

CHAPTER 1

RESIDENTIAL STATUS

1. ICAI STUDY MATERIAL QUESTIONS

Concept problem 1 Solution

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2023-24 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

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

Therefore, the period beginning from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India.

Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2023-24 would be 179 days [i.e., 366 days – 187 days]. Since his period of stay in India during the P.Y. 2023-24 is less than 182 days, he is a non-resident for A.Y. 2024-25.

Concept Problem 2 Solution

(a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2024-25:

Period of stay during previous year 2023-24 = 100 days

Calculation of period of stay during 4 preceding previous years (100 x 4 = 400 days)

| | |
|--------------|-----------------|
| 2022-23 | 100 days |
| 2021-22 | 100 days |
| 2020-21 | 100 days |
| 2019-20 | 100 days |
| Total | 400 days |

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2023-24 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the assessment year 2024-25.

Computation of period of stay during 7 preceding previous years = 100 x 7=700 days

| | |
|---------|----------|
| 2022-23 | 100 days |
| 2021-22 | 100 days |
| 2020-21 | 100 days |
| 2019-20 | 100 days |
| 2018-19 | 100 days |
| 2017-18 | 100 days |

| | |
|--------------|-----------------|
| 2016-17 | 100 days |
| Total | 700 days |

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the assessment year 2024-25. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during PY 2023-24 relevant to AY 2024-25.

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

- i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2024-25.

- (b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.
- (c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds INR 15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2023-24, since his stay in India is 120 days in the P.Y.2023-24 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed INR 15 lakh, he would be treated as non-resident in India for the P.Y.2023-24, since his stay in India is less than 182 days in the P.Y.2023-24.

Concept problem 3 Solution

During the PY 2023-24, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2023-24, he was in India for 355 days (i.e. 55+60+90+150 days).

Thus, he does not satisfy any of basic conditions given under section 6(1). Therefore, he is a non-resident for the previous year 2023-24.

Concept problem 4 Solution

- a) During the P.Y. 2023-24, Mr. E has stayed in India for 245 days (i.e. 30+31+30+ 31+31+ 30+31+30+1 days). Therefore, he is a resident in India for PY 2023-24. However, since he has come to India after 15 years, he does not satisfy any of the conditions for being ordinarily resident.

Therefore, the residential status of Mr. E for the P.Y. 2023-24 is resident but not ordinarily resident.

- b) Since the business of the HUF is transacted from Australia and nothing is mentioned regarding its control and management, it is assumed that the control and management is also wholly outside India. Therefore, the HUF is a nonresident for the P.Y. 2023-24.

Note: If the control and management is in India, even partially, then, the HUF would be resident in India. In such a case, the residential status of HUF would be resident but not ordinarily resident, since the Karta's stay in India is for less than 730 days in the 7 previous years immediately preceding the relevant previous year.

Concept problem 5 Solution

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

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

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

During the previous year 2023-24, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2024-25.

Concept problem 6 Solution

Mr. Dey is a resident in A.Y. 2024-25 since he has stayed in India for a period of 366 days (more than 182 days) during the P.Y. 2023-24.

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

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

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

For the previous year 2023-24 (A.Y. 2024-25), his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2023-24. He was resident only in the P.Y. 2022-23. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 545 days [365 days in P.Y. 2022-23 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2023-24, which is less than 730 days.

2. ICAI RTPS, MTPS, PAST YEAR QUESTIONS & SELF DRAFTED QUESTIONS

Concept problem 7 Solution

The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner:

| PY | 2023-24 | 2022-23 | 2021-22 | 2020-21 | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| No. of days of stay in India | 102 | 20 | 46 | 201 | 137 | 102 | 102 | 102 | 102 |

Ms. Nicole Kidman is said to be resident in India if she satisfies any one of the following basic conditions:

- a. Has been in India during the previous year for a total period of 182 days or more
or
- b. 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.

Ms. Nicole Kidman’s stay in India during the P.Y. 2023-24 is less than 182 days. However, her stay in India during the P.Y. 2023-24 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y. 2023-24 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y. 2023-24.

Further, Ms. Nicole Kidman would be “Resident but not ordinarily resident” in India in during the previous year 2023-24, if she:

- a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- b) has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days.

If she does not satisfy both of these conditions, she would be a resident and ordinarily resident.

