



DIRECT TAX

Super 75

QUESTIONS



INTER

MAY / JUNE 24

ONWARDS

#GST360DEGREE

I
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E
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01 **01 - 03**
BASIC CONCEPTS

02 **04 - 11**
RESIDENCE & SCOPE
OF TOTAL INCOME

3.1 **12- 20**
SALARIES

3.2 **21 - 24**
INCOME FROM HOUSE
PROPERTY

3.3 **25 - 26**
PROFITS & GAINS FROM
BUSINESS PROFESSION

3.4 **27 - 41**
CAPITAL GAINS

3.5 **42 - 43**
INCOME FROM OTHER
SOURCES

4 **44 - 51**
INCOME OF OTHER PERSON
INCLUDED IN ASSESSES
TOTAL INCOME

5 **52 - 59**
AGGREGATION OF INCOME,
SETOFF AND CARRY FORWARD
OF LOSSES

6 **60 - 64**
DEDUCTIONS FROM GROSS
TOTAL INCOME

7 **65 - 70**
ADVANCE TAX, TAX DEDUCTED
AT SOURCE & INTRODUCTION
TO TAX COLLECTION AT
SOURCE

8 **71 - 76**
PROVISIONS FOR FILING
RETURN OF INCOME AND
SELF-ASSESSMENT

9 **77 - 106**
COMPUTATION OF TOTAL
INCOME & TAX PAYABLE

1. BASIC CONCEPTS



Question 1 (Includes concepts of Residence & Scope of Total Income)

Miss Deepika, a citizen of India, got married to Mr. John of Australia and left India for the first time on 20.8.2023. She has not visited India again during the P.Y. 2023-24. She has derived the following income for the year ended 31-3-2024:

	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari.	1,50,000
(ii)	Income from sale of coffee grown and cured in Kodagu, Karnataka	2,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iv)	Income from sale of tea grown and manufactured in West Bengal.	12,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to determine the residential status of Miss Deepika and compute the business income and agricultural income of Miss. Deepika for the Assessment Year 2024-25. (MTP 7 Marks, Oct'20)

Answer 1

Miss Deepika is said to be resident if she satisfies any one of the following basic conditions:

- (i) Has been in India during the previous year for a total period of 182 days or more (or)

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

Miss Deepak's stay in India during the P.Y.2023-24 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2023-24 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2023-24 would be more than 365 days. Hence, she is a resident for P.Y.2023-24.

Further, Miss Deepika would be "Resident and ordinarily resident" in India in during the previous year 2023-24, since her stay in India in the last seven previous years prior to P.Y.2023-24 is more than 730 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Deepika for A.Y. 2024-25

	Particulars	Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500

(ii)	Income from sale of coffee grown and cured in Kodagu, Karnataka (Apportioned between business and agricultural income in the ratio of 25:75, as per Rule 7B (1) of the Income-tax Rules, 1962)	2,00,000	50,000	1,50,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iv)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	2,00,000	-	2,00,000
		22,50,000	10,82,500	11,67,500

Notes:

(1) Since MS Deepika is resident and ordinarily resident in India for A.Y. 2024-25, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown,

cured, roasted and grounded outside India i.e., in Colombo.

(2) As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of Rs.2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

 **Question 2**

Mr. Charan grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for the financial year 2023-24:

- Cost of cultivation of 40% of paddy produce is ₹ 9,00,000 which is sold for ₹ 18,50,000.
- Cost of cultivation of balance 60% of paddy is ₹ 14,40,000 and the market value of such paddy is ₹28,60,000.
- Incurred ₹ 3,60,000 in the manufacturing process of rice on the balance (60%) paddy.

The rice was sold for ₹ 38,00,000.

Compute the Business income and Agricultural Income of Mr. Charan for A.Y. 2024-25. (RTP Nov '18)

Answer 2

Particulars	Business Income		Agricultural Income	
	₹		₹	₹
Sale of Rice				
Business income				
Sale Proceeds of Rice	38,00,000			
Less: Market Value of paddy (60%)	28,60,000			
Less: Manufacturing expenses	3,60,000			

Agricultural Income	5,80,000		
Market value of paddy (60%)		28,60,000	
Less: Cost of cultivation		14,40,000	14,20,000
Sale of Paddy			
Agricultural Income			
Sale proceeds of paddy produce (40%)		18,50,000	
Less: Cost of cultivation		9,00,000	9,50,000
			23,70,000



Question 3

Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form (PYP 4 Marks, Jan'21)

Answer 3

The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A) (b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market. Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.



Question 4

Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2023-24 consisting

of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2024-25. (MTP 4 Marks, Oct'21)

Answer 4

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2024-25

Particulars	₹	₹
Income from salary (computed)	1,20,000	
Less: Set-off loss from house property	(30,000)	90,000
Loss from house property	30,000	
Less: Set-off against salary income	(30,000)	-
Income from business		40,000
Lottery winning		5,60,000
Total Income		6,90,000
Tax liability		
Tax @30% on lottery income		1,68,000
Tax on other income of ₹ 1,30,000 (Nil, since it does not exceed the basic exemption limit of ₹ 2,50,000)		-
		1,68,000
Add: Health and education cess@4%		6,720
Total tax liability		1,74,720
Less: TDS on lottery income under section 194B		1,68,000
Net tax payable		6,720
Since tax payable for the P.Y. 2023-24 is less than ₹ 10,000, Mr. Jay is not liable to pay advance tax.		

RESIDENCE & SCOPE OF TOTAL INCOME



Question 5

Miss Kaira, an American national, got married to Mr. Ramesh of India in USA on 1.03.2023 and came to India for the first time on 20.03.2023. She left for USA on 20.9.2023. She returned to India again on 27.03.2024. She has earned the following income during the financial year 2023-24.

Sr. No.	Particulars	Amount (Rs.)
1.	Dividend from American company, received in America	20,000
2.	Profits from a profession in Delhi, but managed directly from America	50,000
3.	Long term capital gain on sale of shares of an Indian company, received in India	60,000
4.	Interest on savings bank deposit in SBI, Delhi	17,000
5.	Agricultural income from a land situated in Tamilnadu	55,000
6.	Rent (computed) from property in America deposit in a Bank there, later on remitted to India	1,00,000
7.	Cash gift received from a friend on her birthday on 16.8.2020	51,000
8.	Past foreign untaxed income brought to India	70,000

Determiner her residential status and compute the total income chargeable to tax for the Assessment Year 2024-25.

(MTP 10 Marks, Aug'18)

Answer 5

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

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident. Therefore, the residential status of Miss Kaira, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e. P.Y.2023-24 and in the preceding four assessment years. Her stay in India during the previous year 2023-24 and in the preceding four years are as under:

P.Y. 2023-24

01.04.2023 to 20.09.2023 - 173 days

27.03.2024 to 31.03.2024 - 5 days

Total 178 days

Four preceding previous years

P.Y.2022-23 [1.4.2022 to 31.3.2023] - 12 days

P.Y.2021-22 [1.4.2021 to 31.3.2022] - Nil

P.Y.2020-21 [1.4.2020 to 31.3.2021] - Nil

P.Y.2019-20 [1.4.2019- to 31.3.2020] - Nil

Total 12 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 12 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2024-25.

Computation of total income of Mrs. Kaira for the A.Y. 2024-25

S. No.	Particulars	(Non-Resident) (Rs.)
1.	Dividend from American company, received in America (Note 1)	-
2.	Profit from profession in Delhi, but managed directly from America (Note 2)	50,000
3.	Long-term capital gain on sale of shares of an Indian company (Note 2)	60,000
4.	Interest on savings account with SBI (Note 2)	17,000
5.	Agricultural income from land in Tamilnadu [Exempt under section 10(1)]	-
6.	Rent (computed) from property in America deposited in a Bank at America, later on remitted to India (Note 1)	-
7.	Cash gift received from a friend on Mrs. Kaira birthday on 16.8.2023 Note: As per section 56(2) (x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	51,000
8.	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2023-24].	-
Total Income		1,78,000

Notes:

(1) As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non-resident:

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

Therefore, dividend from American company received in America, rent

from property in America by Mrs. Kaira, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

- Profits from profession in Delhi, long term capital gains and interest on saving account with SBI are taxable in the hands of Mrs. Kaira, since such incomes are deemed to accrue or arise in India during the P.Y. 2023-24.

**Question 6**

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2006 and never came to India for a single day since then, earned the following incomes during previous year 2023-24:

	Particulars	Amount (in ₹)
(i)	Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- Determine the residential status of Mr. Sarthak and taxable income for the previous year 2023- 24 (assuming no other income arise during the previous year).
- What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India?

(MTP 6 Marks April '23, PYP 6 Marks Nov '22)

Answer 6

- Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2023-24 on the basis of number of days of his stay in India as per section 6(1).

However, since he is an Indian citizen ₹ having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and ₹ not liable to tax in Dubai, he would be deemed resident in India for the P.Y. 2023-24 by virtue of section 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Computation of Total Income for A.Y.2024-25

	Particulars	₹
(i)	Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(ii)	Income accrued and arisen in India (taxable)	5,00,000
(iii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iv)	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	Total income	23,00,000

II. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident.

Accordingly, he would be non-resident in India for the P.Y. 2023-24 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

III. If Mr. Sarthak is not an Indian citizen and his parents were born in India, he would be person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him.



Question 7

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2024, compute the total income for the

A.Y. 2024-25, if he is

- Resident and ordinarily resident
- Non-resident

(RTP May '22, PYP 10 Marks May '18)

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

Answer 7

Particulars	Resident and ordinarily resident (₹)	Non-resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India	1,50,000	1,50,000

Rent from property in Delhi, received outside India [₹ 1,20,000 –30% of ₹ 1,20,000 under section 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-
Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	
Gross Total Income	3,79,000	2,87,000
Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes

- In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.
- In case of a senior citizen, being a resident aged 60 years or more, interest

upto ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

**Question 8**

Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2023 as stamped in the passport and returned on 27th April 2024. He has been in India for less than 365 days during the 4 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2024-25 from the following information:

- Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.
- Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2023. Interest on the borrowed money for the previous year 2023-24 amounted to ₹ 5,800.
- Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500 was credited to his saving bank account. (RTP May '20)

Answer 8

Determination of residential status An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

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

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident. Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2023-24. Hence, he is non-resident in India for A.Y.2024-25.

Computation of total income of Mr. Rajesh Sharma for A.Y.2024-25

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



Question 9

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2020 with the name "New way associates".

In May 2022, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2021 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2022. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2023 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2023-24.

Income of Mr. Ram		₹
1	Salary from company in Dubai (not liable to tax in Dubai)	13,00,000
2	Long term capital gain on sale of shares of an Indian company	2,50,000
3	Income from house property in Delhi (computed)	4,60,000
4	Dividend from shares of an Indian company	65,000

Income of Mrs. Asha		₹
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Profit from consultancy profession in India	3,00,000
3	Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
4	Short term capital loss on sale of listed shares of an Indian company	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2024-25 ignoring the provisions of section 115BAC. (RTP Nov '23)

Answer 9

Determination of residential status of Mr. Ram Mr. Ram is an American citizen who comes on a visit to India during the P.Y. 2023-24 for 3 months. He has been in India from 1st May 2021 to 1st October 2022. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y.

2023-24 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2024-25.

Since his period of stay in India during the preceding 7 previous years is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the A.Y. 2024-25.

Since Mr. Ram is a resident but not-ordinarily resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India, deemed to be received in India and income derived from business controlled in or a profession set up in India is chargeable to tax in India in his hands.

Computation of total Income of Mr. Ram for the A.Y. 2024-25

Particulars of income		(₹)
1	Salary from company in Dubai [Not taxable, since it accrues and arises outside India]	-
2	Long term capital gain on sale of shares of an Indian company [Taxable, since it accrues and arises in India]	2,50,000
3	Income from house property in Delhi [Taxable, since it accrues and arises in India]	4,60,000
4	Dividend from shares of an Indian company [Taxable, since it accrues and arises in India]	65,000
		7,75,000

Determination of residential status of Mrs. Asha Mrs. Asha is an Indian citizen who comes on a visit to India during the P.Y. 2023 -24 for 3 months i.e., 92 days. Since she does not satisfy any of the basic conditions of staying in India for 182 days or 120 days during the P.Y. 2023-24, she is not a resident in India as per section 6(1).

Mrs. Asha would be a deemed resident under section 6(1A) if her total income other than the income from foreign sources exceeds ₹ 15 lakhs during the P.Y. 2023-24 as she is an Indian citizen and is not liable to tax in Dubai.

Computation of total Income other than the income from foreign sources of Mrs. Asha

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Includible]	12,00,000
2	Profit from consultancy profession in India [Includible]	3,00,000
3	Long term capital gain on sale of shares of British company [Not includible, since it is a foreign source income]	-
4	Short term capital loss on sale of listed shares of an Indian company [It accrues and arises in India. However, short term capital loss is not allowed to be set off from business or profession income, hence, not includible]	-
		15,00,000

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed ₹ 15 lakhs, she would not be a deemed resident. Hence, Mrs. Asha is a non- resident during the A.Y. 2024-25.

Since Mrs. Asha is a non-resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India and deemed to be received in India is chargeable to tax in India in her hands.

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
2	Profit from consultancy profession in India [Taxable, since it accrues and arises in India]	3,00,000
3	Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
4	Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2025-26]	-
		3,00,000



Question 10

Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2023-24, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2023-24, he has the following incomes:

- (A) Income from business in Australia controlled form Australia - ₹ 20,00,000
- (B) Income from business in Sri Lanka controlled form Chennai - ₹16,00,000
- (C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹50,000. The shares were sold online from Australia.
- (D) Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000

Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2024-25. (PYP 4 Marks May '23)

Answer 10

Determination of Residential Status of Mr. Prashant

Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2022-23, he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2023-24, he would be resident in India for the A.Y. 2024-25.

An individual is said to be “Resident and ordinarily resident [ROR]” in India in any previous year, if he satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more [Refer Note 1 below for alternate presentation]

First condition

Residential status for P.Y.2022-23 (A.Y.2023-24) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding P.Ys.

Residential status for P.Y.2021-22 (A.Y.2022-23) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding P.Ys.

Therefore, he satisfies the first condition of being resident in India in at least 2 out of 10 previous years preceding the relevant P.Y.

Second condition

Stay in India in 7 immediately preceding P.Ys = 7×125 days = 875 days $>$ 730 days Since both the conditions are satisfied, he is Resident and Ordinarily Resident (ROR). In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2024-25 would as follows:

Computation of Total Income of Mr. Prashant for A.Y.2024-25

	Particulars	₹
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000
(iv)	Income from agricultural land in Australia [would not be exempt, since it is not from an agricultural land in India]	2,00,000
	Total income	38,50,000

Notes - (1) Alternative manner of determination of whether Mr. Prashant is ROR/ RNOR – “An individual is said to be “Resident but not ordinarily resident [RNOR]” in India in any previous year, if he satisfies any one of the following conditions:

- He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
- His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.
- Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2023-24. Hence, he is a Resident and Ordinarily Resident in the P.Y.2023-24.
- (2) In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above solution has been worked out assuming that Mr. Prashant is not a person of Indian origin.
- However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident in P.Y.2021-22 and P.Y.2022-23, information relating to his total income (excluding income from foreign sources) for the said P.Y.s is required for ascertaining whether the condition of 120 days in the relevant P.Y. + 365 days in the 4 immediately preceding P.Ys would be attracted in his case. This information is not given in the question. Accordingly, assumptions would have to be made relating to the applicability of this condition.
- It may be noted that the condition of 120 days in the P.Y. + 365 days in the four immediately preceding PYs for a PIO whose total income (other than income from foreign sources) exceed ₹ 15 lakhs for determination of residential status came into effect only from A.Y.2022-23. Therefore, in the previous years prior to that, he would be non-resident irrespective of his total income since the number of days of his stay < 182 days each year.
- In case if it is assumed that his total income (other than income from foreign sources) for the P.Y.2021-22 and P.Y.2022-23 > ₹ 15 lakhs, he would be ROR since he would be resident in 2 out of 10 years immediately preceding the current P.Y. and he stayed for 730 days or more in 7 previous years

immediately preceding current P.Y.. In such case, his total income would be same as determined in the above solution.

- In case if it assumed that he is a PIO whose total income (other than income from foreign sources) for the P.Y.2021-22 and P.Y.2022-23 ≤ ₹ 15 lakhs, he would be non-resident for P.Y.2021-22 and P.Y.2022-23, since his stay in India is for less than 182 days in those years. In such a case, for P.Y.2023-24, he would be RNOR, since he would be non-resident in all the 10 years immediately preceding the current P.Y.
- In such case, the computation of total income for A.Y.2024-25 would be as follows –
- Computation of Total Income of Mr. Prashant for A.Y.2024-25

	Particulars	₹
(i)	Income from business in Australia controlled from Australia (not taxable in case of RNOR, since it accrues and arises outside India)	-
(ii)	Income from business in Sri Lanka (taxable since it is controlled from India)	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company (taxable, irrespective of residential status)	50,000
(iv)	Income from agricultural land in Australia [would not be taxable in case of RNOR since it accrues and arises outside India]	-
	Total Income	16,50,000

3.1. SALARIES



Question 11

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

- (i) Basic salary upto 31.10.2023 Rs.50,000 p.m.
Basic salary from 01.11.2023 Rs. 60,000 p.m.
Note: Salary is due and paid on the last day of every month.
- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (v) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2023.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class)
- (i) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2024-25 assuming he has

not opted for the provisions of section 115BAC. (New SM) (Same concept different figures & fewer adjustments)

MTP 7 Marks Oct'19, PYP 6 Marks, Nov '18)

Answer 11

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

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

Notes:

- Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.

4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2023, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child. It is assumed that the Leave Travel Concession was availed for journey within India. He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
6. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs.2,500 is provided from salary.



Question 12

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2023-24:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime. (New SM, MTP 6 Marks Sep'22, RTP Nov '20)

Answer 12

Computation of income chargeable under the head “Salaries” of Ms. Akansha for A.Y.2024-25 under default tax regime

Particulars	₹
Basic Salary	6,20,000

Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$₹ (2,400 + 900) \times 12$] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	50,000
- Entertainment allowance (deduction not allowable since Ms. Akansha is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4000
Income chargeable under the head "Salaries"	11,72,600

Note:

As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

**Question 13**

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2024-25.

