
(b) Dearness allowance forms part of retirement benefits.
(c) He has intimated to his company that he would opt for 115BAC for AY 2022-23. Consequently, he has not submitted any investment proof to company.
(d) He has paid 55,212 towards Mediclaim premium for his parents (aged above 65 years) by A/c payee cheque.
(e) He has purchased a house of 28,00,000 & taken a loan of Rs. 21 Lacs from HDFC. He is paying EMI of Rs. 22,835. Possession of house received on 01.04.2021. He himself is occupying this house. Total principal & interest paid for full year is 55,037 & 2,18,983 respectively as per interest certificate received from bank for FY 2021-22.
(f) He has 3 children, studying in Sandalwood International School. Following are the components of school fees paid for Academic Session 2021-22:

School Fees Component	Child 1	Child 2	Child 3	Total
Tuition fees	30,000	37,000	40,000	1,07,000
Admission fees	20,000	-	-	20,000
Books, stationery & uniform	8,000	12,000	15,000	35,000
Infrastructure Fund	25,000	30,000	35,000	90,000
Commute cost	8,000	8,000	8,000	24,000
Activity Fees	6,000	7,000	8,000	21,000
Total Fees	**97,000**	**94,000**	**1,06,000**	**2,97,000**

(g) He has invested 5000 in HDFC ULIP & taken a LIC policy for his wife for 10,000.
(h) He has invested 12,500 & 25,000 towards NPS Tier I A/c & Tier II A/c, respectively.
(i) He has also donated 50,000 in PM Cares fund created for relief from COVID-19 pandemic in India.
(j) He has invested 40,000 in listed equity shares of Shaktimaan Power Solution Ltd. on 01.03.2021 at 200 per share & sells 100 shares at 350 per share on 01.11.2021. STT is paid both at the time of sale & purchase of these shares. Based on the above facts, choose the most appropriate answer to Q Nos. (1) to (5):

1. What would be amount of income chargeable to tax u/h Salaries in hands of Mr. Sarthak for AY 2022-23?
   (a) 16,53,210 (b) 16,21,236 (c) **16,76,036** (d) 16,71,236

2. Whether TDS by Nobita Pvt Ltd. on salary paid to Mr. Sarthak based on intimation submitted by him, is correct?
   (a) Yes, the amount of 2,32,830 deducted as tax at source is correct.
   (b) **No, the correct amount of tax to be deducted at source is 2,49,920.**
   (c) No, the correct amount of tax to be deducted at source is 2,42,800.
   (d) No, the correct amount of tax to be deducted at source is 2,41,300.

3. What would be the total income (without rounding off) of Mr. Ram for AY 2022-23, assume that he does not opt for section 115BAC?

(a) 11,73,736 (b) 11,76,699 (c) 11,61,699 (d) 11,58,736

4. What would be tax liability of Mr. Sarthak for the AY 2021-22, if he does not opt for section 115BAC?
   (a) 1,66,530 (b) **1,68,870** (c) 1,71,210 (d) 1,67,450

5. Assuming for the purpose of answering this question only that no contribution is made by Mr. Sarthak & his employer towards PF, what amount of deduction is available to Mr. Sarthak under Chapter VI-A for PY 2021-22, if he does not opt for section 115BAC?
   (a) 2,62,500 (b) **2,59,537** (c) 2,50,000 (d) 2,04,500

Q6. Ms. Rimjhim (aged 32 years), an interior decorator, has professional receipts of 25,60,000 for the PY 2021-22. She also earned 1,25,000 as dividend & 4,65,000 as interest income on FD. She incurred expenses of 13,00,000 for her profession & 30,000 as interest on loan for making investment in shares on which she received dividend. What would be her total income for AY 2022-23, assuming that she wishes to make maximum tax savings without getting her books of A/c audited?
(a) 18,45,000 (b) 18,70,000 (c) 18,40,000 (d) 18,25,000

Q7. Compute total income & tax liability thereon of Mr. Raghav for AY 2022-23 from following details: Mr. Raghav (age 61 years) working in a private company from last 10 years. His salary details for FY 2021-22 are:

Basic Salary	1,70,000 p.m.
Dearness Allowance (forms part of retirement benefits)	80,000 p.m.
Commission	32,000 p.m.
Transport Allowance	5,000 p.m.
Medical Reimbursement	40,000

Mr. Raghav resigned from services on 30th November, 2021 after completing 10 years & 5 months of service. He was paid gratuity of 25 lakhs on his retirement. He is not covered under Payment of Gratuity Act, 1972.
He started business of hiring of goods vehicle, purchased 4 small goods vehicles on 10th December, 2021 & 4 heavy vehicles having gross weight of 20 MTs each on 1st January, 2022. He did not maintain books of A/c for business of hiring of goods vehicle. Mr. Shivpal, his very close friend gifted him 2 lakhs to purchase vehicles.
He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid-up share capital of company as on 31st March, 2021 was 20 lakhs divided into 2 lakh shares of 10 each which were issued at a premium of 30 each. Company allotted shares to shareholders on 1st October, 2014.
He sold all these shares on 30th April, 2021 for 60 per share. Equity shares of TSP (P) Ltd. are listed on NSE & Mr. Raghav has paid STT both at the time of acquisition & transfer of such shares. FMV on 31.1.2018 was 50 per share.
On 12.2.2022, interest of FD of 92,500 credited to his SBI Bank. On 30.4.2021, 5,500 & on 30.12.2021, 8,500 credited to interest on saving bank A/c with SBI Bank.
He deposited 1,10,000 in PPF A/c. He paid insurance premium of 20,000 on his life policy during FY 2021-22. The policy was taken in April 2011 & sum assured was 3,00,000. He also made payment of 25,000 towards LIC pension fund & premium of Rs. 40,000 towards mediclaim policy for self & Rs. 20,000 for his wife. All the payment he made by A/c payee cheque.
There was no change in salary of Mr. Raghav from last 2 years. He does not opt to pay tax as u/s 115BAC.
Cost inflation Index is for: 2014-15:240; 2021-22:317
Answer:

Particulars		Amount	Amount
Salaries			
Basic Salary = 1,70,000 x 8		13,60,000	
Dearness Allowance = 80,000 x 8		6,40,000	
Commission = 32,000 x 8		2,56,000	
Transport Allowance = 5,000 x 8		40,000	
Medical reimbursement [Fully taxable]		40,000	

Gratuity – Amount received	25,00,000		
Less: Least of the following exempt u/s 10(10)			
• Actual Gratuity received 25,00,000			
• 0.5 month's salary for every year of completed service [0.5 x 2,50,000 (Basic salary plus DA) x 10] = 12,50,000			
• Notified limit of 20,00,000			
Least of the above is exempt	12,50,000	12,50,000	
Gross Salary		**35,86,000**	
Less: Standard deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]		(50,000)	
Net Salary			35,36,000
Profits & gains of business or profession			
Income from business of hiring goods vehicle			
Other than heavy goods vehicles = 4 x (7,500 p.m.) x (4 months)		1,20,000	
Heavy goods vehicles = 4 x (20 MTs x 1,000 per MT) x (3 months)		2,40,000	3,60,000
Capital Gains			
On transfer of 60,000 shares (2,00,000 x 30%)			
Sales consideration [60,000 x 60 per share]		36,00,000	
Less: Cost of acquisition, higher of		(30,00,000)	
• Actual cost [60,000 x 40 per share]	24,00,000		
• Lower of			
FMV on 31.1.2018 [60,000 x 50]	30,00,000		
Actual sales consideration [60,000 x 60]	36,00,000		
LTCG u/s 112A (shares are held for a period of more than 12 months)			6,00,000
Income from Other Sources			
Gift from friend taxable u/s 56(2)(x) since the same exceeds 50,000.		2,00,000	
Interest on Saving A/c with SBI Bank		14,000	
Interest on FD with SBI Bank [Since interest is credited after deduction of TDS @ 7.5%, as the amount of interest exceeds 50,000, amount included in total income needs to be grossed up (92,500 x 100/92.5)]		1,00,000	**3,14,000**
Gross Total Income			**48,10,000**
Less: Deduction under Chapter VI-A			
Section 80C			
Deposits in PPF A/c		1,10,000	
Life Insurance premium [fully deductible, since, i.r.o a policy taken before 1.4.2012, actual premium paid (20,000) or 20% of sum assured (3,00,000 x 20% = 60,000), whichever is lower, has to be deducted]		20,000	
		1,30,000	
Section 80CCC			
Payment to LIC Pension Fund		25,000	
		1,55,000	
Restricted to 1,50,000, being the maximum allowable deduction			1,50,000
Section 80D			
Medical insurance premium for self & spouse 60,000, allowable to the extent of 50,000, since Mr. Raghav is a senior citizen			50,000
Section 80TTB			

Deduction i.r.o interest on FD & saving bank allowable as deduction u/s 80TTB, since Mr. Raghav is a senior citizen, to the extent of 50,000		50,000
Total Income		**45,60,000**

Computation of tax liability of Mr. Raghav for AY 2022-23

Particulars	Amount	Amount
Tax on total income of 45,60,000		
Tax on LTCG of Rs. 6 Lacs @ 10% u/s 112A above Rs. 1 lac		50,000
Tax on other income of Rs. 39,60,000 [45,60,000 – 6,00,000 capital gains]		9,98,000
First 10 Lacs: Rs. 1,10,000; Next 29,60,000 @30% = Rs. 8,88,000		
Add: HEC @4%		41,920
Tax liability		**10,89,920**

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Q8. Mr. Animesh, an Indian citizen, age 61 years, has set-up his business in Canada & is residing in Canada since 2009. He owns a House in Canada, half of which is used by him for his residence & half is given on rent (converted into Rs. is 12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2018 for 42,00,000. SDV of the flat was 35,00,000. He has taken a loan from Canara Bank in India of Rs. 34,00,000 for purchase of this flat. Interest on such loan for PY 2020-21 was Rs. 3,14,000 & principal repayment was Rs. 80,000. Mr. Animesh has given this flat on monthly rent of Rs. 32,500 since April, 2019.

