CA Test series

Notes

Important Question

CA Inter

Taxation

<u>**Important questions**</u>

1) Mr. Y was sponsored by his employer in India for training in USA. He left India on 03.06.2020. He came back to India on 05.04.2021. **Determine his residential status for the PY 2020-21 assuming that he did not go out of India previously.**

Answer

Since Mr. Y is in India for a period of 64 days (30 + 31 + 3) during the previous year and was in India for all the preceding 4 years (i.e. 365 days or more), therefore, he satisfies second basic condition and is, therefore, resident in India. Exception to basic condition will not be applicable here as he is going for training and not for the purpose of employment. **Further, he is Resident & ordinarily resident as additional conditions of Section 6(6) for being ordinarily resident are satisfied.**

2) A, a British national, comes to India for first time during 2016-17. During financial years 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 he was in India for 65 days, 60 days, 80 days, 160 days & 70 days respectively. **Determine his residential status for the AY 2021-22.**

Answer

During the previous year 2020-21, A was in India for 70 days and during 4 years immediately preceding the previous year, he was in India for 365 days as shown below: -

Year **No. of days stayed in India**	**2016-17**	**2017-18 2018-19**	**2019-20**	**Total**
65	**60**	**80**	**160**	**365**

Thus, he satisfies the second basic condition and is, therefore, resident in India for the previous year 2020-21.

Further, **he (not being an Indian Citizen) satisfies additional conditions to become RNOR** as follows -

(a) He was non resident in India in all of the last 10 preceding years;

(b) He resided in India only for 365 days during the 7 preceding previous years.

Accordingly, he is 'Not Ordinarily Resident in India' for the previous year 2020-21.

3) Mr. Devendra, an India citizen leaves India for the first time on September 20, 2018 for taking employment outside India. He comes to visit India for 152 days on April 10, 2019. He comes back on May 13, 2020 to India. **Determine his residential status for the PY 2020-21.**

Answer

Since Mr. Devendra is in India for a **period of 323 days (365 - 30 - 12)** during the previous year-ending 31st March 2021 hence he is a resident. He is also a ROR **as he is not satisfying any of additional conditions of Section 6(6) to become RNOR.**

4) Mr. Border, a foreign citizen, comes to India for the first time on June 22, 2018. From June 22, 2018 to March 31, 2021, he is present in India for days (2018-19; 59 days, 2019-20; 306 days, and 2020-21: 92 days). **Determine the residential status of Mr. Border for the PY 2020-21.**

Answer

Since Mr. Border is in India for a period of 92 days during the previous year and 365 days during 4 years proceeding the previous year hence, he is resident. He, **not being an Indian Citizen,** satisfies the additional conditions of Section 6(6) as follows -

(a) He was non resident in India for 9 years out of 10 preceding previous years;

(b) He was in India for 365 days during 7 preceding previous years. **Hence, he is 'Not ordinarily resident' in India.**

5) Mr. Samuelson, foreign citizen, comes to India for the first time on May 10, 2020. On August 6, 2020, he leaves India for Burma on a business trip. He comes back on January 1, 2021. He maintains a dwelling place in India from the date of his arrival in India (i.e., May 10, 2020) till February 15, 2021 when he leaves for Pakistan. **Determine his residential status for the PY 2020-21.**

Answer

Since Mr. Samuelson is in India for a period of 135 days (22 + 30 + 31 + 6 + 31 + 15) during the previous year ending 31st March 2021 and has come for the first time in India, hence, he is a non resident.

6) Mr. Samuel, a foreign citizen (not being a person of India origin) comes to India for first time in last 12 years on March 01, 2020. On 5th September 2020 he leaves India for Singapore on a business trip. He comes back on March 2, 2021. **Determine his residential status for the PY 2020-21.**

Answer

Since Mr. Samuel is in India for a period of 188 days (30 + 31 + 30 + 31 + 31 + 5 + 30) during the previous year ending 31st March 2021, he is a resident as per Section 6(1). Further, he, **not being an Indian Citizen**,satisfies additional conditions of Section 6(6) as follows -

1) He was non resident in India in all of the last 10 preceding years;

2) He resided in India only for 31 days (March 2020) during the 7 preceding previous years.

Hence, he is a not ordinarily Resident in India.

7) Mr. B, a Malaysian citizen leaves India, after a period of 10 years stay on 1.6.2018. During the financial year 2019-20, he comes to India for a period of 46 days. Later he returns to India on 10.10.2020. **Determine his residential status for the PY 2020-21. Will your answer be different if his date of departure was 15.5.2018?**

Answer

During the financial year 2020-21, Mr. B stays in India from 10.10.2020 onwards **amounting to 173 days.**

Therefore, he does not fulfill the first basic condition, but he fulfills the second basic condition as he has stayed for more than 60 days during 2020-21 and he has stayed for more than 365 days during the preceding four financial years. Hence he is a resident. He was resident in 9 out of 10 preceding previous years and was staying for more than 729 days during the 7 preceding previous years. **Therefore, he does not satisfy any of the additional conditions. By fulfilling the**

second basic condition and not fulfilling any of the additional conditions, Mr. B is a resident and ordinarily resident for the assessment year 2021-22.

If the date of departure during 2018-19 happens to be 15.05.2018, Mr. B fails to fulfill either of the basic conditions (since he had stayed only for 45 days in the previous year 2018-19) making him a non-resident, Besides he does not fulfill any of the basic conditions for the previous year 2019-20 (he has stayed for 46 days in that year). Therefore, Mr. B was a non-resident in only 2 out of the 10 preceding previous years. He was resident in 8 out of 10 preceding previous years and he stayed for a period of more than 729 days in seven preceding previous years. **Being a resident and by not fulfilling any of the additional conditions, he becomes resident and ordinarily resident for the assessment year 2021-22.** Hence answer remains the same even if he departs from India on 15.05.2018 instead of 01.06.2018.

8) Andrew Symonds, an Australian cricketer has been coming to India for 100 days every year since 2000-2001 for IPL matches:

a) Determine his residential status for the assessment year 2021-22.

b) Will your answer be different if he has been coming to India for 110 days instead of 100 days every year.

Answer

1) Andrew Symonds satisfies **the second basic condition** of Sec. 6(1), because he is in India for more than 60 days during the relevant previous year and for 400 days during four years preceding the relevant previous year. Therefore, he is a resident.

Further, his stays in India during 7 years proceeding the previous year is only for 700 days. He shall, therefore, be a resident but not ordinarily resident in India.

2) Yes. He will be resident and ordinarily resident in India. Because, he does not satisfies both the conditions of Sec. 6(6) as he was in India for 770 days in the last seven years and he was resident in all 10 previous years immediately preceding the relevant previous year.

9) 'Mr. A' was born in Lahore in 1942. He has been staying in UK since 1972. He came to visit India on 2-10-2020 and returns on 30-3-2021. **Determine his residential status for the PY 2020-**

21.

Answer

During the previous year 2020-21, 'A' stays in India **for 180 days** (30 + 30 + 31 + 31 + 28 + 30). He does not satisfy the condition u/s. 6(1)(a) of 182 days. Further, he also does not satisfy the condition u/s 6(1)(b) because 60 days will be substituted by 182 days as he is a person of Indian origin (He was born in undivided India) and visits India during the previous year. He is, therefore, a Non-Resident.

10) Mr. A came to India from USA for the first time on 10-10-2020. He returns to his home county after staying in India upto 5-7-2021. **Will he be a resident in India for the PY 2020-21?**

Answer

In this case although A has been in India for a continuous period **of 269 days** but it falls in two previous years i.e., previous year 2020-21 and previous year 2021-22. During the previous year 2020-21, his stay in India was **only 173 days** (22 + 30 + 31 +31 + 28 + 31). Therefore, he will be a non-resident in India in previous year 2019-20 as he does not satisfy the condition of Sec. 6(1)(a) i.e., 182 days stay in India during the previous year. Further, the condition of Sec. 6(1)(b) is also not satisfied as, although, he was in India for more than 60 days in the relevant previous year, he was not here for 365 days or more in 4 preceding previous years.
He would also be non-resident in previous year 2021-22, for the same reasons, if he does not come to India thereafter, as the period of stay in India will be 96 days only. The second condition is also not satisfied as in the preceding 4 years he was here only for 174 days.

11) ‘Mr. A’, a citizen of India left India on 16-5-2001 for employment abroad. He did not come to India upto previous year 2017-18. During 2018-19 and 2019-20, he visited India for 140 days and 200 days respectively. In the previous year 2020-21 he came to India on 6-4-2020 and left on 30-12- 2020. **Determine his residential status for the PY 2020-21.**

Answer

Conditions u/s. 6(1)

P/Y: 2020-21: Stay in India is for 269 days (25 + 31 + 30 + 31+ 31 + 30 + 31 + 30+ 30). He is, therefore, Resident in India.

Conditions u/s. 6(6)

Previous year	**No. of days' stay**	**Resident/Non-resident**
2019-20	**200**	**Resident**
2018-19	**140**	**Non-resident**

As he is a citizen of India and visits India during the previous years 2019-20 and 2018-19, the period of stay in India shall be substituted by 182 days instead of 60 days. As he is resident only for one previous year, out of 10 preceding previous years, he does satisfy the condition u/s. 6(6)(i) i.e., being non resident in at least 9 out of 10 previous years immediately preceding the relevant previous year. He is, therefore, "not ordinarily resident in India".

12) Mr A, aged 29 years, left India for first time on May 31, 2020**. Determine his residential status under the following situations for the previous year 2020-21.**

i) He left India for employment purpose

ii) He left India on world tour.

Answer

During the previous year 2020-21, Mr. A was in India for 61 days as shown below

P.Y.	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
20-21	30	31	-	-	-	-	-	-	-	-	-	-	61

During the previous year 2020-21, X stayed in India for 61 days. Further, he was in India for more than 365 days during 4 years immediately preceding the relevant previous year (as he left India for first time).

1) Since he left India for employment purpose, condition of Sec. 6(1) shall not be applicable on such assessee. He will be treated as resident in India, if and only if, he resided in India for at least 182 days during the previous year. Hence, Mr. X is a non-resident in India for the previous year 2020-21.

2) Since he left India on world tour, which is not an exception of Sec. 6(1), satisfaction of any one condition of sec. 6(1) makes him resident in India for the previous year 2020-21. As he satisfies 2nd condition of sec. 6(1), he is resident in India**. Further, he does not satisfy the conditions specified u/s. 6(6) (since he left India for first time). Therefore, he is an ordinarily resident for the previous year 2020-21.**

13) Ms Herley, a foreign national, comes India every year for 90 days since 2000-01.

i) Determine her residential status for the previous year 2020-21.

ii) Will your answer differ, if she comes India for 100 days instead of 90 days every year.

Answer

1) Since Miss Herley stayed for 90 days during the previous year 2020-21 and for 360 days (90 days x 4 years) during the 4 years immediately proceeding the previous year, hence, she is not satisfying any of the conditions of sec. 6(1). Thus, she is a non-resident for the previous year 2020-21.

2) Since Miss Herley stayed for 100 days during the previous year 2020-21 and for 400 days (100 days x 4 years) during the 4 years immediately proceeding the previous year, hence, she is satisfying sec. 6(1).

Thus, she is resident for the previous year 2020-21. Further, she resides for only 700 days (100 days x 7 years) during the 7 years immediately preceding the previous year. **Hence, she does satisfy one of the conditions of sec. 6(6). Thus, she is resident but not ordinarily resident for the previous year 2020- 21.**

14) G an American citizen, is appointed by a Multi-national company to its branch in New Delhi in 2017. G has never been to India before this appointment. He arrives in Mumbai on 15th April, 2017 and joins the New Delhi office on 20th April, 2017. His wife and children join him in India on 20th October, 2017. The company allotted him a leased residence for the purposes of his stay.

This residence is occupied by him from the beginning of October 2017. On 10th February, 2018, he is transferred by his employer, on deputation basis, to be the regional chief of his employer's operations in South East Asia having headquarters in Hong Kong. He leaves New Delhi, on 11th February 2018 and arrives in Hongkong on 12th February, 2018. G leaves behind his wife and children in India till 14th August, 2019, when they leave alongwith him for Hong Kong. G had come to India earlier on 15th June, 2019 on two months leave. The members of the family occupied the residence till date of departure to Hongkong. At the end of the period of deputation, G is reposted to India and joins the New Delhi office of his employer as chief of Indian operations on 31st January, 2021. **In what residential status G will be assessable, for the various years, to income tax in India?**

Answer

G's presence in India is given below

Previous Years	Presence in India
2017-18	303 days
2018-19	NIL
2019-20	61 days
2020-21	**60 days**

During P.Y. 2017-18, G was in India for 303 days. He is resident in India. As he comes to India for the first time on April 15, 2017, **he has satisfied one of the additional condition laid down by Section 6(6) [Stay period is 729 days or less in preceding 7 previous years].** He is therefore, resident but not ordinary resident in India.

P.Y.-2018-19 to 2020-21: As G satisfied none of the basic conditions, he is non-resident for the previous year 2018-19 to 2020-21.

15) Discuss the Residential Status in the following cases:-

a) Z Ltd. an Indian company situated in Bombay.

b) Y Ltd. a foreign company situated in Delhi, but POEM is in Australia.

c) XYZ Associates a foreign company Registered in UK but POEM is in India.

d) PQR Ltd a foreign company situated USA and POEM is in USA.

e) M/s ABC, a partnership firm, is having its business in Delhi and Assam and controlled partly from Delhi and partly from Assam.

f) If in above case (e), the firm is wholly controlled from Dubai.

Answer

(a) Resident (b) Non-Resident (c) Resident (d) Non-Resident (e) Resident (f) Non-Resident

16) Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2020-21

i.	Income from PGBP - Rs.2,80,000
ii.	Income from house property - Rs.5,00,000
iii.	Agricultural Income - Rs.1,90,000
iv.	Expenses incurred for earning above agricultural income - Rs.1,20,000

Compute his tax liability assuming his age is 45 years.

Answer

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

Particulars		**Amount (**Rs.**)**
Income from PGBP		2,80,000
Income from house property		5,00,000
Net agricultural income [Rs.1,90,000 – Rs.1,20,000]	70,000	
Less: Exempt under section 10(1)	(70,000)	NIL .
Gross Total Income		7,80,000
Less: Deductions under Chapter VI-A		-
Total Income		**7,80,000**

(a) Computation of tax liability (age 45 years)

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions:

1. Net agricultural income exceeds Rs.5,000 p.a., and

2. Non agricultural income exceeds the basic exemption limit of Rs.2,50,000.

His tax liability is computed in the following manner:

Step 1:	Rs.7,80,000 + Rs.70,000 = Rs.8,50,000.
	Tax on Rs.8,50,000 = Rs.82,500

Step 2:	Rs.70,000 + Rs.2,50,000 = Rs.3,20,000.
	Tax on Rs.3,20,000 = Rs.3,500 (i.e. 5% of Rs.70,000)

Step 3 : Rs.82,500 – Rs.3,500 = Rs.79,000.

Step 4 :	Total tax payable	= Rs.79,000 **+ 4% of** Rs.**79,000**
		= Rs.82,160

17) Raghav furnished the following particulars and requests you to compute his taxable income for the previous year ending 31.3.2021:

a) Joined service on 1.10.2020, on a consolidated salary of Rs. 25,000 per month.

b) He was paid Rs. 1,30,000 in September, 2020, so that he should not join elsewhere.

c) He contributed towards:

i) Life Insurance Premium Rs. 20,000

ii) National Saving Certificates Rs. 10,000

Answer

Computation of salary income of Raghav for the previous year:

	On the assumption that salary becomes due on the last day of each month
	Rs.
Basic salary	**1,50,000**
Lump-sum payment	**1,30,000**
Gross Salary	**2,80,000**
Less: Deduction u/s 16(ia)	**50,000**
Salary Income	**230,000**
Any other Income	**Nil**

Gross total income	**2,30,000**
Less: Deduction u/s 80C	**30,000**
Net Income	**2,00,000**

18) Up till June 30, 2020, X is in the employment of A Ltd. on the fixed salary of Rs. 25,000 per month which becomes "due" on the first day of the next month. On July 1, 2020, X joins B Ltd. (salary being Rs. 30,000 per month which becomes "due" on the last day of each month). Salary is actually paid on the seventh day of the next month in both cases. Find out the amount of salary chargeable to tax.