- Basic salary is ₹ 70,000 per month.
- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
- Smile Ltd. allotted 800 sweat equity shares in August 2023. The shares

were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.

- (vi) He was provided with furniture during September 2019. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2024, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2023 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2023. The lending rate of SBI for similar loan as on 01.04.2023 was 8%.
- (ix) Facility of laptop costing ₹ 50,000 (MTP Mar'21,7 Marks)

Answer 13

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2024-25

Particulars	₹	₹
Basic Salary [₹ 70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹ 8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil

Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee 10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2019 to September 2023)]	44,000	66,000
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291

Working Note:**Computation of perquisite value of loan given at concessional rate**

For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2023	15,00,000	4,375
May, 2023	15,00,000	4,375
June, 2023	14,50,000	4,229
July, 2023	14,50,000	4,229
August, 2023	14,50,000	4,229
September, 2023	14,00,000	4,083
October, 2023	14,00,000	4,083
November, 2023	14,00,000	4,083
December, 2023	13,50,000	3,937.50
January, 2024	13,50,000	3,937.50
February, 2024	13,50,000	3,937.50
March, 2024	13,00,000	3,792

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.



Question 14

Ms. Aashima is a Finance manager in ABC limited. She has given the details of her income for the P.Y. 2023-24. You are required to compute the income chargeable to tax under the head “Salaries” in the hands of Ms. Aashima from the details given below:

Basic Salary ₹ 60,000 p.m.
 Dearness Allowance ₹ 24,000 p.m. (40% of which forms part of retirement benefits)
 Bonus ₹ 21,000 p.m.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aashima from 1st October, 2023 which is used for both official and personal purposes. Repair and running expenses of ₹ 60,000 were fully met by the company. The motor car was self-driven by the employee.

Professional tax paid ₹ 2,500 out of which ₹ 2,000 was paid by the employer. Her employer has provided her with an accommodation on 1st April 2023 at a concessional rent. The house was taken on lease by ABC Ltd. for ₹ 12,000 p.m. Ms. Aashima occupied the house from 1st December, 2023, ₹ 4,800 p.m. is recovered from the salary of Ms. Aashima. The employer gave her a gift voucher of ₹ 8,000 on her birthday. Ms. Aashima contributes 15% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance on the health of Ms. Aashima ₹ 20,000. Assume that she does not opt for 115BAC. (MTP 7 Marks March 22)

Answer 14

Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Aashima for A.Y.2024-25

Particulars	₹
Basic Salary [₹ 60,000 x 12]	7,20,000
Dearness allowance [₹ 24,000 x 12]	2,88,000
Bonus [₹ 21,000 x 12]	2,52,000
Perquisite of Motor car (₹2,400 × 6 months) [See Note 1]	14,400
Professional tax paid by employer [See Note 2]	2,000
Perquisite value in respect of concessional rent [See Note 3]	17,040

Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]		8,000
Employer's contribution to recognized provident fund in excess of 12% of salary = $15\% \times [(\text{₹ } 60,000 + \text{₹ } 24,000) \times 12] - 12\% \times \{[\text{₹ } 60,000 + \text{₹ } 9,600 \text{ (being 40\% of ₹ 24,000)}] \times 12\} = 1,51,200 - 1,00,224$ [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		50,976
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite		-
Gross salary		13,52,416
Less: Deduction under section 16		
Standard deduction under section 16(ia)	50,000	
Professional tax u/s 16(iii) [See Note 2]	2,500	52,500
Salary chargeable to tax		12,99,916

Note:

- In case a motor car (engine cubic capacity more than 1.6 litres) owned by employer is provided to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer, the value of perquisite would be ₹ 2,400 p.m. The car was provided to Ms. Aashima on 1.10.2023, therefore, the perquisite value has been calculated for 6 months.
- As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Ms. Aashima. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in

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

- Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% (10%) of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite. Actual rent paid by the employer from 1.12.2023 to 31.3.2024 = ₹ 48,000 [₹ 12,000 x 4 months] 10% of salary = ₹ 36,240 [10% x (₹ 60,000 + ₹ 9,600 + ₹ 21,000) x 4 months] Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus Lower of the above is ~~₹ 48,000~~ ₹ 36,240 which is to be reduced by the rent recovered from the employee. Hence, the perquisite value of concessional rent = ₹ 48,000 - ₹ 36,240 - ₹ 19,200 [₹ 4,800 x 4 months] = ₹ 17,040
(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)
- As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Aashima from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly. Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto

₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.



Question 15

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is ₹50,35,000, ₹71,46,700 and ₹94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viii) for the A.Y. 2023-24 and A.Y. 2024- 25.

(RTP May '22)

Answer 15

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2023-24

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2022-23 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii)
 $= (PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0914 + 0$
 $= ₹ 1,261$

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y.2022-23 = ₹ 27,600
PC1	Nil
TP1	Nil
R	$I/Favg = 5,56,500/60,90,850 = 0.0914$

I	RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2022 + Balance to the credit of recognized provident fund as on 31st March, 2023)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2024-25

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii)
 $= (PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0910 + (27,600 + 1,261) \times 0.0910$
 $= ₹ 1,256 + ₹ 2,626$
 $= ₹ 3,882$

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2022-23 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viii) for the P.Y. 2022-23 = ₹ 1,261
R	$I/Favg = 7,55,800/83,02,200 = 0.0910$
I	RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200

Note

Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2023-24, interest on ₹ 5,27,600 (i.e., ₹7,77,600 – ₹2,50,000) will also be chargeable to tax.

**Question 16**

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P.M Salary received in India (For 6 months) ₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period, he is given free lunch facility.

During the previous year, company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000.

But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2024-25. Assume that he does not opt for 115BAC.

(PYP 10 Marks, May'18)

Answer 16

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2024-25

Particulars	₹	₹
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	3,00,000	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 x 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	Nil	36,000
Perquisites:		
Value of rent-free accommodation in USA		63,600
Lower of:		
-15% 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance) (As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)	63,600	
-Rent paid by employer = ₹ 15,000 x 12	1,80,000	
Value of guest house in India		

[not taxable, since it is provided for stay when he visits India wholly for official purposes]			
Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]			48,000
Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]			84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 liters, assuming that expenses are fully met by employer		14,400	
Used for personal purposes by his family members for 6 months when he is in India			
Actual running and maintenance expenditure ³ [₹ 5,000 x 6]	30,000		
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000	70,000	
Education expenditure of elder son in India met by employer [Fully taxable perquisite]			12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite			10,000
Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.			
Gross Salary			8,85,800

Less: Deductions under section 16			Nil
Standard deduction (lower of actual salary or Rs. 50,000) (as per amendment)			(50,000)
Taxable Salary			8,35,800

Notes:

(1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly. However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility. ³ It is assumed that the same is fully met by the employer

(i) In the above solution, the perquisite value of motor car provided by employer has been worked out

Particulars	₹
Motor car provided by employer [₹5,400 + ₹40,000]	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹900 p.m., since cubic capacity exceeds 1.6 liters,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000
	45,400

In this case, the taxable salary would be ₹8,46,800.

3.2 INCOME FROM HOUSE PROPERTY



Question 17

Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built up area of each house was 1,500 sq. ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2022 and completed on 1-04-2023. Suresh started the construction on 1-04-2022 and completed the construction on 30-06-2023. Ramesh occupied the entire house on 01-04-2023. Suresh occupied the ground floor on 01-07-2023 and let out the first floor for a rent of ₹ 15,000 per month. However, the tenant vacated the house on 31-12-2023 and Suresh occupied the entire house during the period 01-01-2024 to 31-03-2024.

Following are the other information.

(i)	Fair rental value of each unit (ground floor / first floor)	₹1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	₹ 72,000 per annum
(iii)	Municipal taxes paid by	Ramesh – ₹ 8,000 Suresh – ₹ 8,000
(iv)	Repair and maintenance charges paid by	Ramesh – ₹ 28,000 Suresh – ₹ 30,000

Ramesh has availed a housing loan of ₹ 20 lakhs @ 12% p.a. on 01-04-2022. Suresh has availed a housing loan of ₹ 12 lakhs @ 10% p.a. on 01-07-2022. No repayment was made by either of them till 31-03-2024. Compute income from house property for Ramesh and Suresh for the previous year 2023-24 (A.Y. 2024- 25). (MTP 7 Marks April '23 , March'21, Apr'19)

Answer 17

Computation of income from house property of Mr. Ramesh for A.Y. 2024-25

Particulars	₹	₹
Annual value is nil (since house is self-occupied)		Nil
Less: Deduction under section 24(b)		
Interest paid on borrowed capital ₹ 20,00,000 @ 12%	2,40,000	
Pre-construction interest ₹ 2,40,000/5	48,000	
As per second proviso to section 24(b), interest deduction restricted to	2,88,000	2,00,000
Loss under the head "Income from house property" of Mr. Ramesh		(2,00,000)

Computation of income from house property of Mr. Suresh for A.Y. 2024-25

Particulars	Ground floor (Self occupied)	First floor
Gross annual value (See Note below)	Nil	90,000
Less: Municipal taxes (for first floor)		4,000
Net annual value(A)	Nil	86,000
Less: Deduction under section 24		
(a) 30% of net annual value		25,800
(b) interest on borrowed capital		
Current year interest		
₹ 12,00,000 x 10% = ₹ 1,20,000	60,000	60,000
Pre-construction interest		
₹ 12,00,000 x 10% x 9/12 = ₹ 90,000	9,000	9,000
₹ 90,000 allowed in 5 equal installments		
₹ 90000/5 = ₹ 18,000 per annum		

Total deduction under section 24(b)	69,000	94,800
Income from house property (A)-(B)	(69,000)	(8,800)
Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor)	(77,800)	

Note: Computation of Gross Annual Value (GAV) of first floor of Suresh's house

If a single unit of property (in this case the first floor of Suresh's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2023.

Expected rent = ₹ 75,000 being higher of -
 Fair rent = $1,00,000 \times 9 / 12 = ₹ 75,000$ Municipal value = $72,000 \times 9 / 12 = ₹ 54,000$
 Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2023) Gross Annual Value = ₹ 90,000 (being higher of Expected Rent of ₹ 75,000 and actual rent of ₹ 90,000)



Question 18

Mr. Sailesh constructed a house in P.Y. 2017-18 with 3 independent units. During the P.Y. 2023-24, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2024 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No

other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2024 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000 Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000 Municipal taxes - ₹ 30,000 paid by Mr. Sailesh

Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000, Ground rent - ₹ 6,000 and Fire insurance premium paid - ₹ 60,000.

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Sailesh for the assessment year 2024-25 if he opts to be taxed under section 115BAC. (MTP 7 Marks April 22)

Answer 18

Computation of taxable income of Mr. Sailesh for A.Y. 2024-25

Particulars	Amount	Amount
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
-Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]		
-Actual rent ₹ 1,80,000 i.e., [₹ 20,000 x 10] less unrealized rent of January, 2022 ₹ 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of ₹30,000]	15,000	

Net Annual Value		1,65,000	
Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		49,500	
(b) Interest on loan [50% of ₹ 90,000]		45,000	70,500
Unit – 3 [25% of floor area – Self occupied]			
Net Annual Value			
Less: Interest on loan [Not allowed as Mr. Sailesh is opting for section 115BAC.]			
Income from house property			70,500
Profits and gains from business or profession			
Business Income [without deducting expenditure of Unit - 2 25% floor area used for business purposes]		2,40,000	
Less: Expenditure in respect of Unit -2			
- Municipal taxes [25% of ₹ 30,000]	7,500		
- Repairs [25% of ₹ 7,000]	1,750		
- Interest on loan [25% of ₹ 90,000]	22,500		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	15,000	48,250	1,91,750
Taxable Income			2,62,250

Note:

Alternatively, if as per income-tax returns, unrealised rent is deducted from GAV, then GAV would be ₹ 2,00,000, being higher of unexpected rent of ₹ 1,39,000 and actual rent of ₹ 2,00,000. Thereafter, unrealised rent of ₹ 20,000 and municipal taxes of ₹ 15,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,65,000

**Question 19**

Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2023-24.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to	Let-out to
	Star Private Limited	Ms. Puja

₹17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2023-24, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2024-25. All workings should form part of your answer. (PYP 8 Marks, May'19, MTP 7 Marks Sep '23)

Answer 19**Computation of taxable income of Mr. Madhvan for A.Y. 2024-25**

Particulars		₹	₹
Salaries			
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		36,000	

[Lower of lease rental paid or payable by the employer (or) +5% 10% of salary i.e., lower of ₹ 65,000 or ₹ 54,000 ₹ 36,000, being 10% of ₹ 3,60,000] (As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)			
Gross Salary		3,96,000	
Less: Standard deduction u/s 16(IA) [Actual salary or ₹ 40,000 (As per amendment Rs. 50,000), whichever is less]		40,000 50,000	
Net Salary	House 1		3,74,000 3,46,000
Income from house property		House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	75,000	2,85,000	
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	
Income from house property [₹ 39,900 + ₹ 1,33,500]	39,900	1,33,500	1,73,400

Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]			
Total Income			5,19,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

3.3 PROFITS & GAINS FROM BUSINESS PROFESSION

Question 20 : illustration

Mr. X commenced the business of operating goods vehicles on 1.4.2023. He purchased the following vehicles during the P.Y.2023-24. Compute his income under section 44AE for A.Y.2024-25.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2021
(2)	6,500	1	15.03.2022
(3)	10,000	3	16.07.2021
(4)	11,000	1	02.01.2022
(5)	15,000	2	29.08.2021
(6)	15,000	1	23.02.2022

Would your Answer change if the goods vehicles purchased in April, 2023 were put to use only in July, 2023? (Old & New SM)(Same concept different figures RTP May'19)

Answer 20

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]

For Heavy goods vehicle			
2	29.08.2023	8	16
1	23.02.2024	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2023	12	24
1	15.3.2024	1	1
3	16.7.2023	9	27
1	02.1.2024	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2024-25 would be -Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 xRs. 1,000 x 15 ton being for heavy goods vehicle.

The Answer would remain the same even if the two vehicles purchased in April, 2023 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 21

Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2023, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2024-25, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2025-26 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

(PYP 4 Marks, Nov'18, RTP Nov '19)

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2017- 18, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2023-24 = 15% x ₹15,36,000 x 75% =	1,72,800
Written Down Value as on 1.4.2024 = ₹15,36,000 – ₹1,72,800 =	
₹13,63,200	
Depreciation for P.Y.2024-25 = 15% x ₹13,63,200 x 75% =	1,53,360

Note -

As per section 17(5) of the CGST Act, 2017/Delhi GST Act, 2017, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume

that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence, 1 As per section 49(4), in case where capital gains arise from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition. GST would form part of actual cost of car. The above solution has been worked out accordingly. However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

Alternative Answer

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2023-24, full depreciation@15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2023-24 = 15% x ₹ 12,00,000 x 75% =	1,35,000
Written Down Value as on 1.4.2014 = ₹ 12,00,000 – ₹ 1,35,000 = ₹ 10,65,000	
Depreciation for P.Y.2024-25 = 15% x ₹ 10,65,000 x 75% =	1,19,813

3.4 CAPITAL GAINS



Question 22

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08. She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- (i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2024 and 15.5.2024
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2024.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 29-3-2024 and for ₹ 40 lakhs on 12-5-2024.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2024-25. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2023-24 – 348. (New SM) (Same concept different figures RTP May'20)

Answer 22

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2024-25

Particulars	Rs.(in lakhs)	Rs.(in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs.810 lakhs		
Value adopted by Stamp Valuation Authority Rs.890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty		
value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		

In this case, since advance of Rs. 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of Rs.810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [$\text{₹ } 88 \text{ lakhs} \times 348/117$]	261.74	
- Construction cost of residential building ($\text{₹ } 100 \text{ lakhs} \times 348/129$)	269.77	531.51
Long-term capital gains		270.39
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00

Where long-term capital gains exceed Rs. 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., Rs. 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHA within six months after the date of transfer (i.e., on or before 13.7.2022), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs. 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be available only to the extent of Rs. 50 lakh out of Rs. 90 lakhs, even if the both the investments are made on or before 13.7.2022 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		90.39

Note:

Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable

to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.



Question 23

Mr. Gyaanchand purchased 1200 shares of "A" limited at ₹ ₹130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2005. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001 was ₹900 per share and ₹2,000 per share as on 31.01.2018. On 07.07.2023 Mr. Gyaanchand sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute capital gain chargeable to tax in the hands of Mr. Gyaanchand for the A.Y.2024-25. (MTP 4 Marks, Oct'21)

Answer 23

Computation of capital gain of Mr. Gyaanchand for the A.Y.2024-25

Particulars	₹	₹
Capital Gains		
In respect of 600 shares (bonus shares)		
Full value of consideration [600 shares x ₹ 2,400 per share]	14,40,000	
Less: Cost of acquisition [600 shares x ₹2,000]	12,00,000	2,40,000
Higher of (i) and (ii), below		
(i) Nil, being cost of acquisition		
(ii) ₹ 2,000 per share, being the lower of FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		

In respect of 1,200 original shares		
Full value of consideration [1,200 shares x ₹2,400]	28,80,000	
Less: Cost of acquisition [1,200 shares x ₹2,000]	24,00,000	4,80,000
Higher of (i) and (ii), below		
(i) ₹900, being original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹900), at the option of the assessee		
(ii) ₹2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		
Long term capital gain		7,20,000



Question 24

Aggarwal & Sons, HUF purchased a house property in the year 1950 for ₹50,000. On 31.10.2023, the HUF was totally partitioned and the aforesaid house property was given to Mr. Subhash Aggarwal, a member of the family. Fair Market value of the house as on 31.10.2023 was ₹21,00,000. FMV of the house as on 1.4.2001 was ₹3,50,000. What will be the tax implications in the hands of Mr. Subhash Aggarwal and the HUF? (MTP 3 Marks, Oct'21)

Answer 24

Tax implications in the hands of HUF

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Aggarwal & Sons, HUF transferred the asset to Mr. Subhash Aggarwal, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Subhash Aggarwal

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.