In the present case, her stay in India in the last seven previous years prior to P.Y. 2023-24 is 710 days [20 +46 +201+137 +102 +102 +102], which is less than 730 days. Therefore, she is resident but not ordinarily resident for the P.Y. 2023-24 even if she is resident in the two assessment years i.e., A.Y.2021-22 and A.Y. 2020-21 as per the information given in the question.

Concept problem 8 Solution

1) As per section 6(1), an individual is said to be Resident in India in a Previous Year, if he satisfies at least one of the following basic conditions:

a) He stays in India during the previous year for a period of 182 days or more

OR

b) He stays in India for a period of 60 days or more during the previous year **and** 365 days or more during the 4 years immediately preceding the previous year

In this case, Ronaldo’s total stay in India in PY 2023-24 is 242 days.

Hence, satisfying the first basic condition, Ronaldo is resident in India for PY 2023-24.

2) As per section 6(1), an individual is said to be Resident in India in a Previous Year, if he satisfies at least one of the following basic conditions:

a) He stays in India during the previous year for a period of 182 days or more

OR

b) He stays in India for a period of 60 days or more during the previous year **and** 365 days or more during the 4 years immediately preceding the previous year.

In this case, Saina’s total stay in India in PY 2023-24 is 181 days which is more than 60 days. Further, her stay during preceding 4 previous years is more than 365 days.

Hence, satisfying the second basic condition, Saina is resident in India for PY 2023-24.

3) As per section 6(1), an individual is said to be Resident in India in a Previous Year, if he satisfies at least one of the following basic conditions:

a) He stays in India during the previous year for a period of 182 days or more

OR

b) He stays in India for a period of 60 days or more during the previous year **and** 365 days or more during the 4 years immediately preceding the previous year.

In this case, Ricky Ponting’s total stay in India in PY 2023-24 is 173 days. Further, his stay during preceding 4 previous years is Nil.

Since, none of the conditions are satisfied, Ricky Ponting is Non- Resident in India for PY 2023-24.

Concept problem 9 Solution

| S No. | Particulars | Applicable Conditions |
|-------|--|-----------------------------|
| 1 | Mr. Ram, citizen of India, leaves India for a job in UK. | Only First condition |
| 2 | Neha, citizen of India, leaves for Germany to start her business. | Only First condition |
| 3 | Bharat, an Indian citizen, leaves India in an Indian ship, as passenger. | Both conditions |
| 4 | Ravi, citizen of India, leaves India as a crew member of Titanic (Foreign Ship). | Only First |

| S No. | Particulars | Applicable Conditions |
|-------|--|--|
| | | condition |
| 5 | Ashish, citizen of India, leaves India as a crew member of INS Virat (Indian Ship). | Only First condition |
| 6 | Mr. Bobby Jindal, citizen of US, born in India in 1975, comes on a visit to India. All his parents and grandparents were born in US. | Both conditions |
| 7 | M.F Husain, citizen of Qatar, was born in India in 1940, comes on a visit to India (Indian Income 16 lakhs). | Only First condition + (120 + 365 days) |
| 8 | Shyam, a Indian citizen comes on a visit to India (Indian Income 15 lakhs). | Only First condition |
| 9 | Shyam, a Indian citizen comes on a visit to India (Indian Income 16 lakhs). | Only First condition + (120 + 365 days) |

Concept problem 10 Solution

Miss Kate is a person of Indian origin who has come on a visit to India, hence second basic condition is not applicable. However, since her stay in India during PY 2023-24 is 182 days or more, she is a Resident in India for PY 2023-24.

However, her stay during 7 preceding previous years is less than 730 days i.e. 510 days. Hence, she fails to satisfy one of the conditions of being Resident and Ordinarily Resident. Accordingly, she is a Not Ordinarily Resident in India for PY 2023-24.

Concept problem 11 Solution

A HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India. Control and management refers to central control and management and is determined on the basis of stay of Karta/ manager in India.

- a) HUF is resident since control and management of its affair is situated partly in India as Karta visits India. However, since his stay in India during relevant PY can be a maximum of 637 days, HUF shall be considered to be resident but not ordinarily resident.

Karta, in his individual capacity, is a non-resident since he cannot comply with even one of the two conditions prescribed under section 6(1).