Answer

Computation of gross salary for the previous year:

Difference months	"Due" date or "receipt" date, whichever is earlier	Amount Rs.
1. March 2020	April 1, 2020	25,000
2. April 2020	May 1, 2020	25,000
3. May 2020	June 1, 2020	25,000
4. June 2020	July 1, 2020	25,000
5. July 2020	July 31, 2020	30,000
6. August 2020	August 31, 2020	30,000
7. September 2020	September 30, 2020	30,000
8.October 2020	October 31, 2020	30,000
9.November 2020	November 30, 2020	30,000
10.December 2020	December 31, 2020	30,000
11.January 2021	January 31, 2021	30,000
12. February 2021	February 28, 2021	30,000
13. March 2021	March 31, 2021	30,000
Total		3,70,000

19) Rajesh Kumar, an Indian citizen, is posted in the Indian High Commission at London during the PY 2020-21. His emoluments consist of basic pay of Rs. 1,00,000 per month and overseas allowance of Rs. 2,000 per month. Besides, he is entitled to airfare for going from and coming to India and also to free use of Government's car at London. He has no taxable income except salary income stated above. His employer did not deduct tax at source.

Rajesh Kumar argues that

i) he is not liable to pay tax on salary earned and received outside India since he is a non – resident during the PY 2020-21 and

ii) even if any tax is due, it is the duty of his employer to deduct tax at source and as such he has no responsibility to pay the tax.

Discuss whether his contention is correct. Will it make any difference if Rajesh Kumar is foreign citizen? Give reasons.

Answer

As per section 9(1)(iii), Income deemed to accrue or arise in India includes, income chargeable under the head 'Salaries' payable by the Government of India to a citizen of India for services rendered outside India.

As per section 10(7), any allowance or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India shall be exempt. In view of the above, the computation of taxable income of Mr. Rajesh is as follows.

Basic Pay		Rs.	Rs.
	100,000 x 12		12,00,000
Overseas allowance	2,000 x 12	24,000	
Less: Exempt under section 10(7)		24,000	Nil
			12,00,000
Deduction under section 16			50,000
Income under the head Salaries			11,50,000

Contentions of Mr. Rajesh Kumar

(i) The salary shall be deemed to accrue or arise in India and therefore, this contention of Mr. Rajesh Kumar is not valid.

(ii) As per section 192, the employer is liable to deduct the tax at source from taxable salary. However, if the employer does not deduct tax, the employee is not granted exemption from tax liability.

If Mr. Rajesh Kumar is a foreign citizen, The above provisions of Sec. 9(1)(iii), shall not apply. Therefore, there will be no tax liability on Mr. Rajesh Kumar

20) Mr. Shyam, an employee of AB Ltd. receives Rs. 90,000 as gratuity under the Payment of Gratuity Act, 1972. He retires on August 15, 2020 after rendering service for 32 years and 4 months. The last drawn salary was Rs. 3,250 p.m. Calculate the amount of gratuity chargeable to tax.

Answer

Computation of taxable gratuity of Mr. Shyam

Particulars	Rs.
Actual gratuity	90,000
Less: Exempt u/s 10(10) to the extent of least of the following	
1.Rs.20,00,000	
2. 15/26 × Rs. 3,250 × 32 = Rs. 60,000	
3. Actual Gratuity received – Rs. 90,000	60,000
Taxable Gratuity	Rs. 30,000

21) Ms. Uma, not being covered by the Payment of Gratuity Act, 1972 retires during 2020-21 from SR Private Ltd, and receives Rs. 45,000 as gratuity after a service of 40 years 11 months. Her average monthly salary during the last 10 months of service was Rs. 2,200. Determine the taxable gratuity in her case. What would be your answer if she retired after serving for another 2 months?

Answer

Computation of taxable gratuity of Ms. Uma

Case 1: 40 years and 11 months service	**Rs.**
Actual Gratuity	**45,000**
Less : Exempt u/s. 10(10) to the extent of least of the following:	
1. Rs. 20,00,000 (not covered)	
2. Rs. 2,200 x ½ x 40 = Rs. 44,000.	
3.Actual Gratuity received Rs. 45,000	
Taxable gratuity	**44,000**
On service of another 2 months - NIL	**1,000**

22) X, who is not covered by the Payment of Gratuity Act, 1972, retires on November 20, 2020 from ABC Ltd. and receives Rs. 1,86,000 as gratuity after service of 38 years and 10 months. His salary is Rs. 8,000 per month up to July 31, 2020 and Rs. 9,000 per month from August 1, 2020. Besides, he gets Rs. 500 per month as dearness allowance (69 per cent of which is part of salary for computing retirement benefits). What amount of gratuity will be exempt from tax?

Answer

Computation of average monthly salary

	Rs.
Basic salary from January 1, 2020 to October 31, 2020 (i.e., Rs. 8,000 × 7 ÷ Rs. 9,000 x 3)	**83,000**
69% of dearness allowance [i.e., 69% of Rs. 500 × 10)*]	**3,450**
Total	**86,450**
Average monthly salary	**8,645**

Amount of exempt gratuity is the least of the following:

(a)	**Rs. 20,00,000 (not covered)**
(b)	**Rs. 1,64,255 [being half month's salary for each completed year of service (Rs. 8,645 x ½ x 38)]; and**
(c)	**Rs. 1,86,000**

Rs. 1,64,255, being the least, it exempt from tax.

23) X, a marketing specialist of Bombay, is working with two companies, viz., A Co. and B Co. He retires from A Co. on November 30, 1992 (salary at the time of retirement: Rs. 2,600) and receives Rs. 22,000 as gratuity out of which Rs. 20,000 is exempt under section 10(10). He also retires from B Co. on December 10, 2020 after 38 years and 8 months of service and receives Rs. 3,90,000 as death – cum – retirement gratuity. His average basic salary drawn from B Co. for the preceding 10 months ending on November 30, 2020 is Rs. 18,200 per month. Besides, he has received Rs. 1,000 per month as dearness allowance, 80 per cent of which forms part of salary for the purpose of computation of retirement benefits and 6 per cent commission on turnover achieved by him. Total turnover achieved by him during 10 months ending on November 30, 2020 is Rs. 2,00,000. Determine the amount of gratuity exempt under section 10(10).

Answer

Salary for the purpose of computation of exempt gratuity:

Basic salary of 10 months (Rs. 18,200 x 10)	1,82,000
Dearness allowance of 10 months (80% of Rs. 1,000 x 10)	8,000
Commission @ 6% of turnover of preceding 10 months [6% of Rs. 2,00,000]	12,000
Total	2,02,000
Average monthly salary (Rs. 2,02,000 / 10)	20,200

Amount of exempt gratuity is the least of the following (not covered)

(a)	Rs. 19,80,000 [Rs. 20,00,000 - Rs. 20,000, being amount of exempt gratuity received from A Co.);
b)	Rs. 3,83,800 [being half month's salary for each completed year of service (Rs. 20,200 x ½ x 38)]; and
c)	Rs. 3,90,000 (being amount of gratuity received from B Co.).

Rs. 3,83,800, being the least, it exempt from tax.

Notes :-

(1) Dearness allowance is included in salary for the purpose of computation of exempt

gratuity, if it forms part of salary for the purpose of retirement benefits. In this case, 80% of the dearness allowance forms part of salary for computation of retirement benefits. Therefore, 80% of the dearness allowance is included in average monthly salary. (It may be noted that the entire dearness allowance is chargeable to tax). Commission is included in salary for the purpose of calculating exempt gratuity if it is based on a fixed percentage of turnover achieved by the employee.

(2) If an employee, who has received gratuity in earlier year from his former employer, receives gratuity from another employer in the same year or a later year, the limit of Rs. 20,00,000 is reduced by the amount of gratuity exempt from tax under section 10(10)(iii) in earlier year. Therefore, Rs. 20,000, being the amount of exempt gratuity from A Co., is deducted from Rs. 20,00,000.

24) Determine the amount of pension taxable for the previous year in the following cases on the assumption that it becomes due on the last day of each month:

a) X receives Rs. 18,250 per month as pension from the Central Government during the previous

year 2020-21.

b) X receives Rs. 21,000 per month as pension from the Government of Punjab during the previous year 2020-21.

c) X receives Rs. 20,000 per month as pension from ABC Ltd., a public limited company in the private sector, during the previous year 2020-201.

d) X retires from the Central Government service on May 31, 2020. He gets pension of Rs. 15,000

per month up to November 30, 2020 [i.e., Rs. 15,000 x 6]. With effect from December 1, 2020, he gets one – third of his pension commuted for Rs. 7,18,000.

e) X retires from ABC Co. on June 30, 2020. He gets pension of Rs. 20,000 per month up to January

31, 2021. With effect from February 1, 2021, he gets 60 per cent of pension commuted for Rs. 10,71,000. Does it make any difference if he also gets gratuity of Rs. 40,000 at the time of

retirement?

Answer

1. Uncommuted pension of Rs. 2,19,000 (i.e., Rs. 18,250 x 12) is chargeable to tax as salary

2. Uncommuted pension of Rs. 2,52,000 (i.e., Rs. 21,000 x 12) is chargeable to tax as salary

3. Uncommuted pension of Rs. 2,40,000 (i.e., Rs. 20,000 × 12) is chargeable to tax

4. While uncommuted pension is chargeable to tax, commuted pension is exempt from tax in the case of Government employees. Therefore, commuted pension of Rs. 7,18,000 is exempt from tax. The amount of uncommuted pension will be calculated as under :

	Rs.
Uncommuted pension up to November 30, 2020 (i.e., Rs. 15,000 × 6)	90,000
Uncommuted pension from December 1, 2020 to March 31, 2021 (i.e., 2/3 x Rs. 15,000 x 4)	40,000
Total uncommuted pension	1,30,000

5. In the case of non-Government employee while uncommuted pension is fully chargeable to tax, commuted pension is partly chargeable to tax and partly exempt from tax. Amount of taxable pension will be commuted as under

UNCOMMUTED PENSION

Uncommuted pension from July 1, 2020 to January 31, 2021 (i.e., Rs. 20,000 x 7} 140,000

Uncommuted pension from Feb 1, 2021 to March 31, 2021 (i.e., 40% of Rs. 20,000 x 2) 16,000

Total uncommuted pension chargeable to tax as salary 1,56,000

COMMUTED PENSION

Commuted value of 60% of usual pension 10,71,000

Commuted value of full pension (i.e., Rs. 10,71,000 x 100/60) 17,85,000

If X does not receive gratuity

Amount exempt (1/2 of commuted value of full pension (i.e., 1/2 x Rs. 17,85,000)] 8,92,500

Commuted pension chargeable to tax as salary (i.e., Rs. 10,71,000 - Rs. 8,92,500) 1,78,500

if X receives gratuity

Amount exempt [1/3 of commuted value of full pension (i.e., 1/3 × Rs. 17,85,000)] 5,95,000

Commuted pension chargeable to tax as salary (i.e., Rs. 10,71,000 – Rs. 5,95,000) 4,76,000

Note : X can claim relief under section 89 in respect of commuted pension chargeable to tax.

25)

a) Mr. Kumar retires from Government service on 1-1-2021. He was drawing a salary of Rs. 6,000
p.m. He was drawing dearness allowance of Rs. 1,200 p.m. On retirement, he receives a gratuity
of Rs. 1,20,000. He is paid monthly pension of Rs. 4,200. Compute the Gross salary in his case.

b) Mr. Dalai retires from an employment covered by Payment of Gratuity Act on 30.11.2020 and he is paid gratuity of Rs. 55,000. While the last drawn salary is Rs. 1,950, the average of last 10 months salary is Rs. 1,800. He served for 36 years and 4 months before retirement. Compute the taxable gratuity in his case.

c) Mr. Rohit not covered by Payment of Gratuity Act, retires on 28th Feb 2021 after serving the
employer company for a period of 18 years and 10 months. He was drawing a salary of Rs. 5,000
up to Sep 2020 and thereafter Rs. 6,000/ – per month. On retirement he is not in receipt of pension but gratuity of Rs. 60,000 is paid. Compute Gross salary.

Answer

(a) 6000 x 9 + 1200 x9 + NIL + 4200 x 3 = 77400.

(b) Taxable Gratuity = Rs. 55,000 – Rs. 40,500 = Rs. 14,500 [15/26 x 36 x 1950]

(c) 5000 x6 + 6,000 x 5 + (60,000 – 48,600) = Rs. 71,400.

26) Determine the gross amount of taxable pension includible in salary income for the AY 2021- 22 in the following cases:

a) On 30th June 2020, Mr. Santhosh retires from Central Government service and gets pension of Rs. 3,000 p.m. up to 31-1-2021. With effect from 1-2-2021 he gets 1/3 of his pension commuted for Rs. 1,20,000.

b) Mr. Kamath retires from X Ltd., on 31.10.2019. He gets pension of Rs. 2,000 p.m. up to 31-10-

2020. With effect from Nov 1, 2020 he gets 60% of pension commuted for Rs. 30,000. He is not in receipt of gratuity.

Answer

(a) Taxable pension of Mr. Santhosh

Particulars	Rs.	Rs.
(1) Uncommuted pension before the date of commutation (Rs. 3,000 x 7)		21,000
(2) Uncommuted pension after the date of commutation (Rs. 3,000 x 2 x 2/3)		4,000
(3) Commuted pension	1,20,000	
Less : exempt u/s 10 (10A)	1,20,000	Nil
Taxable pension includible in salary		25,000

(b) Taxable pension of Mr. Kamath

Particulars	Rs.	Rs.
(1) Uncommuted pension before the date of commutation (Rs. 2,000 x7)		14,000
(2) Uncommuted pension after the date of commutation (Rs. 2,000 x 40% x 5)		4,000
(3) Commuted pension	30,000	
Half of the full value of commuted pension is exempt u/s.10(10A) as he is not in receipt of gratuity (Rs. 30,000 x 100 ÷ 60 x ½)	25,000	5,000
Taxable pension includible in salary		23,000

27) Calculate taxable pension includible in the salary income in the below cases for AY 2021-22.

a) Mr. Ram Singh retired from the Indian Revenue Service on 16-3-2019. He gets pension of

Rs. 4,000 p.m. upto 31.12.2020. With effect from 01.01.2021 he gets 25% of his pension commuted for Rs. 75,000.

b) Mr. Sundar retires from RG Co. on 31-3-2020. He is paid Rs. 1,800 p.m. as pension. On his request, RG Co. pays Rs. 36,000 in lieu of 50% of pension from 01.12.2020.

Assume that (i) gratuity is paid (ii) no gratuity has been paid.

Answer

a) Computation of taxable pension of Mr. Ram Singh

Particulars	Rs.	Rs.
(1) Uncommuted pension before the date of commutation (4,000 x 9)		36,000
(2) Uncommuted pension after the date of commutation (4,000 x 3 x 75%)	9,000	
(3) Commuted pension	75,000	
Less: Exempt U/S 10(10A)	75,000	Nil
Taxable pension includible in salary		45,000

(b) Computation of taxable pension of Mr. Sundar

	Rs.	Rs.
Case I: Gratuity is paid		
(1) Uncommuted pension before the date of commutation (1,800 x 8)		14,400
(2) Uncommuted pension after the date of commutation (1,800 x 4 x 50%)		3,600
(3) Commuted pension - 1/3rd of full value of commuted pension is exempt	36,000	
u/s. 10(10A) as he is in receipt of gratuity (36,000 x 100 / 50 x 1/3)	24,000	12,000
Taxable pension includible in salary		30,000

Case II: Gratuity has not been paid	Rs.	Rs.
(1) Uncommuted pension before the date of commutation (1,800 x 8)		14,400
(2) Uncommuted pension after the date of commutation (1,800 x 4 x 50%)	3,600	

(3) Commuted pension Half of the full value of commuted pension is exempt	36,000	
U/S 10(10A) as he is not in receipt of gratuity (Rs. 36,000 x 100 ÷ 50 x ½)	36,000	Nil
Taxable pension includible in salary	18,000	

28) Mr. Daniel resigned from his employment and is paid leave salary of Rs. 92,400. He completed 32 years of service and he was drawing a salary of Rs. 4,200 p.m throughout the period of 10 months before retirement. During service he availed 10 months leave. Calculate the leave salary taxable in his case. [Company Policy – 1 Month]

Answer

Leave enactment is exempt to the extent of least of the following:

Particulars	Amount (Rs.)
(i) Statutory limit	3,00,000
(ii) Rs. 4200 x 22	92,400
(iii) 10 months average salary (10 x Rs. 4,200)	42,000
(iv) Actual amount received	92,400
Therefore, Rs. 42,000 is exempt under section 10(10AA)	

Taxable Leave = Rs. 92400 - Rs. 42000.

29) Shri A.K. Gupta was employed in a factory in Faridabad. He retired on 1.1.2021 after completing a service of 26 years and 5.months. He had been getting a salary of Rs. 23,000 per month and a dearness allowance of Rs. 2,000 per month (forming part of retirement benefits) for the last four years. His pension was determined @ Rs. 9,000 p.m. and 3/4 portion of it was commuted for Rs. 2,70,000. In addition to this he received a gratuity of Rs. 4,00,000 and as per entitlement of 30 days earned leave for each year of service, he also received Rs. 3,00,000 for encashment of earned leave of 12 months during the previous year. Compute gross salary of Shri Gupta, assuming he is not covered under Payment of Gratuity Act.