**Question 25**

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2024-25 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2023-24, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and chess):

- (i) Sold 10,000 shares of Y Ltd. on 05-04-2023 @ ₹ 650 per share Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under: Highest price - ₹ 300 per share, Average price - ₹ 290 per share Lowest price - ₹ 280 per share
- (ii) Sold 1,000 units of AB Mutual Fund on 20-05-2023 @ ₹ 50 per unit AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10- 03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31 - 01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.
- (iii) Sold 100 shares of C Ltd. on 27-09-2023 @ ₹ 200 per share. C Ltd. is an

unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04- 2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as under (MTP 7 Marks, April'21, PYP 6 Marks Nov 19)

2001-02	100
2016-17	264
2017-18	272
2020-21	301
2023-24	348

Answer 25

Computation of amount chargeable to tax under the head "Capital Gains" in the hands of Mr. Naveen

	Particulars	₹
(i)	Sale of 10,000 shares of Y Ltd. on 5.4.2023 @ 650 per share Sales consideration (10,000 x ₹ 650)	65,00,000
	Less: Cost of acquisition Higher of:	₹ 30,00,000
	- Actual cost (10,000 x ₹ 100)	10,00,000
	- Lower of: 30,00,000 • ₹ 30,00,000 (₹ 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and • ₹ 65,00,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	35,00,000

(ii)	Sale of 1,000 units of AB Mutual Fund on 20.5.2023 @ ₹ 50 per unit Sale consideration (1,000 x ₹ 50)	50,000
	Less: Cost of acquisition - Higher of -	50,000
	- Actual cost (1,000 x ₹ 10) 10,000 - Lower of: 50,000 • ₹ 55,000 (₹ 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and • ₹ 50,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	
(iii)	Sale of 100 shares of C Ltd. on 27.9.2023 @ 200 per share Sale consideration (100 x ₹ 200)	20,000
	Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) x 348/100]	17,400
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]	2,600

Computation of tax on such capital gains for A.Y. 2024-25

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of Y Ltd.	3,40,000
Tax under section 112 @ 20% on long-term capital gains of ₹ 2,600 arising on sale of unlisted shares of C Ltd.	520
Total tax payable	3,40,520



Question 26

Mr. Yusuf bought a vacant land for ₹ 80 lakhs in March 2009. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2010-11. He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2023. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs. The sale deed was executed and registered on 10-2-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received. Subsequent to sale, Mr. Yusuf made following investments:

- Acquired a residential house at Delhi for ₹ 80 lakhs.
- Acquired a residential house at London for ₹ 40 lakhs.
- Subscribed to NHAI bond: ₹ 45 lakhs on 29-5-2024 and ₹ 15 lakhs on 12-7-2024.

Compute the income chargeable under the head “Capital Gains” for A.Y. 2024-25. The choice of exemption must be in the manner most beneficial to the assessee.

(MTP Oct 20, 7 Marks, RTP May 18)

Cost Inflation Index:	F.Y. 2008-09	137
	F.Y. 2010-11	167
	F.Y. 2023-24	348

Answer 26

**Computation of income chargeable under the head “Capital Gains” for
A.Y.2024-25**

Particulars	₹ (in lakhs)	₹(in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 600 lakhs		
Value adopted by Stamp Valuation Authority ₹ 650 lakhs		
Gross Sale consideration		650.00
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration) In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through any other prescribed electronics mode on or before the date of agreement.		600.00

In this case, since advance of ₹20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 105% (110%) of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹ ₹600 lakhs)		6.00
Net Sale consideration		644.00
Less: Indexed cost of acquisition - Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/137]	223.53	594
- Construction cost of residential building (₹Rs 100 lakhs x 348/167)	208.38	431.91
Long-term capital gains before exemption		182.05
		162.09
Less: Exemption under section 54		80.00

<p>Since the amount of capital gain does not exceed ₹ Rs 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee.</p> <p>However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India</p>		
<p>Less: Exemption under section 54EC Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2020) would qualify for exemption, to the maximum extent of ₹50 lakhs.</p> <p>Therefore, in the present case, exemption can be availed only to the extent of ₹50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 09.08.2024 (i.e., within six months from the date of transfer).</p>		50.00
<p>Long term capital gains chargeable to tax</p>		52.05 32.09

Note:

Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain



Question 27

Mr. Kalyan has a residential house property which was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 22,00,000 in December 2023. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Kalyan preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31 -03-2024 for ₹ 17,00,000 for self- occupation. On 01-03-2025, he sold such new residential house for ₹ 30,00,000. Compute his capital gain for the A.Y. 2024-25 and 2025-26. (Cost Inflation Index: 2001-02; 2005- 06 and 2023-24 are, 100; 117 and 348) (MTP 4 Marks Oct '23)

Answer 27

Computation of capital gain in the hands of Mr. Kalyan for A.Y. 2024-25

Particulars	₹
Full value of consideration	25,00,000
[As per section 50C, in case the actual sale consideration (i.e., ₹ 22 lakhs, in this case) is less than the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	

Less: Indexed cost of acquisition [$\text{₹ } 2,00,000 \times 348/117$]	5,94,872
Long-term capital gain [Since the residential house is held for more than 24 months]	19,05,128
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2024 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	2,05,128

Computation of capital gains in the hands of Mr. Kalyan for A.Y. 2025-26

Particulars	₹
Full value of consideration	30,00,000
Less: Cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 31.3.2024, in this case) is transferred within 3 years of its purchase (i.e., on 1.3.2025, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., ₹ 19,34,188, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	30,00,000

**Question 28**

Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2023. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
Own Capital	1,850	Fixed Assets:	
Accumulated P & L balance	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	Other Assets:	
Unit RS	340	Unit PT	790
		Unit QL	860
		Unit RS	490
Total	3,510	Total	3,510

Other information:

- (i) Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.
- (ii) Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2013 and was revalued at ₹ 180 lacs.
- (iii) Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income- tax Act, 1961.
- (iv) Unit RS was set up by Mr. Pratap in December, 2011.
Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2019-20. Note: Cost Inflation Indices for the financial year 2011-12 and financial year 2023-24 are 184 and 348, respectively.(RTP May '19, PYP 10 Marks ,May 18)

Answer 28

Computation of capital gain on slump sale of Unit RS for A.Y. 2024 -25

Particulars	₹
Full value of consideration (As per amendment The fair market value of capital asset would be higher of: FMV1- being the fair market value of capital assets transferred by way of slump sale & FMV2- being the fair market value of the consideration (monetary or non- monetary) received or accruing as a result of transfer by way of slump sale)	15,40,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	6,70,00,000

Working Note: Net worth of Unit-RS

Particulars	₹
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	8,70,00,000

Notes:

- (1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.
- (2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.

However, any change in the value of assets on account of revaluation shall not be considered for this purpose.

- (3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- (4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sale



Question 29

Determine the capital gains/loss and tax liability in the following scenarios for the A.Y. 2024-25 assuming the assessee does not have any other source of income:

- On 12th December, 2023, 1,200 shares of X Ltd., a listed company are sold by Mr. Vishal, a non-resident, @ ₹ 1,550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 25th May, 2017 @ ₹ 425 per share by paying STT at the time of purchase. The price at which these shares were traded in National Stock Exchange on 31st January, 2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	680
Average Trading Price	610
Lowest Trading Price	540

- Mr. Kabir, a resident aged 45 years, is the owner of residential house which was purchased on 1st August, 2021 for ₹ 19,00,000. He sold the said

house on 25th September, 2023 for ₹ 24,50,000. Valuation as per stamp valuation authorities was ₹ 25,50,000 as on the date of sale. CII – 2021-22: 317; 2023-24: 348
(RTP Nov '23)

Answer 29

	Particulars	Amount ₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]	
	Full value of consideration [1,200 x ₹ 1,550]	18,60,000
	Less: Cost of acquisition	8,16,000
	Higher of	
	(i) Cost of acquisition [1,200 x ₹ 425]	5,10,000
	(ii) Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 x 680]	8,16,000
	Fair market value of listed equity shares as on 31.1.2018 [Highest price quoted on the recognized stock exchange i.e., ₹ 680 per share	
	sale consideration ₹ 1,550 per share sale consideration ₹ 1,550 per share	
	Long term capital gain taxable u/s 112A/ Total Income	10,44,000
	Tax on long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 9,44,000 @10%	94,400
	Add: Health and Education Cess@4%	3,776
	Tax liability	98,176
	Tax liability (Rounded off)	98,180
(ii)	Since Mr. Vishal is a non-resident, benefit of unexhausted basic exemption limit would not be available to him.	
	Sale of residential house [Long-term capital asset, since held for more than 24 months]	

Full value of consideration [Actual consideration, since stamp duty value does not exceeds 110% of actual sale consideration]	24,50,000
Less: Indexed cost of acquisition [₹ 19,00,000 x 348/317]	20,85,804
Long term capital gain/ Total Income	3,60,631
Total Income (Rounded off)	3,64,196
Long-term capital gain taxable u/s 112 @20% on ₹ 64,196 [₹3,64,196 – ₹3,00,000, being unexhausted basic exemption limit] (As per amendment in the new scheme the basic limit is increased to ₹ 3,00,000)	12,839
Less: Rebate under section 87A [Since the total income does not exceed ₹ 5 lakhs]	12,500
	339
Add: Health and Education Cess@4%	385
Tax liability	14
Tax liability (Rounded off)	400



Question 30

Mr. Govind purchased 600 shares of "Y" limited at ₹ 130 per share on 26.02.1979. "Y" limited issued him, 1,200 bonus shares on 20.02.1984. The fair market value of these share at Mumbai Stock Exchange as on 1.04.2001 was ₹ 900 per share and ₹ 2,000 per share as on 31.01.2018. On 31.01.2022 he converted 1000 shares as his stock in trade. The shares were traded at Mumbai Stock Exchange on that date at a high of ₹ 2,200 per share and closed for the day at ₹ 2,100 per share. On 07.07.2023 Mr. Govind sold all 1800 shares @₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute total income of Mr. Govind for the assessment-year 2024-25.

(PYP 5 Marks, Nov'20)

Answer 30

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	1,00,000
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		
	Higher of (I) and (ii), below	2,000	
(I)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		

	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

Note –

Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2023, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of “fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date.

In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2023. Alternatively, highest price can also be considered as the FMV as on 31.1.2023. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	

	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)		2,00,000
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion] [See Note above]	22,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		
	Higher of (I) and (ii), below	2,000	
(I)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration - ₹ 2,400 per share		

Note -

It is possible to take a view that since no STT was paid on the date of conversion of capital asset, being listed shares into stock in trade, capital gains have to be computed u/s 112 and not 112A. If this view is taken, the total income of Mr. Govind would, accordingly, be computed in the following manner:

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 348/100] (See Working Notes 1 and 2 below)	25,05,600	
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)	(5,85,600)	
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 331/100] (See Working Notes 1 and 2 below)]	29,79,000	
		(8,79,000)	

	Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(14,64,600)	
Total Income			3,00,000
Working Note –			
1. Cost of acquisition (per share)			
Higher of (i) and (ii), below i.e., ₹ 900 per share			
(i)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹ 130)		
	In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2023-24 i.e., 348 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2023, the CII of the year of conversion, i.e., F.Y.2022-23 i.e., 331 has to be considered to compute the indexed cost of acquisition.		

Note –

Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2023, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of “fair r market value” as per section 2(22B). As per this definition, FMV refers to the price that. The capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given

on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2023. Alternatively, highest price can also be considered as the FMV as on 31.1.2023. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 348/100] (See Working Notes 1 and 2 below)	25,05,600	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(5,85,600)	
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 331/100] (See Working Notes 1 and 2 below)]	29,79,000	

	Long-term capital loss to be carried forward	(8,79,000)	
	= (5,85,600) + (8,79,000) =	(14,64,600)	
	Total Income		2,00,000
Working Note –			
1. Cost of acquisition (per share)			
Higher of (i) and (ii), below i.e., ₹ 900 per share			
(i)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹ 130)		
	In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2023-24 i.e., 348 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2023, the CII of the year of conversion, i.e., F.Y.2022-23 i.e., 331 has to be considered to compute the indexed cost of acquisition.		



Question 31

Ms. Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2020 in which she agrees to allow such Company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2012 for ₹ 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2023. On such date, Stamp duty value of shopping mall was ₹ 4,14,00,000. Subsequently on 18.03.2024, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹65,00,000. She has also purchased a house on 09.05.2023 in consideration of ₹ 46,00,000

and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2023 and disbursement was made on 01.06.2023. She does not own any other residential house on the date of sanction of loan. Principal amount of ₹ 1,30,000 was paid during the financial year 2023-24.

Cost Inflation Indices: 2023-24: 348, 2012-13: 200

Compute total income of Ms. Mishika for the assessment year 2024 -25 assuming that she has not opted for the provisions under section 115BAC.

(PYP 7 Marks Dec '21)

Answer 31

Computation of total income of Ms. Mishika for the A.Y.2024 -25

Particulars	Amount (₹)	Amount (₹)
Income from house property [Self-occupied]		Nil
Net Annual Value		Nil
Less: Interest on housing loan of ₹ 3,55,000 [₹ 35,50,000 x 12% x 10/12 months] restricted to ₹ 2,00,000/-	2,00,000	
	(2,00,000)	
Less: Set-off of loss against long-term capital gains	2,00,000	
Long-term capital gains on transfer of land under specified agreement Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2020-21 would be taxable in the previous year 2023-24, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be- Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate (₹ 4,14,00,000 x 20%)]		82,80,000

Less: Indexed of cost of acquisition [$\text{₹ } 15,00,000 \times 348/200$]	26,10,000	
Long-term capital gain		56,70,000
Less: Deduction under section 54F		
Deduction in respect of amount invested for purchase of a residential house acquired within one year prior to date of transfer would be allowable proportionately, since amount invested is less than the net consideration. Accordingly, deduction would be $\text{₹ } 29,05,180$ ($\text{₹ } 56,70,000 \times \text{₹ } 46,00,000 / \text{₹ } 82,80,000$)	31,50,000	
Long-term capital gains		25,20,000
Less: Set-off of loss from house property [It is beneficial to set-off loss from house property against long-term capital gains, since in case of Ms. Mishika total income comprises of LTCG taxable @20% and STCG taxable at normal slab rates; and she can claim deduction of $\text{₹ } 2,80,000$ under Chapter VI-A against STCG of $\text{₹ } 2,90,000$. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]	2,00,000	
		23,20,000
Short-term capital gains Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration		65,00,000
Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [$\text{₹ } 4,14,00,000 \times 15\%$]	62,10,000	
Short-term capital gains		2,90,000
Gross Total Income		26,10,000
Less: Deductions under Chapter VI-A (allowable against short-term capital gains of $\text{₹ } 2,90,000$)		

Deduction under section 80C – repayment of principal amount of housing loan	1,30,000	
Deduction under section 80EEA – Ms. Mishika would be eligible for deduction of interest on housing loan ($\text{₹ } 3,55,000 - \text{₹ } 2,00,000 = \text{₹ } 1,55,000$) to the extent of $\text{₹ } 1,50,000$, since stamp duty value of the house does not exceed $\text{₹ } 45,00,000$ [being $\text{₹ } 44,37,500$ ($\text{₹ } 35,50,000 \times 100/80$)] and she does not own any other residential house on the date of sanction of loan.	1,50,000	2,80,000
Total Income		23,30,000
Total Income (rounded off)		23,30,000

Note -

As per section 45(5A), any capital gains arising from the transfer of a capital asset, being land or building or both, under a specified agreement, is chargeable to income-tax as income of the previous year in which the certificate of completion is issued by the competent authority. In the above solution, the CII of F.Y.2023-24 has been considered on the basis of parity, since, as per section 45(5A), it is the stamp duty value of the developed property (shopping mall, in this case) on the date of issue of certificate of completion (26.12.2023), which is deemed as the full value of consideration for transfer of land handed over to the developer.

Alternate view -

The definition of transfer, inter alia, includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred. Hence, in case of 'specified agreement(s)', 'transfer' takes place at the time when the owner of the immovable property hands over the same to the developer i.e., in F.Y.2020-21 in this case

3.5 INCOME FROM OTHER SOURCES



Question 32

XYZ (P) Ltd. was incorporated during P.Y. 2023-24 having a paid up capital of ₹ 25 lakhs. In order to increase its capital, the company further issues 1,00,000 shares (having face value of ₹ 100 each) during the year at par as on 1.9.2023. The FMV of such shares as on 1.9.2023 was ₹ 75.

- (i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.
- (ii) Will your Answer change, if shares were issued at ₹ 110 each?
- (iii) What will be your answer, if shares were issued at ₹ 110 and FMV of the shares was ₹125 as on 1.9.2023? (MTP 4 Marks March 22)

Answer 32

The provisions of section 56(2)(viib) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head "Income from Other Sources".

- (i) In this case, since XYZ (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹100 each) at par i.e., ₹ 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
- (ii) In this case, since shares are issued at a premium, the amount by which the issue price of ₹110 each exceeds the FMV of ₹ 75 each would be chargeable to tax

under the head "Income from other sources". Hence, ₹35 lakh, being ₹35 (i.e., ₹110 - ₹75) x 1,00,000 shares, would be chargeable under section 56(2)(viib).

- (iii) If shares are issued at ₹115 each and FMV of share is ₹ 125 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.



Question 33

Ms. Julie received following amounts during the previous year 2023-24.

- (1) Received loan of ₹ 5,00,000 from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹ 2,00,000 on the date of the loan.
- (2) Received Interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,90,000 relates to previous year 2021-22 and ₹ 1,60,000 relates to previous year 2022-23. She paid ₹ 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2024-25. (PYP 4 Marks, Nov'20)

Answer 33

- (1) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ₹ 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of ₹ 2 lakhs would be

As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.