- b) HUF is resident since control and management of its affair is situated in India.
 c) HUF is not resident since control and management of its affair is situated wholly outside India.
 d) HUF is resident since control and management of its affair is situated partly in India.
 e) HUF is resident since control and management of its affair is situated partly in India. If a HUF is resident for even a part of its business, it becomes resident for other businesses as well.

Concept problem 12 Solution

As per section 6(3) of Income-tax Act, 1961, a foreign company would be resident in India in any previous year, if its place of effective management, in that year, is in India.

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for PY 2023-24 only if its place of effective management, in that year, is in India.

Place of effective management means a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

In the case of ABC Inc., its place of effective management for PY 2023-24 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.

Hence, ABC Inc., being a foreign company is a non-resident for AY 2024-25, since its place of effective management is outside India in the PY 2023-24.

Concept Problems 13 Solution:

1) The following category of individuals will be treated as resident in India only if the period of their stay in India during the relevant previous year is 182 days or more: -

- i. Indian citizens who leave India in any previous year for purposes of employment outside India; or
- ii. Indian citizen or person of Indian origin who comes on a visit to India in any previous year.

a) Since Ram is leaving India for the purpose of employment outside India, he will be treated as resident only if the period of his stay during the previous year amounts to 182 days or more. Therefore, Ram should leave India on or before 28th September, 2023, in which case, his stay in India during the previous year would be less than 182 days and he would become non-resident for the purpose of taxability in India.

In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by him in USA would not be chargeable to tax in India for AY 2024-25 if he leaves India on or before 28th September, 2024.

b) If any part of Ram's salary is credited directly to his bank account in India, then that part of his salary would be considered as income received in India during the previous year and would be chargeable to tax under Income-tax Act, 1961, even if he is a non-resident.

Therefore, Ram should receive his entire salary in USA and then send the required amount to his bank account in India.

c) In case Ram visits India after taking up employment outside India, he would be treated as resident only if the period of his stay during the relevant previous year amounts to 182 days or more.

Therefore, when Ram comes to India on leave, he should stay in India for less than 182 days during the relevant previous year so that his status remains as a non-resident for the relevant previous year.

Moreover, he should not visit India again during the current previous year i.e., PY 2023-24.

Further, if Total Income of Ram excluding income from foreign source exceeds 15 lakhs, he should stay in India for less than 120 days to remain non-resident.

2) As per section 6(1), an individual is said to be Resident in India for a previous year, if he satisfies at least one of the following basic conditions:

a) He stays in India during the previous year for a period of 182 days or more

OR

b) He stays in India for a period of 60 days or more during the previous year and 365 days or more during the 4 years immediately preceding the previous year.

In case where arrival and departure are stated in terms of hours/time, a total of 24 hours is counted as 1 day.

In this case, Rahul's total duration of stay in PY 2023-24 is 122 days and 90 hours which shall be considered as 125 days. Further, his stay during preceding 4 previous years is more than 365 days.

Hence, satisfying the second basic condition, Mr. Rahul is a resident in India for PY 2023-24.

CHAPTER 2

SCOPE OF TOTAL INCOME

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

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

| Particulars | Resident & ordinarily resident | Resident but not ordinarily resident | Non-Resident |
|---|--------------------------------|--------------------------------------|---------------|
| Short term capital gain on sale of shares of an Indian company, received in Germany | 15,000 | 15,000 | 15,000 |
| Dividend from a Japanese company, received in Japan | 10,000 | - | - |
| Rent from property in London deposited in a bank in London [See Note (i)] | 52,500 | - | - |
| Dividend from RP Ltd., an Indian Company [See Note (ii)] | 6,000 | 6,000 | 6,000 |
| Agricultural income from land in Gujarat [See Note (iii)] | - | - | - |
| Total Income | 83,500 | 21,000 | 21,000 |

Notes:

- i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @ 30% under section 24, has been provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.

| Particulars | Amount |
|--|---------------|
| Rent received (assumed as gross annual value) | 75,000 |
| Less: Deduction under section 24 (30% of INR 75,000) | 22,500 |
| Income from house property | 52,500 |

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

Concept Problem 2 Solution

As per section 6(1), Mr. David is a non-resident for the A.Y. 2024-25, since he was not present in India at any time during the previous year 2023-24.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

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

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal.

Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident. It has been assumed that Mr. David is a citizen of India.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of INR 4,00,000 is exempt under section 10(7).