Answer

Computation of Gross Salary of Mr. A.K. Gupta

(1) Salary Rs. 23,000 x 9			2,07,000
(2) DA (2,000 x 9)			18,000
(3) Uncommuted Pension Rs. 9,000 x 25% x 3			6,750
(4) Commuted Pension Received		2,70,000	
Less: Exempt [Rs. 2,70,000 x 4/3 x 1/3]		1,20,000	1,50,000
(5) Gratuity Received		4,00,000	
Less: Exempt			
(i) Rs. 4,00,000			
(ii) [25,000 / 2 x 26] = Rs. 3,25,000			
(iii) Rs. 20,00,000 (not covered)		3,25,000	75,000
(6) Leave Encashment Received		3,00,000	
Less: Exempt – least of the following			
(i)Actual	3,00,000		
(ii) 12 months x AMS 12 x 25,000 =	3,00,000		
(iii) 10 months x AMS =	2,50,000		
(iv) Stat. Limit:	3,00,000	2,50,000	50,000
Gross Salary			5,06,750

30) X was employed with ABC Ltd. He retired w.e.f. 1.2.2021 after completing a service of 24 years and 4 months. He submits the following information :

Basic Salary	Rs. 5,000 per month (at the time of retirement)
Dearness Allowance	100% of Basic Salary (40% of which forms part of salary for retirement benefits).
Last increment	Rs. 500 w.e.f. 1.7.2020

His pension – was determined at Rs. 3,000 per month. He got 50% of the pension commuted w.e.f. 1.3.2021 and received a sum of Rs. 1,00,000 as commuted pension. In addition to this, he received a gratuity of Rs. 1,20,000 and leave encashment amounting to Rs. 56,000 on account of accumulated leave of 240 days. He was entitled to 40 days leave for every year of service.

Compute his Gross Salary assuming that he is not covered under Payment of Gratuity Act.

Answer

Computation of Gross Salary

	Rs.	Rs.
Basic Salary (4,500 x 3 + 5,000 x 7)		48,500
Dearness Allowance (100%)		48,500
Uncommuted Pension (3,000 x 1 + 1,500 x 1)		4,500
Commuted Pension	1,00,000	
Less : Exempt [(1,00,000/ 50%) × 1/3]	66,667	33,333
Gratuity :		
Amount received	1,20,000	
Less : Exempt (Note No. 1)	81,480	38,520
Leave Encashment		
Amount received	56,000	
Less : Exempt (Note No. 2)	Nil	56,000
Gross Salary		2,29,353

31) Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.1.2021 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.3.2021: Salary @ Rs. 16,000 p.m. comprising of basic salary of Rs. 10,000, Dearness allowance of Rs. 3,000, City compensatory allowance of Rs. 2,000 and Night duty allowance of Rs. 1,000. Pension @ 30% of basic salary from 1.2.2021. Leave salary of Rs.

75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year. Gratuity of Rs. 50,000.

Compute Gross Salary of Mr Narendra.

Answer

Computation of Total Income of Mr. Narendra

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salaries		1,60,000
Gross salary received during 1/4/20 to 31/1/21 @ Rs. 16,000 p.m. (Rs. 16,000 x 10)		6,000
Pension for 2 months @ 30% of the basic salary of Rs. 10,000 p.m.	75,000	
Leave Salary	50,000	25,000
Less: Exempt under section 10(10AA) (Note 1)		
Gratuity	50,000	
Less: Exempt under section 10(10) (Note 2)	25,000	25,000
Gross Salary		2,16,000

Notes:

1. Leave enactment is exempt to the extent of least of the following:	
Particulars	Amount (Rs.)
(i) Statutory limit	3,00,000
(ii) Cash equivalent of leave for 30 days (30/45 x Rs. 75,000)	50,000
(iii) 10 months average salary (10 x Rs. 10,000)	1,00,000
(iv) Actual amount received	75,000

Therefore, Rs. 50,000 is exempt under section 10(10AA)

2. Gratuity is exempt to the extent of least of the following:

Particulars	Amount
(i) Statutory limit	20,00,000

(ii) Half month's salary for 5 years of service (5 × Rs. 5,000)	**25,000**
(iii) Actual gratuity received	**50,000**

Therefore, Rs. 25,000 is exempt under section 10(10). It is assumed that the employee is not covered under the Payment of Gratuity Act, 1972.

32) Mr. Zakaria, staying at Chennai, receives Rs. 12,500 monthly as basic salary; Rs. 1,500 as D.A.PM.
provided in terms of employment and 4% as commission on turnover achieved by him. He is paid an house rent allowance of Rs.1,800 p.m. The turnover achieved by him for the year is Rs.15 lakhs. 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 2021. Determine the taxable quantum of HRA.

Answer

Computation of taxable house rent allowance - Mr Zakaria

Particulars	**Rs.**	**Rs.**
Actual House Rent allowance		**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	**1,14,000**	
3. Actual HRA received	**21,600**	**7,200**
Taxable HRA		**14,400**

Working Note

Basic Salary 12,500 x 12	**1,50,000**
Dearness Allowance 1,500 x 12	**18,000**
Commission @ 4% on 15,00,000	**60,000**
Salary for this purpose	**2,28,000**

Note: Though advance Salary is taxable in A.Y. 2021-22 on receipt basis, it should not be considered in computing Salary for the purpose of calculating exemption u/s. 10(13A)

33) Mr. Kapil is in receipt of the following allowances and seeks your advice about the taxable quantum of these allowances for FY 2020-21:

i) Helper allowance Rs. 300 p.m. Mr. Kapil had appointed a helper for 9 months during the year

to whom he paid Rs. 200 p.m.

ii) Conveyance allowance of Rs. 750 p.m. Mr. Kapil owner car which is used both for personal purposes and official purposes. Total monthly expenses Amounts to Rs. 1,200 of which 40% is attributable to office use.

iii) During the year Mr. Kapil received education allowance for his 3 children a sum of Rs. 250 per

month each towards education and hostel expenditure. All the children are staying in hostel.

iv) During the year for six months Mr. Kapil was posted at Khandala, a hilly area loc; at a height

of 1,200 mts. above sea level. Hill compensatory allowance of Rs. 2,400 has been received by him at Rs. 400/ – per month.

Answer

Computation of taxable quantum of various allowances of Mr. Kapil

Particulars	Rs.	Rs.
Helper allowance received	3,600	
Less: Exempt (Actually spent - 9 x 200)	1,800	1,800
Conveyance allowance received	9,000	
Less: Exempt (Actually spent] Rs. 1,200 x 40% x 12	5,760	3,240
Education & hostel expenditure allowance 250 x 3 x 12	9,000	
Less: Education & hostel expenses Rs. 250 x 2 x 12	6,000	3,000
Hill compensatory allowance	2,400	
Less: Exempt Rs. 300 p.m x 6 months	1,800	600
Taxable amount of allowances		8,640

34) Compute the gross salary of Mr. Kamlesh on the basis of the following information:

a) Basic pay Rs. 8,000 per month

b) Dearness allowance - 40% of basic pay

c) City compensatory allowance -10% of basic pay.

d) Medical allowance- Rs. 800 per month

e) Children education allowance - Rs. 80 per month per child for 3 children

f) Hostel expenditure allowance - Rs. 400 per child per month for 2 children.

g) Tribal area allowance- Rs. 500 per month

h) Travelling allowance - Rs. 12,000 (However actual expenditure was only Rs. 8000 for official

duties)

i) Conveyance allowance - Rs. 500 per month. (The whole amount was spent for official duties)

j) Transport Allowance - Rs. 28,200

k) Overtime allowance - Rs. 4,000

Answer

Computation of Gross salary of Mr. Kamlesh (amounts in Rs.)

Basic salary (Rs. 8,000 × 12)	96000
Dearness allowance (40% of basic pay)	38400
City compensatory allowance (10% of basic pay)	9600
Medical allowance (800 x 12)	9600
Children education allowance [2880- (80 × 2 × 12)]	960
Hostel expenditure allowance (9,600 - 7,200)	2400
Tribal area allowance (6,000 - 2,400)	3600
Travelling allowance (12,000 - 8,000)	4000
Conveyance allowance	Exempt
Transport allowance	28200
Overtime allowance	4000
Gross salary	196760

35) Mr. M is an area manager of M/s N. Steels Co. – Ltd. During the financial year 2020-21, he gets following emoluments from his employer:

Basic Salary	
– Up to 31.08.2020	Rs. 20,000 p.m.
– From 01.09.2020	Rs. 25,000 p.m.
Transport allowance	Rs. 1,200 p.m.
Contribution to recognized provident fund	15% of basic salary and D.A.
Children education allowance	Rs. 500 p.m. for two children
City compensatory allowance	Rs. 300 p.m.
Hostel expenses allowance	Rs. 380 p. m. for two children
Tiffin allowance (actual expenses Rs. 3700)	Rs. 5,000 p.a.
Tax paid on employment	Rs. 2,500

Compute taxable salary of Mr. M.

Answer

Basic Salary		
Upto 31.8.20 (20,000 x 5)	1,00,000	
from 1.9.20 (25,000 x 7)	1,75,000	2,75,000
Transport allowance		14,400
City Compensatory Allowance (W.N-2)		3,600
Contribution to PPF (in excess of 12% of salary) (W.N-3)		8,250
Children education allowance (W.N-4)		3,600
Hostel Expense Allowance (W.N-5)		NIL
Tiffin Allowance (W.N.6)		5,000
Tax paid by employer on employment		2,500
Gross Salary		3,12,350
Less: Deduction u/s 16(ia) & (iii)		(52,500)

Income from Salary		**2,59,850**

Working notes:

(1) Transport Allowance is now fully taxable

(2) City Compensatory Allowance is fully taxable

(3) Contribution to recognized PPF is taxable in excess of 12% of salary.

Taxable contribution = Actual - 12% of salary

= (15% x 2,75,000) - (12% x 2,75,000)

= Rs. 41,250 - Rs. 33,000 = Rs. 8,250

(4) Children Education Allowance is exempt upto Rs. 100 per month per child. (Rs. 500 for 2 Child)

Taxable Allowance = (500 – 100 x 2) x 12 = 3,600

(5) Hostel expense allowance is exempt upto Rs. 300 per month per child Taxable Allowance = (380- 300 x 2) therefore NIL

(6) Tiffin Allowance is fully taxable

(7) Tax on employment is paid by Mr. M's employer. Hence it is taxable in his hand i.e. Mr. X

36) Mr. D is employed in Nainital Transport Corporation as a conductor with basic pay Rs. 4,000 p.m. upto 30.09.2020 and Rs. 4,500 p.m. with effect from 01.10.2020. Dearness allowance is allowed @ 12% of the basic pay and 10% of it is taken into consideration as per terms of employment. The employer has paid him outstation allowance of Rs. 1,200 p.m., transport allowance of Rs. 300 p.m. (savings Rs. 100 p.m.), conveyance allowance for personal purpose Rs. 100 p.m.

He has resigned from Nainital Transport Corporation with effect from 01.03.2021 and has joined Haryana Transport Corporation at a consolidated pay of Rs. 8,500 p.m.

Compute his income under the head salary.

Answer

Computation of income under the head Salary

Nainital Transport Corporation

Basic Pay [(4,000 x 6) + (4,500 x 5)]	**46,500**

Dearness Allowance (12% of basic pay)	**5,580**
Outstation Allowance (W. Note1)	**3,960**
Transport Allowance	**3,300**
Conveyance Allowance (100 x 11)	**1,100**
Haryana Transport Corporation	
Basic Pay	**8,500**
Gross Salary	**68,940**
Less: Deduction u/s 16(ia)	**50,000**
Income under the head Salary	**18,940**
Gross Total Income	**18,940**
Less: Deduction u/s 80C to 80U	**Nil**
Total Income (rounded off u/s 288A)	**18,940**

Working Note:

1. Outstation allowances

Least of the following is exempt:

1. 70% of 13,200 = Rs. 9,240

2. Rs. 10,000 x 11 = Rs. 1,10,000

Received = Rs. 13,200

Exempt = Rs. 9,240

Taxable = Rs. 3,960

37) Mr A, a civil engineer was in Government service till 30.06.2020. He joined as an adviser (part time) from 1st October, 2020 in a organisation on an honorarium of Rs. 32,000 per month. He owns a house properly which is self occupied. From the following further information, furnished for the year ending 31st March, 2021, you are requested to

(a) compute his income under the head salary

(a) Salary from Government service	**30,000**
(b)Leave at credit (encashment)	**50,000**
(c) Provident fund	**78,000**

(d) Commuted pension	**35,000**
(e) Uncommuted Pension	**20,000**
(f) House rent allowance	**5,000**
(g) Gratuity Received	**1,20,000**
(h)Repayment to Housing Development Finance Corporation Ltd.	**24,000**
(Paid in July 2021-Principal Rs. 10,000+Interest Rs. 14,000 on loan taken for construction of house)	
(i) Deposit in public provident fund account	**32,000**

Answer

Computation of income under the head salary	**Rs.**	**Rs.**
Salary		**30,000**
House Rent Allowance (As he owns the house where he resides, this is taxable)		**5,000**
Gratuity (Exempt u/s 10(10)- Government Employee)		**Nil**
Leave encashment at the time of retirement (Exempt u/s 10(10AA)-Government Employee)		**Nil**
Provident Fund (Exempt u/s 10(11))		**Nil**
Commuted Pension (Exempt u/s 10(10A))		**Nil**
Pension from Government		**20,000**
Honorarium from charitable dispensary (Assuming he is in part time employment) (32,000×6)		**1,92,000**
Gross Salary		**2,47,000**
Less: Deduction u/s 16(ia)		**50,000**
Income from Salary		**1,97,000**
Less: HP Loss (Interest – self occupied)		**14,000**
Gross Total Income		**1,83,000**
Less: Dedication u/s 80C		
Public Provident Fund Contribution	**32,000**	

Repayment of loan taken from HDFC (As loan is paid after 31.03.2021, it is not qualified for deduction u/s 80C for the previous year 2020-21)	Nil	32,000
Total Income		1,51,000

38) Mr. X, a resident individual is retired from A Co. Ltd. w.e.f. 1st February, 2021, after 20 years and 9 months of service. He joined B Co. Ltd. on the same day, i.e. 1st February, 2021 and remained in service till 31st March, 2021.

He furnished the following information:

Salary and allowances from 01.04.2020 to 31.01.2021 from A Co. Ltd.	Rs.
Basic salary	10,000 p.m.
Dearness allowance	1,500 p.m.
Commission calculated @ 4% on turnover achieved by Mr. X	4,000
Gratuity received (not covered by the Payment of Gratuity Act, 1972)	1,25,000

Salary and allowance from B Co. Ltd.

Basic Salary	7,000 p.m.
Entertainment allowance	1,000 p.m.
Fixed medical allowance	500 p.m.
House rent allowance	600 p.m.
Leave salary received (During the service)	5,000

Other information:

Mr. X resides in his own house throughout the year.

Mr. X paid a premium of Rs. 12,000 on the policy of Rs. 150,000 on life of his minor child. Contribution to an approved superannuation fund and the Jeevan Dhara Scheme of the LIC covered under section 80C amounted to Rs. 8,000 and Rs. 5,000 respectively.

Compute Mr. X's total income.

Answer

Computation of Income of X, an individual Salary From ABC Co. Ltd.	Rs.	Rs.
Basic Salary (10,000 x 10)		1,00,000.00
Dearness Allowance (1,500 x 10)		15,000.00
Commission		4,000.00
Gratuity (W Note 1)		21,000.00
Salary From B Co. Ltd.		
Basic Salary (7,000 x 2)		14,000.00
Entertainment Allowance (1,000 x 2)		2,000.00
Medical Allowance (500 x 2)		1,000.00
House Rent Allowance (600 x 2) (Exemption is not available at X resides in his own house)		1,200.00
Leave Salary		5,000.00
Gross Salary		1,63,200.00
Less: Deduction u/s 16(ia)		50,000.00
Income under the head Salary		1,13,200.00
Gross Total Income		1,13,200.00
Less: Deduction u/s 80C		
Insurance premium on life of minor child	12,000	
Approved Superannuation Fund	8,000	
Jeevan Dhara Scheme	5,000	25,000.00
Total Income		88,200.00

Working Note:

1. Gratuity

Least of the following is exempt:

1. Rs. 1,25,000

2. Rs. 20,00,000 (not covered)

3. 1/2 x 10,400 x 20 = Rs. 1,04,000

Received = Rs. 1,25,000

Exempt =Rs. 1,04,000

Taxable = Rs. 21,000

39) From the following particulars furnished by Mr. X for the year ended 31.03.2021. Compute his total income.

a. Mr. X retired on 31.12.2020 at the age of 59, after putting in 25 years and 11 months of service, for a private company at Delhi.

b. He was paid a salary of Rs. 30,000 p.m. and house rent allowance of Rs. 7,000 p.m. He paid rent

of Rs. 6,500 p.m. during his tenure of service.

c. On retirement, he was paid a gratuity of Rs. 3,75,000. He was not covered by the payment of

Gratuity Act. His average salary in this regard may be taken as Rs. 26,500. Mr. X has not received any other gratuity at any point of time earlier, other than this gratuity.

d. He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of Rs. 3,20,000 was received by him in this regard. His average salary may be taken as Rs. 26,500.

e. Mr. X has invested Rs. 20,500 in recognised provident fund, Rs. 45,000 in public provident fund

and Rs. 29,500 in National Savings Certificates.