- (2) Interest on enhanced compensation is chargeable to tax under the head "Income from other sources" in the year of receipt, after providing for deduction of 50% of such income. Accordingly, ₹ 2,50,000 [₹ 5,00,000 – ₹ 2,50,000, being 50% of ₹ 5 lakh] would be chargeable to tax in the hands of Ms. Julie under the head "Income from Other Sources" for the A.Y.2024-25.

4. INCOME OF OTHER PERSON INCLUDED IN ASSESSES TOTAL INCOME



Question 34

Mr. Vaibhav started a proprietary business on 01.04.2022 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2023-24. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? (Old & New SM, RTP May'23)

Answer 34

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2023 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2022	3,00,000	5,00,000	8,00,000
	(5,00,000 2,00,000)	–	

Profit for P.Y.2022-23 to be apportioned on the basis of capitalemployed on the first day of the previous year i.e. as on 1.4.2021 (3:5)	1,50,000 3 4,00,000 × 8	2,50,000 5 4,00,000 × 8	4,00,000
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Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is ₹ 2,50,000.

In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

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



Question 35

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2023. Shagun lent such amount to Kinjal on 1st April, 2023 for six months on which she received interest of ₹ 75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2023, which were sold for ₹ 90,000 on 30th March, 2024. Securities transactions tax was paid on purchase and sale of such shares. In whose hands the above income shall be included in A.Y.2024-25. Support your answer with brief reasons. (MTP 3 Marks, Oct'21, Mar'19, RTP Nov '18, Nov'19)

Answer 35

In computing the total income of any individual, there shall be included all such

income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

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

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



Question 36

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2023. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2023 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2023, which were sold for ₹ 75,000 on 30th December, 2023. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2023. She suffered loss of ₹ 15,000 in the business in Financial Year 2023-24. In whose hands the above income and loss shall be included in Assessment Year 2024 -25? Support your answer with brief reasons. (MTP 4 Marks April '23 & Oct '20)

Answer 36

Interest on loan

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

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

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2023, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

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

Capital Gain on sale of shares of listed company

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

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

**Question 37**

Mr. Vijay gifted a sum of ₹ 4 lakhs to his brother's wife on 19-6-2023. On 21-7-2023, his brother gifted a sum of ₹ 3 lakhs to Mr. Vijay's wife. The gifted amounts were invested as fixed deposits in banks by Mr Vijay and wife of Mr. Vijay's brother on 01-8-2023 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vijay and his brother. (MTP 4 Marks, May'20)

Answer 37

In the given case, Mr. Vijay gifted a sum of ₹4 lakhs to his brother's wife on 19.06.2023 and simultaneously, his brother gifted a sum of ₹3 lakhs to Mr. Vijay's wife on 21.07.2023. The gifted amounts were invested as fixed deposits in banks by Mr. Vijay and his brother's wife. These transfer are in the nature of cross transfer Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfer are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

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

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

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

**Question 38**

Mrs and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2023:

- (i) Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.
- (ii) Nonu won a prize money of ₹3,00,000 in National Sports competition. This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

Mr. Marsh's income before considering clubbing provisions is higher than that of his wife. Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. (MTP 5 Marks, Oct'19)

Answer 38

(i)	<p>Gift received from non-relative by minor daughter Mahi</p> <p>Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.</p> <p>Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter</p> <p>Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)</p>
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(ii) **Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu**

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent. Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

**Question 39**

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2023-24:

- He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2023. During the previous year 2023- 24, she received a rent of ₹ 20,000 p.m. from letting out the flat.
- He gifted ₹ 10,00,000 to Mrs Kajal on 1st April, 2023 which Mrs Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2023-24 of ₹ 9,00,000.
- His minor son Sandeep earned income from company deposit of ₹ 1,50,000.

Mr. Shashank and Mrs Kajal do not have any other income during the P.Y. 2023-24. Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2024-25.(MTP 6 Marks, Aug'18)

Answer 69

Computation of Total income of Mr. Shashank and Mrs Kajal for the A.Y. 2024-25

Particulars	Mr. Shashank (₹)	Mrs. Kajal (₹)
Salary income (₹ 30,000 x 12) Less standard deduction ₹ 50,000 (As per amendment)	3,10,000	
Income from house property [₹ 2,40,000 (₹ 20,000 x 12) less standard deduction of 30%] (Note 1)	1,68,000	
Income from other sources		
Interest on fixed deposit with State bank of India (₹ 4,00,000 x 10%) (Note 2)	40,000	
Profits and gains from business or profession		
Profits earned by Mrs Kajal from her business (Note 3)	3,00,000	6,00,000
Income before including income of minor child under section 64(1A)	8,18,000	6,00,000
Income from other sources		
Minor son Sandeep - Income from company deposit (Note 4)	1,48,500	
Total income	9,66,500	6,00,000

Notes:

- According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in

connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Shashank shall be deemed to be the owner of the flat gifted to Mrs Kajal and hence, the income arising from the same shall be computed in the hands of Mr. Shashank.

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

- (2) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.
- (3) Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs Kajal received a gift of ₹ 10,00,000 on 1.4.2023 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2024-25 is computed as under:

Particulars	Ms Kajal's capital contribution (₹)	Capital contribution out of gift from Mr. Shashank (₹)	Total (₹)
Capital as on 1.4.2023	20,00,000	10,00,000	30,00,000
Profit for P.Y. 2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2023 (2:1)	6,00,000 (9,00,000 x 2/3)	3,00,000 (9,00,000 x 1/3)	9,00,000

Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2024-25 is ₹ 3,00,000. Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e, her husband.

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

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



Question 40

Mr. Om has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. Uma, who in turn has gifted the same to Mrs. Pallavi, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. Om and Mrs. Pallavi.

Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi? (MTP 4 Marks March '23, Old & New SM)

Answer 40

As per section 27(i), an individual who transfers otherwise than for adequate

consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. Om would be the deemed owner of the house property transferred to his wife Mrs. Uma without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. Pallavi, being Mr. Om's son's wife, would be included in the income of Mr. Om, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. Pallavi.

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note -

The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. Pallavi in the hands of Mr. Om. [without first applying the provisions of section 27(i) to deem Mr. Om as the owner of the house property transferred to his wife Mrs. Uma without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her

husband's parent, without consideration. Gift of house property by Mr. Om to Mrs. Pallavi, via Mrs. Uma, can be viewed as an indirect transfer by Mr. Om to Mrs. Pallavi.



Question 41

Mr. Manoj, a bhajan singer of Rajasthan and his wife Mrs. Daya furnish the following information relating to the A.Y. 2024-25.

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

Compute total taxable income of Mr. Manoj & Mrs. Daya for the A.Y. 2024-25 if they opt for the provisions of section 115BAC.

(MTP 5 Marks Sep '23, PYP 5 Marks Nov'19)

Answer 41

Computation of Taxable income of Mr. Manoj for A.Y. 2024-25

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son – Ganesh	

- Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	Nil
- Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter – Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000
Less: Exempt under section 10(32) [Since Mr. Manoj has opted for the provisions of section 115BAC, exemption u/s 10(32) would not be available]	-
(Income of minor daughter would be included in the hands of Mr. Manoj, since his income, before including minor daughter's income, is higher than his wife's income).	
Taxable Income	6,05,000

Computation of Taxable income of Mrs. Daya for A.Y. 2024-25

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



Question 42

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

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" form scholarship received from his school	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024- 25 assuming that they have not opted to be taxed under section 115BAC.

(PYP 5 Marks July'21, MTP 5 Marks Oct '23)

Answer 42

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2024-25

Particulars		Mr.	Mrs.
		Dharmesh	Anandi
		Amount (₹)	
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total Income before including income of minor children		17,50,000	9,60,000
Income of minor son "A"			
Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]			
Income of minor son "B"			
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		-	
Income from fixed deposit with PNB	5,000		
[Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]			
Less: Exemption under section 10(32)	1,500	3,500	

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

Note -

As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16). Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

5. AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES



Question 43

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2024. Also, show the items eligible for carry forward.

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

(MTP 7 Marks, April'21, Old SM, RTP May '18)

Answer 43

Computation of total income of Mr. Praveen for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000

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

Losses to be carried forward:

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

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any

other head of income to the extent of ₹2,00,000 only.

As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2032-33, in this case.

- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 – ₹ 40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹ 50,000 (LTCG) – ₹ 45,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.



Question 44

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years up to which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2024:

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

Following are the brought forward losses:

- (1) Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2020-21.
- (2) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2018-19. Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2023-24

Assume Mr. Farhan has furnished his return of income on or before the due date specified under section 139(1) in all the above previous year (MTP 7 Marks, March'21)

Answer 44

Computation of Gross total income of Mr. Farhan for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	

Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	
Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y.		
2020-21 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years has expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	

Less: Short-term capital loss under section 111A as per section 71(2)	(10,000)	-
Gross Total Income		3,86,000

Items eligible for carried forward to A.Y.2025-26

Particulars	₹
Loss from house property As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2032-33, in this case.	20,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
Short-term capital loss under section 111A Short-term capital loss under section 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., up to A.Y.2032-33, in this case, as specified under section 74(1).	75,000



Question 45

Mr. Suresh is Lawyer by profession and his income from profession for the year 2023-24 is ₹ 10,00,000. From the information given by him, you are required to compute his total income for A.Y. 2024-25 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

Particulars	₹
Income of minor son Raj from company deposit	1,60,000
Income of minor daughter Rashmi (professional dancer) from her dance performances	15,00,000
Interest from Canara bank received by Rashmi on deposit made out of income earned from her dance performances	15,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000
Long-term capital gain from equity shares under section 112A	1,20,000
Long term capital gain under section 112	3,00,000
Short term capital loss under section 111A	5,00,000

Assume that Mr. Suresh does not opt for the provisions of section 115BAC and his income before considering clubbing provisions is higher than that of his wife. (MTP 6 Marks March 22)

Answer 45

Computation of Total Income of Mr. Suresh for A.Y. 2024-25

Particulars	₹	₹	₹
Profits and gains from business and profession			

Income from profession		10,00,000	8,00,000
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	
Capital gains			
Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long- term capital gain as per section 74		(4,20,000)	Nil
Income from other sources			
Income of minor son Raj			
Income from company deposit includible in the hands of Mr. Suresh as per section 64(1A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,58,500	
Income of minor daughter Rashmi			
Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A),	15,000		

since interest income arises out of deposit made and not on account of her special skills	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	13,500	1,72,000
Total Income			9,72,000

Losses to be carried forward to A.Y.2025-26

Particulars	₹
Loss from house property [₹ 2,50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	5,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,20,000]	1,80,000

Note –

Short-term capital loss under section 111A can be set-off against long-term capital gains under section 112 & 112A. In such a case, the losses to be carried forward to A.Y.2025-26 would be as under –

Particulars	₹
Loss from house property [₹ 2,50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 5,00,000 – ₹ 4,20,000]	80,000
Short term capital loss (other than above)	6,00,000

**Question 46**

Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2024:

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) Brought forward loss of textile business of the A.Y. 2021-22	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. She does not want to opt for 115BAC. (MTP 7 Marks April '23, RTP Nov'21)

Answer 46

Computation of gross total income of Ms. Aarti for the A.Y.2024-25

Particulars		₹	₹
Salary Income (computed)		8,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of		2,00,000	6,20,000
Income from House Property			
Net Annual Value of House Property		1,20,000	
Less: Deduction u/s 24			
(a) 30% of NAV	36,000		
(b) Interest on housing loan	3,28,000	3,64,000	
Loss from house property		(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2025-26 for set-off against income from house property, if any, in that year.		(44,000)	
Profits and gains of business or profession			
Share of profit from firm [Exempt u/s 10(2A)]		-	
Loss from specified business u/s 35AD ₹67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2025-26]		-	
Income from textile business		3,30,000	
Less: Current year depreciation		53,000	
		2,77,000	

Less: Brought forward loss of textile business		1,90,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income		87,000	Nil
Capital Gains			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off		98,000	
Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @10% on the amount exceeding ₹ 1,00,000]		1,52,000	1,52,000
Long-term capital gains on sale of debentures		1,50,000	
Less: Set-off of long-term capital loss on sale of equity shares (STT not paid) [Since long-term capital gain on sale of unlisted debentures are taxable @20% and long-term term capital gain on sale of listed shares in excess of ₹ 1,00,000 taxable @10%, it is beneficial to set-off long-term loss against LTCG on sale of debentures]		1,50,000	Nil
Income from Other Sources			
Dividend from units of UTI [Taxable in the hands of the unitholders]			1,15,000
Gross Total Income			8,87,000

Losses to be carried forward to A.Y.2025-26	₹
Losses from specified business [can be carried forward indefinitely for set- off against income from any specified business]	67,000
Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000



Question 47

Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2023-24

Particulars	Amount (₹)
Income from Salary	3,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,15,000)
Loss from let out property in Delhi	(75,000)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery tickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000)	96,000
Long term capital gains on sale of house property	1,40,000

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2023-24 are as follow:

Brought forward business loss from manufacturing business	(35,000)
Unabsorbed normal depreciation	(10,000)
Brought forward loss from the activity of owning and maintaining the race horses	(50,000)

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2024-25 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time.

(RTP May '22)

Answer 47

Computation of gross total income of Mr. Rajesh for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from Salary	3,40,000	
Less: Loss under the head "Income from house property" [Loss from house property is not allowed to be set off with any other head of income since Mr.		
Rajesh is opting for section 115BAC]	-	3,40,000
Income from house property		
Self-occupied property [Interest u/s 24(b) is not allowed in case of self- occupied property since Mr. Rajesh is opting for section 115BAC]	-	
Loss from let out property [Carried forward to A.Y. 2025-26]	(75,000)	-
Profit and gains from business or profession		
Profit and gains from manufacturing business	96,000	

Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000
Income from Other Sources		
Winnings from lottery tickets		40,000
Gross Total Income		4,60,000

Losses to be carried forward to A.Y. 2025-26

Particulars	Amount (₹)
Loss from let out property in Delhi	75,000
Loss from the activity of owning and maintaining the race horses	50,000

Notes -

- As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
- As per section 58, no expenditure is allowed from the lottery winnings.

6. DEDUCTIONS FROM GROSS TOTAL INCOME



Question 48

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2024-25. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2023-24:

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 4,00,000).
- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2023, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.

(MTP 7 Marks, Mar 21, RTP May '19)

Answer 48

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2024-25

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five year term deposit with bank	45,000	
		2,35,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		
			1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000

80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
		50 000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	
	Total of (i) and (ii)		96,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
	Deduction under Chapter VI-A		6,11,000

Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr.

Dhyanchand to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.

- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE.

**Question 49**

Mr. Rajkumar, a proprietor has set up a unit in Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2023-24.

Particulars	Rajkumar Proprietorship (₹)	Unit in DTA (₹)
Total Sales	7,50,00,000	3,00,00,000
Export Sales	4,50,00,000	1,50,00,000
Net Profit	90,00,000	15,00,000

Compute the quantum of eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

- (i) If both the units were set up and start manufacturing from 20-07-2015.
(ii) If both the units were set up and start manufacturing from 04-10-2020. (MTP 5 Marks, March'18, Old SM)

Answer 49

Computation of deduction under section 10AA of the Income-tax Act, 1961
As per section 10AA, in computing the total income of Mr. Rajkumar from his

unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of first five consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA.

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

- (i) If unit in SEZ was set up and began manufacturing from 20-07-2015:
Since A.Y. 2024-25 is the 9th assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakh}} \times 50\% = ₹25 \text{ lakhs}$$

- (ii) If Unit in SEZ was set up and began manufacturing from 04-10-2020:
Since A.Y. 2024-25 is the 4th assessment year from A.Y. 2021-22, relevant to the previous year 2020-21, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakh}} \times 100\% = ₹50 \text{ lakhs}$$

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

Working Note:

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

Particulars	Rajkumar Proprietorship (₹Rs)	Unit in DTA (₹Rs)	Unit in SEZ (Rs.)
Total Sales	7,50,00,000	3,00,00,000	4,50,00,000
Export Sales	4,50,00,000	1,50,00,000	3,00,00,000
Net Profit	90,00,000	15,00,000	75,00,000



Question 50

Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for Assessment year 2024-25 is ₹ 1.85 crore and total turnover is ₹ 18.70 crore.

On 1st April 2023, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during the previous year 2023-24 comprises of:

- 15 casual employees employed on 15th April 2023 till 31st January 2024 on monthly emolument of ₹ 22,000 per month
- 40 regular employees employed on 1st May, 2023 on monthly emolument of ₹ 22,000 per month
- 25 contractual employees employed on 1st July 2023 for 2 years on monthly emolument of ₹ 15,000 per month

- (d) 35 regular employees employed on 1st August, 2023 on monthly emolument of ₹ 30,000 per month
- (e) 25 regular employees employed on 1st October, 2023 on monthly emolument of ₹ 22,000 per month
- Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2024-25, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.
- Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.
- [Note - Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2024-25]

(RTP Nov '18)

Answer 50

Computation of deduction under section 80JJAA

Mr. Anay is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2018-19, as his total turnover from business exceeds ₹ 1 crore and he has employed “additional employees” during the P.Y.2017 -18.

Additional employee cost = [₹ 22,000 × 40 new regular employees × 11 months] + [₹ 15,000 per month × 9 months × 25 new contractual employees] = ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000

Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.

Working Note: Number of Additional employees employed during the P.Y.2023 -24

Particulars	No. of additional employees
Total number of additional employees employed during the year	140

Less: Casual workmen employed on 15th April 2023, who do not participate in the recognised provident fund	15	
Regular employees employed on 1st August 2023, since their total monthly emoluments exceed ₹ 25,000	35	
Regular employees employed on 1st October 2023, for a period of less than 240 days during the P.Y.2023-24	25	75
Total number of additional employees employed during the P.Y.2023-24		65

Yes, the answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel. Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2023 would also qualify for deduction under section 80JJAA for A.Y. 2024-25.