Gross Total Income of Mr. David for A.Y. 2024-25:

| Particulars | Amount |
|--|-----------------|
| Salaries | 5,00,000 |
| Income from other sources (Interest on fixed deposit in India) | 1,00,000 |
| Gross Total Income | 6,00,000 |

Concept Problem 3 Solution

As per section 5(2) of Income Tax Act, 1961, a non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

As per section 9, Fee for technical services income of a Non-Resident shall be deemed to accrue/arise in India, if it is received from:

- A Resident Person, except where the money borrowed or technical service or patent is used for the purpose of business or profession carried out outside India, or for earning any income from any source outside India.

Thus, fee for technical services, for services utilised in India, would be deemed to accrue, or arise in India in case of Non-resident and will be included in his Total Income, whether or not such services were rendered in India or whether or not the Non-resident has a residence or place of business or business connection in India.

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

Concept Problem 4 Solution

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

| Particulars | Resident and ordinarily resident | Resident but not ordinarily resident | Non-resident |
|--|----------------------------------|--------------------------------------|--------------|
| Interest on UK Development Bonds, 50% of interest received in India | 10,000 | 5,000 | 5,000 |
| Income from a business in Chennai (50% is received in India) | 20,000 | 20,000 | 20,000 |
| Profits on sale of shares of an Indian company received in London (assuming that they are in the nature of short-term capital gains) | 20,000 | 20,000 | 20,000 |
| Dividend from British company received in London | 5,000 | - | - |
| Profits on sale of plant at Germany, 50% of profits are received in India | 40,000 | 20,000 | 20,000 |
| Income earned from business in Germany which is controlled from Delhi, out of which INR 40,000 is received in India | 70,000 | 70,000 | 40,000 |
| Profits from a business in Delhi but managed entirely from London | 15,000 | 15,000 | 15,000 |
| Income from property in London deposited in a Bank at London, later on remitted to India | 50,000 | - | - |

| Particulars | Resident and ordinarily resident | Resident but not ordinarily resident | Non-resident |
|---|----------------------------------|--------------------------------------|-----------------|
| Interest on debentures in an Indian company received in London | 12,000 | 12,000 | 12,000 |
| Fees for technical services rendered in India but received in London | 8,000 | 8,000 | 8,000 |
| Profits from a business in Bombay managed from London | 26,000 | 26,000 | 26,000 |
| Income from property situated in Pakistan received there | 16,000 | - | - |
| Past foreign untaxed income brought to India during the previous year | - | - | - |
| Income from agricultural land in Nepal received there and then brought to India | 18,000 | - | - |
| Income from profession in Kenya, which was set up in India, received there but spent in India | 5,000 | 5,000 | - |
| Gift received on the occasion of his wedding [not taxable] | - | - | - |
| Interest on savings bank deposit in State Bank of India | 12,000 | 12,000 | 12,000 |
| Income from a business in Russia, controlled from Russia | 20,000 | - | - |
| Dividend from Reliance Petroleum Limited, an Indian Company | 5,000 | 5,000 | 5,000 |
| Agricultural income from a land in Rajasthan [Exempt under section 10(1)] | - | - | - |
| Gross Total Income | 3,52,000 | 2,18,000 | 1,83,000 |
| Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of INR 10,000] | 10,000 | 10,000 | 10,000 |
| Total Income | 3,42,000 | 2,08,000 | 1,73,000 |

Concept Problem 5 Solution

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2024-25:

| S. No. | Particulars | Ramesh (NR) | Suresh (R) |
|--------|---|-------------|------------|
| 1. | Interest on Canada Development Bond (See Note 2) | 17,500 | 40,000 |
| 2 | Dividend from British Company received in London (See Note 3) | - | 20,000 |
| 3 | Profit from a business in Nagpur but managed directly from London (See Note 2) | 1,00,000 | 1,40,000 |
| 4 | Short term capital gain on sale of shares of an Indian company received in India (See Note 2) | 60,000 | 90,000 |
| 5 | Income from a business in Chennai (See Note 2) | 80,000 | 70,000 |

| S. No. | Particulars | Ramesh (NR) | Suresh (R) |
|--------|--|-----------------|-----------------|
| 6 | Fees for technical services rendered in India, but received in Canada (See Note 2) | 1,00,000 | - |
| 7 | Interest on savings bank deposit in UCO Bank, Delhi (See Note 2) | 7000 | 12,000 |
| 8 | Agricultural income from a land in Andhra Pradesh (See Note 4) | - | - |
| 9 | Income from house property at Bhopal (See Note 5) | 70,000 | 42,000 |
| | Gross Total income | 4,34,500 | 4,14,000 |
| | Less: Deduction under chapter VI-A 80C-Life insurance premium | - | 30,000 |
| | Section 80TTA (See Note 6) | 7,000 | 10,000 |
| | Total Income | 4,27,500 | 3,74,000 |