Answer

Basic Pay (30,000 x 9)		**2,70,000.00**
House Rent Allowance (Sec 10(13A) Rule 2A) (W Note 1)		**31,500.00**
Gratuity {Sec 10(10)} (W Note 2)		**43,750.00**
Leave Salary {Sec 10(10AA)} (W Note 3)		**55,000.00**
Gross Salary		**4,00,250.00**
Less: Deduction u/s 16(ia)		**50,000.00**

Income under the head Salary		3,50,250.00
Gross Total Income	3,50,250.00	
Less: Deduction u/s 80C		
Recognized Provident Fund	20,500	
Public Provident Fund	45,000	
National Saving Certificates	29,500	95,000.00
Total Income		2,55,250.00

Working Note:

1. HRA Least of the following is exempt: 1. Rs. 63,000 2. Rs. 58,500 - Rs. 27,000 = Rs. 31,500 3. 50% of retirement benefit salary = Rs.1,35,000 (Retirement benefit salary = Rs. 2,70,000) Received = Rs. 63,000 Exempt = Rs. 31,500 Taxable = Rs. 31,500	2. Gratuity – least of the following exempt 1. Rs. 3,75,000 2. Rs. 20,00,000 (not covered) 3. 1/2 x 26,500 x 25 = Rs. 3,31,250 Received = Rs. 3,75,000 Exempt = Rs. 3,31,250 Taxable = Rs. 43,750
3. Leave Salary – Lease of the following exempt 1. Rs. 3,20,000 2. Rs. 3,00,000 3. 26,500 x 10 = Rs. 2,65,000 4. 26,500 x 25 * 15/30 = 3,31,250 Received = Rs. 3,20,000 Exempt =Rs. 2,65,000 Taxable = Rs. 55,000	

40) Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y. 2020-
21. 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 P.Y. 2020-21. The value of one £ in Indian rupee to be taken at Rs. **95. Compute Rajesh's Net Annual Value of the property**
for the A.Y. 2021-22.

Solution:

For the P.Y. 2020-21, Mr. Rajesh, a British national, is resident and 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 the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y. 2021-22

Particulars	Rs.
Gross Annual Value (£10,000 x 12 x 92.50)	1,11,00,000
Less: Municipal taxes paid (£8,000 x 92.50)	7,40,000
Net Annual Value (NAV)	1,03,60,000

41) Determine the GAV in the following cases:

a. Deep owns a flat which assessed by the local authority with annual value of 1,00,000/. The property was let out for Rs. 8,500/- p.m. However the tenant vacated the property on 31.10.2020. For the months of November 2020 to February 2021 the flat was vacant as no proper tenant could be identified. In March 2021 a new tenant occupied at a rent of Rs. 12,000 p.m.

b. Ram owned a flat, (Annual letting Value Rs. 90,000 p.a.) in which he was living. By the end of May 2020 he completed construction of an independent house and on 1st of June 2020, shifted to the new independent house. From June 2020, the flat was let out to his relative for a rent of Rs. 7,000/- p.m.

c. Laxman living in his apartment (fair rent Rs. 1,02,000) till the end of April 2020 shifted to an accommodation provided by his employer. His apartment was vacant for 4 months (May to August) and could be let out only from September for Rs. 17,000 p.m.

Answer

(a) 71,500 [Section 23(1)(c)]

(b) 90,000 & NIL

(c) 119000

42) Mr. Aakash owns three house properties in Mumbai, the particulars of which are given below:

	House I	**House II**	**House III**
Particulars	**(**Rs.**)**	**(**Rs.**)**	**(**Rs.**)**
Municipal Valuation	2,00,000	1,50,000	1,00,000
Fair Rent	2,80,000	1,80,000	1,20,000
Standard Rent	2,40,000	2,00,000	N.A.
Actual Rent(p.m.)	22,000	17,500	10,500
Period of vacancy **[Vacancy]**	Nil	1 month	6 month
Municipal Taxes paid	40,000	80,000	15,000

Compute income from HP in all the 3 cases.

Answer

House I - GAV – Actual rent being Higher – Rs. 22,000 x 12. Income from HP – Rs. 1,56,800.

House II - GAV – Actual rent being Higher – Rs. 17,500 x 11. Income from HP – Rs. 78,750.

House III - GAV – Actual rent being lower due sec 23(1)(c)– Rs. 10500 x 6. Income from HP – Rs. 33,600.

43) Mr. Ramesh completed construction of his house property on 31st May 2020 on a leasehold land. The house property was self – occupied during June and July 2020 and let- out thereafter for a rent of Rs. 10,000 per month. The amount paid for during the year: Municipal taxes Rs.

6,000; Repairs Rs. 12,000; Ground rent Rs. 24,000 and insurance premium Rs. 4,000. **Determine the taxable income from house property. [Fair Rent – 70,000 p.a.]**

Answer

Income from House Property

Particulars	**Amount** Rs.
Gross Annual Value [Rs. 80,000 (10,000 x 8)]	80,000
Less: Municipal taxes	6,000
Net Annual Value	74,000
Less : Deduction u/s.24	
- 30% of Net Annual Value	22,200
Income from House Property	**51,800**

Where the house property comes into existence only during the previous year, the annual value shall be computed only for the period for which the house existed. In this case, therefore, the annual value is computed only for 10 months, i.e. from June 2020 to March 2021. The same analogy would apply where the assessee purchases or sells the house property during the year and consequently owns the house property only for part of the year.

44) Mr. X owns a building property, the income from which is chargeable under the head "Income from house property". He incurs, apart from making payment towards land revenue, repairs, collection charges, etc., stamp duty and registration charges in respect of lease deed and also salary paid to caretaker. He wants to know whether he can claim such expenditure?

Answer

Assessee cannot claim deduction in respect of such payments as they are not specified as deduction either u/s.23 or u/s.24.

45) In the following cases State the head of income under which the receipt is to be assessed and comment:

(i) X Ltd. lets out its property Y. Y sublets it. How is subletting receipt to be assessed in the hand of Y.

(ii) X has built a house on a leasehold land. He has let-out the property and claims income from House property under "Other Sources" and deducted expenses on repair, security charges, insurance and collection charges in all amounting to 40% of receipts.

Answer

(a) Income from sub-letting is taxable under the head "Income from other sources". However, if the subletting constitutes a business activity, the same shall be taxable under the head 'Profit and gains of business and profession'.

(b) A person who owns the building need not necessarily be the owner of the land on which the building is constructed. The rent is derived from the building. In the present case the rent is derived from the house on a leasehold land. Therefore the income so received is taxable under the head 'Income from house property' and Mr. X is entitled to statutory deduction of 30% of such rent so received under/ section 24(a).

46) A house property is let out for Rs. 6,000 PM including Rs. 1,000 PM as consideration for electricity facility.Total municipal taxes of Rs. 5,000 are also paid by the tenant**. Compute total income of the owner if he has actually paid electricity bills of** Rs. **15,000 during the P.Y.**

Answer

HP 42000 + Other Source – Electricity Facility (3,000) = Rs. **39,000**

47) Ramesh, a foreign national, is a resident and ordinarily resident in India during the PY 2020-21. He owns a house in USA, which he has let out at $ 12,000 p.m. The municipal taxes paid to the Municipal Corporation of USA is $ 8,000 during the PY 2020-21. The value of one $ in Indian rupee to be taken at Rs. 40. **Compute Ramesh's taxable income.**

Answer

For the P.Y. 2020-21, Mr. Ramesh, a foreign national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in USA is to be included in the total income in India. Municipal taxes paid in USA is be to allowed as deduction from the gross annual value.

Computation of Income from house property of Mr. Ramesh

Particulars	Rs.
Gross Annual Value ($ *12,000 × 12 × 40)*	57,60,000
Less: Municipal taxes paid (*$ 8,000 × 40)*	3,20,000
Net Annual Value (NAV)	**54,40,000**
Less: Deduction u/s 24	
(a) 30% of NAV = 30% of Rs. 60,80,000	16,32,000
Income from house property	**38,08,000**

48) Anirudh has a property whose municipal valuation is Rs. 1,30,000 p.a. The fair rent is Rs. 1,10,000 p.a. and 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 and 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 the income from house property of Anirudh**.

Answer

Computation of Income from house property of Mr. Anirudh

Particulars		Amount in Rs.
Computation of GAV		
Step 1 Compute ALV		
ALV = Higher of MV of Rs. 1,30,000 p.a. and FR of Rs. 1,10,000 p.a.,		
but restricted to SR of Rs. 1,20,000 p.a.		1,20,000
Step 2 Compute actual rent received/receivable Actual rent received/receivable less unrealized rent as per Rule 4 = Rs. 1,32,000 - Rs. 11,000		1,21,000
Step 3 Compare ALV of Rs. 1,20,000 and Actual rent received/receivable of Rs. 1,21,000.		**1,21,000**

Step 4 GAV is the higher of ALV and Actual rent received/receivable		1,21,000
Gross Annual Value (GAV)		
Less: Municipal taxes (paid by the owner during the previous year) = 10% of Rs. 1,30,000		13,000
Net Annual Value (NAV) = Rs. 1,21,000 - Rs. 13,000		**1,08,000**
Less: Deductions u/s 24		
(a) 30% of NAV	32,400	
(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
Income from house property (Rs. 1,08,000- Rs. 32,400- Rs. 40,000)		**35,600**

49) Mr. Ajay furnishes the following particulars in respect of a house property:

Municipal Valuation	:	Rs. 2,00,000
Fair Rent	:	Rs. 2,40,000
Actual Rent	:	Rs. 20,000 PM
Municipal Taxes paid	:	Rs. 10,000

The property was vacated on 1.11.2020 and thereafter the property was let out for Rs. 25,000 PM. The assessee could not realize rent for the month of September and october 2020 due to death of the earlier tenant. **Compute the income for HP.**

Answer

Income from House Property – Rs. **161000.**

50) Ganesh has a property whose municipal valuation is Rs. 2,50,000 p.a. The fair rent is Rs. 2,00,000 p.a. and 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 31.1.2021. Unrealised rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied. 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.**

Answer

Computation of income from house property of Ganesh

Particulars		**Amount in Rs.**
Computation of GAV		
Step 1. Compute ALV ALV = Higher of MV of Rs. 2,50,000 p.a. and FR of Rs. 2,00,000 p.a., but restricted to SR of Rs. 2,10,000 p.a.		2,10,000
Step 2. Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = Rs. 2,00,000 - Rs. 20,000		1,80,000
Step 3. Compare ALV and Actual rent received/receivable		1,80,000
Step 4. In this case the actual rent of Rs. 1,80,000 is lower than ALV 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). Therefore, actual rent is the GAV.		**1,80,000**
Gross Annual Value (GAV)		
Less :Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
Net Annual Value (NAV) = (Rs. 1,80,000 - Rs. 20,000)		**1,60,000**
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of Rs. 1,60,000	48,000	
(b)Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property = (Rs. 1,60,000 - 48,000 - 65,000)		**47,000**

51) Mr. X took a loan of Rs. 6,00,000 @ 10% on 1/07/2017. The construction is actually completed on 31/05/2019. The assessee repaid loan of Rs. 2,00,000 on 30/06/2018 & Rs. 3,00,000 on 31/12/2020. **Compute deduction of Interest.**

Answer

10000 + 22500 + 1/5 [40000 x 21 /12 + 20000] = Rs. 50,500.

52) X takes a loan of Rs. 40,000 @ 15% per annum for construction a house on June 1, 2015. Construction of the house is completed on January 20, 2021. Date of repayment of loan is **a.** January 16, 2024, or b) June 30, 2022, or c) October 31, 2018.

Compute the interest allowable as deduction under section 24.

Answer

If date of repayment of loan is January 16, 2024 or June 30, 2022, then pre-construction period ends on March 31, 2020 (being March 31 immediately prior to the date of completion of construction/ acquisition). Interest on Rs. 40,000 @ 15 per cent per annum from June 1, 2015 to March 31, 2020 is Rs. 29,000. Amount of installment deductible in first 5 years is Rs. 5,800 {i.e., Rs. 29000/5).

If date of repayment is 31st October 2018, than pre-construction period ends on same date only as no loan is outstanding thereafter. Month – 41 month. Total Int. - 20500

	Year Ending on March31, 2021
If date of repayment of loan is January 16, 2024:	
Current year's interest	6,000
Pre-construction period's interest	5,800
Total deduction	**11,800**
If date of repayment of loan is June 30, 2022	
Current year's interest	6,000*
Pre-construction period's interest	5,800
Total deduction	**11,800**

If date of repayment of loan is October 31, 2018:	
Current year's interest	Nil
Pre-construction period's interest [1/5 of 20500]	4,100
Total	**4,100**

53) Arvind had taken a loan of Rs. 5,00,000 for construction of property on 1.10.2019. Interest was payable @ 10% p.a. The construction was completed on 30.6.2020. No principal repayment has been made up to 31.3.2021. **Compute the interest allowable as deduction under section 24 for the PY 2020-21.**

Answer

Interest for the year (1.4.20 to 31.3.21) = 10% of Rs. 5,00,000 = Rs. 50,000

Pre-construction interest = 10% of Rs. 5,00,000 for 6 months (from 1.10.18 to 31.3.20) = Rs. 25,000

Pre-construction interest to be allowed in 5 equal annual installments of Rs. 5,000 from the year of completion of construction i.e. in this case, PY 2020-21.

Therefore, total interest deduction under section 24 = 50,000+5,000 = Rs. 55,000.

54) Mr. Amit took a loan of Rs. 2,00,000 @ 14% for construction of house on 01/07/2017. The construction is actually completed on 31/12/2020. **Calculate deduction of Interest on loan.**

Answer

Pre Construction Period : 1.7.2016 to 31.03.2019 – 33 month

Pre Construction Interest – Rs. **77,000**

Interest Deductible: 200000 x 14% + 77,000 / 5.

55) Kaif purchased a commercial building in Udaipur for Rs. 3,31,000 on 27.11.2004. She gifted the property to her friend Salman on 18.12.2007. On 15.1.2021 salman sold this house for Rs. 18,50,000. The expenses on transfer were Rs. 48,000. **Compute capital gains in hands of Salman and state in which year it shall be chargeable to tax.**

Solution:

Computation of capital gain of Salman for the Assessment Year 2021-22 (amounts in Rs.**)**

Full value of consideration	18,50,000	
Less: Expenses in connection with transfer	48,000	
Less: Indexed cost of acquisition (3,31,000 x 301 ÷ 129)	7,72,333	8,20,333
Long term Capital Gains [If HC Ruling is followed: CII of PY 2007-08 will be used]	**10,29,667**	

56) Rekha purchases a house property for Rs. 6,50,000 on 28.12.1998. She paid registration fees of Rs. 65,000. The fair market value of the property as on 1st April, 2001 was Rs. 7,25,000 **and Stamp duty value was** Rs. **7,50,000**. She constructed first floor on 10.12.2009 and spent Rs. 3,89,000 on the said construction. On 15.12.2020, She sold this house for Rs. 96,00,000. The expenses on transfer were Rs. 96,000. **Compute his capital gain.**

Solution:

Computation of Taxable Capital Gains of Ms. Rekha for A.Y. 2021-22 (amounts in Rs.**) :**

Full value of consideration	96,00,000	
Less: Expenses in connection with transfer	96,000	
Less: Indexed cost of acquisition (725,000 x 301 ÷100)	21,82,250	
Less: Indexed cost of improvement (3,89,000 x 301 ÷ 148)	7,91,142	30,69,392
Long term Capital Gains		**65,30,608**

COA shall be higher of

(a) Actual Cost (6,50,000 + 65,000) = 7,15,000 or

(b) Lower of Fair market value i.e.,Rs. **7,25,000 and Stamp duty value i.e.,** Rs. **7,50,000, on April 1, 2001**

57) Mr. F sells a plot of land on 1-8-2020 for Rs. 30,00,000. He inherited the plot from his father on 1-4-2004. His father had acquired the plot on 1-3-2001 for Rs. 30,000. His father had incurred land development charges Rs. 10,000 on 31-3-2001 and Rs. 20,000 on 1-5-2003. Mr. F had incurred land development charges Rs. 50,000 on 1- 9-2007. The sale stamp deed expenses were 1% of the selling price. The FMV of the plot as on 1-4-2001 was Rs. 29,000 **and Stamp duty value was** Rs. **29,500**. **Compute the capital gains.**

Solution:

In case of property acquired in modes specified under section 49(1) (here, inheritance), **higher of cost to the previous owner or FMV as on 1-4-2001 will be taken. Further, FMV should not exceeds SDV of property as on 1.4.2001.** Cost of improvement incurred after 1-4-2001 by previous owner or the assessee, is deductible.