Additional employee cost = ₹ 1,30,55,000 + ₹ 33,00,000 (₹ 22,000 × 6 × 25) = ₹ 1,63,55,000

Deduction under section 80JJAA = 30% of ₹ 1,63,55,000 = ₹ 49,06,500



Question 51

Mr. Jain, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2023-24 -

- (i) He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2018 and the sum assured is ₹ 2,20,000.
- (ii) He had written a literary book for Rochak Publication. A lump sum amount

- of royalty income earned in the previous year 2022-23 amounted to ₹ 9,00,000. Expenses incurred for writing the book amounted to ₹ 40,000.
- (iii) His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.
- (iv) He received a gold chain worth ₹ 68,000 from his in-laws on the occasion of his marriage anniversary
- (v) He had deposited ₹70,000 in fixed deposit with SBI in the name of his minor son in September 2023. Interest earned on such deposit ₹ 5,500.
- (vi) He donated ₹ 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
- (vii) He had taken a loan of ₹38,00,000 for the purchase of a house property valuing ₹45,00,000 for self- occupation from a financial institution on 1st May 2021. He repaid ₹1,80,000 during the P.Y. 2023- 24 out of which ₹ 1,05,000 is towards principal payment and the balance is for interest on loan.
- Compute the total income of Mr. Jain for the A.Y. 2024-25 if he does not opt for the provisions of section 115BAC. (RTP Nov '23)

Answer 51

Computation of total income of Mr. Jain for the A.Y.2024-25

Particulars	₹	₹
Income from house property		(75,000)
NAV	Nil	
Less: Interest on loan	75,000	
Income from Other Sources		(75,000)
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati	65,000	
[The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds ₹ 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	1,500	

Less: Exemption under section 10(32)		63,500
Value of Gold Chain [The Fair market value of ₹ 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-
Interest on fixed deposit in the name of his son [It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife]	5,500	
Less: Exemption under section 10(32)	1,500	4,000
Gross Total Income		8,52,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium [Since Mr. Jain suffers from severe disability, premium upto 15% of the sum assured ₹ 2,20,000 would be allowed, as the policy is taken after 31.3.2012]	27,000	
Repayment of principal amount for housing loan	1,05,000	1,32,000
Deduction under section 80G		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding ₹2,000]		-
Deduction under section 80QQB		
Royalty income of a resident from literary book		3,00,000
Deduction under section 80U [Since Mr. Jain suffers from severe disability]		1,25,000
Total income		2,95,500

7. ADVANCE TAX, TAX DEDUCTED AT SOURCE & INTRODUCTION TO TAX COLLECTION AT SOURCE



Question 52

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.

- (i) Ms. Sarla received a sum of Rs. 92,000 on 30th September 2023 towards maturity proceeds of LIC taken on 1st October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.
- (ii) Mr. Rohit transferred a residential house property to Mr. Arun for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.
- (iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2023-24:
 - (1) Rs. 22,000 towards fee for professional services
 - (2) Rs. 18,000 towards royalty.
- (iv) Payment of Rs. 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.
- (v) ABC Private Limited pays Rs. 12,000 to Ms. Deepika, its director, on 1.5.2023 towards sitting fee which is not taxable u/s 192.
- (vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call center. On 18-03-2024, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2024 by Jigar Limited.
- (vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. (MTP 7 Marks, April'21, PYP 7 Marks, May '19)

Answer 52

- (i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.
- (ii) **On payment of sale consideration for purchase of residential house property** - Since the sale consideration of house property is less than Rs. 50 lakhs, Mr. Arun is not required to deduct tax at source u/s 194-IA, irrespective of the fact that the stamp duty value is more than the sale consideration as well as the threshold limit of Rs. 50 lakhs. **As per amendment tax is to be deducted at source if consideration or SDV is Rs 50,00,000 or more since SDV is Rs 55,00,000 TDS u/s 194-IA will be applicable @ 1% of consideration or SDV whichever is higher. TDS of Rs 55,000 will be cut.**
- (iii) **On payment of fee for professional services and royalty** - Under section 194J, the threshold limit of Rs. 30,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold Rs. 30,000 specified thereunder.
- (iv) **On payment for purchase of bag according to specifications** - As per section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).

(vi) **On payment of call center service charges-** Since Rashi Limited is engaged only in the business of operation of call center, Jigar Limited is required deduct tax at source @2% on the amount of Rs. 70,000 u/s 194J on 18.3.2024 i.e., at the time of credit of call center service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2024.

(vii) **On payment of prize winnings of Rs. 21,000**

Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of Rs. 21,000 payables to the customer, since the winnings exceed Rs. 10,000.

<p>(3)</p>	<p>Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in case of payment of salary, payment in respect of life insurance policy etc., tax is required to be deducted at the time of payment.</p>	<p>Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.</p>
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 **Question 53**

Mention the significant differences between TDS and TCS.

(MTP 3 Marks, Oct'20) (RTP May '18)

Answer 53

Significant Differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

 **Question 54**

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2023-24:

- (1) Payment of ₹ 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2023 for contribution of articles in relation to the sport of cricket.
- (2) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2024.
- (3) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (4) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (MTP 4 Marks, March'19, Old SM)

Answer 54

- (1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution

of articles relating to any game or sport in India in a newspaper has to deduct tax at source @20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @4% on TDS should also be added.

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

- (2) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

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

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

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

- (4) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.



Question 55

An amount of ₹ 50,000 was paid to Mr. Rakesh on 1.9.2022 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 60,000 was due to Mr. Rakesh on 31.1.2023, from which tax @10% (amounting to ₹ 11,000) on the entire amount of ₹ 1,10,000 was deducted. However, this tax of ₹ 11,000 was deposited only on 22.7.2023.

Compute the interest chargeable under section 201(1A). (MTP 3 Marks Oct 22)

Answer 55

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

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 5,000 for 5 months	250
1½% on tax deducted but not deposited i.e. 1½% on ₹ 11,000 for 6 months ²	990
	1,240

² As per TRACES, interest is computed for 7 months



Question 56

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2023-24:

- Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- Income from other sources ₹ 2,70,000.
- Tax deducted at source ₹ 25,000.
- Advance tax paid ₹ 1,03,000 during the P.Y. 2023-24.

Return of income filed on 11-12-2024. Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case.

(RTP May '18)

Answer 56

Computation of interest payable under section 234B by Mr. Sachal

Particulars	₹
Tax on total income of ₹ 10,80,000 [Business income of ₹ 8,10,000 +	1,36,500
Income from other sources of ₹ 2,70,000]	
Add: Education cess and SHEC@3% (4% as per amendment)	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹ 1,03,000	
paid is less than ₹ 1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2024 to 11th December, 2024, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 13,900 [i.e., difference between assessed tax of ₹ 1,16,960 and advance tax of ₹ 1,03,000 paid, being ₹ 13,960 which is rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Consequences for delay in filing return of income on or before the due date Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sachal's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2024- 25, in his case, is 31.10.2024. Mr. Sachal has filed his return on 11.12.2024 i.e., interest under section 234A will be payable for 2 months (from 1.11.2024 to 11.12.2024) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS

and advance tax paid i.e., ₹ 13,960 rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = ₹ 13,900 x 1% x 2 = ₹ 278 Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2024 and his total income exceeds ₹ 5 lakhs, a fee of ₹ 5,000 will be payable by him.

**Question 57**

Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2023-24.

Estimated tax liability for the financial year 2023-24	₹ 85,000
Tax deducted at source for this year	₹ 15,000

- Would your Answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?
- What would be your Answer if, instead of section 44AD, he is eligible for and has opted for presumptive tax provisions under section 44AE? (RTP Nov '18) (Same concept different figures MTP 4 Marks, March'19, RTP May '18)

Answer 57**Determination of Advance Tax Liability of Mr. Shikhar**

Particulars	₹
Estimated tax liability for the financial year 2023-24	
Less: Tax deducted at source	
Tax payable	

Due Date of installment	Amount payable	₹
On or before 15th June, 2023	Not less liability than 15% of advance tax	10,500
On or before 15th September, 2023	Not less than 45% of advance tax liability less amount paid in earlier installment	21,000 (₹ 31,500, being 45% of ₹ 70,000 - ₹ 10,500)
On or before 15th December, 2023	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15th March, 2024	Whole of the advance tax liability less amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire advance tax liability in one installment on or before 15.3.2024, without attracting interest under section 243C.

This benefit would, however, not be available if he is eligible for and has opted for presumptive tax provisions under section 44AE, in which case he has to pay his advance tax in four installments as indicated above, failing which interest under section 234C would be attracted.



Question 58

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2024-25.

- (i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2024 by sum of ₹ 4,90,000 for the sale of product R, made during the month February, 2024. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹ 60,000 directly to XY on 21st February, 2024.
- (ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹ 26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
- (iii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2023-24 as under

BILL NO.	DATE	AMOUNT ₹
1	30-04-2023	27,000
57	30-06-2023	25,000
105	30-09-2023	28,000
151	30-12-2023	32,000

(PYP 6 Marks, May'22, MTP 6 Marks Oct '23)

Answer 58

- (i) **AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O** on ₹ 5,50,000 (i.e., ₹ 4,90,000 credited on 28.2.2023 plus deemed payment of ₹ 60,000 on 21.2.2024, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2024 is facilitated by AB Ltd. through its e-commerce platform.

Hence, TDS u/s 194O = 1% on ₹ 5,50,000 = ₹ 5,500

- (ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co., the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C. Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the Question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

- (iii) In this case, the individual contract payments (through the bills dated 30.4.2023, 30.6.2023 and 30.9.2023) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2023, taking the total from ₹ 80,000

to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000. Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2023.

Hence, TDS u/s 194C = ₹ 2,240.

8. PROVISIONS FOR FILING RETURN OF INCOME AND SELF-ASSESSMENT



Question 59

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

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

(MTP 3 Marks, March'18, PYP 4 Marks May '22)

Answer 59

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

Accordingly,

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



Question 60

Mr. Salish, a resident individual aged 54, furnishes his income & other details for the P.Y. 2023-24:

- (i) Income of Rs.8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- (ii) Income from other sources Rs.2,70,000.
- (iii) Tax deducted at source Rs. 25,000.
- (iv) Advance tax paid Rs.1,03,000 during the P.Y. 2023-24.

Return of income filed on 11-12-2024. Calculate the interest payable under section 234B of the Income tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return.

What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961?

Examine, making the required computations in this case. Assume that 115BAC is not opted. (MTP 5 Marks, April'19)

Answer 60

Computation of interest payable under section 234B by Mr. Salish

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 +	1,36,500
Income from other sources of Rs.2,70,000]	
Add: Health and education cess@4%	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000

Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is loveable since advance tax of Rs.1,03,000 paid	
is less than Rs.1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2024 to 11the December, 2024, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months	1,251
on Rs.13,900 [i.e., difference between assessed tax of Rs.1,16,960 and	
advance tax of Rs.1,03,000 paid, being Rs.13,960 which is rounded off to	
Rs.13,900 under Rule 119A of Income-tax Rules, 1962]	

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Salish's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2024-25, in his case, is ~~30.09.2024~~ **31.10.2024**. Mr. Salish has filed his return on 11.12.2024 i.e., interest under section 234A will be payable for **32** months (from 1.11.2024 to 11.12.2024) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., Rs. 13,960 rounded off to Rs. 13,900 under Rule 119A of Income-tax Rules, 1962 Interest u/s 234A = Rs.13,900 x 1% x 2 = Rs.417 **Rs 278**

Fee for late filing of return under section 234F

Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2019 and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000

will be payable by him:

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.)



Question 61

Mr. Prince, a senior citizen, has reported a Total Income ₹ 1,90,000. He has claimed exemption of ₹ 50,000 under section 54EC in respect of long term capital gain on sale of house property and deductions under Chapter VI-A amounting to ₹ 1,50,000 for the previous year 2023-24. Is he liable to file his return of income under section 139(1) for the Assessment year 2024-25? If so why? (MTP 3 Marks March 22, RTP May '19)

Answer 60

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, inter alia, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of ₹ 3,90,000 before giving effect to the exemption under section 54EC and deduction of ₹ 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 3,00,000 applicable in his case.



Question 62

Mr. Ram furnished his return of income for the A.Y. 2024 -25 on 20.07.2024. Due to missing information for payment of taxes in the return of income, the Assessing Officer considers it defective under section 139(9) of the Income-tax Act, 1961.

- (i) What are the consequences if defect is not rectified within the time allowed?
- (ii) Specify the remedies available if not rectified within time allowed by the Assessing Officer? (MTP 3 Marks March '23)

Answer 62

- i. If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- ii. The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

**Question 63**

Mr. X would like to furnish his updated return for the A.Y. 2024-25. In case he furnished his updated return of income, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2026
 (ii) as on 28.2.2027
 (iii) as on 31.5.2027

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. (MTP 3 Marks April '23)

Answer 63

Mr. X may furnish an updated return of his income for A.Y. 2024-25 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2027.'

Accordingly, Mr. X can furnish updated return for A.Y. 2024-25 as on 31.3.2026 and on 28.2.2027.

However, he cannot furnish such return as on 31.5.2027, since such date falls after 31.3.2027.

Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5) i.e., 31st December 2024 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2025
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year i.e., 31.3.2025 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2027.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.2026 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2027 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

**Question 64**

Mr. Aakash has undertaken certain transactions during the F.Y.2023 -24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

(RTP May '23)

Opening a current account with HDFC Bank	
1.	Opening a current account with HDFC Bank

2.	Sale of shares of ABC (P) Ltd. for ₹1,50,000
3.	Purchase of two wheeler motor vehicle of ₹1 lakh
4.	Purchase of a professional laptop of ₹3 lakhs

Answer 64

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Opening a current account with HDFC Bank	Yes, quoting of PAN is mandatory on opening of a current account by a person with bank.
2.	Sale of shares of ABC (P) Ltd. for ₹1,50,000	Yes, since the amount for sale of unlisted shares exceeds ₹1,00,000
3.	Purchase of two wheeler motor vehicle of ₹1 lakh	Since the purchase is of two wheeler motor vehicle, quoting of PAN is not mandatory
4.	Purchase of a professional laptop of ₹3 lakhs	Yes, since the amount paid exceeds ₹2,00,000



Question 65

Who is authorized to verify the return of income of the following assesseees?

- (a) HUF whose Karta is absent from India
- (b) Company where the company is being wound up
- (c) Local authority
- (d) Individual who is mentally incapacitated from attending to his affairs

(RTP Nov '23)

Answer 65

Person authorized to verify return of income

S. No.	Assessee	Authorised Persons
(a)	HUF whose karta is absent from India	Any other adult member of the HUF
(b)	Company where the company is being wound up	Liquidator
(c)	Local authority	The principal officer
(d)	Individual who is mentally incapacitated from attending to his affairs	His guardian or any other person competent to act on his behalf



Question 66

Mr. Sitaram is engaged in the business of trading of cement having turnover of ₹10 crores during the financial year 2023-24. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income?

(PYP 4 Marks Dec '21)

Answer 66

Since Mr. Sitaram's turnover from business of trading of cement is ₹10 crores which exceeds ₹1 crore, being the threshold limit for tax audit under section 44AB, he is subjected to tax audit.

Accordingly, Mr. Sitaram, is required to furnish the following particulars along with his return of income -

- (i) the report of audit referred to in section 44AB.
- (ii) the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.

**Question 67**

Due to some inconsistent information provided in the return of income furnished under Section 139(1), the Assessing Officer considers it defective under Section 139(9) of the Income-tax Act, 1961.

- (i) How, the Assessing Officer would deal with the issue?
- (ii) What are the consequences if defect is not rectified within the time allowed? Specify the remedies available if not rectified within time allowed by the Assessing Officer?

(PYP 4 Marks May'22)

Answer 67

- (i) Where the Assessing Officer considers that the return of income furnished by the assessee is defective,
 - he may intimate the defect to the assessee and
 - give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.
 The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.
- (ii) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- (iii) The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

**Question 68**

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30 th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- (i) What is the last date for linking Aadhar with PAN?
- (ii) What is the consequence for him if he has linked the Aadhar with PAN on 31 st August 2022?
- (iii) Are there any exceptions provided under section 139AA from quoting of Aadhar number?

(PYP 4 Marks Nov '22)

Answer 68

Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before 31st March, 2022.

Since, Mr. A fails to link his Aadhar number with PAN on or before 31.3.2022, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2022, he would be liable to pay fee of ₹1,000 as per section 234H.

Yes, the following are the exceptions -

An individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India

**Question 69**

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

(PYP 4 Marks May'23)

Answer 69

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

- (a) an updated return has been furnished by him for the relevant assessment year
- (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- (d) an updated return is a loss return
- (e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- (f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

Note – Any three of the above circumstances can be mentioned.

9. COMPUTATION OF TOTAL INCOME & TAX PAYABLE



Question 70

From the following information provided by Mr. Suresh, aged 43 years and a wholesale dealer, for the A.Y. 2024-25, you are required to compute the tax payable by him.

Trading and Profit and Loss Account of Mr. Suresh

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To Opening Stock	24,21,000	By Sales	2,62,50,100
To Purchases	2,06,00,500	By Closing stock	52,00,100
To Direct expenses	4,12,040		
To Freight inward	2,65,000		
To Gross Profit c/d	77,51,660		
	3,14,50,200		3,14,50,200
To Salaries and wages	17,15,000	By Gross Profit b/d	77,51,660
To General expenses	3,65,000	By dividend from Indian companies (gross)	17,20,000
To Rates and taxes	2,40,000	By Interest received on FDs (Net of tax) [FD made on 1.8.2023]	1,11,000
To Interest paid on late filing of GST	3,845	By Rent received	7,20,000
To Income-tax paid for FY 2022-23	3,45,000	By Income-tax Refund	19,000

To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,55,815		
	1,03,21,660		1,03,21,660

The following additional information is provided by him:

- (a) Closing stock of previous year 2023-24 was undervalued by Rs. 55,000.
- (b) Rates and taxes include Rs. 1,000 paid towards late filing of his Income-tax return for Assessment Year 2023-24 under section 234F of Income-tax Act.
- (c) Salaries include Rs. 30,000 paid on single day by way of cash to his accountant.
- (d) Interest paid on loan of Rs. 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of Rs. 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while paying the interest on loan.
- (e) An amount of Rs. 35,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
- (f) General expenses include Advertisement expense of Rs. 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- (g) Income-tax refund includes Rs. 2,500 towards interest.
- (h) Depreciation charged is as per Income-tax Rules is Rs. 2,20,000
- (i) Advance Tax paid during the year is Rs. 9 lakhs.
- (j) TDS has been deducted on interest received on FD.
- (k) Turnover for the year ending 31.03.2023 was Rs. 2.58 crores.