Annual property tax of Delhi flat is Rs. 40,000 which is paid by Mr. Animesh, whenever he comes to India to meets his parents.

Mr. Animesh visited India for 124 days during the PY 2020-21. Before that he visited India in total for 366 days during the period 1.4.2016 to 31.3.2020.

He had a house in Ranchi which was sold in May 2017. In respect of this house, he received arrears of rent of Rs. 2,96,000 in February 2021 (not taxed earlier).

He also derived some other incomes during the FY 2020-21 which are as follows:

- Profit from business in Canada: Rs. 2,75,000.
- Interest on bonds of a Canadian Co. Rs. 6,20,000 out of which 50% was received in India.
- Income from Apple Orchid in Nepal given on contract & the yearly contract fee of Rs. 5,00,000 for PY 2021-22, was received by Animesh in Nepal.
- Mr. Animesh has sold 10,000 listed shares @ Rs. 480 per share of A Ltd., an Indian company, on 15.9.2020, which he acquired on 05.04.2016 @ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.
- On 31.01.2018, the shares of A Ltd. were traded on a recognized stock exchange as under: Highest price - 300 per share; Average price - 290 per share; Lowest price - 280 per share.

Based on the above facts, choose the most appropriate answer to Q. Nos. (1) to (5)

1. What would be the residential status of Mr. Animesh for the AY 2021-22?
   (a) ROR in India (b) **RNOR** (c) NR (d) Deemed resident

2. What would be amount of income taxable u/h HP in the hands of Mr. Animesh for AY 2021-22?
   (a) 2,52,200 (b) **1,38,200** (c) 9,78,200 (d) 10,92,200

3. What amount of capital gain would arise in the hands of Mr. Animesh on transfer of shares of A Ltd?
   (a) 18,00,000 (b) 19,00,000 (c) 20,00,000 (d) 38 Lacs

4. What would be total income of Mr. Animesh for the AY 2021-22, if he does not opt to pay tax u/s 115BAC?
   (a) 22,82,200 (b) 22,68,200 (c) 22,48,200 **(d) 21,68,200**

5. What would be the tax liability of Mr. Animesh for AY 2021-22?
   (a) 1,82,950 (b) 1,87,110 **(c) 1,80,350** (d) 1,84,510

Q9. Mr. Uday Shankar (aged 67 years) is retired from a PSU. He resides in Indore, Madhya Pradesh. He provides you following particulars of his income & certain payments/investments for PY 2021-22:

SN	Particulars	Amount
1	Pension Income	7,80,000
2	Interest from FD (Gross)	2,35,000
3	Life insurance premium paid by cheque for insurance of his life. Insurance policy was taken on 08.09.2016 & the sum assured is 2,50,000.	25,500
4	Premium paid by cheque for health insurance of self & his wife, who is also senior citizen	36,000
5	Paid in cash for his health check-up	3,500
6	Paid through cheque for preventive health check-up of his mother aged 90 years	4,500
7	Paid interest on loan taken from bank for MBA course pursued by his daughter	9,500
8	Donated by cheque to an institution approved for sec. 80G for promoting family planning	95,000
9	Contributed towards PM CARES Fund by cheque	20,000

Compute total income of Mr. Uday Shankar for the AY 2022-23, assuming he does not opt for section 115BAC.

Answer: **Computation of total income of Mr. Uday Shankar for AY 2022-23**

Particular	Amount	Amount
Income u/h Salaries		
Pension	7,80,000	
Less: Standard deduction u/s 16(ia)	(50,000)	7,30,000
IFOS		
Interest from bank on FD (Gross)		2,35,000
Gross Total Income		**9,65,000**
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
LIC premium of Rs. 25,500 (restricted to 10% of Rs. 2,50,000, being sum assured as the policy is taken after 31.3.2012)		25,000
Deduction u/s 80D		
Premium for health insurance for self & his wife paid by cheque, allowed upto Rs. 50,000 since Mr. Uday Shankar is a senior citizen	36,000	
Preventive health check-up for self Rs. 3,500 & for his mother Rs. 4,500, restricted to Rs. 5,000 (deduction allowed even if same is paid in cash)	5,000	41,000
Deduction u/s 80E		
Interest on loan taken from bank for MBA course pursued by his daughter		9,500
Deduction u/s 80G		
Donation to PM CARES Fund – 100% allowable	20,000	
Donation to an approved institution for promoting family planning – 100% allowable subject to qualifying limit of Rs. 83,950 i.e., 10% of Rs. 8,39,500 being the adjusted total income	83,950	1,03,950
Deduction u/s 80TTB		
Interest on FD with bank allowable as deduction upto Rs. 50,000, since Mr. Uday Shankar is a senior citizen		50,000
Total Income		**7,35,550**

Q10. Mr. Dheeraj age 48 years, resident Indian has furnished following particulars for year ended 31.03.2021:

(a) He occupies ground floor of his residential building & has let out 1st floor for residential use at annual rent of Rs. 3,34,000. He has paid municipal taxes of Rs. 30,000 for current FY. Both floors are of equal size.

(b) As per interest certificate from ICICI bank, he paid Rs. 1,80,000 as interest & Rs. 95,000 towards principal repayment of housing loan borrowed for above residential building in year 2014.

(c) He owns an industrial undertaking established in a SEZ & which had commenced operation during FY 2019-20. Total turnover of undertaking was Rs. 400 lakhs, which includes Rs. 120 lakhs from export turnover. This industrial undertaking fulfills all conditions of section 10AA of Income-tax Act, 1961. Profit from this industry is Rs. 45 lakhs.

(d) He employed 20 new employees for said industrial undertaking during PY 2020-21. Out of 20 employees, 12 were employed on 1st May 2020 on monthly emoluments of Rs. 18,000 & remaining were employed on 1st August 2020 on monthly emoluments of Rs. 12,000. All these employees participate in RPF & they are paid their emoluments directly to their bank A/c.

(e) He earned Rs. 30,000 & Rs. 45,000 as interest on saving bank deposits & FD respectively.

(f) He also sold his vacant land on 01.12.2020 for Rs. 13 lakhs. SDV of land at time of transfer was Rs. 14 lakhs. FMV of the land as on 1st April, 2001 was Rs. 4.8 lakhs & SDV on the said date was Rs. 4 lakhs. This land was acquired by him on 15.9.1997 for Rs. 2.80 lakhs. He had incurred registration expenses of Rs. 12000 at that time. CII for FY 2020-21 & 2001-02 are 301 &100 respectively.

(g) He paid insurance premium of Rs. 49000 towards life insurance policy of his son, who is not dependent on him. You are requested to compute his total income & tax liability for AY 2021-22.

Answer: **Computation of total income of Mr. Dheeraj for AY 2021-22**

Particulars	Amount	Amount
Income from HP		
Let out portion [First floor]		
GAV [Rent received is taken as GAV, in absence of other information]	3,34,000	
Less: Municipal taxes paid by him in PY 2021-22 pertaining to let out portion [30,000/2]	(15,000)	
Net Annual Value (NAV)	3,19,000	
Less: Deduction u/s 24		
30% of 3,19,000 = 95,700		
Interest on housing loan [1,80,000/2] = 90,000	(1,85,700)	
	1,33,300	
Self-occupied portion [Ground Floor]		
Annual Value	Nil	
[No deduction is allowable in respect of municipal taxes paid]	-	
Less: Interest on housing loan	(90,000)	
	(90,000)	
Income from HP [1,33,300 – 90,000]		43,300
PGBP		
Income from SEZ unit		45,00,000
CG		
LTCG on sale of land (since held for more than 24 months)		
Full Value of Consideration [Actual consideration of 13 lakhs, since SDV of 14 lakhs does not exceed actual consideration by more than 10%]	13,00,000	
Less: Indexed Cost of acquisition [4,00,000 x 301/100]	(12,04,000)	96,000
Cost of acquisition		
Higher of:		
- Actual cost 2.80 lakhs + 0.12 lakhs = 2.92 lakhs &		
- FMV as on 1.4.2001 = Rs. 4.8 lakhs but cannot exceed SDV of 4 lakhs		
IFOS		
Interest on savings bank deposits	30,000	
Interest on FD	45,000	75,000
Gross Total Income		47,14,300