Notes:

- 1) Ramesh is a non-resident since he has been living in Canada since 1996. Suresh, who is settled in Delhi, is a resident.
- 2) In case of a resident, his global income is taxable as per section 5(1). However, in case of a non-resident, only the following incomes are chargeable to tax:
 - i) Income received or deemed to be received in India; and
 - ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Ramesh, even though he is a non-resident. The income referred to in S. No. 3, 4, 5, 7 and are taxable in the hands of both Ramesh and Suresh since they accrue or arise in India.

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

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

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

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

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

Concept Problem 7 Solution

| S. No | Taxable / Not Taxable | Amount liable to tax | Reason |
|-------|-----------------------|----------------------|--------|
|-------|-----------------------|----------------------|--------|

| S. No | Taxable / Not Taxable | Amount liable to tax | Reason |
|-------|-----------------------|----------------------|--|
| (i) | Taxable | 6,50,000 | As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 50,000 u/s 16(ia). |
| (ii) | Taxable | 5,00,000 | As per section 9(1)(v)(c), interest payable by a non- resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient. |
| (iii) | Partly Taxable | 5,500 | The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of INR 3,500 in case of an individual account. Further, interest upto INR 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance INR 5,500 i.e., INR 19,000 - 3,500 - 10,000 would be taxable in the hands of Mr. Ram, a resident. |
| (iv) | Not Taxable | - | Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b). |
| (v) | Taxable | 5,00,000 | In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India. |

2. ICAI RTPS, MTPS, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 8 Solution

Determination of residential status

As per 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 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 PY 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 under Optional Tax Regime:

| 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 INR 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 |

Concept Problem 9 Solution

Computation of taxable income of Miss Neha for A.Y.2024-25 under Optional Tax Regime:

| S No. | Particulars | RoR | NoR | NR |
|-------|--|-----------------|-----------------|-----------------|
| 1 | Profit from a business in Mumbai managed from London. | 3,00,000 | 3,00,000 | 3,00,000 |
| 2 | Pension for services rendered in India but received in Burma. | 15,000 | 15,000 | 15,000 |
| 3 | Interest on US Govt. bonds half of which is received in India. | 4,000 | 2,000 | 2,000 |
| 4 | Income from property situated in Pakistan received there | 20,000 | - | - |
| 5 | Income from agricultural land in Bhutan. | 30,000 | - | - |
| 6 | Income from profession in Kenya which was set up from India | 12,000 | 12,000 | - |
| | Total Income | 3,81,000 | 3,29,000 | 3,17,000 |

Concept Problem 10 Solution

Royalty/ Fee for technical services income of a Non-Resident shall be deemed to accrue/arise in India, if it is received from:

- a) Government (State or Central); or
- b) A Resident Person except where the technical service or patent is used for the purpose of business or profession carried out outside India, or for earning any income from any source outside India; or
- c) A Non-Resident person provided the technical service or patent is used in India for the purpose of business or profession or where such services are utilised for the purpose of making or earning any income from any source in India.
 - i) This income shall be taxable in the hands of ABC Inc. (Non-Resident), since technical services are being received from a Resident (Indian domestic company) and services are used in India.
 - ii) This income shall not be taxable in the hands of ABC Inc. (Non-Resident), since technical services are not being used in India.

- iii) This income shall be taxable in the hands of ABC Inc. (Non-Resident), since patent is being used in India for the purpose of business/profession in India.
- iv) This income shall not be taxable in the hands of ABC Inc. (Non-Resident), since know how is being used outside India.

Hence, total income of ABC Inc. (Non-Resident), taxable in India is INR 9 Lakhs. Applicable rate of tax in case of foreign company is 40%. Hence, tax liability of ABC Ltd. shall be $[(9,00,000 \times 40\%) \times 1.04] = 3,74,400$.