(MTP 14 Marks, Nov'21) (Same concepts different figures MTP 14 Marks Mar'22)

Answer 70

Computation of Total Income of Mr. Suresh for the A.Y.2024-25

Particulars	Rs.	Rs.	Rs.
Income from house property			
Annual value (rent received has been taken as annual value, due to absence of information relating to expected rent in the Question)		7,20,000	
Less: Deduction u/s 24(a)			
30% of Annual Value		2,16,000	5,04,000
Profits and gains of business or profession			
Net profit as per profit and loss account		73,55,815	
Add: Expenses/Payments debited to profit and loss account but not allowed			
- Depreciation as per books of account	1,82,000		
Fee for late filing of income-tax return for A.Y. 2023- 24 – disallowed	1,000		
Salary paid to an accountant in cash exceeding Rs. 10,000 – disallowed under section 40A(3)	30,000		
- Interest paid to NBFC on loan which is used for personal purposes (Rs. 1,15,000 × 2,00,000/ 10,00,000) – not allowed as per section 37	23,000		

- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of Rs. 92,000 under section 40(a)(ia) [Since Mr. Suresh's turnover for the immediately preceding previous year i.e., P.Y. 2022-23 exceeds Rs. 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non-deduction of tax at source]	27,600		
- Income-tax paid for F.Y. 2022-23	3,45,000		
- Interest paid on late filing of GST, allowed, since it is not for infraction of law but is compensatory in nature.	Nil		
- Advertisement expenses towards an advertisement in a souvenir published by local political party [under section 37(2B)]	25,000	6,33,600	
Add: Undervaluation of Closing stock		55,000	
		80,44,415	
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account			
- Dividend from Indian companies (taxable under the head "Income from other sources")	17,20,000		
- Interest on FDs (Net of taxes) (Gross income taxable under the head "Income from other sources")	1,11,000		

- Rent received (taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	19,000	25,70,000	
		54,74,415	
Less: Depreciation as per Income-tax Rules		2,20,000	52,54,415
Income from Other Sources			
Dividend from Indian companies		17,20,000	
Interest on fixed deposits (Rs. 1,11,000 x 100/92.5, since tax was deducted at source @7.5%)		1,20,000	
Interest on income-tax refund		2,500	18,42,500
Gross Total Income			76,00,915
Less: Deduction under Chapter VI-A			
Section 80D			
Health insurance premium paid for self, spouse and his children allowable as deduction to the extent Rs. 25000		25,000	
Section 80GGC			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		Nil	25,000
Total Income			75,75,915
Total Income (Rounded Off)			75,75,920

Computation of tax payable by Mr. Suresh for the A.Y.2024-25

Particulars		Rs.
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	

Rs. 5,00,001 – Rs.10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	20,85,276
Rs. 10,00,001 above [i.e., Rs. 65,75,920 @30%]	19,72,776	
		20,85,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000		2,08,528
		22,93,804
Add: Health and Education cess@4%		91,752
Tax Liability		23,85,556
Less: Advance tax		9,00,000
Tax deducted at source on interest on FDs under section 194A		9,000
Tax payable		14,76,556
Tax payable (rounded off)		14,76,560

Computation of tax liability of Mr. Suresh as per section 115BAC for A.Y.2024-25

Particulars	Rs.
Gross total Income as per regular provisions of the Act	76,00,915
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	76,00,915
Total Income as per section 115BAC (rounded off)	76,00,920
Tax on total income of 76,00,920	19,80,276
Upto ₹2,50,000 ₹3,00,000 Nil	
₹3,00,000 – ₹6,00,000 [₹3,00,000 @ 5%] 15,000	
₹ 6,00,001 – ₹9,00,000 [₹3,00,000 @ 10%] 30,000	
₹9,00,001 – ₹12,00,000 [₹3,00,000 @ 15%] 45,000	

₹12,00,001 – ₹15,00,000 [₹3,00,000 @ 20%] 60,000	
Above ₹15,00,000 @30% (61,00,920 @ 30%)	
18,30,276	
	19,80,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000	1,98,028
	21,78,304
Add: Health and education cess@4%	87,132
Total tax liability	22,65,436
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs under section 194A	9,000
Tax payable	13,56,436
Tax payable (rounded off)	13,56,440
Since tax liability as per section 115BAC is lower than the tax liability under normal provisions of the Act, it is beneficial for Mr. Suresh to exercise option under section 115BAC. He has to exercise this option on or before the due date of furnishing the return of income. Further, he is having income from business or profession during the P.Y.2020- 21, if he opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.	

 **Question 71**

You are required to compute the total income and tax payable by Mr. Josh, aged 48 years, from the following information provided by him for the Assessment Year 2024-25. Mr. Josh does not want to opt for section 115BAC for the A.Y. 2024-25:

- (i) Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 10,000 per month (Part of salary for retirement benefits), House rent allowance

- Rs. 4,000 per month and rent paid for house in Chennai is Rs. 7,000 per month.
- (ii) He owns a commercial building at Mumbai, which is let out on 1.7.2022 at a monthly rent of Rs. 46,000 to ABC Ltd. He paid municipal taxes of Rs. 27,000 and Rs. 25,000 for the financial year 2022-23 and 2023-24 on 31-3-2024 and 20-4-2024, respectively. Fair rent of the building is Rs. 33,000 p.m.
- (iii) He purchased 4000 unlisted shares of Maharaja Limited on 25-2-2008 for Rs. 80,000. Company declared bonus in the ratio of 1:1 on 15th March, 2008. Mr. Josh sold 3000 bonus shares on 15.01.2021 for Rs. 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08: 129, 2023-24: 348)
- (iv) In April, 2023, he received dividend of Rs. 9,00,000 from ABC Ltd., an Indian company. The dividend is declared by the company in P.Y. 2022-23 and the company has paid dividend distribution tax on the same.
- (v) Interest from saving bank account with SBI Bank Rs. 15,000 and lottery winnings (Net of TDS@30%) is Rs. 21,000.

He paid the following amounts during the P.Y. 2023-24:

- (a) Deposits in Public Provident Fund Rs. 1,50,000.
- (b) Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque.

(MTP 14 Marks, April'21, PYP 14 Marks May '19)

Answer 71

Computation of total income of Mr. Josh for the A.Y.2024-25

Particulars	Rs.	Rs.
Salaries		
Basic Salary = Rs. 51,000 x 12	6,12,000	
Dearness Allowance (DA) = Rs. 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = Rs. 4,000 x 12		
Rs. 48,000		

Less: Least of the following exempt u/s 10(13A) Rs. 10,800	37,200	
(i) HRA actually received = Rs. 4,000 x 12 = Rs. 48,000		
(ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 x 12) (-)		
Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. 10,800		
(iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [Rs. 46,000 x 9, being the higher of actual rent received and fair rent]	4,14,000	
Less: Municipal tax paid during the P.Y. 2023-24	27,000	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	
		2,70,900
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	Nil	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000
Income from Other Sources		
Dividend received from ABC Ltd., an Indian company	9,00,000	

Less: Exempt under section 10(34), since dividend distribution tax has been paid on such dividend	9,00,000	
(as per amendment dividend is taxable in the hands of shareholder)		Nil
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	30,000	
		9,45,000
Gross Total Income		21,35,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son Rs. 31,000, restricted to Rs 25,000	25,000	
Section 80TTA		
Interest on saving bank account with SBI	10,000	
		1,85,000
Total Income		19,50,100

Computation of tax liability of Mr. Josh for A.Y. 2024-25

Particulars	Rs.	Rs.
Tax on total income of Rs. 19,50,100		
Tax on long-term capital gains of Rs. 2,00,000@20% u/s 112	40,000	
Tax on lottery income of Rs. 30,000 @30% u/s 115BB	9,000	
Tax on other income of Rs. 17,20,100 [Rs. 10,50,100 – Rs. 2,00,000, capital gains – Rs. 30,000, lottery income]		
Upto Rs. 2,50,000	Nil	

Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [i.e., Rs. 5,00,100@20%]	1,00,000	
Rs. 10,00,001 –Rs.17,20,100 [i.e., Rs. 7,20,100@30%]	2,16,030	
		3,77,530
Add: Health and education cess@4%		15,101
Tax liability		3,92,631
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [Rs. 4,14,000 x 10%]	41,400	
TDS on Dividend (Rs. 9,00,000*10%)	90,000	1,40,400
Tax Payable		2,52,231
Tax Payable (rounded off)		2,52,230

Motor car loan from SBI @12% p.a. interest	5,00,000	Life Insurance Premium (Sum Assured Rs. 5,00,000]	49,000
Sale receipts of 5,800 listed equity shares (sold on 31st March 2024)	5,95,000	Motor car (Acquired in January 2024 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2023 (annual publications)	80,000
		Computer acquired on 1-11-2023 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31-03-2024)	
		Cash & Bank	61,000
	61,35,000		61,35,000



Question 72

You are required to compute the total income and tax liability of Mr. Alok, aged 58 years, a resident individual. Mr. Alok is an advocate and furnishes you the receipts and payments account for the financial year 2023-24.

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Opening Balance (01-04-2023)		Staff salary and bonus to clerks	17,50,000
Cash & Bank	80,000	Other general and administrative expenses	22,00,000
Fee from legal services	49,60,000	Office rent	1,48,000

Other information:

- (i) Listed equity shares on which STT was paid were acquired in August 2016 for Rs. 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was Rs. 75 per share and Rs. 85 per share, respectively.
- (ii) Motor car was put to use for both official and personal purposes. 1/ 3rd

of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2023-24.

(iii) Mr. Alok purchased a flat in Kanpur for Rs. 35,00,000 in July 2016 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of Rs. 25,00,000, his own- savings Rs. 1,00,000 and a deposit from Repco Bank for Rs. 9,00,000. The flat was given to Repco Bank on lease for 10 years @ Rs. 35,000 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Alok Rs. 8,200 per annum
- (b) House insurance Rs. 11,000

As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2023- 24, he paid Rs. 1,80,000 towards principal and Rs. 2,01,500 as interest.

- (iv) He earned Rs. 1,20,000 in share speculation business and lost Rs. 1,80,000 in commodity speculation business.
 - (v) Mr. Alok received a gift of Rs. 21,000 each from four of his family friends.
 - (vi) He contributed Rs. 1,21,000 to PM Cares Fund by way of bank draft.
 - (vii) He donated to a registered political party Rs. 3,50,000 by way of cheque.
 - (viii) He follows cash system of accounting.
 - (ix) Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 – 280; F.Y. 2023-24 – 348
- Assume Mr. Alok is not willing to opt for the provisions of section 115BAC.

(MTP 14 Marks, March'21, RTP May'19)(Same concepts different figures fewer adjustments MTP 14 Marks May'20, PYP 10 Marks May'18)

Answer 72

Computation of total income and tax liability of Mr. Alok for A.Y. 2024-25

Particulars	Rs.	Rs.	Rs.
Income from house property			
Gross annual value ¹ (Rs. 35,000 x 12)		4,20,000	

Less: Municipal taxes paid by Mr. Alok		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,23,540	
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
			86,760
Profits and gains of business or profession Income from profession			
Fees from legal services		49,60,000	
Less: Expenses allowable as deduction			
- Staff salary and bonus	17,50,000		
- Other general and administrative expenses	22,00,000		
- Office rent	1,48,000		
- Motor car maintenance (Rs. 72,000 x 2/3)	48,000		
- Car loan interest – not allowable, since Mr. Alok follows cash system of accounting and no interest is paid during the previous year)		41,46,000	
		-	
			8,14,000
Less: Depreciation u/s 32			
- Motor car Rs. 9,50,000 x 15% x 50% x 2/3, being put to use for less than 180 days	47,500		
- Books being annual publications [Rs. 80,000 x 40%]	32,000		

Computer @40% of Rs. 52,000 x 50%, since the same is put to use for less than 180 days	10,400	89,900	
		7,24,100	
For the P.Y. 2023-24, the gross receipts of Mr. Alok is Rs. 49,60,000. Since, it does not exceed Rs. 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA. In such case, his professional income would be Rs. 24,80,000, being 50% of Rs. 49,60,000. It is more beneficial for Mr. Alok to declare profit of Rs. 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB			
Income from share speculation business	1,20,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of Rs. 60,000 from commodity speculation business to be carried forward to A.Y. 2025-26	1,20,000	Nil	7,24,100

Capital Gains		5,95,000	
Long-term capital gains on sale of 5800 listed shares Sale consideration			
Less: Cost of acquisition is higher of		4,35,000	
- Cost of acquisition	1,21,800		
- Lower of Rs. 4,35,000 (Rs. 75 x 5800), being fair market value as on 31.1.2018 and Rs. 5,95,000, being full value of consideration on transfer	4,35,000		1,60,000
Income from other sources			84,000
Cash Gift of Rs. 84,000 i.e., Rs. 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds Rs. 50,000			
Gross Total Income			10,54,860
Less: Deductions under Chapter VI-A Section 80C			
Life insurance premium	49,000		
Repayment of housing loan	1,80,000		
PPF subscription	1,50,000		
	3,79,000		
Restricted to Rs. 1,50,000		1,50,000	
Section 80G			
Contribution to PM Cares Fund (100% of Rs. 1,21,000) by way of bank draft Section 80GGC		1,21,000	
Donation to registered political party made by way of cheque		3,50,000	

			6,21,000
Total Income			4,33,860
Tax liability			
Tax @10% under section 112A on long-term capital gains exceeding Rs. 1,00,000 i.e., Rs. 60,000			6,000
Tax @5% on Rs. 23,860 [Rs. 2,73,860 (total income excluding LTCG u/s 112A) - Rs. 2,50,000, being basic exemption limit			1,193
			7,193
Less: Rebate u/s 87A [Since the total income does not exceed Rs. 5 lakhs. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			1,193
			6,000
Add: Health and Education cess@4%			240
Tax liability			6,240

Employer's contribution to R.P.F. 20% of basic salary
 Interest credited in the R.P.F account@15% p.a., ₹15,000
 Arrears of rent received from XYZ Limited ₹75,000
 Received interest ₹10,000 from Axis Bank Savings account during the year, and interest of ₹12,040 (gross) from the debentures of M/s. Coal India Ltd.
 He made payment through cheque ₹15,370 towards premium on Life insurance policies and ₹22,500 for Mediciam Insurance Policy for his major dependent daughter.
 He had contributed ₹1,196 pm towards Atal Pension Yojana and ₹5,000 pm towards Sukanya Samridhi account.
 XYZ Limited has taken residential house of Mr. Raj as Company's guest house and later purchased from him in the year 2020 at market value for ₹75 lakhs. Purchase cost was only ₹10 lakhs in April, 2008.
 During August, 2023, Mr. Raj had sold his gold chain and a diamond ring for ₹3,99,000 which he had purchased in April, 2008 for ₹1,13,000.
 Donation of ₹11,000 to Prime Minister's National Relief Fund were given during the year by way of cheque. (CII for 2008-09:113, 2019-20: 289, 2023-24: 348)(MTP 14 Marks, Oct'20)
 (The full value of consideration of diamond ring has been changed from Rs 3,40,000 lakhs to Rs. 3,99,000 Lakhs to keep the essence of the question)

Answer 73

Computation of total Income and tax payable by Dr. Saxena for the A.Y. 2019 -20

Particulars		₹	₹
Income from Salaries			
Basic Salary (₹25,000 x 12)			3,00,000
Dearness Allowance (₹3,00,000 x 50%)			1,50,000
Employer's contribution to recognized provident fund:			

Question 73

From the following information provided by Mr. Raj, aged 42 years working as a manager in XYZ Limited, for the year ended 31.3.2024, you are required to compute his total income and tax payable for the A.Y. 2024-25.

Basic salary ₹25,000 p.m.
 DA (50% of it is meant for retirement benefits) 50% Basic Pay
 Own contribution to Recognized Provident Fund (R.P.F.) ₹30,000

Actual contribution [20% of ₹3,00,000]		60,000	
Less: Exempt [12% of ₹3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)]		45,000	15,000
Interest credited in recognized provident fund account @15% p.a.		15,000	
Less: Exempt up to 9.5% p.a.		9,500	5,500
Income from house property			4,70,500
Arrears of rent [Taxable under section 25A, even if Mr. Raj is no longer the owner of house property]		75,000	
Less: 30% of arrears of rent		22,500	52,500
Capital gain on sale of guest house: As the sale was made in the year 2020, the capital gain does not relate to assessment year 2024-25.			Nil
Capital Gain on jewellery [Long term, since the capital assets are held for more than 36 months]			
Full value of consideration		3,99,000	
Less: Indexed cost of acquisition [₹ 1,13,000 x 348/113]		3,48,000	51,000
Income from Other Sources			
Interest from savings bank account		10,000	
Interest on debentures		12,040	22,040
Gross total Income			5,96,040
Less: Deductions under Chapter VI-A			
Section 80C			
Own contribution to RPF	30,000		

LIC premium [It is assumed that premium does not exceed 10%/20% of sum assured, as the case may be]	15,370		
Deposit in Sukanya Samridhi Scheme [₹5,000 x 12]	60,000	1,05,370	
Section 80CCD(1B)			
Contribution to Atal Pension Yojana, a notified pension scheme		14,352	
Section 80D - Mediciam Insurance for major dependent daughter		22,500	
Section 80G – Donation to PM National Relief Fund [100%]		11,000	
Section 80TTA – Interest on savings bank account (allowed in full upto ₹ 10,000)		10,000	1,63,222
Total Income			4,32,818
Total Income (rounded off)			4,32,820
Tax Liability			
Tax on Long-term Capital Gains @20% of ₹51,000		10,200	
Tax on balance income of ₹3,81,820		6,591	16,791
Less: Rebate under section 87A would be lower of ₹12,500 or tax liability, since the total income does not exceed ₹5,00,000			12,500
			4,291
Add: Health and Education cess @4%			172
Tax liability			4,463
Less: TDS on interest on debenture			1,204
Tax payable			3,259
Tax payable (Rounded off)			3,260



Question 74

Mr. Ashwin, a resident individual aged 61, furnishes the following information pertaining to the year ended 31.3.2024:

- (i) He is a working partner in ASC & Co. He has received the following amounts from the firm: Interest on capital at 15%: Rs.3,00,000
Salary as working partner (at 1% of firm's sales) (allowed fully to the firm) : Rs.90,000
- (ii) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarised form) is as under:

Particulars	Rs.	Particulars	Rs.
To Salaries	1,20,000	By Gross profit	12,45,500
To Bonus	48,000	By Interest on Bank FD	49,500
To Car expenses	50,000	(Net of TDS)	
To Machinery repairs	2,34,000	By Agricultural income	60,000
To Advance tax	70,000	By Pension from LIC	
To Depreciation on:		Jeevan Dhara	24,000
- Car	3,00,000		
- Machinery	1,25,000		
To Net profit	4,32,000		
	13,79,000		13,79,000

Details of assets:

Particulars	Rs.
Opening WDV of assets are as under: Car	3,00,000
Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	

Purchased on 15.9.2023 by cash in single payment	2,00,000
Purchased on 12.12.2023 by account payee cheque	3,00,000
Second hand machinery purchased on 30.4.2023 by bearer cheque in single payment	1,25,000

(All assets added during the year were put to use immediately after purchase)
One-fifth of the car expenses are towards estimated personal use of the assessee. Salary includes Rs. 15,000 paid by way of a single cash payment to manager.