For determining long-term or short-term nature of land, the period of holding of Mr. F's father will be included, as a result of which, the plot of land becomes long-term capital asset for Mr. F.

For indexation purposes, CII of the year in which property was held by the assessee i.e. year of inheritance being 2004-05 will be taken as denominator.

Full value of consideration		**30,00,000**
Less; Expenses on transfer being sale stamp deed expenses @ 1% of 30,00,000		30,000
Net consideration		**29,70,000**
Less: Indexed cost of acquisition (30,000 x 301 ÷ 113)	79,912	
Less: Cost of improvement incurred after 1-4-2001		
Mr. F's father (20,000 × 301 ÷ 109 = 55,229) + Mr. F (50,000 x 301 ÷ 129 = 116,667)	1,71,896	2,51,808
Long-term capital gains		**27,18,192**

58) Mr. I, a manufacturer of bricks since 2005, sells the following assets on 12-3-2021 - [Intangible Assets]

Name of asset	**Goodwill**	**Trademark**	**Tenancy rights in respect of business premises**	**Manufacturing licence**
Mode of acquiring	Self-	Purchased	Self-generated	Purchased

	generated			
Purchase price & date thereof	N.A.	Rs.1,00,000 11-3-2007	N.A.	Rs. 30,000 12-3-2018
Cost of improvement and date thereof	Rs. 2,00,000 1-4-2009	Rs.10,000 1-5-2009	Rs. 20,000 31-3-2010	NIL
Sale price	18,00,000	500,000	500,000	200,000

Compute the capital gains for AY 2020-21.

Solution:

Name of asset	**Goodwill**	**Trademark**	**Tenancy rights**	**Mfg. licence**
Full value of consideration	18,00,000	5,00,000	5,00,000	2,00,000
Less: Cost of Acquisition	0	2,46,721*	0	30,000
Less: Cost of Improvement	0	20,338**	40,676***	0
Long-term capital gains	**18,00,000**	**2,32,941**	**4,59,327**	
Short-term capital gains				**1,70,000**
*** 100000 x 301 / 122**				
**** 10000 x 301 / 148**				
***** 20000 x 301 / 148**				

Notes:

1. Trademark is a long-term capital asset as it was held for more than 36 months before date of transfer. However, manufacturing license was held for exactly 36 months (i.e. not more than 36 months) before date of transfer, hence, it is short-term capital asset. Goodwill and tenancy rights are long-term capital assets as they were held since 2005.

2. In case of goodwill of a business, cost of improvement is always NIL.

60) What is the cost of acquisition of self-generated assets, for the purpose of computation of capital gains?

Solution:

1. Cost of acquisition of a capital asset, being goodwill of a business or a trade mark or brand name associated with a business or a right to manufacture, produce or process any article or thing, or right to carry on any business, tenancy rights, stage carriage permits and loom hours [Section 55(2)(a)]

(i) If the above capital assets have been purchased by the assessee, the cost of acquisition is the amount of the purchase price. For example, if Mr. A purchases a stage carriage permit from Mr. B for Rs. 2 lacs, that will be the cost of acquisition for Mr. A.

(ii) If the above capital assets are self-generated, the cost of acquisition shall be taken as nil.

(iii) In case the capital asset is acquired by any mode given under clauses (i) to (iv) of section 49(1), the cost of acquisition will be the cost to the previous owner if the previous owner paid for it. However, if it was self-generated by the previous owner, the cost of acquisition will be taken as nil.

2. Cost of acquisition of other self-generated assets not covered under section 55(2)(a): In respect of self-generated goodwill of a profession and other self-generated assets not specifically covered under section 55(2)(a), the decision of the Supreme Court in CIT v. B.C. Srinivasa Setty will apply. In that case, the Supreme Court held that if the cost of acquisition of a self-generated asset is incapable of determination, then transfer of such asset is not taxable and consequently the gains thereon cannot be brought to charge.

61) Mr. Rakesh purchased a house property on 14th April, 1999 for Rs. 1,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 2004 and 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 the house property to his friend Mr. A on 15th June, 2006. Following renovations were carried out by Mr. Rakesh and Mr. A to the house property:

Particulars	Rs.
By Mr. Rakesh during FY 2000-01	10,000

By Mr. Rakesh during FY 2005-06	50,000
By Mr. A during FY 2008-09	1,90,000

The fair market value of the property as on 1.4.2001 is Rs. 1,50,000 **and Stamp duty value was** Rs. **1,70,000**. Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 2009 and received an advance of Rs. 80,000. 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 January, 2021 for a consideration of Rs. 12,00,000.

Compute the capital gains chargeable to tax in the hands of Mr. A for the assessment year 2021-22.

Cost inflation indices are as under:

Financial Year	**Cost inflation index**
2001-02	100
2005-06	117
2006-07	122
2008-09	137
2020-21	301

Solution:

Computation of capital gains chargeable to tax in the hands of Mr. A

Particulars	Rs.
Sale consideration	12,00,000
Less: Indexed cost of acquisition (Note 1)	1,72,705
Indexed cost of improvement (Note 2)	5,46,077
Long term capital Gain	**4,81,218**

Note 1

Indexed cost of acquisition is determined as under:

Cost to the previous owner i.e. Mr. Rakesh is	Rs. 1,05,000
Fair Market Value on 1st April, 2001 is	Rs. 1,50,000
(SDV as on 01/04/2001 is 170,000 & FMV is lower)	

Cost to the previous owner or FMV on 1st April, 2001,

whichever is more, is to be taken as cost of acquisition of Mr. A	Rs. **1,50,000**
Less: Advance money forfeited by Mr. A (as per section 51) (Note : Advance forfeited by Mr. Rakesh, the previous owner, should, however, not be deducted)	Rs. 80,000
Cost of acquisition	Rs. **70,000**

Indexed cost of acquisition (Rs. **70,000 × 301/122)** Rs. **1,72,705** 122 is the Cost Inflation Index for F.Y. 2006-07, being the first year in which property is held by Mr. A and 301 is the Cost Inflation Index for F.Y. 2020-21, being the year in which the property is sold. **Alternative view:** In the case of CIT v. Manjula J. Shah, the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of house would be Rs. 2,10,700 taking Cost Inflation Index of 100 for the F.Y. 2001-02 since F.M.V. as on 1st April, 2001 is taken as cost of acquisition of Mr. A.

Note: Clause (ix) of Section 56(2) provides that the advance which is forfeited on or after 01/04/2014 would be chargeable to tax under the head "Income from Other sources" and hence, such forfeited amount shall not be reduced from the cost of acquisition of the transferred capital asset. **In the present case, the advance was forfeited in a previous year prior to P.Y. 2014-15. Therefore, such amount would be deductible from the cost of acquisition while determining the Capital gains on transfer of such asset. Note 2**

Indexed cost of Improvement is determined as under:

Expenditure incurred before 1st April, 2001 should not be considered	NIL
Expenditure incurred on or after 1st April, 2001	
- During 2005-06 Indexed cost of Improvement [Rs. 50,000 × 301/117]	Rs. 1,28,632
- During 2008-09 Indexed cost of Improvement [Rs. 1,90,000 × 301/137]	Rs. 4,17,445
Total indexed cost of improvement	Rs. **5,46,077**

62) Mrs. X, an individual resident woman, wanted to know whether income-tax is attracted on sale of gold and jewellery gifted to her by her parents on the occasion of her marriage in the year 1979 which was purchased at a total cost of Rs. 2,00,000?

Solution:

The definition of capital asset under section 2(14) includes jewellery. Therefore, capital gains is attracted on sale of jewellery, since jewellery is excluded from personal effects. The cost to the previous owner or the fair market value as on 1.4.2001, whichever is more beneficial to the assessee, would be treated as the cost of acquisition. Accordingly, in this case, long term capital gain @ 20% will be attracted in the year in which the gold and jewellery is sold by Mrs. X.

63) 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 6,00,000. The total income of Chhaya and Dayama before considering the transfer of vacant site are Rs. 50,000 and Rs. 2,05,000, respectively. The indexed cost of acquisition for Ms. Chhaya in respect of vacant site is Rs. 4,00,000 (computed). **Determine the total income of both Ms. Chhaya and Ms. Dayama taking into account the above said transaction.**

Solution:

Transfer of immovable property for inadequate consideration will have any tax implication in the hands of transferee under section 56(2)(x) as difference **exceeds higher of** Rs. **50,000 or 10% of sales consideration**.

Therefore, in the hands of transferee, i.e., Ms. Dayama, Income under the head IOS will be Rs. 1,75,000. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	**Chhaya (Transferor)** Rs.	**Dayama (Transferee)** Rs.
Capital gains		
Deemed sale consideration under section 50C	6,00,000	
Less: Indexed cost of acquisition	4,00,000	

LTCG	2,00,000	
Income from other sources		
Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(x)		1,75,000
Other income (computed)	50,000	2,05,000
Total income	**2,50,000**	**3,80,000**

64) Mr. Raj Kumar sold a house to his friend Mr. Dhuruv on 1st November, 2020 for a consideration of Rs. 25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on Rs. 45,00,000, which was the Government guideline value. Mr. Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as Rs. 32,00,000 (Rs. 22,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. **Assuming that the fair market value is** Rs. **32,00,000, what are the tax implications in the hands of Mr. Raj Kumar and Mr. Dhuruv for the assessment year 2021-22? Mr. Raj Kumar had purchased the land on 1st June, 2011 for** Rs. **5,19,000 and completed the construction of house on 1st October, 2019 for** Rs. **14,00,000.**

Solution:

In the hands of the seller, Mr. Raj Kumar

As per section 50C(1), where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer **if such value exceeds 110% of the actual sales consideration**.

Where the assessee appeals against the stamp valuation and the value is reduced in appeal by the appellate authority (Revenue Divisional Officer, in this case), such value will be regarded as the consideration received or accruing as a result of transfer.

In the given problem, land has been held for a period exceeding 24 months and 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.

Particulars	Rs.
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land	22,00,000
Less: Indexed cost of acquisition Rs. 5,19,000 x 301/184	8,49,016
Long-term capital gain (A)	**13,50,984**
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building	10,00,000
Less: Cost of acquisition	14,00,000
Short term capital loss (B)	**4,00,000**

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be Rs. 9,50,984 (i.e., Rs. 13,50,984 – Rs. 4,00,000).

In the hands of the buyer Mr. Dhuruv

As per section 56(2)(x)**,** where an individual or HUF receives from a non-relative, any immovable property for a consideration which is less than the stamp value (or the value reduced by the appellate authority, as in this case) by an amount exceeding Rs. 50,000 **or 10% of the sales consideration, whichever is higher**, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, Rs. 7,00,000 (i.e. Rs. 32,00,000 - Rs. 25,00,000) would be charged to tax as income from other sources under section 56(2)(x) in the hands of Mr. Dhuruv.

65) Mr. Y submits the following information pertaining to the year ended 31st March, 2021:

(i) On 30.11.2020, 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. 3.40 lacs.

(ii) His close friend abroad sent him a cash gift of Rs. 75,000 through his relative for the above occasion.

(iii) Mr. Y sold the above flat on 30.1.2021 **for** Rs. **3.2 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.

(iv) He had purchased some equity shares in X Pvt. Ltd., on 5.2.2007 for Rs. 3.5 lacs. These shares were sold on 15.3.2021 for Rs. 2.8 lacs.

You are requested to calculate the total income of Mr. Y for the assessment year 2021-22. [Cost Inflation Index for F.Y. 2006-07 – 122, F.Y. 2011-12 – 184, 2020-21: 301]

Solution:

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

Particulars	Rs.	Rs.	Rs.
Capital Gains			
Short term capital gains (on sale of flat)			
(i) Sale consideration	**3,20,000**		
(ii) Stamp duty valuation	3,70,000		
Consideration for the purpose of capital gains as per section 50C (stamp duty value, since it is higher than sale consideration)		3,70,000	
Less: Cost of acquisition [As per section 49(4), cost to be taken into consideration for 56(2)(x) will be the cost of acquisition]		3,40,000	30,000
Long term capital loss on sale of equity shares of X Pvt. Ltd			
Sale consideration		2,80,000	
Less: Indexed cost of acquisition(Rs. 3,50,000 × 301/122)		8,63,526	
Long term capital loss to be carried forward (See Note 1 below)		**5,83,526**	
Income from other sources:			

Gift from friends by way of immovable property on 30.11.2020 [See Note 3 below].			3,40,000
Gift received from a close friend (unrelated person) [See Note 2 below]			75,000
Total income			**4,45,000**

Notes:

1. In the given problem, unlisted shares of X Pvt. Ltd. have been held for more than **24 months** and hence, constitute a long term capital asset. The loss arising from sale of such shares is, therefore, a long-term capital loss. As per section 70(3), long term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss cannot be set-off against short-term capital gains. However, such long-term capital loss can be carried forward to the next year for set-off against long-term capital gains arising in that year.

2. Any sum received from an unrelated person will be deemed as income and taxed as income from other sources if the aggregate sum received exceeds Rs. 50,000 in a year [Section 56(2)(x)].

3. Receipt of immovable property without consideration would attract the provisions of section 56(2)(x).

66) Dinesh received a vacant site as gift from his friend in November 2007. The site was acquired by his friend for Rs. 3,00,000 in April 2002. Dinesh constructed a residential building during the year 2008-09 in the said site for Rs. 15,00,000. He carried out some further extension of the construction in the year 2011-12 for Rs. 5,00,000. Dinesh sold the residential building for Rs. 55,00,000 in January 2021 but the State stamp valuation authority adopted Rs. 65,00,000 as value for the purpose of stamp duty. **Compute his long term capital gain, for the assessment year 2021-22 based on the above information.**

The cost inflation indices are as follows:

Financial Year	**Cost inflation index**
2002-03	105
2007-08	129

2008-09	137
2011-12	184
2020-21	301

Solution:

Computation of long term capital gain of Dinesh for the A.Y. 2021-22

Particulars	Rs.	Rs.
Full value of consideration **(Note 1)**		65,00,000
Less: Indexed cost of acquisition-land (Rs. 3,00,000 × 301/129) **(Note 2 & 3)**	7,00,000	
Indexed Cost of acquisition-building (Rs. 15,00,000 × 301/137) **(Note 3)**	32,95,620	
Indexed Cost of improvement-building (Rs.5,00,000 x 301/184)	8,17,935	48,13,555
Long-term capital gain		**16,86,445**

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, **is less than the value adopted by the Stamp Valuation Authority and Value exceeds 110% of the consideration**, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration will be Rs. 65 lakhs in this case.

2. Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., Rs. 3,00,000, in this case.

3. Indexation benefit is available since both land and building are long-term capital assets. However, as per the definition of indexation cost of acquisition, indexation benefit for land will be available only from the previous year in which Mr. Dinesh first held the asset i.e., P.Y. 2007-08.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High court held that indexation cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of land would be Rs. 8,60,000 (Based on PY 2002-03).

67) Mr. Thomas inherited a house in Jaipur under will of his father in May, 2005. The house was purchased by his father in January, 2000 for Rs. 2,50,000. He invested an amount of Rs. 7,00,000 in construction of one more floorin this house in June, 2007. The house was sold by him in November, 2020 for Rs. 37,50,000. The valuation adopted by the registration authorities for charge of stamp duty was Rs. 47,25,000 which was not contested by the buyer, but as per assessee's request, the Assessing Officer made a reference to Valuation officer. The value determined by the Valuation officer was Rs. 47,50,000. Brokerage @ 1% of sale consideration was paid by Mr. Thomas to Mr. Sunil. The fair market value of house as on 01.04.2001 was Rs. 2,70,000 **and Stamp duty value was** Rs. **3,70,000**.

You are required to compute the amount of capital gain chargeable to tax for A.Y. 2021-22 with the help of given information and by taking CII for the F.Y. 2005-06 : 117, F.Y. 2007-08: 129 and for F.Y. 2020-21: 301.