Less: Deduction u/s 10AA [Since industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since PY 2021-22 being 3rd year of operations] = [Profits of SEZ x Export Turnover/Total Turnover] x 100% = [45 lakhs x 120 lakhs/ 400 lakhs x 100%]		(13,50,000)
Less: Deduction u/s 80C		
Repayment of principal amount of housing loan = 95000		
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj = 49000	1,44,000	
Less: Deduction u/s 80JJAA: 30% of employee cost of new employees employed during PY 2021-22 is allowable as deduction [30% of 31,44,000] = [23,76,000 (12 x 18,000 x 11) + 7,68,000 (8 x 12,000 x 8)]	9,43,200	
Deduction u/s 80TTA: Interest on savings bank A/c (Max. 10,000)	10,000	(10,97,200)
Total income		22,67,100

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

Particulars	Amount	Amount
Tax on total income of 22,67,100		
Tax on LTCG of 96,000 @20%		19,200
Tax on remaining total income of 21,71,100		
Up to 2,50,000	Nil	
2,50,001 – 5,00,000 [@5% of 2.50 lakh]	12,500	
5,00,001 – 10,00,000 [@20% of 5,00,000]	1,00,000	
10,00,001 – 21,71,100 [@30% of 11,71,700]	3,51,330	4,63,830
Add: HEC @4%		19,321
Total tax liability		5,02,351
Tax liability (rounded off)		**5,02,350**

Computation of tax liability of Mr. Dheeraj for AY 2022-23 under special provisions of the Act (AMT)

Particulars	Amount
Computation of adjusted total income	
Total income as per normal provisions of the Act	22,67,100
Add: Deduction u/s 10AA	13,50,000
Add: Deduction u/s 80JJAA	9,43,200
	45,60,300
AMT@18.5%	8,43,656
Add: HEC @4%	33,746
AMT liability	8,77,402
AMT liability (rounded off)	8,77,400

Since the regular income tax payable is less than AMT, adjusted total income of 45,60,300 would be deemed to be total income & tax would be payable @18.5% plus HEC @4%. The total tax liability would be 8,77,400. In this case, AMT credit of 3,75,050 (8,77,400 – 5,02,350) can be c/f.

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

Computation of total income of Mr. Dheeraj as per section 115BAC for AY 2022 -23

Particulars	Amount
GTI as per regular provisions of the Income-tax Act	47,14,300

Add: Interest on borrowing in respect of self-occupied HP (Not allowable as deduction as per section 115BAC)	90,000
GTI as per section 115BAC	48,04,300
Less: Deduction u/s 80JJAA	(9,43,200)
30% of the employee cost of new employees employed during PY 2021-22 is allowable as deduction [30% of 31,44,000] [23,76,000 (12 x 18,000 x 11) + 7,68,000 (8 x 12,000 x 8)]	
No deduction u/s 10AA or under Chapter VI-A is allowable except u/s 80JJAA	
Total income	**38,61,100**

Computation of tax liability as per section 115BAC

Particulars	`	`
Tax on total income of 38,61,100		
Tax on LTCG of 96,000 @20%		19,200
Tax on remaining total income of 37,65,100		
Up to 2,50,000	Nil	
2,50,001 – 5,00,000 [@5% of 2.50 lakhs]	12,500	
5,00,001 – 7,50,000 [@10% of 2.50 lakhs]	25,000	
7,50,001 – 10,00,000 [@15% of 2.5 lakhs]	37,500	
10,00,001 – 12,50,000 [@20% of 2.5 lakhs]	50,000	
12,50,001 – 15,00,000 [@25% of 2.5 lakhs]	62,500	
15,00,001 – 37,65,100 [@30% of 22,65,100]	6,79,530	8,67,030
Add: Health & education cess@4%		35,449
Total tax liability		9,21,679
Tax liability (rounded off)		**9,21,680**

Since tax liability as per section 115BAC is higher than tax liability of 8,77,400 being higher of AMT liability & tax liability computed as per normal provisions of the Income- tax Act, 1961, it is beneficial for Mr. Dheeraj not to exercise option u/s 115BAC. In such case, his tax liability, therefore, would be 8,77,400. Moreover, Mr. Dheeraj would also be eligible to claim c/f of AMT credit of 3,75,050.

SECTION D: COMPILATION OF PAST EXAM QUESTIONS – MAY 2015 ONWARDS

M 15

Q1. Dr. Shashank is a noted child specialist of Mumbai. His Income & Expenditure A/c for FY ended 31.03.2022 is given below:

Expenditure	Amount	Income	Amount
To staff salary	22,78,000	By Fee receipts	56,76,000
Administrative expenses	1,64,000	Winning at TV game show (Net)	35,000
Medicine consumed	23,95,800	LIC policy matured	1,15,000
Consumables	57,500	Honorarium for giving lectures	24,000
Depreciation	1,25,000		
Rent of clinic	1,20,000		
Donation to National Children's Fund	51,000		
To Net Profit	6,58,700		
Total	**58,50,000**	**Total**	**58,50,000**

(1) Depreciation computed as per Income Tax Rules, 1962 has been ascertained at 75,000.
(2) Medicines consumed include cost of medicine for self & family of 18,000 & for treating poor patients of 24,000 from whom he did not charged any fee either.
(3) Salary includes 30,000 paid in cash to a computer specialist who computerized his patient's data
(4) Donation to National Children's Fund has been made by way of an A/c payee cheque.
(5) He has paid Rs. 25,000 for a Life Insurance Policy (Sum assured 2,00,000) of himself, which was taken on 01.07.2016.
(6) He also contributed 1,20,000 towards PPF.
(7) Dr. Shashank also paid interest of 10,000 on loan taken for higher education of his daughter.
(8) Dr. Shashank also made donation of 1,00,000 to a charitable trust registered & eligible for deduction.

You are required to compute total income & tax payable by Dr. Shashank for AY 2022-23.

Assume Dr. Shashank:
- does not opt to be taxed under section 115BAC.
- opts to be taxed under section 115BAC.

Solution:

Particulars			115BAC not opted	115BAC opted
Income from profession				
Excess of income over expenditure as per Income & Expenditure A/c			6,58,700	
Less: Incomes credited but either exempt or not taxable u/h PGBP				
Winning at TV game show (Net of TDS)		35,000		
LIC policy matured		1,15,000		
Honorarium for giving lectures at seminars		24,000	(1,74,000)	
Add: Expenses disallowed				
Depreciation		1,25,000		
Cost of medicine consumed for self		18,000		
Cash paid to computer specialist		30,000		
Donation to National Children Fund (allowed u/s 80G)		51,000	2,26,000	
Less: Depreciation as per income tax			75,000	
			6,33,700	6,33,700
IFOS		24,000		
Honorarium for giving lectures at seminars		50,000	74,000	74,000
Winning of TV show (Rs. 35,000 x 100/70)				
Gross total income			**7,07,700**	**7,07,700**
Less:				

Deduction u/s 80C — LIP	20,000			
PPF	1,20,000	1,40,000		
u/s 80E		10,000		
u/s 80G				
National Children Fund 100%	51,000			
Charitable trust — 50% of 55,770 (i.e. 10% of adjusted gross total income ₹ 5,57,700)	27,885	78,885	2,28,885	Nil
			4,78,815	7,07,700
Or say			4,78,820	7,07,700
Tax payable on ₹ 4,78,820/17,07,700				
On ₹ 50,000 @ 30%			15,000	15,000
On ₹ 4,28,820/6,57,700			8,941	28,270
			23,941	43,270
Less: Rebate u/s 87A			12,500	Nil
			11,441	43,270
Add: Health & education cess @ 4%			458	1,731
			11,900	45,000
Less: TDS on winnings			15,000	15,000
Refund due/tax payable			**3,100**	**30,000**

Notes:
1. Amount of 1,15,000 received on maturity of LIC policy is exempt u/s 10(10D).
2. In respect of life insurance premium, deduction u/s 80C is restricted to 10% of sum assured as the policy was taken after 01.04.2012
3. Adjusted gross total income has been calculated as under [7,07,700 - 1,50,000 (1,40,000 + 10,000)] = 5,57,700 = 10% of 5,57,700 = 55,770

Q2. From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi, compute GTI for AY 2022-23.

Particulars	Amount
Salary including Dearness Allowance	6,50,000
Conveyance Allowance of ₹ 1,700 p.m.	20,400
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by employer for gas, electricity & water provided free of cost at residence of Mr. Dinesh.	82,000

Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self-occupation for 35,00,000 in April 2016, which was financed by a loan from Bank of India of 20,00,000 @11% interest & his own savings of 5,00,000 & a deposit of 10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for 10 years. Rent payable by Bank of Baroda is 35,000 p.m.