(iii) In February, 2021, he had sold a house at Mumbai. Arrears of rent relating to this house amounting to Rs.75,000 was received in March, 2024.

(iv) Details of his Savings and Investments are as under:

Particulars	Rs.
Life insurance premium for policy in the name of his major son employed in a multinational company, at a salary of Rs.10 lakhs p.a. (Sum assured Rs.2,00,000) (Policy taken on 1.07.2013)	30,000
Contribution to PPF	70,000
Medical Insurance premium for his mother aged 79, who is not dependent on him	52,000

You are required to compute the total income and tax liability of Mr. Ashwin for the assessment year 2024-25.

(MTP 14 Marks, April'19, RTP May '18)

Answer 74

Computation of total income of Mr. Ashwin for the A.Y. 2024-25

Particulars	Rs.	Rs.
Income from house property		
Arrears of rent received in respect of the Bangalore house taxable under section 25A [Note 1]	75,000	

Less: Deduction @ 30%		22,500	52,500
Profits and gains of business or profession			
(a) Own business [Note 3]			6,32,500
(b) Income from partnership firm [Note 2]			
Interest on capital		2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%] Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		55,000	79,000
Gross Total Income			10,94,000
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs.2,00,000	20,000		
Contribution to PPF	70,000	90,000	
Section 80D			
Mediclaim premium for mother, a senior citizen	52,000		

(qualifies for deduction, even though the mother is not dependent on the assessee, subject to a maximum of Rs.50,000)		50,000	
Section 80TTB			
Interest on bank FD	55,000		
(subject to a maximum of Rs.50,000)		50,000	1,90,000
Total Income			9,04,000

Computation of tax liability of Mr. Ashwin for the A.Y. 2024-25

Particulars	Rs.
Tax on Agricultural income plus non-agricultural income i.e., Rs.9,64,000	1,02,800
Less: Tax on agricultural income plus basic exemption limit i.e., Rs.3,60,000	3,000
	99,800
Add: Health and education cess @4%	3,992
Tax liability	1,03,792
Less: TDS	5,000
Less: Advance Tax	70,000
Tax Payable	28,792
Tax Payable (rounded off)	28,790

Notes:

- (1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.
- (2) The income by way of interest on capital and salary of Mr. Ashwin from the firm, ASC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly,

Rs.3,30,000 [i.e., Rs.90,000 (salary) + Rs.2,40,000 (interest@12%)] should be included in his business income.

(3) Computation of income from own business

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	49,500	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,33,500
		2,98,500
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs.50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds Rs.10,000	15,000	5,20,000
		8,18,500
Less: Depreciation (See Working Note below)		1,86,000
Income from business		6,32,500

Working Note:

Computation of depreciation allowable under the income-tax Act, 1961

Particulars	Rs.	Rs.
On Car:		

Depreciation @15% on Rs.3,00,000	45,000	
Less: 1/5th for personal use	9,000	
Depreciation on Car allowable as deduction		36,000
On Machinery:		
Opening WDV 6,50,000		
Additions during the year (used for more than 180 days)		
- New Machinery purchased on 15.9.23 2,00,000		
- Second hand machinery purchased on 30.4.23 1,25,000		
Additions during the year (used for less than 180 days) 3,00,000		
Normal Depreciation		
Depreciation @15% on Rs.6,50,000	97,500	
[As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 30.4.2023 and on new machinery purchased on 15.9.2023 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]		
Depreciation @ 7.5% on Rs.3,00,000	22,500	
Total normal depreciation on machinery (A)	1,20,000	

Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation (B)		
New machinery		
Used for less than 180 days = 10% of Rs.3,00,000	30,000	
Total permissible depreciation on machinery (A) + (B)		1,50,000
Depreciation allowable under section 32		1,86,000



Question 75

Mr. Satish, aged 47 years, is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2024 are as follows:

Basic Salary	Rs.5,40,000
HRA (Computed)	Rs.1,80,000
Transport allowance	Rs.22,000

Apart from the above, his employer has sold the following assets to him on 1st January, 2024:

- Laptop for Rs.20,000 (Acquired in September, 2022 for Rs.1,20,000)
- Car 1800 cc for Rs.3,20,000 (purchased in April, 2021 for Rs.8,50,000)
He also owns a residential house, let out for a monthly rent of Rs.15,000. The fair rental value of the property for the let out period is Rs.1,50,000. The house was self-occupied by him from 1st January, 2024 to 31st March, 2024. He has taken a loan from bank of Rs.20 lacs for the construction of the property, and has repaid Rs.1,05,000 (including interest Rs.40,000) during the year.
- Mr. Satish sold equity shares of different Indian companies on 14th March, 2024:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares
A Ltd.	Rs.150	Rs.120 (STT paid at acquisition)	2nd Feb, 2023	200
B Ltd.	Rs.82	Rs.62	16th April, 2023	125

CII – F.Y. 2018-19: 280; F.Y. 2017-18: 272; F.Y. 2023-24- 348

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration. He received income-tax refund of Rs.5,750 (including interest Rs.750) relating to the assessment year 2023-24.

- Mr. Satish made payment of Rs.80,000 vide cheque no. 245315 towards medical insurance as lumpsum premium for himself and his wife for 4 years. He also made cash payment of Rs.8,000 towards preventive health checkup for himself and his wife.
- Mr. Satish deposited Rs.1,30,000 in Public Provident Fund and Rs.80,000 in 5 years term deposit in the name of his minor son, Aryan.

Compute the total income and tax liability of Mr. Satish for the Assessment Year 2024-25. Assume that he has not opted for 115BAC.

(MTP 14 Marks, March'19)

Answer 75

Computation of total income of Mr. Satish for the A.Y. 2024-25

Particulars		Rs.
Income from salaries [Working Note (1)]		9,66,000
Income from house property [Working Note (2)]		1,00,000
Capital gain [(Working Note 3)]		
Long-term capital gains		5,970
Short-term capital gains		2,490
Income from other sources: Interest on income-tax refund		750
Gross Total Income		10,75,210
Less: Deduction under Chapter VIA		
Deduction under section 80C		

- Public Provident Fund	1,30,000	
5 years Term deposit (not allowed as deduction in the name of minor son)	-	
- Repayment of housing loan (principal)	65,000	
Restricted to	1,95,000	1,50,000
Deduction under section 80D [Working Note (4)]		25,000
Total Income		9,00,210

Computation of tax payable by Mr. Satish for the A.Y. 2019 -20

Particulars	Rs.
Tax on LTCG of Rs.5,970 [Exempt u/s 112A]	-
Tax on STCG of Rs.2,490 u/s 111A @15%	374
Tax on balance income of Rs.8,91,750	90,850
	91,224
Add: Health and Education cess@4%	3,649
Total tax payable	94,873
Tax liability (Rounded off)	94,870

Working Notes:

(1) Income from salaries

Particulars	Rs.	Rs.
Basic Salary		5,40,000
HRA (computed)		1,80,000
Transport allowance		22,000
Perquisites (relating to sale of movable assets by employer)		
Laptop		
Cost [September, 2022]	1,20,000	
Less: Depreciation at 50% for one completed year	60,000	
WDV [September, 2023]	60,000	

Less: Amount paid to the employer	20,000	
Perquisite value of laptop (A)	40,000	
Car		
Cost [April, 2021]	8,50,000	
Less: Depreciation for the 1st year (April,22 to March,23) @ 20% of WDV	1,70,000	
WDV [April, 2022]	6,80,000	
Less: Depreciation for the 2nd year (April,23 to March,24) @ 20% of WDV	1,36,000	
WDV [April, 2023]	5,44,000	
Less: Amount paid to the employer	3,20,000	
Perquisite value of car (B)	2,24,000	
Perquisite value (A) + (B)		2,64,000
Gross Salary		10,06,000
Less: Standard Deduction under section 16(ia) (as per amendment Rs. 50,000)		40,000 50,000
Income chargeable under the head "Salaries"		9,56,000

(2) Income from house property

Section 23(2) provides that the annual value of a self-occupied house shall be taken as Nil. However, section 23(3) provides that the benefit of self-occupation would not be available if the house is actually let during the whole or part of the previous year. This implies that the benefit of taking the annual value as „Nil” would be available only if the house is self-occupied for the whole year.

In this case, therefore, the benefit of taking annual value as „Nil” is not available since the house is self-occupied only for 3 months. In such a case, the gross annual value has to be computed as per section 23(1). Accordingly, the fair rent for the whole year should be compared with the actual rent for the let-out period and whichever is higher shall be adopted as the Gross Annual Value.

Particulars	Rs.	Rs.
Gross Annual Value (higher of fair rent for the whole year and actual rent for the let-out period)		2,00,000
Fair rent for the whole year = Rs.1,50,000 ! 12/9	2,00,000	
Actual rent received = Rs.15,000 ! 9	1,35,000	
Less: Municipal taxes		Nil
Net Annual Value (NAV)		2,00,000
Less: Deductions under section 24		
30% of NAV	60,000	
Interest on loan [See Note below]	40,000	1,00,000
Income from house property		1,00,000

Note: It is presumed that the interest of Rs.40,000 paid on housing loan represents the interest actually due for the year.

(3) Income chargeable as “Capital Gains”

Section 112A exempts long-term capital gain on sale of equity shares of a company upto Rs.1 lakh, if securities transaction tax is paid both at the time of sale and acquisition of such shares. Such long-term capital gain in excess of Rs.1 lakh is taxable @10%. Since Mr. Satish has held shares of A Ltd. for more than 12 months and securities transaction tax has been paid on such sale and at the time of acquisition of shares, the gains arising from sale of such shares is a long-term capital gain and the same would be taxable under section 112A. As per section 48, the benefit of indexation would not be applicable on such equity shares. The long term capital gain arising from sale of shares of A Ltd.

Particulars	Rs.
Sale consideration (Rs.150 x 200)	30,000
Less: Brokerage @ 0.1%	30
Net sale consideration	29,970
Less: Cost of acquisition (Rs.120 x 200)	24,000
long-term capital gains	5,970

Since, the long term capital gain do not exceed Rs.1 lakh, the same would be

exempt under section 112A. Shares in B Ltd. are held for less than 12 months and hence the capital gains arising on sale of such shares is a short-term capital gain chargeable to tax @15% as per section 111A, since the transaction is subject to securities transaction tax. It may be noted, however, that securities transaction tax is not a deductible expenditure.

Short-term capital gains arising from sale of shares of B Ltd.

Particulars	Rs.
Sale consideration (Rs. 82 X 125)	10,250
Less: Brokerage @ 0.1%	10
Net sale consideration	10,240
Less: Cost of acquisition (Rs. 62 x 125)	7,750
Short-term capital gains	2,490

(4) Deduction under section 80D

As per section 80D, in a case where mediclaim premium is paid in lumpsum for more than one year by an individual, to effect or keep in force an insurance on his health or health of his spouse, then, the deduction allowable under this section for each of the relevant previous year would be equal to the appropriate fraction of such lump sum payment. Hence, deduction under section 80D would be Rs.20,000 i.e, Rs.80,000 x 1/4 in respect of mediclaim and Rs.8,000 for preventive health check up, subject to maximum of Rs.5,000. Thus, overall deduction under section 80D would be Rs.25,000.



Question 76

Mr. Rajan, aged 54 years, engaged in a business as sole proprietor. He is resident and ordinarily resident for the previous year 2023-24. The Profit & Loss A/c for the year ending 31-03-2024 is given below:

Particulars	Rs.	Particulars	Rs.
Salary	36,000	Gross Profit	5,60,900
Fire Insurance	28,500	Interest on Debentures	6,750
Income-tax	30,000	Cash Gift	51,000
Sundry Expenses	56,000		
Advertisement	36,000		
Household expenses	50,000		
Depreciation	29,800		
Contribution to IIT Mumbai for an approved scientific research programme	1,00,000		
Municipal Taxes paid for house property	36,000		
Investment in NSC	10,000		
Printing & Stationery	12,000		
Interest	24,000		
Rent paid	60,000		
Net Profit	1,10,350		
	6,18,650		6,18,650

Mr. Rajan also furnishes the following additional information:

- Cash gift was received on the occasion of his son's marriage from his maternal uncle.
- Interest on debentures is net of taxes. Debentures are listed on recognised stock exchange.
- He owns a house property in Nagpur. 50% of the property is used by him for his own business and 50% let out for residential purpose.
- Rent received from 50% let out portion during the year was ₹1,50,000.
- Fire insurance includes ₹15,000 paid for house property owned by him.
- Depreciation is computed as per the Income-tax Rules, 1962.
- He has sold a vacant land in July, 2023 for ₹1,50,000. The State Stamp Value of the site was ₹2,80,000.

- The land was acquired in August 2021 for ₹1,10,000 from his friend.
- Rent paid includes ₹50,000 paid towards rent for his residence in Nagpur and ₹10,000 for hiring a Maruti Van for business purpose.
 - Municipal tax includes ₹10,000 paid as tenant.
 - Paid premium on life insurance policy taken for his handicapped daughter ₹50,000 (suffering from disability mentioned in section 80U). The policy was taken on 01-04-2016 and the minimum sum assured is ₹3,00,000.
 - Interest shown in the Profit & Loss A/c, paid on loan borrowed for his own business purposes. It includes ₹10,000 payable to a non-resident on which tax has not been deducted.

Compute the total income of Mr. Rajan for the Assessment Year 2024-25.

(MTP 10 Marks, March'18)

Answer 76

Computation of total income of Mr. Rajan for A.Y. 2024-25

Particulars	Working Note Nos.	₹
Income from house property	I.	95,900
Profit and gains of business or profession	II.	2,23,100
Long term capital gains	III.	1,70,000
Income from other sources	IV.	7,500
Gross Total Income		4,56,500
Less: Deduction under Chapter VI-A	V.	55,000
Total Income		4,01,500

Working Notes:

- Computation of income under the head "Income from House Property"

Particulars	₹
Let-out portion – 50%	
Gross Annual Value (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)	1, 50,000

Less: Municipal taxes paid in respect of let out portion [50% of ₹26,000 (₹36,000 - ₹10,000, being municipal taxes paid as tenant)]	13,000
Net Annual Value (NAV)	1,37,000
Less: Deduction under section 24@30% of NAV	41,100
Income from House Property	95,900

II. Computation of income under the head "Profits and gains of business or profession"

Particulars	₹	₹
Net profit as per Profit and Loss account		1,10,350
Add: Expenses debited to profit and loss account but not allowable or to be considered separately		
(i) Fire Insurance [50% of ₹15,000, disallowed since relating to let- out portions of house property owned by him]	7,500	
(ii) Income-tax [disallowed as per section 40(a)(ii)]	30,000	
(iii) Household expenses [Personal expenses are disallowed by virtue of section 37]	50,000	
(iv) Contribution to IIT, Mumbai for approved scientific research programme to be considered separately	1,00,000	
(v) Municipal Taxes paid as tenant [Personal expenses are disallowed by virtue of section 37]	10,000	
(v) Municipal Taxes paid in respect of let-out portions [50% of ₹26,000 (₹36,000 - ₹10,000, being municipal taxes paid as a tenant) disallowed, since incurred for personal purposes]	13,000	

(vi) Investment in NSC (Deduction allowed under section 80C)	10,000	
(vii) Interest payable to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	10,000	
(viii) Rent paid for his residence [Personal expenses not allowed as deduction as per section 37]	50,000	
		2,80,500
Less: Weighted deduction@150% for contribution to IIT, Mumbai for scientific research programme approved under section 35(2AA) [₹1,00,000 × 150%] Deduction reduced to 100 % as per amendment		3,90,850
		1,50,000
		1,00,000
		2,90,850
Less: Income credited to Profit & Loss Account but not taxable under this head:		
(i) Cash gifts	51,000	
(ii) Interest on debentures	6,750	57,750
Profits and gains from business and profession		2,33,100

III. Computation of income under the head "Capital Gains"

Particulars	₹	₹
Capital gains		
Actual Sale consideration	1,50,000	
Value adopted by Stamp Valuation Authority	2,80,000	
Gross Sale consideration		2,80,000

[In case the actual 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 as per section 50C] (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration) Less: Cost of acquisition		
Short term capital gain [Since vacant land is held by Mr. Rajan for not more than 24 months]		1,70,000

IV. Computation of income under the head "Income from other sources"

Particulars	₹
Cash gift received on the occasion of his son's marriage from his maternal uncle would not be taxable, since maternal uncle fall within the definition of relative.	Nil
Interest on debentures(gross)[₹ 6,750 × 100/90](The rate of TDS under section 194A is 10%)	7,500
Income chargeable under this head	7,500

V. Computation of deduction under Chapter VI-A

Particulars	₹	₹
Deduction under section 80C		
Investment in NSC	10,000	
LIC Premium paid ₹50,000 [deduction restricted to 15% of ₹3,00,000, being the capital sum assured, since the policy was taken after 31.3.2013 to insure the life of his disabled daughter]	45,000	55,000

Deduction under section 80GG [Since Mr. Rajan is staying in a rented premise in Nagpur itself, he would not be eligible for deduction under section 80GG as he owns a house in Nagpur which he has let out.]		NIL
Deduction under Chapter VI-A		55,000



Question 77

You are required to compute the total income and tax liability of Mr. Neeraj for the A.Y. 2024-25 from the following information given by him for the year ended 31.3.2024. Mr. Neeraj, aged 61 years, a resident individual, engaged in a wholesale business of stationary products. He is also a partner in BAC & Co., a partnership firm.