Solution:

Computation of Long term Capital Gain for A.Y. 2021-22

Particulars	Rs.	Rs.
Sale consideration as per section 50C (Note-1)		47,25,000
Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of Rs. 37.50 lacs		37,500
		46,87,500
Less: Indexed cost of acquisition (Note-2) (Rs. 2,70,000 × 301/117)	6,94,615	
Indexed cost of improvement (Rs. 7,00,000 × 301/129)	16,33,333	23,27,948
Long term capital gain		**23,59,552**

Notes:

1. As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration **if value exceeds 110% of the sales consideration**. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration	Rs. 37,50,000
Valuation made by registration authority for stamp duty	Rs. 47,25,000
Valuation made by the valuation officer on a reference	Rs. 47,50,000

Applying the provisions of section 50C to the present case, Rs. 47,25,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

2. The house was inherited by Mr. Thomas under the will of his father and therefore, the cost incurred by the previous owner shall be taken as the cost. Fair market value as on 01.04.01, accordingly, shall be adopted as the cost of acquisition of the house property. **Here, FMV as on 01.04.2001 does not exceeds SDV of the same.** However, indexation benefit will be given from the year in which Mr. Thomas first held the asset i.e. P.Y. 2005-06

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.), the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of house would be Rs. 8,12,700

68) X owns a piece of land situated in Noida (date of acquisition: March 1, 2003, cost of acquisition: Rs. **70,503, value adopted by Stamp duty authority at the time of purchase:** Rs. **80,000). On March 30, 2021, the piece of land is transferred for** Rs. **4 lakh. Find out the capital gains chargeable to tax in the following situations:**

1. The value adopted by Stamp duty authority is Rs. 5.5 lakh. X does not dispute it.

2. The value adopted by the Stamp duty authority is Rs. 5.75 lakh. X files on appeal under the Stamp Act and Stamp duty valuation has been reduced to Rs. 4.90 lakh by the Allahabad High

Court.

3. The value adopted by the Stamp duty authority is Rs. 5.60 lakh. X does not challenge it under the StampAct. However, he claims before the Assessing Officer that Rs. 5.60 lakh is more than the fair market value ofthe land. The Assessing Officer refers it to the Valuation Officer who determines Rs. 5.25 lakh as fair market value.

4. In Situation (3), suppose the value adopted by the Valuation Officer is Rs. 6.10 lakh.

Solution:

	Situations			
	(1) Rs.	**(2)** Rs.	**(3)** Rs.	**(4)** Rs.
Full.value of consideration	5,50,000	4,90,000	5,25,000	5,60,000
Less: Indexed cost of acquisition [Rs. 70,503 x 301 ÷ 105]	2,02,109	2,02,109	2,02,109	2,02,109
Long-term capital gains	**3,47,891**	**2,87,891**	**3,22,891**	**3,57,891**

Note : Value adopted by the Stamp duty authority at the time of acquisition cannot be taken as cost off acquisition.

69) Amin is the holder of 1,000 debentures of Amin Ltd. having a face value of Rs. 1,000 each. The company has offered an option to the debenture - holder either to redeem the debenture at Rs. 1,200 each or to convert the debentures into equity shares of equivalent value. The market value of the shares on the date of exercising the option is Rs. 1,200 per share [face value Rs. 1,000].

What will be the tax consequences of the two options in the hands of the debenture-holder Amin?

Solution:

(1) Redemption: The first option of redemption of debentures will result in the levy of capital gains tax. Capital gains = (1200 - 1000) x 1000 debentures = Rs. 2 lakh. Indexation benefit is not allowed.

(2) Conversion : There will be no capital gain on conversion of debentures into equity shares, as thel conversion of debenture into shares is not 'transfer' as per section 47(x).

70) X holds 1,000 equity shares (unlisted) in A Ltd. since 1998 (cost of acquisition: Rs. 10,000, fair market value on April 1, 2001: Rs. 14,000). A Ltd. offers 2,000 rights shares of Rs. 10 each to X on May 1, 2020 at a premium of Rs. 50. X subscribes for 800 rights shares and renounces 1,200 shares in favour of C by transferring the right entitlement for a consideration of Rs. 4,800. X sells 1,800 shares in A Ltd. on March 30, 2021 @ Rs. 90 per share. **Compute CG**

Solution:

Assessment of X for the assessment year 2021-22	Rs.
Sale proceeds of 1,000 original shares	90,000
Less : Indexed cost of acquisition [Rs. 14,000 x 301/100)	42,140
Long-term capital gain	**47,860**
Sale proceeds of 800 rights shares [Rs. 90 x 800|	72,000
Less : Cost of acquisition [i.e., Rs. 60 x 800]	48,000
Short-term capital gain	**24,000**
Sale proceeds of right entitlement of 1,200 shares	4,800
Less: Cost of acquisition	Nil
Short-term capital gain	**4,800**

71) In April, 2004, ‘S’ subscribed to the first issue to Convertible Debentures of a listed public limited company (face value of each Debentures was Rs. 100) to the extent of Rs. 25,000. In May 2008, the company converted the same into Shares with face value of Rs. 10 each. Half of the holdings of the shares held by S was sold by him in September 2020 for Rs. 50,000. S had to pay a brokerage of 2% on sale. **What is the nature of gainsrealised and compute the same?**

Solution:

Computation of Capital gain :	Rs.
Sale proceeds of half holding	50,000

Less: Brokerage (2% of 50,000)	(1,000)
Less: Indexed cost of acquisition [Rs. 12,500 x 301/137]	(27,464)
Long term Capital gain	**21,536**

72) Ms. Paulomi has transferred 1,000 shares (unlisted) of Hetal Ltd., (which she acquired at a cost of Rs. 10,000 in the financial year 2002-03) to Dhaval, her brother, at a consideration of Rs. 3,12,934 on 15.5.2020 privately.

During the financial year 2020-21, she has paid through e-banking Rs. 15,000 towards medical premium, Rs. 50,000 towards life insurance premium and Rs. 25,000 towards PPF. **Assuming she has no other source of income, compute her total income and tax payable for the Assessment Year 2021-22.**

Solution:

Computation of total income and tax liability of Ms. Paulomi for A.Y. 2021-22

Particulars	Rs.
Sale consideration	3,12,934
Less: Indexed cost of acquisition (Rs. 10,000 × 301/105)	28,667
Long term capital gain	2,84,267
Total income	**2,84,270**
Tax liability	
Income-tax @ 20% on Rs. 34,270 (Rs. 2,84,270 – Rs. 2,50,000)	6,854
Less: Rebate under section 87A	6,854
Tax after Rebate	NIL

Notes **:**

1. As per section 112, deductions under Chapter VI-A are not allowable against long term capital gain. Therefore, Paulomi is not entitled to deduction under section 80C in respect of payment of life insurancepremium and contribution to PPF. She is also not entitled to deduction under section 80D in respect of medical insurance premium paid by her.

2. She is, however, entitled to reduce the long-term capital gain by the unexhausted basic exemption limit and pay tax on the balance @20% as per section 112. In this case, since she has no other source of income, the entire basic exemption limit of Rs. 2,50,000 to the extent of long-term capital gain can be reduced from the long-term capital gain.

73) Mr. C inherited from his father 8 plots of land in 2000. His father had purchased the plots in 1980 for Rs. 5 lakhs. The fair market value of the plots as on 1-4-2001 was Rs. 8 lakhs. (Rs. 1 lakh for each plot) On 1st June 2006, C started a business of dealer in plots and converted the 8 plots as stock-in-trade of his business. He recorded the plots in his books at Rs. 45 lakhs being the fair market value on that date. In June 2010, C sold the 8 plots for Rs. 50 lakhs. **In the same year, he acquired a residential house property for** Rs. **35 lakhs. He invested an amount of** Rs. **5 lakhs in construction of one more floor in his house in June 2012. The house was sold by him in June 2020 for** Rs. **68,50,000**.

The valuation adopted by the registration authorities for charge of stamp duty was Rs. 94,50,000. As per the assessee's request, the Assessing Officer made a reference to a Valuation Officer. The value determined by the Valuation Officer was Rs. 95,20,000. Brokerage of 1 % of sale consideration was paid by C.

The relevant Cost Inflation Indices are :

F.Y. 2001-02	100
F.Y. 2006-07	122
F.Y. 2010-11	167
F.Y. 2012-13	200
F.Y. 2020-21	301

Give the tax computation for the Assessment Year 2021-22.

Solution:

Computation of total income and tax liability of Mr. C for A.Y. 2021-22

Particulars	Rs.	Rs.

Capital Gains on sale of residential house property Value declared by Mr. C	Rs. 68,50,000	
Value adopted by Stamp Valuation Authority	Rs. 94,50,000	
Valuation as per Valuation Officer	Rs. 95,20,000	
Gross Sale consideration (See Note 1)		94,50,000
Less: Brokerage@1% of sale consideration		68,500
Net Sale consideration		93,81,500
Less: Indexed cost of acquisition (Rs. 35,00,000 × 301/167)	63,08,383	
Indexed cost of improvement (Rs. 5,00,000 × 301/200)	7,52,500	70,60,883
Long-term capital gains (Total Income)		23,20,617 Or,23,20,620
Tax on total income (See Note 2)		
Long-term capital gain taxable@20% (Rs. 23,20,620 – Rs. 2,50,000)		4,14,124
Less: Rebate u/s 87A		NIL
Tax before cess		4,14,124
Add: Health & Education cess @ 4%		16,565
Total tax liability		**4,30,689**
Tax liability (rounded off)		4,30,690

Notes:

1. As per section 50C, in case the value of sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration **if it exceeds 10% of the sales consideration**. In case the valuation is referred to the Valuation Officer and the value determined is more than the value adopted by the Stamp Valuation Authority, the value determined by the

Valuation Officer shall be ignored. Therefore, in the present case, the **full value of consideration** would be the stamp valuation of Rs. 94,50,000, since the same is more than the sale value declared by Mr. C and less than the value determined by the Valuation Officer.

2. As per section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of Rs. 2,50,000 is exhausted against the long-term capital gains and the balance long-term capital gains shall be taxable@20%. It is assumed that Mr. C is a resident individual below the age of 60 years.

74) For the AY 2021-22, Mrs. X (29 years), a resident individual, gives the following information. Compute the tax liability-

Rs.	
Short-term capital gain which satisfies conditions given in Section 111A	1,27,000
Other income	2,53,000
Amount deductible under section 80G	1,000
PPF contribution	6,000
Net income	3,73,000

Solution:

In this case, the two conditions of section 111A are satisfied [i.e., the taxpayer is a resident individual and NI-- ST is Rs. 2,46,000 (which is lower than the exemption limit of Rs. 2,50,000). Consequently, from the short-term capital gain the following shall be deducted—

Compilation of net income and tax

	Short-term capital gain under section 111A	**Other incomes**
	Rs.	Rs.
Income	1,27,000	2,53,000

Less: Deduction under section 80C		6,000
Under section 80G		1,000
Net income	**1,27,000**	**2,46,000**
Income-tax on net income [15% of Rs. 1,23,000 (i.e., Rs. 1,27,000 — Rs. 4,000 (Unexhausted Limit)]	18,450	Nil
Less: Rebate	**12,500**	Nil
Tax after Rebate	**5,950**	
Add: H&EC – 4%	238	Nil
Tax liability	**6,190**	**Nil**

75) X a resident HUF, has the following income for the PY 2020-21: Rs.

Business income	(-) 15,000
Short-term capital gain	63,000
Long-term capital gain on sale of land	8,41,000

Find out the tax liability for the AY 2021-22 assuming that the family pays life insurance premium of Rs. **65,000 (sum assured:** Rs. **8,00,000)**

Solution:

	Long-term Capital gain	**Short-term Capital gain**
	Rs.	Rs.
Capital gain	8,41,000	63,000
Less: Business loss	(-) 15,000	
Gross total income	**8,26,000**	**63,000**
Less: Deduction under section 80C	—	65,000
Net income	**8,26,000**	**Nil**
Tax [i.e., 20% of (Rs. 8,26,000 - Rs. 2,50,000)]		1,15,200
Add: Health & Education Cess – 4%		4,608
Tax liability		**1,19,808**

Note : If the net income (other thon long-term capital gain) is below the amount of first slab which is not taxable (i.e., Rs. 2,50,000), then the long-term capital gain shall be reduced by the amount by which the total income (other than long-term capital gain) falls short of the maximum amount which is net chargeable to tax. In this case, net income (other than long-term capital gain) is nil. Therefore, long-term capital gain shall be reduced by Rs. 2,50,000.

76) Discuss the tax implications arising consequent to conversion of a capital asset into stock-in trade of business and its subsequent sale.

Solution:

The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade. However, as per section 45(2), the profits or gains arising from the transfer by way of conversion of capital assets into stock-intrade will be chargeable to tax only in the year in which the stock-in-trade is sold.

For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset. Indexation benefit is available upto the year of conversion of capital asset in stock-in-trade.

On subsequent sale of such stock-in-trade, business profits would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.

77) Mr. X purchased gold and diamond jewellery on 1.11.1998 for Rs. 1,33,000. The FMV of jewellery on 1.4.2001 was Rs. 2,00,000. Mr. X commence the business of trading in gold and diamond jewellery w.e.f. 1.4.2005. The above said jewellery was brought into the business and the amount recorded in the books was Rs. 15,00,000 whereas its FMV on the date of conversion i.e. 31.10.2020 was Rs. 25,00,000. The said stock was sold in the business on 31.3.2021 for Rs. 40,00,000.

Compute the amount chargeable to capital gains tax.

Solution:

Computation of taxable capital gain

Period of holding: 1.11.1998 to 31.10.2020 = More than 36 months. Therefore, long term	Rs.
Full value of consideration	25,00,000
Less: Expenses on transfer	Nil
Net sale consideration	25,00,000
Less : Indexed cost of acquisition Rs. 2,00,000 × 301 / 100	6,02,000
Long term capital gain	**18,98,000**

Business income:

Actual selling price	40,00,000
Less : FMV as on the date of conversion	25,00,000
Business income	**15,00,000**

78) From the following particulars of Pankaj for the previous year ended 31st March 2021, Compute the Income under the head "Income from other Sources":

		Rs.
(i)	Directors Fee from a Company	10,000
(ii)	Interest on Bank Deposits	3,000
(iii)	Income from undisclosed source	12,000
(iv)	Winnings from Lotteries (Net) **(received on 10.10.2020)**	35,000
(v)	Royalty on a book written by him	9,000
(vi)	Lectures in Seminars	5,000
(vii)	Interest on loan given to a relative	7,000
(viii)	Interest on Debentures of a Company (listed in a	
	Recognised Stock Exchange) Net of Taxes **(received on 10.04.2020)**	6,300

(ix)	Interest on Post Office Savings Bank Account	500
(x)	Interest on Government Securities	2,200
(xi)	Interest on Monthly Income Scheme of Post office	33,000

He paid Rs. **1,000 for typing the manuscript of book written by him.**

Answer

Computation of income under the head 'Income from other sources'

	Rs.	Rs.
General incomes [Section 56(1)]		
Directors Fee from a Company		10,000
Interest on bank Deposits		3,000
Income from undisclosed source		12,000
Royalty on a book written by him	9,000	
Less: Expenses	1,000	8,000
Lectures in Seminars		5,000
Interest on loan given to a relative		7,000
Interest on Debentures of a Company (listed in a Recognized Stock Exchange) Net of Taxes (as per W.N. 1)		**7,000**
Interest on Post Office Savings Bank Account	500	
Less: Exempt u/s 10	500	Nil
Interest on Government Securities		2,200
Interest on Monthly Income Scheme of Post office		33,000
Specific incomes [Section 56(2)]		
Winnings from Lotteries (Net)		50,000
Income from other sources		**1,37,200**

Working Notes:

1. Interest on Debentures of a Company

(Listed in a Recognized Stock Exchange)

Net of Taxes	Rs. 6,300	Rs.

Add: TDS	Rs. 700	
Rs. 6,300 x 10/(100 - 10)		
Gross Amount		**7,000**

79) Check the taxability of the following gifts received by Mrs. Rashmi during the previous year 2020-21 and compute the taxable income from gifts for AY 2021-22:

i) On the occasion of her marriage on 14.8.20, she has received Rs. 90,000 as gift out of which Rs. 70,000 are from relatives and balance from friends.

ii) On 12.9.20, she has received gift of Rs. 18,000 from cousin of her mother.

iii) A cell phone of Rs. 21,000 is gifted by her employer on 15.8.2020.

iv) She gets a gift of Rs. 25,000 from the elder brother of her husband's grandfather on 25.10.2020.

v) She has received a gift of Rs. 2,000 from her friend on 14.4.2020.