Concept Problem 11 Solution

Computation of taxable income of Mr. Ram for A.Y.2024-25 under Optional Tax Regime:

| S No. | Particular | R-OR | R-NOR | NR |
|-------|--|-----------|----------|----------|
| 1 | Lottery won in China (20% amount received in India) | 4,00,000 | 80,000 | 80,000 |
| 2 | Income from modeling profession | 3,00,000 | 3,00,000 | 3,00,000 |
| | 1. Modeling in India. | 6,00,000 | - | - |
| | 2. Modeling Outside India. | | | |
| 3 | Salary (3 months service rendered in India and 9 months service in Japan) | 240,000 | 60,000 | 60,000 |
| 4 | Income from letting out of land (Non-Agricultural) situated in Bhagalpur (let out to a Non-resident in Japan & rent received in Japan) | 5,00,000 | 5,00,000 | 5,00,000 |
| 5 | Income from business carried out in Singapore (30% is attributable to activities performed in India) | 10,00,000 | 3,00,000 | 3,00,000 |
| 6 | Interest on foreign currency bonds issued by an Indian Company in Japan. | 3,50,000 | 3,50,000 | 3,50,000 |
| 7 | Interest received in Japan on money lent to Mr. Nagasaki for carrying on business in Mumbai. | 2,00,000 | 2,00,000 | 2,00,000 |
| 8 | Royalty received in US from a publisher for a publication and sale of her novel in India. | 8,00,000 | 8,00,000 | 8,00,000 |
| 9 | Income earned from business in Germany which is controlled from Delhi, INR 40,000 received in India | 70,000 | 70,000 | 40,000 |
| 10 | Income earned from Profession in USA which is set up in India, INR 50,000 received in India | 1,00,000 | 1,00,000 | 50,000 |
| 11 | Rent from property in London deposited in an Indian Bank at London, brought to India | 50,000 | - | - |
| 12 | Past untaxed profit brought in India from Germany | - | - | - |
| 13 | Gift received on the occasion of wedding | - | - | - |
| 14 | Post office savings bank interest of INR 12,000 received by Mr. Ram. (Note 1) | 8,500 | 8,500 | 8,500 |

Note: Interest income from a post office saving account is exempt upto INR 3,500 u/s 10(15).

Note: Past foreign untaxed profit brought in India does not represent income of PY 2023-24.

Concept Problem 12 Solution

Income from business connection in India shall be deemed to accrue or arise in India & chargeable to tax [sec 9(1)(i)]. Business connection also includes professional connection.

In the given case, the London barrister has earned through firm of solicitors based in Delhi & income has been earned only through professional connection in India & the same is deemed to accrue or arise in India & chargeable to tax in India. Hence, the AO shall charge the same to tax in the hands of London Barrister.

Concept Problem 13 Solution

As per section 5(2), a non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

As per section 9, Fee for technical services income of a Non-Resident shall be deemed to accrue/arise in India, if it is received from:

- A Resident Person in all cases except where the services are used for the purpose of business or profession carried out outside India, or for earning any income from any source outside India.

Place of rendering of services is not important; rather place of utilization of services is important.

Thus, fee for technical services, for services utilised in India, would be deemed to accrue or arise in India in case of non-resident and will be included in Total Income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.

In this case, both onshore and offshore services provided by ABC Inc. are being used in India for the purpose of earning income in India. Hence, entire 2.5 crores shall be treated as income in the hands of ABC Inc.

Concept Problem 14 Solution

As per section 9, Income from business connection in India shall be deemed to accrue or arise in India & chargeable to tax in case of Non-Resident.

However, if a non-resident purchases goods in India for the purpose of export outside India, then there is no business connection and no income shall be deemed to accrue or arise in India in the hands of such non-resident.

In this case, Assessee is a non-resident procuring goods in India for purpose of exports and no portion of the income is deemed to accrue or arise in India & is not taxable in India.

Concept Problem 15 Solution

Determination of residential status of Mr. Soham

As per section 6(1), an individual is said to be resident in India in any previous year if he satisfies the 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.

In the case of an Indian citizen leaving India for the purposes of employment outside India during the previous year or an Indian citizen, who being outside India, comes on a visit to India in any previous year, second basic condition is not applicable. Rather he is considered as Resident only if he satisfies the first basic condition of stay of at least 182 days in the relevant previous year.