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from BAC & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2023-24 including interest of ₹1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		

	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop (For two half years; payment for one half year made on 12.7.2023 and for the other on 31.12.2023)	7,000	
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2023) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2023 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2018. He received arrears of rent in respect of the said property in October, 2023.		1,35,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid by way of A/c payee cheque for self	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

Assume Mr. Neeraj does not want to opt for the provisions of section 115BAC. (MTP 14 Marks April 22) (Same concept different figures RTP Nov'20)

Answer 77

Computation of total income of Mr. Neeraj for the A.Y.2024-25

Particulars	₹	₹	₹
Income from house property			

Arrears of rent (taxable under section 25A even if Mr. Neeraj is not the owner of the house property in the P.Y.2023-24)		1,35,000	
Less: Deduction@30%		40,500	94,500
Profits and gains of business or profession			
Income from wholesale business			
Net profit as per books		6,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction			
- Depreciation as per books		34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return of income (₹ 7,000/2)		3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹10,000		22,000	
- 20% of car expenses for personal use		8,000	
		7,27,500	
Less: Depreciation allowable (Note 1)		1,96,800	
Income from firm		5,30,700	
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	7,50,700
Income from other sources			69,700
Interest on bank fixed deposit (Gross) [₹49,500 x 100/90]		55,000	
Interest on saving bank account		13,300	

Interest on income-tax refund		1,400	
Gross total income			9,14,900
Less: Deduction under Chapter VIA (Note 3)			2,65,000
Total Income			6,49,900

Computation of tax liability of Mr. Neeraj for the A.Y.2024-25

Particulars	₹
Upto ₹3,00,000	Nil
₹3,00,001 – ₹5,00,000 [i.e., ₹2,00,000@5%]	10,000
₹5,00,001 – ₹6,49,900 [i.e., ₹1,49,900@20%]	29,980
	39,980
Add: Health and Education cess@4%	1,599
Tax Liability	41,579
Tax payable (Rounded off)	41,580

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV/ Actual cost	Rate		Depreciation
Block 1	Computers	2,40,000	40%		96,000
	Computer printer	1,50,000	40%		60,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days]	40,800
	Less: 20% disallowance for personal use			10,200	1,96,800

(2) Only to the extent the interest is allowed as deduction in the hands of

the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹1,20,000 would be treated as the business income of Mr. Neeraj.

(3) Deduction under Chapter VI-A

Particulars	₹	₹
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C is ₹1,50,000, the entire sum of ₹1,30,000 would be allowed as deduction		1,30,000
Under section 80D		
Health insurance premium taken for himself is fully allowable as deduction, since he is a senior citizen		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTB		
Interest on deposits in case of senior citizen, restricted to		50,000
Total deduction		2,65,000



Question 78

Mr. Sonu, aged 30 years, submits the information of following transaction/ income during the P.Y. 2023-24

- (i) Mr. Sonu owns two house properties in Delhi. The details in respect of these properties are as under

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

- (ii) Mr. Sonu had another house in Delhi. During financial year 2017-18, he had transferred the said house to Ms. Varsha, daughter of his brother without any consideration. House would go back to Mr. Sonu after the life time of Ms. Varsha. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Sonu. Rent received by Ms. Varsha during the previous year 2023-24 from such house property is ₹6,50,000.
- (iii) Mr. and Mrs. Sonu forms a partnership firm with equal share in profits. Mr. Sonu transferred a fixed deposit of ₹50 lakhs to such firm. Firm had no income or expense other than the interest of ₹6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Sonu at the end of the year.
- (iv) Mr. Sonu holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the life time of Chandni. Dividend received by Ms. Chandni during the previous year 2023-24 is ₹10,00,000.
- (v) Mr. Sonu has a short term capital loss of ₹16,000 from sale of property

and long term capital gain of ₹15,000 from sale of property.

- (vi) Other income of Mr. Sonu includes
- Interest from saving bank account of ₹2,00,000
 - Cash gift of ₹75,000 received from daughter of his sister on his birthday.
 - Income from betting of ₹34,000
 - Income from card games of ₹46,000
 - Loss on maintenance of race horses of ₹14,600

Compute the total income of Mr. Sonu for the Assessment Year 2024-25 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC . (MTP 10 Marks April 22)

Answer 78

Computation of Total Income of Mr. Sonu for A.Y. 2024-25

Particulars	₹	₹
Income from house property		
House ¹ [Self-occupied]		
Net annual value	-	
Less: Interest on loan [upto ₹2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value ¹ [₹50,000 x 12]	6,00,000	
Less: Municipal taxes	-	
Net annual value	6,00,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,80,000	
(b) Interest on loan	3,00,000	1,20,000

House in Delhi [Since Mr. Sonu receives direct or indirect benefit from income arising to his brother's daughter, Ms. Varsha, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Sonu as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Varsha]		
Gross Annual Value ²	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
Profits and gains from business or profession		3,75,000
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short- term capital gains and long-term capital gains ³ . Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹15,000 ⁴ . Balance short term capital loss of ₹1,000 to be carry forward to A.Y.2025-26	15,000	-
Income from other sources		

Dividend on preference shares [Taxable in the hands of Mr. Sonu as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
Gross Total Income		17,30,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of loan ₹5 lakh, restricted to ₹1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		15,70,000

Losses to be carried forward to A.Y. 2025-26

Particulars	Amount (₹)
Short term capital loss [₹16,000 – ₹15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y.2025-26]	14,600

- 1 Rent receivable has been taken as the gross annual value in the absence of other information
- 2 Rent receivable has been taken as the gross annual value in the absence of other information
- 3 as per section 74(1)
- 4 as per section 74(1)



Question 79

Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹82,45,000 as per profit and loss account after debiting and crediting the following items.

- (i) Depreciation ₹15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹10,00,000
- (iii) He received income-tax refund of ₹15,550 which includes interest on refund of ₹4,550.
- (iv) Dividend income from Indian companies ₹15,00,000 Additional information –
 - (i) Mr. Rishabh installed new plant and machinery for ₹65 lakhs on 1.10.2023 which was put to use on 1.1.2024. Depreciation (including additional depreciation) on this amount of ₹65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules.
 - (ii) Mr. Rishabh took a loan from SBI of ₹50 lakhs on 15.9.2023 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2024 has been paid on 31.3.2024 and the same has been debited to profit and loss account. Interest is charged by the bank on monthly basis.
 - (iii) Advance tax paid during the year is ₹17,50,000
 - (iv) Rishabh purchased goods for ₹40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹35 lakhs.

- (v) He paid ₹40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹5,00,000 and the policy was taken on 1.4.2017.
- (vi) He paid ₹45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2023, Mr. Rishabh withdrew ₹1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Rishabh for the A.Y. 2024 -25, in the manner so that he can make maximum tax savings.

(MTP 14 Marks April '23, RTP May'22)

Answer 79

Computation of total income of Mr. Rishabh for A.Y. 2024-25 under the regular provisions of the Act

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable while computing business income			

(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹1,53,125 [₹50,00,000 x 10.5% x 3.5/12] has to be added back, since the same is debited to the profit and loss account]	1,53,125							
(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹40 lakhs) and the fair market value (₹35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	5,00,000	6,53,125						
Less: Items of income to be treated separately under the respective head of income	15,550	88,98,125						
(i) Income-tax refund including interest on refund of ₹4,550								
(ii) Dividend from Indian companies	15,00,000							
(ii) Short term capital gains on transfer of listed equity shares	10,00,000	25,15,550						
		63,82,575						
								63,55,778
II Capital Gains								
Short term capital gains on transfer of listed equity shares								10,00,000
III Income from Other Sources								
Interest on income-tax refund							4,550	
Dividend from Indian companies							15,00,000	15,04,550
Gross Total Income								88,60,328
Less: Deductions under Chapter VI-A - Deduction under section 80C							40,000	
Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not]								

falls within the meaning of term "Person". Accordingly, whole of the amount of ₹40,000 is allowable as it does not exceed 10% of the ₹5,00,000, being the sum assured]			65,000
- Deduction under section 80D		25,000	
Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹25,000			
Total Income			87,95,328
Total Income (Rounded off)			87,95,330

Computation of tax payable by Mr. Rishabh for A.Y. 2024-25 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹87,95,330		
Tax on short term capital gains on transfer of listed equity shares		1,50,000
@15% u/s 111A [₹10,00,000 x 15%]		
Tax on other Income of ₹77,95,330		
Upto ₹2,50,000	Nil	
₹2,50,001 – ₹5,00,000 [@5% of ₹2.50 lakh]	12,500	
₹5,00,001 – ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	21,51,099
₹10,00,001- ₹77,95,330 [@30% of ₹67,95,330]	20,38,599	
Add: Surcharge @10%, since total income exceeds ₹50,00,000 but does not exceed ₹1 crore		23,01,099
		2,30,110
		25,31,209

Add: Health and education cess@4%		1,01,248
Total tax liability		26,32,457
Less: TDS u/s 194N @ 2% on ₹50 lakhs, being the cash withdrawals exceeding ₹1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		7,82,457
Tax payable (rounded off)		7,82,460

Computation of total income of Mr. Rishabh as per section 115BAC for A.Y. 2024-25

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		88,60,328
Add: Additional depreciation on plant and machinery		
- On interest which is capitalised	15,313	
- On cost of plant and machinery [₹65 lakhs x 20% x 50%]	6,50,000	6,65,313
Gross Total Income/ Total Income as per section 115BAC		95,25,641
[No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA]		
Total Income as per section 115BAC (rounded off)		95,25,640

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹95,25,640		
Tax on STCG of ₹10,00,000@15% u/s 111A		1,50,000
Tax on remaining total income of ₹85,25,640		

Upto ₹2,50,000 ₹3,00,000	Nil	
₹3,00,000 – ₹6,00,000 [₹3,00,000 @ 5%] 15,000	15,000	
₹6,00,001 – ₹9,00,000 [₹3,00,000 @ 10%] 30,000	30,000	
₹9,00,001 – ₹12,00,000 [₹3,00,000 @ 15%] 45,000	45,000	
₹12,00,001 – ₹15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
Above ₹15,00,000 @30% [₹70,25,640@30%]	21,07,692	
		22,57,692
Add: Surcharge @10%, since total income exceeds ₹50,00,000 but does not exceed ₹1 crore		2,25,769
		24,83,461
Add: Health and education cess@4%		99,338
Total tax liability		25,82,799
Less: TDS u/s 194N @ 2% on ₹50 lakhs, being the cash withdrawals exceeding ₹1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		7,32,799
Tax payable (rounded off)		7,32,800

Since tax payable as per section 115BAC is higher than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh not to exercise option under section 115BAC. In such case, the tax payable by him would be ₹7,82,460 as per the regular provisions of the Act.

Since tax payable as per section 115BAC is lower than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh to exercise option under section 115BAC. In such case, the tax payable by him would be ₹732,800 as per the regular provisions of the Act.



Question 80

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2024:

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹3,34,000. He has paid municipal taxes of ₹30,000 for the current financial year. Both these floors are of equal size.
- As per interest certificate from ICICI bank, he paid ₹1,80,000 as interest and ₹95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2017.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹400 lakhs, which includes ₹120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹45 lakhs.
- He employed 20 new employees for the said industrial undertaking during the previous year 2023-24. Out of 20 employees, 12 were employed on 1st May 2023 on monthly emoluments of ₹18,000 and remaining were employed on 1st August 2023 on monthly emoluments of ₹12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- He earned ₹30,000 and ₹45,000 as interest on saving bank deposits and fixed deposits respectively.
- He also sold his vacant land on 01.12.2023 for ₹13 lakhs. The stamp duty value of land at the time of transfer was ₹14 lakhs. The FMV of the land as on 1st April, 2001 was ₹4.8 lakhs and Stamp duty value on the said date was ₹4 lakhs. This land was acquired by him on 15.9.1997 for ₹2.80 lakhs. He had incurred registration expenses of ₹12,000 at that time. The cost of inflation index for the financial year 2023-24 and 2001-02 are

348 and 100 respectively.

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

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2024-25, in the manner so that he can make maximum tax savings.

(RTP Nov '21)(MTP 14 Marks Oct '23)

(The full value of consideration of land has been changed from Rs 14 lakhs to Rs. 14.88 Lakhs & the stamp duty value has been changed from 14 lakhs to 15 lakhs to keep the essence of the question)

Answer 80

Particulars	₹	₹	₹
I	Income from house property		
	Let out portion [First floor]		
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		3,34,000
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [₹30,000/2]		15,000
	Net Annual Value (NAV)		3,19,000
	Less: Deduction u/s 24		
	(a) 30% of ₹3,19,000	95,700	
	(b) Interest on housing loan [₹1,80,000/2]	90,000	1,85,700
	Self-occupied portion [Ground Floor]		1,33,300
	Annual Value		Nil
	[No deduction is allowable in respect of municipal taxes paid]		

	Less: Interest on housing loan		90,000	
	Income from house property [₹1,33,300 – ₹90,000]		(90,000)	43,300
II	Profits and gains of business or profession			
	Income from SEZ unit			45,00,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Actual consideration of ₹14,88,000, since stamp duty value of ₹15 lakhs does not exceed actual consideration by more than 10%]		14,88,000	
	Less: Indexed Cost of acquisition [₹4,00,000 x 348/100]		13,92,000	96,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹2.80 lakhs + ₹0.12 lakhs = ₹2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹4.8 lakhs but cannot exceed stamp duty value of ₹4 lakhs.			
IV	Income from Other Sources			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		45,000	75,000
	Gross Total Income			47,14,300

Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2023-24 being the 3rd year of operations]			13,50,000
[Profits of the SEZ x Export Turnover/ Total Turnover] x 100%			
[₹45 lakhs x ₹120 lakhs/ ₹400 lakhs x 100%]			
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Repayment of principal amount of housing loan	95,000		
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj	49,000	1,44,000	
Deduction under section 80JJAA		9,43,200	
30% of the employee cost of the new employees employed during the P.Y. 2023-24 allowable as deduction [30% of ₹31,44,000 [₹23,76,000 (12 x 18,000 x 11) + ₹7,68,000 (8 x 12,000 x 8)]]			
Deduction under section 80TTA Interest on savings bank account, restricted to ₹10,000		10,000	10,97,200
Total income			22,67,100

Computation of tax liability of Mr. Dheeraj for A.Y.2024-25 under the normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹22,67,100		
Tax on LTCG of ₹96,000@20%		19,200
Tax on remaining total income of 21,71,100		
Upto ₹2,50,000		Nil
₹ 2,50,001 – ₹5,00,000[@5% of ₹2.50 lakh]	12,500	
₹5,00,001 – ₹10,00,000[@20% of ₹5,00,000]	1,00,000	
₹10,00,001 – ₹21,71,100[@30% of ₹11,71,700]	3,51,330	4,63,830
		4,83,030
Add: Health and education cess@4%		19,321
Total tax liability		5,02,351
Tax liability (rounded off)		5,02,350

Computation of tax liability of Mr. Dheeraj for A.Y.2024-25 under the special provisions of the Act (Alternate Minimum Tax)

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	22,67,100
Add: Deduction u/s 10AA	13,50,000
Deduction u/s 80JJAA	9,43,200
	45,60,300
AMT@18.5%	8,43,656
Add: HEC@4%	33,746
AMT liability	8,77,402
AMT liability (rounded off)	8,77,400

Since the regular income tax payable is less than the AMT, the adjusted total income of ₹45,60,300 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹8,77,400. In this case, AMT credit of ₹3,75,050 (₹8,77,400 – ₹5,02,350) can be carried forward.

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

**Computation of total income of Mr. Dheeraj as per section 115BAC for
A.Y. 2024 -25**

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		47,14,300
Add: Interest on borrowing in respect of self-occupied house property not allowable as deduction as per section 115BAC		90,000
Gross Total Income as per section 115BAC		48,04,300
Less: Deduction under section 80JJAA		
30% of the employee cost of the new employees employed during the P.Y. 2020-21 allowable as deduction [30% of ₹31,44,000 [₹ 23,76,000 (12 x 18,000 x 11) + ₹7,68,000 (8 x 12,000 x 8)]	9,43,200	
No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA		9,43,200
Total income		38,61,100

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹38,61,100		
Tax on LTCG of ₹96,000@20%		19,200
Tax on remaining total income of ₹37,65,100		
Upto ₹2,50,000 ₹3,00,000 Nil	Nil	
₹₹3,00,000 – ₹6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹₹6,00,001 – ₹9,00,000 [₹ 3,00,000 @ 10%]	30,000	

₹9,00,001 – ₹12,00,000 [₹3,00,000 @ 15%]	45,000	
₹12,00,001 – ₹15,00,000 [₹3,00,000 @ 20%]	60,000	
Above ₹15,00,000 @30%	6,79,530	8,29,530
		8,48,730
Add: Health and education cess@4%		33,949
Total tax liability		8,82,679
Tax liability (rounded off)		8,82,680

Since tax liability as per section 115BAC is higher than the tax liability of ₹8,77,400 being higher of AMT liability and tax liability computed as per normal provisions of the Income- tax Act, 1961, it is beneficial for Mr. Dheeraj not to exercise option under section 115BAC. In such case, his tax liability, therefore, would be ₹ 8,77,400. Moreover, Mr. Dheeraj would also be eligible to claim carry forward of AMT credit of ₹3,75,050.