Answer

Computation of taxable income of Mrs. Rashmi from gifts for A.Y. 2021-22

Relationship	**Taxability amount** Rs.	**Reason for taxability or otherwise of each gift**
Relatives and friends	Exempt	Gifts received on the occasion of marriage are not taxable.
Cousin of Mrs. Rashmi's mother	18,000	Cousin of Mrs. Rashmi's mother is not a relative. Hence, the gift is taxable.
Employer	Nil	Taxable Under the head Salary
Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the gift is taxable.
Friend	2,000	Gift from friend is taxable.
Aggregate value of gifts	**45,000**	

Since the aggregate value of gifts received by Mrs. Rashmi during the **previous year 2020-21** does not exceed Rs. 50,000, the same is not chargeable to tax under section 56(2)(x) of the Income-tax Act, 1961.

80) A perusal of R's bank account revealed following deposits during financial year 2020-21:

Particulars	**Amount(**Rs.**)**
Gift from his friend on his birthday	12,000
Dividends from shares of various Indian companies (gross)	**13,200**
Gift from his fiancée	85,000
Gift from his mother's friend on his engagement	28,000
Gift from his sister in Netherlands	220,000
Interest on bank deposits	30,000

Compute his total income for the AY 2021-22 assuming that his income from house property (computed) is Rs. **72,000.**

Answer

Computation of total income of Ram Mohan (All Amount in Rs.**)**

Income from house property		**72,000**
Income from other sources		
Gift from his friend on his birthday	12,000	
Gift from his fiancée	85,000	
Gift from Ms mother's friend on his engagement	28,000	
Gift from his sister	Exempt	
Interest on bank deposits	30,000	
Dividends from shares of various companies **(now not Exempt u/s 10(34))**	13,200	**168,200**
Total income		**240,200**

81) Mr. Ashok received a sum of Rs. **5,00,000, as gift during the FY 2020-21, the details of which are as follows. Discuss the tax liability of the sum received.**

(i) from relatives on the occasion of birthday – Rs. 1,00,000;

(ii) from an unregistered charitable institution in connection with compensation for floods – Rs. 50,000;

(iii) Rs. 1,50,000 received from friends on the occasion of birthday;

(iv) Rs. 2,00,000 received from a neighbor, who is in death bed.

Answer

1. any sum of money received from relatives is fully exempt from tax and therefore, Rs. 1,00,000/- is fully exempt.

2. exemption for any sum received from trust, institution is applicable only where such trust or institution is covered by sections 10(23C) or 12AA. In the given case, entire sum of Rs. 50,000/- is chargeable to tax as it is an unregistered charitable institution.

3. Rs. 1,50,000/- is chargeable to tax.

4. Any sum received in contemplation of death of the payer shall be exempt from tax. Accordingly, Rs. 2,00,000/- shall be exempt.

5. To sum up, Mr. Ashok is chargeable to tax for a sum of Rs. 2,00,000/- under the head income from other sources. The entire sum of Rs. 2,00,000/- is chargeable as the aggregate of the sum received during the year exceeded Rs. 50,000/-.

82) Mrs. Rajni who draws a salary of Rs. **30,000 p.m. received the following gifts during the previous year:**

i) Gift of Rs. 5,00,000 on 16.1.2021 from a friend,

ii) Gift of jewellery worth Rs. 4,00,000 on 17.10.2020 from her fiancée,

iii) Gift of Rs. 41,000 each received from her 4 friends on the occasion of her marriage on 21.10.2020.

iv) Gift of Rs. 1,10,000 on 22.10.2020 from her mother's sister,

v) Gift of Rs. 70,000 on 25.10.2020 from her father's brother,

vi) Gift of Rs. 40,000 from her husband's friend on 01.11.2020,

vii) Gift of Rs. 31,000 on 15.11.2020 from her mother's friend.

viii) Gift of Rs. 27,000 on 25.11.2020 from her brother's father in law.

ix) Gift of Rs. 1,21,000 from her husband's brother,

x) Gift of Rs. 23,000 from her employer.

xi) Scholarship of Rs. 2,20,000 from, a charitable institution registered u/s 12AA

xii) She has purchased an immovable property whose stamp duty value is Rs. 22,80,000 from Gita who is not her relative for a sum of Rs. 22,60,000.

Compute her total income for the assessment year 2021-22.

Answer

	Rs.	Rs.
Income under the head salary		
Salary Rs. 30,000 x 12	3,60,000	
Add : Cash gift from employer	23,000	
	3,83,000	
Less : Standard deduction u/s 16(ia)	50,000	3,33,000
Income from other sources		
(i) Gift from a friend is taxable	5,00,000	
(ii) Gift of jewellery is taxable	4,00,000	
(iii) Gifts received from her 4 friends are exempt as they		
have been received on the occasion of her marriage	—	
(iv) Gift from her mother's sister is exempt as the donor is		
covered in the definition of relative	—	
(v) Gift from her father's brother is exempt as the donor is		
covered in the definition of relative	—	
(vi) Gift of Rs. 40,000 from her husband's friend on 1.11.2020 is taxable.	40,000	
(vii) Gift of Rs. 21,000 from her mother's friend is includible	31,000	
(viii) Gift from her brother's father in law is taxable as the donor		
is not covered in the definition of relative	27,000	
(ix) Gift from her husband's brother is exempt as the donor		
is covered in the definition of relative	—	

(x) Gift from her employer is taxable as income from salary	—	
(xi) Gift in the form of scholarship from charitable		
institution registered u/s 12AA	Exempt	
(xii) Purchase of immovable property **– Not taxable**	-	
		9,98,000
Total Income		**13,31,000**

83) Mr. V asks you to compute his taxable income from the following transactions which took place with his friends during January 2021:

i) Cash gifts received during the year from Mr. X and Mr. Y: Rs. 30,000 each;

ii) Two flats gifted to him by Mr. S and Mr. T: Stamp Value Rs. 4,00,000 and Rs. 50,000 respectively;

iii) He purchased a plot of land at Rs. 6,10,000 from Mr. A, which was not registered, but the prevalent stamp value of which was Rs. 6.6 lakh;

iv) A gold ring and a painting worth Rs. 30,000 and Rs. 35,000 respectively gifted by Mr. M and Mr. N;

v) A gold biscuit purchased by him at Rs. 10 lakh from Mr. P, when prevalent market value is Rs. 10.3 lakh and shares and securities purchased by him at Rs. 2.5 lakh from Mr. L, when fair market value thereof was Rs. 2.8 lakhs.

Answer

Mr. V has received cash and various items of property which are covered by section 56(2)(x). Hence, the taxability of these amounts in view of said section is as follows -

Aggregate cash gifts exceeding Rs. 50,000 from Mr. X and Mr. Y (fully taxable, 30000 x 2)	60,000
Gift of Flat from Mr. B (fully taxable, as stamp value exceeds Rs. 50,000)	400,000
Gift of Flat from Mr. C (not taxable, as stamp value doesn't exceed Rs. 50,000)	NIL
Plot of land acquired for inadequate consideration	NIL
Aggregate value of gift of movable properties: Total value of gift of movable	65,000

properties exceeds Rs. 50,000, hence, fully taxable. (30000 + 35000)	
Aggregate value of inadequate consideration of movable properties: Total price paid for all movable properties Rs. 12,50,000 (10 lakh + 2.5 lakh). Total Fair market value of such movable properties Rs. 13,10,000 (10.3 lakh + 2.8 lakh). Since the difference between the two exceeds Rs. 50,000, hence, whole of the difference will be included in income.	60,000
Total Income	**585,000**

84) X receives the following gifts during the PY 2020-21:

a) On April 10, 2020, he gets a gift of Rs. 25,000 from his friend A.

b) On May 1, 2020, he gets another gift of Rs. 500 from his friend A.

c) On June 1, 2020, he gets a gift of Rs. 26,000 from C, who is cousin of his father.

d) On July 8, 2020, he gets a gift of Rs. 5,000 from D, who is elder brother of his grandfather.

e) On July 20, 2020, he gets a gift of Rs. 41,000 from his grandmother.

f) On the occasion of marriage of X, he gets Rs.1,90,000 as gift on July 31, 2020 (out of which Rs. 1,00,000 is received from different relatives of X and Mrs. X and remaining amount is received from friends of X and Mrs. X).

g) A computer received from his employer (it was purchased for Rs. 40,000 by the employer on May 1, 2020 and given as gift on August 20, 2020).

h) On September 6, 2020, he gets Rs. 80,000 from a notified public charitable institution.

i) X receives Rs. 5,40,000 on September 30, 2020 under will of a person known to him.

j) On October 10, 2020, he gets a gift of Rs. 40,000 from his friend.

k) On December 12, 2020, he purchases a work of art for Rs. 72,000 from an exhibition in Chennai (the fair market value of the work of art on the date of purchase is Rs. 2,00,000).

l) On March 31, 2021, he gets a birthday gift by cheque of Rs. 11,000 from his friend.

Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the AY 2021-22.

Answer

Date	Transaction	Amount Rs.	Reason
April 10, 2020	Gift from A	25,000	As aggregate gift in cash or by cheque/draft during FY 20-21 exceeds Rs. 50,000, it is chargeable to tax
May 1, 2020	Gift from A	500	As aggregate gift in cash or by cheque/draft during FY 20-21 exceeds Rs. 50,000, it is chargeable to tax
June 1, 2020	Gift from cousin of X's father	26,000	Cousin of X's father is not a "relative" of X. As aggregate gift in cash or by cheque/draft during FY 20-21 exceeds Rs. 50,000, it is chargeable to tax
July 18, 2020	Gift from elder brother of X's grandfather	5,000	Brother of X's grandfather is not a "relative" of X. As aggregate gift in cash or by cheque/draft during FY 20-21 exceeds Rs. 50,000, it is chargeable to tax
July 20, 2020	Gift from grandmother	Nil	Gift from a "relative" is not taxable
July 31, 2020	Gift on the occasion of marriage of X	Nil	Gift from any person on the occasion of marriage of the taxpayer is not taxable
August 20, 2020	Gift from employer	Nil	Gift from employer is taxable under the head "Salaries"
September 6, 2020	Gift from a charitable institute	Nil	Gift from a charitable institute is not taxable
September 30, 2020	Gift under a will	Nil	Gift received by taxpayer under a will of any person is not taxable
October 10, 2020 and March 31, 2021	Gift in cash - Rs. 40,000	40,000	As aggregate gift in cash or by cheque/draft during FY 20-21 exceeds Rs. 50,000, it is chargeable to tax.

December 13, 2020	Purchase of a work of art for Rs. 72,000	1,28,000	As a work of art (fair market value: Rs. 2,00,000) is purchased for Rs. 72,000 and the difference is more than Rs. 50,000, it is chargeable to tax
March 31, 2021	Gift by cheque Rs. 11,000	11,000	As aggregate gift in cash or by cheque/draft during FY 20-21 exceeds Rs. 50,000, it is chargeable to tax.

85) X holds the following securities on April 1, 2020:

Rs. 1,48,000 10% securities of the Tamil Nadu Government and Rs. 40,000 5% non – listed debentures of ABC Ltd. Interest in both the cases is payable on December every year. On August 1, 2020, X borrows Rs. 20,000 at 7 per cent per annum and invests it in purchasing Rs. 20,000, 7.5 per cent securities of the Central Government [due date of interest; March 15 every year; interest due on March 15, 2021 is received on April 2, 2021]. Interest on borrowing for the period ending March 31, 2021 is, however, paid by X on April 15, 2021. His business income is Rs. 7,86,000.

Determine the **taxable income of 'X' for the AY 2021-22** under the following situations:

a) X maintains books of account on "mercantile" system, and

b) X maintains books of account on "cash" basis.

Answer

In situation (a) interest on securities is taxable on "due" basis. In situation (b), however, it is taxable on "receipt" basis, as follows:

	Situation (a)	**Situation (b)**
	Rs.	**Rs.**
Securities of Tamil Nadu Government (i.e., Rs. 1,48,000 x 10/100)	14,800	14,800
Non-listed debentures of ABC Ltd. [i.e., Rs. 40,000 x 5/100)	2,000	2,000
Central Government securities (i.e., instalment of interest due	1,500*	—**

on March 15, 2021, **not taxable in situation (b) as interest is not actually received)		
Gross interest	**18,300**	**16,800**
Less: Interest due* on Rs. 20,000 @ 7% per annum from August 1, 2020 to March 31, 2021, **not deductible as it is not paid in the previous year 2020-21	933*	—**
Interest	**17,367**	**16,800**
Business income	**7,86,000**	**7,86,000**
Gross total income	**8,03,367**	**8,02,800**
Less : Deductions under sections 80C to 80U	Nil	Nil
Net income (rounded off)	**8,03,370**	**8,02,800**

86) R, a resident individual, submits the following particulars of his income for the year ended 31.3.2021:

(i) Royalty from a Diamond mine Rs. 20,000.

(ii) Agricultural income in Sri Lanka Rs. 15,000.

(iii) Salary as a MP Rs. 36,000

(iv) Daily allowance as M.P. Rs. 5,000

(v) He has taken a residential house has been taken on a rent of Rs. 10,000 p.a., half of which is sublet at Rs. 1,200 p.m.

(vi) Dividend received from a cooperative society Rs. **6,000.**

(vii) He has incurred the following expenses —

i) Paid collection charges Rs. 200 for collecting dividends

ii) Rs. 2000 spent for earning and collecting royalty income

Compute R's income from other sources for the assessment year 2021-22

Answer

Income from other sources of Mr. R

1. Royalty from coal mine	20,000	

Less : Collection charges	2,000	18,000
2. Agricultural Income in Sri Lanka		15,000
3. Salary as MP		36,000
4. Daily allowance	5,000	
Less : Exempt	5,000	Nil
5. Dividend from a Co-operative Society	6,000	
Less : Collection charge	200	5,800
6. Income from sub-letting	14,400	
Less : Rent paid (50%) .	5,000	9,400
		84,200

87) J furnishes the following particulars relating to his house properties and other incomes and expenditure for the year 2020-21 (after HP Chapter):

A. First House: This house is taken by him on lease for 10 years which is let to a tenant, for his residence, at a monthly rent of Rs. 2,400. He has incurred the following expenses during this year :

Lease rent	Rs. 1,000 per month
Salary of Durban	Rs. 200 per month
Interest on loan taken to pay for the acquisition of the lease	Rs. 200 per month

B. Second House: This house was constructed by him in 1989, but was transferred to his wife in 1993 out of love and affection. He, however, continues to stay in this house with his wife till date. He has taken a loan for the construction of this house for which interest of Rs. 6,000 becomes due for the year, but had not been paid by him. He has paid repair expenses of Rs. 1,000 during the year.

C. Taxable income from business for this year amounts to Rs. 64,000.

Compute gross total income of J for the AY 2021-22

Answer

Computation of Gross Total Income of J (amounts in Rs.**)**

Income from House Property :		
Net Annual Value of Self-occupied House II	Nil	
Less: Interest on accrual basis	6,000	**(6,000)**
Profits and Gains from Business or Profession		**64,000**
Income from other sources :		
Rent of House I (2,400 x 12)	28,800	
Less : Lease rent (1,000 x 12)	(12,000)	
Salary of Durban (200 x 12)	(2,400)	
Interest on loan taken to pay for the acquisition of the lease (200 x 12)	(2,400)	**12,000**
Gross Total Income		**70,000**

Notes:

1. House II: J is deemed to be the owner of Hours II, as the same had been transferred to his wife without adequate consideration. Hence the same is taxable in his hands.

2. House I: Since House I has been taken on lease for 10 year, therefore J is not deemed to be owner of this house. Deemed ownership arises when the lease is taken for 12 years or more. Therefore, income for House I is other sources income.

88) From the following particulars in respect of Adarsh, an author of books, find out the deduction allowable to him under section 80C for the AY 2021-22 (amounts in Rs.**):**

Life insurance premium (on his own life)	22000
Sum assured on the above policy	300000
Contribution to unrecognised provident fund	1000
Contribution to public provident fund	25000
Subscription to National Savings Certificates VIII issue	8000
Accrued interest for one year completed National Savings Certificates VIII issue	8000
Life insurance premium on his mother's life policy	5000
Repayment of bank loan borrowed for the construction of the house	21000

Solution:

Computation of deduction allowable to Adarsh under section 80C

Life insurance premium on his own life (fully allowed as premium is less than 10% of sum assured)	22000
Contribution to PPF	25000
Subscription to National Savings Certificates VIII issue	8000
Accrued interest for one year completed NSC VIII issue - It is reinvested, hence, eligible	8000
Repayment of bank loan borrowed for the construction of the house	21000
Total	**84000**

Note: Life insurance premium on mother's life policy is not eligible for deduction u/s 80C.