Other relevant particulars are given below:
1. Municipal taxes paid by Dinesh for his flat in Dwarka are 18,000 p.a. & house in Rohini are 12,000 p.a.
2. Principal loan amount outstanding as on 01.04.2021 was 18,50,000.
3. He also paid 8,000 towards insurance of both the houses.
4. In FY 2020-21, he had gifted 40,000 each to his wife & minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% p.a.
5. Mr. Dinesh's son is studying in a school run by the employer company throughout the FY 2021-22. The education facility was provided free of cost. The cost of such education in similar school is 2,500 p. m.
6. Dinesh also received gifts of 45,000 each from his two friends during the FY 2021-22.

Assume Dinesh: (a) does not opt to be taxed u/s 115BAC (b) opts to be taxed u/s 115BAC.

Solution:

	Does not opt to be taxed u/s 115BAC		Opts to be taxed u/s 115BAC	
Income from salary				
Salary including DA	6,50,000		6,50,000	
Conveyance received (₹ 1,700 x 12)	20,400		20,400	
Bonus	50,000		50,000	
Salary of servant provided by employer	48,000		48,000	
Bills paid by employer	82,000		82,000	
Education facility received for child ₹ 2,500 x 12 fully taxable as per judgement of Punjab & Haryana HC in case of Delhi Public School as it exceeds ₹ 1,000 p.m.	30,000		30,000	
	8,80,400		8,80,400	
Less: Standard deduction u/s 16(ia)	50,000	8,30,400	NA	880400
Income from HP				
House in Rohini let out				
Rent received 05,000 x 12	4,20,000		4,20,000	
Less: Municipal taxes paid	12,000		12,000	
	4,08,000		4,08,000	
Less: Standard deduction @ 30%	1,22,400		1,22,400	
Income from let-out property	2,85,600		2,85,600	
House in Dwarka [self-occupied]				
Net annual value	Nil		Nil	
Less: Deductions				
(a) Standard deduction	Nil		Nil	
(b) Interest on loan 11% of ₹ 18,50,000 = 2,03,500				
Deduction limited to	2,00,000		Nil	
Loss from SOP/Not allowed in second case	2,00,000		Nil	
Net income from house property		85,600		285600
IFOS				
Gifts received (₹ 45,000 x 2)	90,000		90,000	
Incomes of other persons clubbed				
Dinesh wife: ₹ 40,000 x 18% = 7,200	7,200		7,200	
Dinesh son: ₹ 40,000 x 18% = 7,200	5,700	1,02,900	7,200	104400
Exemption of Rs. 1500 u/s 10(32) is not allowed u/s 115BAC.				
Gross total income		10,18,900		1270400

N15 **Q3.** Mrs. Ann provides the following information for FY ending 31.3.2022. Compute her total income & tax payable thereon for AY 2022-23 as per Income Tax Act, 1961.

Income/receipts:

(1) Salary from M/s Prominent Technologies, - Rs. 60,000 p.m. (Joined from 1.3.2021).
(2) She is in receipt of HRA, 15,000 p.m. & also educational allowance of 1,500 p.m. for all 3 children.
(3) She bought a truck on 1.8.2021 & has been letting it on hire. She does not maintain books of A/c for this business. But she declares for income tax purpose, that she is earning net income of 11,000 p.m. from this business.
(4) She received 8,500 as interest on Post Office Savings Bank A/c.
(5) She received 35,000 as interest from Company Deposits.
(6) Amounts withdrawn from National Savings Scheme (Principal 10,000 & Interest 25,000)

Expenses/payments:

(1) Interest payable to bank 1,000 p.m. on loan for the purchase of truck.

(2) Total interest paid to bank for loan borrowed for investing in company deposits is 5,000.

(3) Rent paid for residence is 18,000 p.m.

(4) Tuition fees paid for the year 2021-22 for her three children is 50,000, 30,000 & 20,000 respectively, to educational institution situated in India.

(5) Medical insurance premium for herself & for her husband is 30,000 (paid by cheque) & 25,000 (paid by cash) respectively.

(6) She has deposited during the year, in 5-year Post Office Recurring Deposit Scheme 20,000.

Assume Mrs. Ann:

- does not opt to be taxed under section 115B AC
- opts to be taxed under section 115BAC

Solution: **Computation of total income of tax payable of Mrs. Ann**

Particulars		**Does not opt to be taxed u/s 115BAC**		**Opts to be taxed u/s 115BAC**	
Income u/h salaries					
Basic salary (60,000 x 12)		7,20,000		7,20,000	
House rent allowance					
- Amount received	1,80,000				
- 40% of salary (7,20,000)	2,88,000				
- Rent paid - 10% of salary [(18,000 x 12) - 72,000]	1,44,000				
Taxable HRA 1,80,000 - 1,44,000		36,000		1,80,000	
Children education allowance (1,500 x 12)	18,000				
Less: Exempt (100 x 12 x 2)	2,400	15,600	7,71,600	18,000	9,18,000
Less: Standard deduction u/s 16(ia)			(50,000)		Nil
			7,21,600		**9,18,000**
Income u/h business					
Actual income (11,000 x 8)	88,000				
Presumptive income u/s 44AE (7,500 x 8) whichever is **higher**	60,000		**88,000**		**88,000**
IFOS					
Interest from company deposits	35,000				
Less: Deduction u/s 57	5,000	30,000			
Interest received from post office	8,500				
Less: Exemption u/s 10(15)	3,500	5,000			
Withdrawal from NSS		35,000	**70,000**		**70,000**
Gross total income			**8,79,600**		**10,76,000**
Less: Deductions under Chapter VIA					
Deduction u/s 80C					
Tuition fees of 2 children (50,000 + 30,000)		80,000			
Deduction u/s 80D		35,000			
Deduction u/s 80TTA		5,000	(1,20,000)		Nil
Tax on total income			**7,59,600**		**10,76,000**
Income tax		64,420		90,200	
Add: HEC @ 4%		2,577		3,608	93,808
Tax payable (rounded off)			**66,997**		**93,810**

Q4. Mr. Venus provides following details for PY ending 31.3.2022:

1	Salary from HNL Ltd.	50,000 p.m.
2	Interest on FD with SBI for FY 2021-22	72,000 (Net of TDS)
3	Determined LTCL of AY 2020-21 (to be carried forward)	96,000
4	LTCG	75,000
5	Loss of minor son 90,000 computed in accordance with the provisions of Income Tax Act. Mr. Venus transferred his own house to his minor son without adequate consideration few years back & minor son let it out & suffered loss.	
6	Loss of his wife's business	(2,00,000)

She carried business with funds which Mr. Venus gifted to her.

You are required to compute taxable income of Mr. Venus for AY 2022-23. Assume Mr. Venus:

- does not opt to be taxed under section 115BAC
- opts to be taxed under section 115B AC

Solution: **Computation of total income of Mr. Venus**

		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from salary			
Salary (50,000 x 12)	6,00,000		
Less: Standard deduction u/s 16(ia)/Not allowed	50,000	5,50,000	6,00,000
Income from HP			
Property transferred to minor son without adequate consideration Mr. Venus is deemed owner u/s 27.		(90,000)	(90,000)
PGBP			
Loss of wife's business 2,00,000			
Business loss cannot be set off against salaries. It is set off against IFOS that is 80,000			
1,20,000 business loss is c/f to next year			
Capital gain			
LTCG	75,000		
Less: B/f LTCL restricted	75,000	Nil	Nil
Balance LTCL of 21,000 shall be c/f			
IFOS			
Interest on fixed deposit grossing up 72,000 x 100/90	80,000		
Less: Loss from business set off	80,000	Nil	Nil
Total income		**4,60,000**	**5,10,000**

M16

Q5. Mr. Vinod Kumar, resident, aged 62 furnishes following information for PY 2021-22:

SN	Particulars	Amount
1	Pension received (Net of TDS)	6,67,000
2	Short-term capital gains (from sale of listed shares)	65,000
3	Long-term capital gains (from sale of listed shares)	1,24,000
4	Interest on fixed deposit from bank	1,60,000
5	Pertaining to consultancy	
	Gross receipts	52,60,000
	Expenses:	
	Rent for premises	11,44,000
	Salary of P.A.	4,20,000

	Stenographer's salary	3,00,000
	Business Development expenditure	2,91,000
	Conveyance	3,00,000
6	Contribution to PPF	1,10,000
7	Premium on life insurance policy taken on 10.1.2020 (sum assured 5,00,000)	60,000
8	Mediclaim Insurance Premium for self (paid otherwise than by cash)	47,000
9	Preventive health check-up expenses (in cash)	6,000
10	Donation given in cash to a charitable trust registered u/s 12AA (eligible for deduction u/s 80G) of Income-Tax Act, 1961	25,000
11	Interest received from Post Office Savings A/c.	18,000

Additional information:
TDS from pension: Rs. 25,000.
1/4th of conveyance expenses is estimated for personal use.
Compute total income of assessee for AY 2022-23, under proper heads of income. Listed share were sold in RSE. Assume Mr. Vinod Kumar (a) does not opt for 115B AC (b) opts to be taxed u/s 115BAC.