89) Mr. A, aged about 66 years, has earned a lottery income of Rs. 1,20,000 (gross) during the PY 2020-21. He also has a business income of Rs. 30,000. He invested an amount of Rs. 10,000 in Public Provident Fund account and Rs. 24,000 in National Saving Certificates. **What is the total taxable income of Mr. A for the AY 2021-22? Ignore the provisions of section 115BAC.**

Solution:

Computation of total taxable income of Mr. A for AY 2021-22

Particulars	Rs.	Rs.
Profits and gains from business or profession		30,000
Income from other sources - lottery income		1,20,000
Gross Total Income		**1,50,000**
Less: Deductions under Chapter VIA [See Note below]	10,000	
Under section 80C - Deposit in Public Provident Fund	24,000	
- Investment in National Saving Certificate	34,000	
Restricted to		30,000
Total Income		**1,20,000**

Note: Though the value of eligible investments is Rs. 34,000, however, deductions under chapter

VIA cannot exceed the Gross Total Income exclusive of Long Term Capital Gain, Short Term

Capital Gain covered under section 111A, winnings of lotteries etc of the assessee. Therefore maximum permissible deduction under section 80C = Rs. 1,50,000 – Rs. 1,20,000 = Rs. 30,000.

90) X (age : 26 years), a resident individual, has income of Rs. 6,95,000 [i.e., Rs. 4,10,000 from a business in Delhi and Rs. 2,85,000 from a property in Bombay) during the previous year 2020-21. **Find out his net income for the assessment year 2021-22 taking into consideration the following payments —**

	Rs.
1. Life insurance premium on own-life paid by X in cash on March 31, 2021 (sum assured Rs. 4,00,000)	33,334
2. Contribution towards pension fund of LIC	11,000
3. Mediclaim insurance premium on the life of dependent father (age : 67 years and last	
foreign travel : during 1994-95) paid by cheque on April 20, 2020	19,000
4. Medical treatment of dependent brother (being a person with disability)	5,000
5. Deposit with LIC for the maintenance of the dependent brother (being a person with disability)	20,000

Ignore the provisions of section 115BAC.

Solution:

	Rs.
Property income	2,85,000
Business income	4,10,000
Gross total income	**6,95,000**
Less : Deductions under sections 80C to 80U	
Under section 80C [payment of life insurance]	33,334
Under section 80CCC [contribution towards pension fund of LIC]	11,000
Under section 80D [mediclaim insurance premium on the health of dependent father]	19,000

Under section 80DD [the amount of deduction is Rs. 75,000 irrespective of the amount incurred or deposited under Option 1 and/or Option 2]	75,000
Net Income (Rounded off)	**5,56,670**

91) A submits the following information regarding his income for the previous year 2020-21.

		Rs.
1.	Salary Income (computed)	1,90,000
2.	Rent received from property in Delhi (per month)	4,000
3.	Winning from lottery (Gross)	15,000
He makes the following deposits / payments during the year		
1.	Contribution towards PPF	10,000
2.	Premium paid in cash on Mediclaim policy of his dependant father	8,000

He has a son being a person with disability, dependent on him, for whom he incurs expenses of his medical treatment and rehabilitation. He also deposits a sum of Rs. 25,000 for the benefit of his son under a scheme framed by the UTI for such a purpose.

Compute his total income for the assessment year 2021-22.

Ignore the provisions of section 115BAC.

Solution:

Income from salary		1,90,000
Income from house property		
Rent received Rs. 4,000 x 12	48,000	
Less: 30% as standard deduction	14,400	33,600
Income from Other sources		
Winnings from lotteries		15,000
Gross Total Income		**2,38,600**
Less deductions u/s 80C to 80U		

i. 80C	10,000	
ii. 80D(as payment is made in cash)	Nil	
iii. 80DD	75,000	85,000
Total income		**1,53,600**

92) Mr. X is a resident individual. He deposits a sum of Rs. 25,000 with Life Insurance Corporation 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 and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. **Compute the amount of deduction available under section 80DD for the A.Y. 2021-22. What will be the deduction if Mr. X had made this deposit for his dependant father?**

Solution:

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.

What will be the deduction if Mr. X had made this deposit for his dependant father?- Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of Rs. 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be Rs. 1,25,000.

93) The Gross Total Income of A for the Previous Year 2020-21 as computed is Rs. **2,50,000 which includes** Rs. **1,65,000 Long-Term Capital Gain and** Rs. **10,000 on account of Short-Term Capital Gain. Besides the above he provides you the following information –**

(a) He has deposited Rs. 12,000 to effect a contract for annuity plan of LI.C.
(b) He paid the following premium to the New India Assurance Co. Ltd for Mediclaim scheme for himself & his relatives. Rs..

(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
(c) One of his brothers is totally blind and dependent on him for medical treatment and rehabilitation. A spends on his blind brother.	Rs. 10,000
(d) He has also deposited Rs. 25,000 in a Scheme framed by UTI for maintenance of his handicapped dependent brother.	

Compute his Total Income for the Assessment Year 2021-22. Ignore the provisions of section 115BAC.

Solution:

Computation of Total Income

Particulars	Rs.	Rs.
Gross Total Income (including LTCG of Rs. ***1,65,000)***		2,50,000
Less: Deduction Under Chapter VIA		
U/s 80C – Annuity Plan of LIC	12,000	
U/s 80D - Medical Insurance Premium paid (Rs. 1,000 + Rs. 600 + Rs. 1,200)	2,800	
U/s 80DD - Medical Expenditure on Dependent	1,25,000	
Total	1,39,800	
Deduction restricted to Rs. 85,000 [Gross Total Income of Rs. 2,50,000 ***Less*** LTCG of Rs. 1,65,000] since (a) LTCG is not eligible for Chapter VI-A deduction, and (b) Deductions cannot exceed Gross Total Income exclusive of LTCG]		(85,000)
Total Income		**1,65,000**

Notes:

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.

(c) It is assumed that the premium is not paid in cash.

2. Certificate: It is assumed that Mr. A has obtained the certificate from the Medical Authority and the same is furnished/ along with the Return of Income.

94) X, suffers from disability duly certified by a specialist. X is employed as personal assistant to the Managing Director in a private company on a monthly salary of Rs. 12,000. Besides, X submits the following particulars of income for the year ending 31.3.2021:

Interest from Indian companies	Rs. 5,000
Dividend from UTI	Rs. **3,000**
Interest from bank FD	Rs. 5,000

Determine the taxable income for the assessment year 2021-22. Ignore the provisions of section 115BAC.

Solution :

Computation of taxable income for the AY 2021-22

	Rs.	Rs.
I. Income from Salary: (12000 x 12 – 50,000)		94,000
II. Income from other sources:		
- Interest from Companies	5,000	
- UTI Income **[Now taxable]**	3,000	
- Interest from Bank FD	5.000	13,000
Gross Total Income		107,000
Less : Deduction under Chapter VI-A:		
- Sec. 80U		75,000
Taxable Income		**32,000**

95) Compute the total income of Mr. Sonu (blind from birth) (not opted for Section 115BAC) for the AY 2021-22, after taking into account the following information:

(1) Salary from a publishing house for working as an artist (no allowances received)	1,36,000p.a.
(2) Income from sale of paintings made by self	3,25,000
(3) Winnings from lottery	60,000
(4) Dividend from a foreign company	10,000
(5) Fixed deposit with scheduled Bank in accordance with notified scheme	10,000
(6) Payment of rent of self-occupied house	50,000
(7) Donation to PM's National Relief Fund	4,000

It was found during the year that he is suffering from cancer. Sonu spent Rs. **30,000 for treatment of cancer, out of which** Rs. **10,000 were reimbursed by his employer.**

Solution:

Computation of Net Income of Sonu for the Assessment Year 2021-22 (amounts in Rs.**)**

Income from Salary (1,36,000 - 50,000)	86,000	
Business Income (sale of paintings made by self)	3,25,000	
Income from Other Sources:		
Winnings from lottery	60,000	
Dividend from a foreign company	10,000	70,000
Gross Total Income		**4,81,000**
Less: Deductions under Chapter VIA		
Under section 80C (FD with Bank in accordance with notified scheme)	10,000	
Under section 80DDB (Medical treatment of cancer) (Rs. 30,000 - Rs. 10,000)	20,000	
Under section 80G (100% of Rs. 4,000)	4,000	
Under section 80GG (See Note)	17,800	
Under section 80U	1,25,000	1,76,800
Total Income		**3,04,200**

Note: Deduction under section 80GG shall be the least of the following –

a) 5,000 x 12 60,000

b) Rent paid - 10% of Adj. GTI = 50,000 - 10% of (4,81,000 - 10,000 - 20,000 – 4,000 -1,25,000) = 50,000 -10% of 3,22,000= 17,800

c) 25% of Adj. GTI i.e. 3,22,000 80,500

96) X (35 years) is a resident individual. During the PY 2020-21, he incurs the following expenditure—

	Actual Amount expenditure Rs.	**re- imbursed by insurance company** Rs.	**Amount re imbursed by employer of X** Rs.
Medical treatment (specified disease) of X in a Government hospital	30,000	Nil	28,000
Medical treatment (specified disease) of Mrs. X in a hospital recognised by Chief Commissioner	14,000	3,000	6,000

Salary of X is Rs. 4,50,000 p.a. In the two cases, disease is specified in the rules made by the Board. **Find out the net income of X for the AY 2021-22. Ignore the provisions of section 115BAC.**

Solution:

	Rs.
Salary	4,50,000
Perquisite in respect of medical treatment of X and his spouse	Nil
Gross salary	**4,50,000**
Less : Standard deduction u/s 16(ia)	50,000
Salary	4,00,000
Any other income	Nil
Gross total income	**4,00,000**

Less : Deduction under section 80DDB	3,000
Net income	**3,97,000**

Note - The amount deductible is as follows—

1. actual expenditure (i.e., Rs. 30,000 + Rs. 14,000); or

2. Rs. 40,000 (Rs. 100,000 in the case of senior citizen), whichever is less. Rs. 40,000 is deductible if nothing is recovered from the insurance company or employer. From the amount deductible (i.e., Rs. 40,000 in this case), the amount received from insurance company as well as employer shall be deducted. Therefore, Rs. 40,000 - Rs. 3,000 - Rs. 28,000 - Rs. 6,000, i.e., Rs. 3,000 is deductible.

97) Mr. B has taken three education loans on April 1, 2020, 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	2,00,000	4,00,000
Annual repayment of loan (Rs.)	1,00,000	40,000	80,000
Annual repayment of interest (Rs.)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the AY 2021-22

Solution:

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of 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 in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = Rs. 20,000 + Rs. 10,000 + Rs. 18,000 = Rs. 48,000

98) X (34 years), a resident ind, submits the following particulars of his income for the PY 2020-21:

Business income	83,000
Interest on debentures	49,000
Long-term capital gains on transfer of gold	4,10,000
Short-term capital gain on sale of shares taxable under section 111A	20,000
Other short-term capital gain	10,000
Contribution towards public provident fund	40,000
Payment of medical insurance premium on own life	3,000
Donation to the National Trust for welfare of persons with Autism	4,000
Donation to the fund set up by the Gujarat Government for providing relief to victims of earthquake in Gujarat	3,000
Donation to Rajiv Gandhi Foundation	1,000
Donation to the Prime Minister's Drought Relief Fund	5,000
Donation to approved public charitable institution	11,000
Donation to a poor boy for higher education	5,000
Donation of clothes to an approved institution	12,000
Donation to a charitable institution for construction of a rest house only for a particular religious community	8,000

Determine the net income of X for the AY 2021-22. Ignore the provisions of section 115BAC.

Solution:

Business Income	83,000
Long-term capital gains	4,10,000
Short-term capital gain under section 111A	20,000
Other short-term capital gain	10,000
Interest on debentures	49,000
Gross total income	**5,72,000**
Less : Deductions under sections 80C to 80U	

Under section 80C in respect of public provident fund	40,000
Under section 80D in respect of medical insurance premium	3,000
Under section 80G in respect of donations [see Note 1]	14,950
Net income	**5,14,050**

Note 1 - computation of deduction under section 80G in respect of donations

Step 1 - Gross qualifying amount:

Donation to the National Trust for welfare of persons with Autism	4,000
Donation to the fund set up by the Gujarat Government for providing relief to victims of earthquake in Gujarat	3,000
Donation to Rajiv Gandhi Foundation	1,000
Donation to the Prime Minister's Drought Relief Fund	5,000
Donation to public charitable institutions	11,000
Amount given to a poor student (*not eligible as the donee is not a public charitable institution)	—*
Clothes to an institution (*donation in kind is not eligible)	—*
Amount for construction of rest house (*not eligible as amount will be utilised for the benefit of a particular community)	—*
Gross qualifying amount	**24,000**
Step 2 - Net qualifying amount	
Donation to the National Trust for welfare of persons with Autism (*without any maximum limit)	4,000*
Donation to the fund set up by the Gujarat Government for providing relief to victims ofearthquake in Gujarat (*without any maximum limit)	3,000*
Donation to Rajiv Gandhi Foundation (*without any maximum limit)	1,000*
Donation to the Prime Minister's Drought Relief Fund (*without any maximum limit)	5,000*
Donation to the public charitable institutions:	

It is : a. Rs. 11,000 (being amount of donation) ; or	
b. Rs. 9,900 (being 10% of adjusted gross total income calculated under Note 2), whichever is lower.	
Rs. 9,900 is, therefore, eligible for net qualifying amount	9,900
Net qualifying amount	**22,900**
Step 3 - Amount deductible:	
50% of Rs. **15,900 (1,000+5,000+9,900) + 100% of** Rs. **7,000**	**14,950**

Note 2 - adjusted gross total income is calculated as under:

Gross total income	**5,72,000**
Less : Long-term capital gains	4,10,000
Less: Short-term capital gain under section 111A	20,000
Less : Amount of deduction under sections 80C to 80U except section 80G	43,000
Adjusted gross total income	**99,000**

99) X, an Indian citizen, gives the following particulars of his income and expenditure of the previous year-2020-21:

Business income	11,05,500
Winnings from lottery	1,04,500
Contribution towards public provident fund	70,000
Donation to the Prime Minister's National Relief Fund	51,000
Donation to the Government of India for promotion of family planning	33,000
Donation to a public charitable institute (being an approved institution for section 80G)	1,12,000

Determine the net income of X for the AY 2021-22. Ignore the provisions of section 115BAC.

Solution:

Business income	11,05,500

Income from other sources	1,04,500
Gross total income	**12,10,000**
Less : Deductions	
Under section 80C	70,000
Under section 80G [see Note 1]	1,24,500
Net income	**10,15,500**
Notes :	
Computation of Deduction Under Section 80G	
Step 1 - Gross qualifying amount	
Donation to the Prime Minister's National Relief Fund	51,000
Donation for family planning	33,000
Donation to the public charitable institute	1,12,000
Gross qualifying amount	**1,96,000**

Step 2 - Net qualifying amount

Donation to the Prime Minister's National Relief Fund (*no maximum limit is prescribed) 51,000*

Donation for family planning and to public charitable institute, amount to be included in net qualifying amount, is the lower of :

a) Rs. 1,45,000 (being amount of donation) ; or

b) Rs. 1,14,000 (being 10% of adjusted gross total income computed under Note 2), Rs. 1,14,000, being the least, is to be included.

As amount of Rs. 1,14,000 represents aggregate amount of net qualifying donation in respect of donation for family planning and to public charitable institute, separate amount in respect of these will be as follows :

Donation to the Government for promoting family planning	33,000
Donation to the public charitable institute (i.e., Rs.1,14,000 - Rs. 33,000)	81,000
Net qualifying amount	**1,65,000**
Step 3 -Amount deductible	

100% of amount qualified in respect of donation to the Prime Minister's National Relief	
Fund and the Government for family planning	33,000
50% of remaining portion	40,500
Amount deductible under section 80G	**1,24,500**

2. Adjusted Gross Total Income is calculated as under:

Gross total income	12,10,000
Less: Amount of deductions under sections 80C to 80U (except section 80G)	70,000
Adjusted gross total income	**11,40,000**

100) Mr. Brown supplies you the following information for the year ended 31.3.2021.

	Rs.
Interest on bank deposits (Time)	59,000
Dividend on shares of foreign companies received abroad	50,000
Interest from deposits in Indian Companies (gross)	30,000
Income from horse races in India	17,500

Mr. Brown is a non-resident. He has donated a sum of Rs. 15,000 to Municipal Corporation of Delhi for family planning. He has paid Rs. 2,000 by cheque to New India Assurance Company for mediclaim for himself. He has also spent Rs. 6,000 on medical treatment of his minor son who is physically handicapped. **Compute total income of Mr. Brown for the assessment year 2021-22. Ignore the provisions of section 115BAC.**

Solution:

Income from other sources

Interest on bank deposits	59,000	
Interest on deposits	30,000	
Horse race	**17,500**	
Gross Total income	1,06,500	
Less : Deduction		
U/s. 80D	2,000	

U/s. 80DD	Nil (as non resident)	
U/s. 80G 100% of	10,450 [10% of (1,06,500- 2,000)]	12,450
Total Income		**94,050**