Solution: **Computation of total income of Vinod Kumar for AY 2022-23**

			Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from salary				
Pension received [6,67,000 + TDS 25,000 = 6,92,000 - 50,000 (std. deduction)]/std. deduction not allowed			6,42,000	6,92,000
Income from business or profession				
Gross receipts		52,60,000		
Less: Expenses				
(1) Rent	11,44,000			
(2) Salary of P.A.	4,20,000			
(3) Salary of stenographer	3,00,000			
(4) Business development expenses	2,91,000			
(5) Conveyance (3,00,000 - 75,000 i.e. 25%)	2,25,000	23,80,000	28,80,000	28,80,000
Capital gains				
STCG on shares		65,000		
LTCG on shares (taxable as per section 112 A)		1,24,000	1,89,000	1,89,000
IFOS				
Interest on FD		1,60,000		
Interest on post office saving A/c (18,000 - 3,500 Exempt)		14,500	1,74,500	1,74,500
Gross total income			**38,85,500**	**39,35,500**
Less: Deductions under Chapter VIA				
U/s 80C				
PPF	1,10,000			
LIP: 60,000 limited to 10% of 5,00,000	50,000			
	1,60,000			
Restricted to maximum		1,50,000		Nil
U/s 80D - 47,000 limited to	45,000			

Preventive health care check-up allowed although paid in cash 6,000 limited to	5,000	50,000		Nil
U/s 80G (not eligible as paid in cash)		—		
U/s 80TTB		50,000	2,50,000	Nil
Total income			**36,35,500**	**39,35,500**

Q6. Mr. Aditya furnishes the following details for year ended 31.03.2022:

Particulars	Amount
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered u/s 35AD	20,000
Income from Salary (computed)	2,50,000
Loss from HP	1,50,000
Income from trading business	45,000
LTCG from sale of urban land	2,00,000
LTCL on sale of shares (STT not paid)	75,000
LTCL on sale of listed shares in recognized stock exchange (STT Paid)	82,000

Following are the brought forward losses:

(1) Losses from owning & maintaining of race horses pertaining to AY 2021-22 of 2,000

(2) Brought forward loss from trading business 5,000 relating to AY 2018-19.

Compute the total income of Mr. Aditya relating to interest payable for delayed payment of service tax. Assume Mr. Aditya (a) does not opt for 115B AC (b) opts to be taxed u/s 115BAC.

Solution:

		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from salary			
Salary income computed/ 50,000 of standard deduction allowed added back	2,50,000		3,00,000
Less: Loss from HP/not allowed to be set off in the second case	1,50,000	1,00,000	3,00,000
Income from HP			
Loss	1,50,000		
Set off from salary (see above)/1,50,000 loss to be c/f	1,50,000	—	—
Income from business			
Trading business	45,000		
Less: Brought forward loss	5,000	40,000	40,000
Income of speculative business B	5,000		
Less: Loss of speculative business A	5,000		
Balance loss of speculative business A 20,000 to be c/f	Nil		Nil
Loss of specified business to be c/f to next year 20,000			
Capital gains			
LTCG on land	2,00,000		
Less: LTCL on sale of shares (STT not paid)	75,000		
LTCL on sale of shares (STT paid)	82,000	43,000	43,000
		1,83,000	3,83,000

Note: Loss from race horses is to be carried forward.

N16	**Q7.** State with reasons whether the following receipts are taxable or not under Income-tax Act, 1961? (1) Mr. Suri received a sum of 5,00,000 as compensation, from "Yatra Foundation", towards the loss of property on account of Flood Disaster at Chennai during December 2021. (2) Mr. Suman received an advance of 73 lakhs on 6.6.2021 to transfer his residential HP. Since the transfer was not effected during PY due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property. (3) Mr. Federer, a NR residing in Sweden, has received rent from Mr. Nadal, also aNR residing in France i.r.o. a property taken on lease at Mumbai. Since this income is received outside India from a NR, Federer claims that his income is not chargeable to tax in India. (4) TDS is not applicable i.r.o. payment of 1,00,000 to Mr. Pandey a resident, being interest on recurring deposit with SBI. **Solution:** (1) As per section 10(10BC), any amount received or receivable as compensation by an individual, on account of any loss or damage caused by disaster, from CG, SG or a local authority is exempt from tax, to the extent the individual has not been allowed deduction under any other provision of the Income-tax Act, 1961. However, in this case, Mr. Suri has received a compensation of 5 lakhs from Yatra Foundation, & not from CG or SG or local authority, hence, no exemption will be available u/s 10(10BC). (2) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax u/h "IFOS", if: (a) such amount is forfeited; & (b) the negotiations do not result in transfer of such capital asset. Therefore, the amount of 3 lakhs received as advance on 6.6.2020 for transfer of residential house which is forfeited by Mr. Suman would be chargeable to tax in his hands u/h "IFOS". (3) As per section 9(1)(i), all income accruing or arising, whether directly or indirectly, through or from any property in India is deemed to accrue or arise in India & hence, chargeable to tax even in the case of a NR. In this case, since the property is situated in Mumbai, income from the property is deemed to accrue or arise in India in the hands of Mr. Federer, even though the same is received outside India & both the recipient & the payer are NR residing outside India. (4) According to section 194A, TDS is required be deducted at source even in case of interest on recurring deposit if it exceeds 40,000.
M17	**Q8.** Ms. R, a Resident Individual aged 50, provides the following information for FY 2021-22: (i) She is a Partner in AK & Co. & received the following amounts from the firm: Share of Profit from the Firm ₹ 35,000 Interest on Capital @ 15% p.a. ₹ 3,00,000 Salary as Working Partner (Fully allowed in the hand of the Firm) ₹ 1,00,000 (ii) She is running a Rice Mill as Proprietor. Net Profit as per P&L A/c is 4,50,000. The following items are debited to P&L A/c: ▪ Advance Income-Tax Paid 1,00,000 ▪ Personal Drawings 50,000 The following items are credited to P&L A/c: ▪ Interest on Saving Bank A/c SBI 12,000 ▪ Interest on Saving A/c with Post Office 5,000 ▪ Dividend from Listed Indian Company (DDT paid) 80,000 (iii) She owned a HP in Mumbai which was sold in January 2020. She received 90,000 by way of arrear of rent in respect of said property in October 2021. (iv) She made the following Investments: ▪ Life Insurance Premium on a policy in the name of her married daughter 60,000. (The Policy was taken on 01- 10-2014 & the sum assured being 5,00,000). ▪ Health Insurance Premium on a Policy covering her mother aged 75. She is not dependent on Ms. R. Premium paid by cheque 55,000. **Compute the Total Income & the Tax Liability of Ms. R for AY 2022-23.**

Solution: Computation of Total Income & Taxability at Ms. R for AY 2022-23

Particulars	Amount	Amount	Amount
Income from HP			
Arrears of Rent Received (taxable in year of receipt)		90,000	
Less: Standard Deduction (30% of 90,000)		27,000	63,000
PGBP			
(A) Amount received from AK & Co., as partner			
(a) Interest on Capital @ 15% = 3,00,000 but was allowed to the firm to extent of 12%			
Therefore, taxable interest = 3,00,000 x 12/15		2,40,000	
(b) Salary as a working partner		1,00,000	
(c) Share of profit from the firm		Exempt	
		3,40,000	
(B) Business income from proprietorship firm (Working Note)		5,03,000	8,43,000
Income from Other Sources			
(a) Interest on Savings Bank A/c		12,000	
(b) Interest on Post Savings A/c	5,000		
Less: Exempt Interest u/s 10(15) up to ₹ 3,500	3,500	1,500	
Dividend		Exempt	13,500
Gross Total Income			9,19,500
Less: Deductions u/s 80C to 80U			
80C Life Insurance Policy limited to 10% of Sum Assured		50,000	
80D Health Insurance Premium of Mother whether dependant or not: 55,000 but limited to		50,000	
80TTA Interest on Savings Bank & Saving A/c with Post Office limited to		10,000	1,10,000
Total Income			8,09,500
Tax payable (Nil + 12,500 + 61,900)			74,400
Add: Health & education cess @ 4%			2,976
Total Tax & Cess Payable (Rounded off)			77,380

Working Note: Income from proprietary ship firm

Net Profit as per P&L		4,50,000
Add: Amount debited to P&L A/c but not allowed as deduction		
Advance Tax paid	1,00,000	
Personal Drawings	50,000	1,50,000
Less: Income credited to P&L A/c but taxable under other head or exempt		6,00,000
Interest on Savings Bank	12,000	
Interest on PO Savings A/c	5,000	
Dividend from Companies	80,000	97,000
Income from Business		**5,03,000**

N17

Q9. Mr. Pandey, a resident individual, aged 45 years, is a CA in practice. He maintains his A/c on cash basis. His P&L A/c for year ended 31.3.2022 is as follows:

P&L A/c for the year ending 31.3.2022

Expenditure	Amount	Income	Amount
Staff Salary	18,25,000	Fees earned:	
Rent of the office premises	6,00,000	Audit	23,00,000
		Taxation	14,50,000
Administrative expenses	5,75,000	Consultancy services relating to syndication of loan from financial institution	10,00,000
Stipend to Articled clerks	1,85,000		
Meeting, seminars & conferences	36,500		47,50,000
Depreciation	55,000	Gifts	1,00,000
Printing & Stationery	8,75,000	Dividends from Indian companies	12,00,000
Net Profit	19,13,500	Interest on deposit Certificates issued under Gold Monetization Scheme, 2015	15.000
	60,65,000		**60,65,000**

Other information:

(1) Depreciation allowable under Income-Tax Act 1,25,000.

(2) Administrative expenses include 55,000 paid to a tax consultant in cash for assisting Mr. Pandey in one of the professional assignments.

(3) Gifts represent FMV of a LED TV which was given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal.

(4) Last month's rent of 50,000 was paid without deduction of TDS.

(5) Mr. Pandey paid medical insurance premium of his parents (senior citizens & not dependent on him) by cheque amounting to 27,000. He also paid 8,500 by cash towards preventive health check-up for himself & his spouse.

Compute total income of Mr. Pandey for AY 2022-23, assuming that Mr. Pandey does not want to opt for scheme u/s 44ADA. Assume Mr. Pandey (a) does not opt for 115B AC (b) opts to be taxed u/s 115BAC.

Solution: **Computation of total income of Mr Pandey & tax payable for AY 2022-23**

	Amount	**Amount**	**Does not opt to be taxed u/s 115BAC**	**Opts to be taxed u/s 115BAC**
Business income				
Net profit as per P&L A/c		19,13,500		
Add: Expenses disallowed Amount paid to consultant in cash in view of section 40A(3)	55,000			
30% of 50,000, i.e., rent paid without deduction of TDS [u/s 40(a)(ia)]	15,000			
Depreciation as per books	55,000	1,25,000		
		20,38,500		
Less: Income taxable under other heads or exempt				
Dividend from Indian companies	12,00,000			
Interest on deposit certificates issued under Gold Monetization Scheme, 2015	15,000	12,15,000		
		8,23,500		
Less: Depreciation as per income tax		1,25,000	6,98,500	6,98,500

IFOS				
Dividend from Indian companies		12,00,000		
Interest on deposit certificates [Exempt u/s 10(15)]		—	12,00,000	12,00,000
Gross total income			**18,98,500**	**18,98,500**
Less: Deduction u/s 80C to 80U				
Medical insurance of parents		27,000		
Expenses on preventive health check-up 8,500 but limited to 5,000		5,000	32,000	Nil
Total income			**18,66,500**	**18,98,500**
Tax on total income of 18,66,500/18,98,500			3,72,450	3,07,050
Add: Health & education cess @ 4%			14,898	12,282
Tax payable			3,87,348	3,19,332
Tax rounded off			**3,87,350**	**3,19,330**

M18

Q10. Mr. Madhav made a gift of 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31.3.2020, which he deposited in a FD A/c in a Nationalised bank at 10% interest p.a. compounded annually. The balance in this A/c as on 1.4.2021 was Rs. 2,75,000 & bank credited a sum of 27,500 as interest on 31.3.2022. Madhav's father gifted equity shares worth 50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10.4.2011) in July 2011 which were purchased by him on 8.12.2004 for 80,000. Manan received a dividend of 5,000 on these shares in October 2021. He sold these shares on 1.11.2021 for 5,00,000 & deposited 3,00,000 in a company at 15% interest p.a. [CII for FY: 2004-05:113; 2011-12:184; 2021-22:317] Mr. Madhav has a taxable income of 3,50,000 from his profession during FY 2021-22. Compute his Gross Total Income for AY 2022-23.

Answer: **Computation of income of Mr. Madhav**

Particular	Amount	Amount
Income u/h PGBP		
Professional income		3,50,000
Income u/h IFOS		
Interest of 27,500 on deposit with nationalized bank (Not included as child is suffering from disability provided u/s 80U)		
Interest on deposit with company (3,00,000 x 15% x 5/12)	18,750	
Dividend from a company	5,000	
Less: Exempt u/s 10(32)	(1,500)*	22,250
Income u/h capital gain		
Full Value of Consideration	5,00,000	
Less: Indexed cost [80,000 x 317/113]	2,24,425	2,75,575
Gross total income		**6,47,825**

* If Mr. Madhav opts to be taxed u/s 115BAC, exemption of 1,500 shall not be allowed.

Notes:

1. Income of minor child suffering from any disability of the nature specified u/s 80U will be taxable in hands of minor himself.
2. Assumption - Equity shares are unquoted equity shares. Period of holding of equity shares - 8.12.2004 to 1.11.2021. (Manjula B Shah & Arun Shungloo Trust followed for determining period of holding). Cost of acquisition would be cost to previous owner u/s 49(1) as minor received the equity shares in gift.
3. Assumption: Income of Mr. Madhav is more than that of his spouse.

Q11. Miss. Kavita, ROR in India, has derived following income for year ended 31.3.2022:

	Particulars	Amount
1	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	1,00,000
2	Income from sale of coffee grown & cured in Yercaud, Tamil Nadu	2,00,000
3	Income from sale of coffee grown, cured, roasted & grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
4	Income from sale of tea grown & manufactured in Shimla.	10,00,000
5	Income from sapling & seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to compute business income & agricultural income of Miss. Kavita for AY 2022-23.

Answer: **Computation of agriculture income & business income**

	Agri. income	Business income
Sale of centrifuged latex	65,000	35,000
Sale of coffee grown & cured in Tamil Nadu	1,50,000	50,000
Sale of tea grown in Shimla	6,00,000	4,00,000
Income from nursery	2,00,000	—
	10,15,000	**4,85,000**
Income from sale of coffee grown in Colombo		5,00,000
Total	**10,15,000**	**9,85,000**

Notes:

1. 35% income from sale of latex, 25% of income from sale of coffee grown & cured & 40% of tea is considered as business income.
2. Any income is treated as agriculture income only if:
   - it is derived from land;
   - land is situated in India; &
   - land is used for agriculture purpose.

Irrespective of revenue being received in Chennai, land on which coffee was grown was in Colombo (Sri Lanka) & is hence treated as business income.

N18

Q12. Mr. Rakesh Gupta has derived the following income/loss, as computed below, for PY 2021-22:

Particulars	Amount
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings	90,000
Loss from card games	3,40,000

You are required to compute total income of the assessee for AY 2022-23, showing clearly the manner of set-off & the items eligible for carry forward. ROI has been filed on 30.7.2022. Assume Mr. Rakesh Gupta: (a) does not opt for 115BAC (b) opts to be taxed u/s 115BAC.

Answer: **Computation of Gross Total Income**

	Does not opt to be taxed u/s 115BAC		**Opts to be taxed u/s 115BAC**	
Income under the head PGBP				
Income from speculation business		12,45,000		12,45,000
Less: Loss from non - speculation business	3,20,000		3,20,000	
Less: Loss from house property	2,00,000	5,20,000	—	3,20,000

Income from speculation business		7,25,000		9,25,000
Income under the head other sources				
Income from lotteries	1,50,000		1,50,000	
Income from bettings	90,000	2,40,000	90,000	2,40,000
Gross Total Income		9,65,000		11,65,000
Less: Deduction u/s 80C to 80U		Nil		Nil
Total Income		9,65,000		11,65,000

Losses to be carried forward to future AY		
	Does not opt to be taxed u/s 115BAC	**Opts to be taxed u/s 115BAC**
Loss from house property	**50,000**	**2,50,000**
Loss from specified business covered u/s 35AD	**4,10,000**	**4,10,000**

Note:
1. No loss from card games is allowed to be set off at all or carried forward.
2. Income from betting & lotteries is chargeable at a flat rate of 30% under section 115BB & no expenditure or allowance can be allowed as deduction from such income, nor any loss be set-off against such income.
3. As per section 73A, loss of specified business can be set off only from profits & gains of any other specified business & carried forward is allowed for unlimited period & in the subsequent years also, the loss can be set off only from income of specified business.
4. It has been assumed that income from betting is the gross amount of income.

N19

Q13. Mrs Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending on 31.3.2022 is as under:

Expenditure		**Income**	
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from True Care Hospitals (P) Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified u/s 35	25,000		
To net profit	8,59,000		
Total	**14,68,000**	**Total**	**14,68,000**

Explanatory information:
- She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic pay	13,000 p.m.
Transport allowance	2,000 p.m.
Total	15,000 p.m.

  Further during PY 2021-22 her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. Hospital would have charged Rs. 60,000 for a similar treatment to un-related patients.
- She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 1.10.2021. The reconstruction of the house was started on 1.4.2021 & was completed

on 30.9.2021. The monthly rent is 10,000. The tenant also pays 3,000 p.m. as power back-up charges. She took a housing loan of 12 lakhs on 1.4.2021. Interest on housing loan for the period 1.4.2021 to 30.9.2021 was 60,000 & for the period 1.10.2021 to 31.3.2022 was 40,000. During the year, she also paid municipal taxes for FY 2020-21 of 5,000 & for FY 2021-22 of 5,000.

- Conveyance expenses include a sum of 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd & vice versa in relation to her employment.
- Power & fuel expenses include a sum of 6,000 incurred for generator fuel for providing power back-up to the tenant.
- Administrative expenses include a sum of 10,000 paid as Municipal Taxes for her house.
- Clinic equipment details are: Opening W.D.V, of clinic equipment as on 1.4.2021 was 1,00,000 & fresh purchase made on 28.8.2021 is 25,000 which was paid in cash.
- She also paid tuition fee of 40,000 for her grand-daughter, which has debited to her Capital A/c.
- She availed a loan of 8,00,000 from bank for higher education of her son. She repaid principal of 50,000 & interest of 26,000 during P.Y. 2021-22.

You are required to compute her net taxable income & net tax liability for AY 2022-23. Assume Mrs. Mitul: (a) does not opt for 115BAC (b) opts to be taxed u/s 115BAC.

Answer: **Computation of total income & tax liability of Mrs. Mitul for AY 2022-23**

		Does not opt to be taxed u/s 115BAC		Opts to be taxed u/s 115BAC	
Income from Salary					
Basic Salary (13,000 x 12)		1,56,000			
Transport allowance		24000			
Medical facility expenses of 60,000 on son (Not a perquisite as it is a facility provided by employer to employee & member of his family in a hospital maintained by employer)					
Gross salary		1,80,000		1,80,000	
Less: Std deduction u/s 16(ia)		50,000	1,30,000	Nil	1,80,000
Income from HP					
Self-occupied (Ground floor) (Assume 50% of total floor area)					
Annual value	Nil				
Less: Deduction u/s 24(b) Interest on housing loan (50% of 1,00,000)	50,000				
Loss from self-occupied property		(-)50,000		Nil	
Let out property (First floor) from 1.10.2021					
Gross Annual Value (GAV)	60,000				
Less: Municipal taxes paid (50% of 10,000)	5,000				
Net Annual Value (NAV)	55,000				
Less: Deduction u/s 24(a) @ 30% of 55,000	(16,500)				
Less: Deduction u/s 24(b) Interest on housing loan (50% of 1,00,000)	(50,000)				
Loss from let out property		**(-) 11,500**			
Loss from house property [(50,000) + (11,500)]/ [Nil + (11,500)]			(61,500)	To be c/f	
Income from profession					
NP as per Income & Exp A/c		8,59,000		8,59,000	

Less: Items of income to be treated separately					
Salary received from True Care Hospitals Pvt. Ltd.	1,80,000				
Rent received from HP	78,000				
Dividend income from foreign companies	10,000	2,68,000		2,68,000	
		5,91,000		5,91,000	
Add: Items of expenditure not allowable while computing business income					
Conveyance expenses (related to employment	12,000				
Interest on housing loan	1,00,000				
Interest on education loan	26,000				
Power & backup charges included in power & fuel expenses	6,000				
Municipal tax included in administrative expenses	10,000	1,54,000		1,54,000	
Total		7,45,000		7,45,000	
Less: Depreciation on clinic equipment's on 1,00,000 @ 15%		15,000		15,000	
Income from profession			7,30,000		7,30,000
Income from other sources					
Dividend from foreign company		10,000		10,000	
Power back up charges for HP	18,000				
Less: Power & fuel expenses	6,000	12,000		12,000	
Income from other sources			22,000		22,000
Gross total income			**8,20,500**		**9,32,000**
Less: Deductions under Chapter VIA:					
Section 80C - Tuition fee paid for granddaughter - not deductible					
Section 80E - Interest on loan taken for higher education is deductible		26,000	26,000		Nil
Total income			**7,94,500**		**9,32,000**

Tax on total income				
up to 3,00,000	Nil	up to 2,50,000	Nil	
Next 2,00,000 @ 5%	10,000	Next 2,50,000 @ 5%	12,500	
Balance 2,94,500 @ 20%	58,900	Next 2,50,000 @ 10%	25,000	
	68,900	Balance 1,82,000 @ 15%	27,300	64,800
Add: HEC @ 4%	2,756	**Add:** H&EC @ 4%		2,592
Total tax liability	71,656	Total tax liability		67,392
Tax payable (rounded off)	**71,660**	**Tax payable (rounded off)**		**67,390**

Notes: Computation of depreciation

Opening WDV as on 1.4.2021	1,00,000
Addition of 25,000 as paid in cash to be ignored	—
Depreciation @ 15%	15,000

Q14. Mr. Mahadev, a noted bhajan singer of Rajasthan & his wife Mrs. Dariya furnish following information relating to AY 2022-23.

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

Compute total taxable income of Mr. Mahadev & Mrs. Dariya tor AY 2022-23. Assume Mr. Mahadev & Mrs. Dariya: (a) does not opt for 115BAC (b) opts to be taxed u/s 115BAC.

Answer:

As per provisions of section 64(1 A) of Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding income of minor) is greater. The income of Mr. Mahadev is 5,65,000 & income of Mrs. Dariya is 3,80,000. Since the income of Mr. Mahadev is greater than that of Mrs. Dariya, income of minor children have to be clubbed in the hands of Mr. Mahadev. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge & experience is not to be clubbed. Hence, income of minor child Golu from exercise of special talent will not be clubbed.

However, interest from deposit has to be clubbed. All income arising or accruing to a minor child (including a minor married daughter) shall be included in total income of his or her parent. The income of the minor child shall be included with income of that parent, whose total income, before including minor's income, is higher.

Computation of GTI of Mr. Mahadev for AY 2022-23

		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from profession		5,65,000	5,65,000
Income of minor son (From his talent - not to be clubbed)	—		—
Gift of 21,000 received from non-relative is not taxable u/s 56(2)(x) being less than aggregate limit of 50,000	—		
Income of minor married daughter: Interest income on Deposits with Ramu & Jay Pvt. Ltd. (Included in father's income as his total income is higher)	40,000		
Less: Exemption u/s 10(32)/ Not allowed	(1,500)	38,500	40,000
Gross Total Income		**6,03,500**	**6,05,000**

Computation of GTI of Mrs. Dariya for AY 2022-23

	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from salary	3,80,000	4,30,000
Loan received (Not an income)		—
Gross Total Income	**3,80,000**	**4,30,000***

* Standard deduction of 50,000 has been added to the computed salary as it will not be allowed if Mrs. Dariya opts to be taxed u/s 115BAC. Further, in absence of other information, it is assumed that although she has opted for section 115BAC but no exemption for any allowance was available while computing the income from salary.

Notes:

1. Income of minor son Golu is not to be clubbed as it has earned from his talent. Further, Golu shall not be taxed as his income does not exceed the exemption limit of 2,50,000.
2. Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. is not an income therefore not taxable in her hand.

N20

Q15. From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for PY ended 31.3.2022, you are requested to compute his total income & tax liability under normal as well as special provisions (AMT), if any, applicable to him for AY 2022-23.

(1) He occupies ground floor of his residential building & has let out first floor for residential use at an annual rent of 2,28,000. He has paid municipal taxes of 60,000 for current FY.

(2) He owns an industrial undertaking established in a SEZ & which had commenced operation during FY 2019-20. Total turnover of the undertaking was 200 lakhs, which includes 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of Income-Tax Act, 1961. Profit from this industry is 25 lakhs.

(3) He received royalty of 2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books & expenditure made for earning this royalty was 40,000. The amount remitted to India till 30.9.2022 is 2,30,000.

(4) Received 40,000 as interest on saving bank deposits.

(5) Received 47,000 as share of profit from an AOP where all the members are individual & which had paid the tax by normal rates of income tax.

(6) He also sold his vacant land on 10.11.2021 for 10 lakhs. SDV of land at the time of transfer was 14.64 lakhs. FMV of land as on 1.4.2001 was 4 lakhs. This land was acquired by him on 5.8.1995 for 1.80 lacs. He had incurred registration expenses of 10,000 at that time. Cost of inflation index for year 2021-22 & 2001-02 are 317 & 100 respectively.

(7) He paid the following amounts, out of his taxable income:

   (a) Insurance premium of 39,000 paid on life insurance policy of son, who is not dependent on him.

   (b) Insurance premium of 48,000 on policy of his dependent father,

   (c) Tuition fees of 42,000 for his three children to a school. The fees being 14,000 p.a. per child.

Assume Mr. Ganesh: (a) does not opt for 115BAC (b) opts to be taxed u/s 115BAC.

Solution: **Computation of total income of Mr. Ganesh for AY 2022-23**

	Does not opt to be taxed u/s 115BAC		Opts to be taxed u/s 115BAC	
Income from HP				
(a) Income from house property let out				
Gross annual value	2,28,000		2,28,000	
Less: Municipal taxes for let out portion	30,000		30,000	
Net annual value	1,98,000		1,98,000	
Less: Standard deduction @ 30%	59,400	1,38,600	59,400	1,38,600
(b) Income from self-occupied property				
Net annual value	Nil		Nil	
Less: Deductions	Nil	Nil	Nil	Nil
Income from house property (1,38,600 + Nil)		1,38,600		1,38,600
Business income				
(a) Profit from unit in SEZ	25,00,000		25,00,000	
Less: Deduction u/s 10AA (25,00,000 x 140/200)	17,50,000	7,50,000	Nil	25,00,000

(b) Royalty received	2,88,000		2,88,000	
Less: Expenditure	40,000	2,48,000	40,000	2,48,000
Share of profit from AOP		47,000		47,000
LTCG				
Deemed sale consideration as per section 50C	14,64,000		14,64,000	
Less: Indexed cost of acquisition 4,00,000 x 317/100	12,68,000	1,96,000	12,68,000	1,96,000
IFOS: Bank interest		40,000		40,000
Gross Total Income		**14,19,600**		**31,69,600**
Less: Deduction u/s 80C (See Note 1)	67,000		Nil	
Deduction u/s 80QQB (See Note 2)	2,30,000		Nil	
Deduction u/s 80TTA	10,000	3,07,000	Nil	Nil
Total Income		**11,12,600**		**31,69,600**
Tax on 11,12,600 as per normal provisions				
Tax on LTCG 1,96,000 @ 20%	39,200		39,200	
Tax on balance income of 9,16,600/29,73,600 at slab rates	95,820	1,35,020	6,29,580	6,68,780
Less: Rebate of tax u/s 86 [1,35,020 x 47,000/11,12,600]/ [6,68,780 x 47,000/31,69,600]		5,704		9,917
		1,29,316		6,58,863
Add: Health & education cess @ 4%		5,173		26,355
Total tax (rounded off)		**1,34,490**		**6,85,220**
Tax as per AMT (Not applicable in case he opts to be taxed u/s 115BAC)			Not applicable	
Total income		11,12,600		
Add: Deduction u/s 10AA	17,50,000			
Deduction u/s 80QQB	2,30,000	19,80,000		
Adjusted Total Income		**30,92,600**		
AMT on Adjusted Total Income of ₹ 30,92,600 @ 18.5%		5,72,131		
Add: Health & education cess @ 4%		22,885		
Total tax as per AMT (rounded off)		**5,95,020**		

Notes:

1. Deduction u/s 80C has been calculated as under:

LIP on life of son	39,000
LIP on life of dependent father (not allowed)	—
Tuition fee for 2 children	28.000
Total	**67.000**

2. **Deduction u/s 80QQB**
Royalty received, before allowing expenses, in excess of 15% of value of books sold during the year is to be ignored. Therefore, royalty eligible for deduction u/s 80QQB shall be 2,88,000 x 15/18 = 2,40,000. Further, amount brought into India in convertible foreign exchange within a period of 6 months from the end of PY is only 2,30,000. Therefore, deduction u/s 80QQB shall be allowed only of Rs. 2,30,000.
3. If he does not opt for to be taxed u/s 115BAC, he shall be liable to pay tax as per special provisions (AMT) amounting to 5,95,020. However, he shall be allowed to c/f the tax credit amounting to 4,60,530

i.e., 5,95,020 - 1,34,490 to claim it as set off in subsequent years.

4. If he opts to be taxed u/s he shall have to pay amounting to 6,85,220. Further, the provisions of AMT are not applicable in this case.

Q16. Determine GTI of Shri Ram Kumar & Smt Ram Kumar for AY 2022-23 from the following:

(1) Salary received by Shri Ram Kumar from a company 1,80,000 p.a. & Smt Ram Kumar also doing job in a company & getting salary of 2,40,000 p.a.

(2) Shri Ram Kumar transferred a flat to his wife Smt Ram Kumar on 1.9.2021 for adequate consideration. The rent received from this let-out flat is 9,000 p.m.

(3) Shri Ram Kumar & his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received 36,000 & Smt. Ram Kumar received 64,000 as interest from the firm & also had a share of profit of 12,000 & 26,000 respectively.

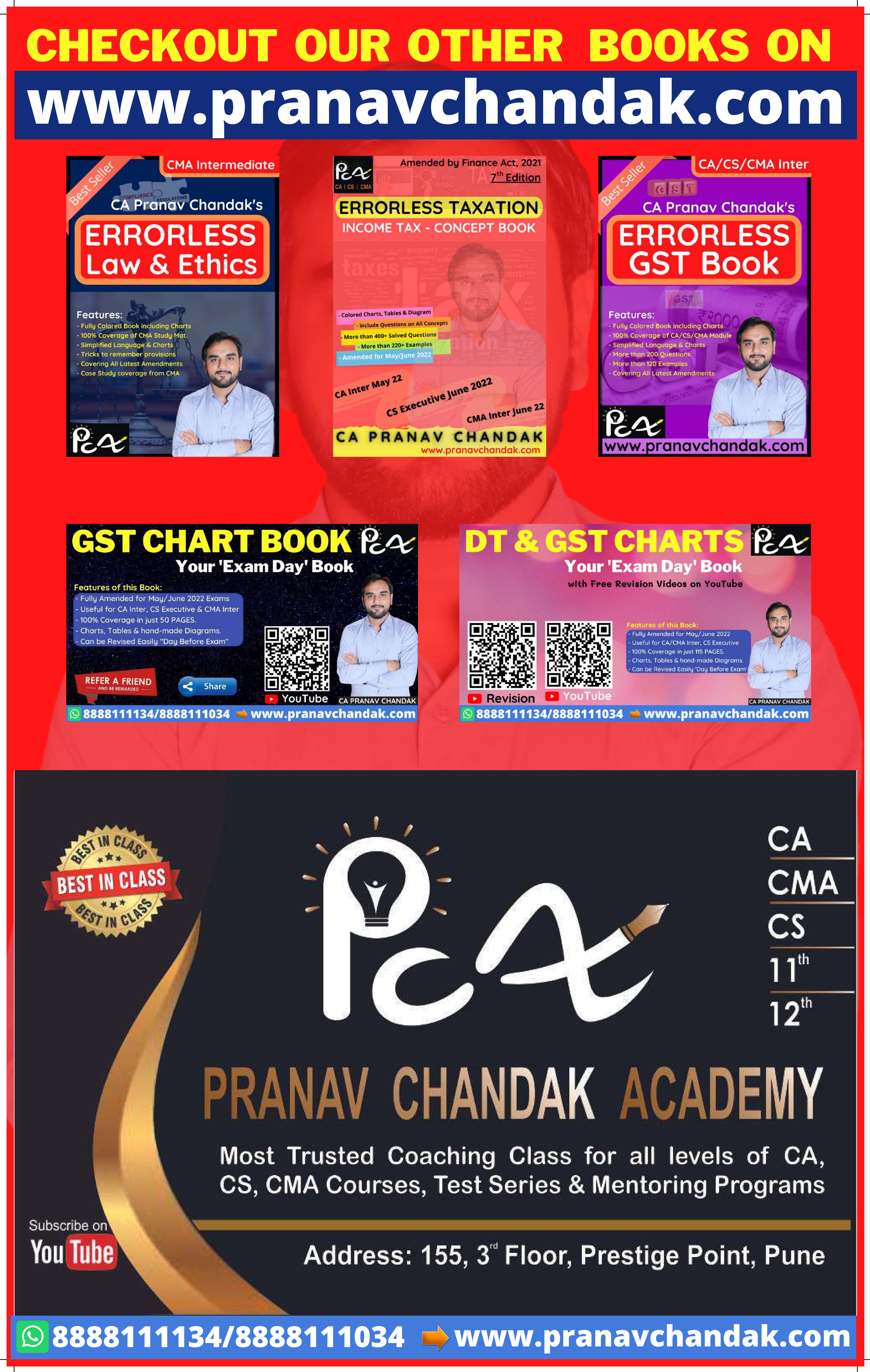
(4) Smt. Ram Kumar transferred 10% debentures worth 3,00,000 to Shri Ram Kumar. The whole amount of 3,30,000 invested by Shri Ram Kumar in the similar investments & earned income of 39,000.

(5) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in year 2020. Master Rohit (Aged 13 years) received of 15,000 as income from this property on 20.2.2022.

Assume Shri Ram Kumar & Smt Ram Kumar do not opt to be taxed u/s 115BAC.

Answer:

	Income of Shri Ram Kumar	**Income of Smt. Ram Kumar**
Income from salary (1,80,000 - Standard deduction of 50,000)/ (2,40,000 - Standard deduction of 50,000)	1,30,000	1,90,000
Income from HP		
(9,000 x 5 = 45,000 - Standard deduction @ 30% i.e., 13,500)	31,500	
(9,000 x 7 = 63,000 - Standard deduction @ 30% i.e., 18,900)		44,100
Interest on debentures (as debentures were transferred from Smt. Ram Kumar) [See note]		39,000
Income from property of minor son (15,000 - exemption u/s 10(32) of 1,500) [clubbed in income of Mrs. Ram Kumar as her other income excluding income from partnership firm is greater)		13,500
Interest from partnership firm 64,000 + 36,000 of her spouse as her total income is higher		1,00,000
Share of profit is exempt		—
Gross total income	**1,61,500**	**3,86,600**



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