In this case, Mr. Soham is an Indian citizen who left India to set up a software firm in Singapore on 20.04.2021 and who comes on a visit to India during the P.Y. 2023-24. Accordingly, second basic condition is not applicable in such case.

Further, if his total income excluding foreign income exceeds 15 lakhs, he shall be considered as Resident if his stay during relevant PY is 120 days or more and his stay in four years preceding the relevant PY is 365 days or more.

His stay in India during the period of his visit is only 99 days (i.e., 17+30+31+21 days). Since his stay in India during the previous year 2023-24 is only 99 days, he does not satisfy the minimum criterion of 182 days stay in India for being a resident. Hence, his residential status for A.Y. 2024-25 is Non-Resident.

Taxability of income

As per section 5(2), in case of a non-resident, only income which accrues or arises or which is deemed to accrue or

arise to him in India or which is received or deemed to be received in India in the relevant previous year is taxable in India.

Royalty income of a Non-Resident shall be deemed to accrue/arise in India, if it is received from:

- a) A Resident Person in all cases except where the services are used for the purpose of business or profession carried out outside India, or for earning any income from any source outside India.

In this case, Mr. Soham, a non-resident, charges fees from LK Ltd., an Indian company, for transfer of technical documents and designs to set up an automobile factory in Faridabad.

The fees received by Mr. Soham for transfer of technical documents and designs and rendering of requisite services in relation thereto would fall within the meaning of “royalty”.

In this case, since the royalty is payable by an Indian company to Mr. Soham, a non-resident, in respect of services utilized for a business in India (namely, for setting up an automobile factory in Faridabad), the same is deemed to accrue or arise in India and is hence, taxable in India in the hands of Mr. Soham, a non-resident for AY 2024-25.

Concept Problem 16 Solution

Determination of residential status and computation of total Income and tax payable of Mr. Dhruv

Under Section 6(1), an individual, being person of Indian origin and who comes on a visit of India during the previous year and his total income other than the income from foreign source exceeds 15,00,000, is said to be a resident in India, if he stayed in India for a total period of 120 days or more during that previous year and for 365 days or more during the 4 years immediately preceding the relevant previous year.

However, in case, the total income other than the income from foreign source does not exceed 15,00,000, the said individual is said to be resident in India, only if he stayed in India for a total period of 182 days or more during that previous year.

Since in the present case, total income other than from foreign sources, of Mr. Dhruv, a person of Indian origin does not exceed 15,00,000, he would be said to be resident in India, only if he stayed in India for 182 days or more during the previous year 2023-24 relevant to A.Y. 2024-25.

His stay in India during the previous year 2023-24 is as under:

| Particulars | Amount |
|--------------------------|-----------------|
| 01.04.2023 to 12.08.2023 | 134 days |
| 20.01.2024 to 18.02.2024 | 30 days |
| Total | 164 days |

Since Mr. Dhruv has stayed in India during the previous year for less than 182 days, he is said to be non-resident. Accordingly, his total income and tax payable would be computed in the following manner.

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|--------|
| Income from other Sources | |
| Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceed 50,000 | |
| - 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of “relatives” and gifts from a relative are not chargeable to tax. | Nil |
| - 11,000 received from married sister-in law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax. | Nil |

| Particulars | Amount |
|--|-----------------|
| - Gift received from close friends of his wife 2,82,000 is taxable under section 52(2)(x) since the said sum exceeds 50,000. | 2,82,000 |
| Total Income | 2,82,000 |
| Tax on total income of 2,82,000 [5% of 32,000 in excess of 2,50,000, being the basic exemption limit] | 1,600 |
| Add: Health and Education cess @ 4% | 64 |
| Total tax payable | 1664 |
| Total tax payable (rounded off) | 1660 |

Part B

Determination of residential status and computation of total income and tax payable of Mr. Dhruv (if he has received cash gifts from non-relative for 16,00,000):

Where an individual, being a person of Indian origin comes on visit to India and he is having total income other than income from foreign sources exceeding 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2023-24 would be resident but not ordinarily resident irrespective of his residential status or no. of days of stay in India in the immediately preceding PYs.

Mr. Dhruv, is a person of India origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds 15,00,000; and his stay in India is for 164 days during the P.Y. 2023-24 and for 400 days during the 4 years immediately preceding the P.Y. 2023-24, he is resident but not ordinarily resident in India for the P.Y. 2023-24.

In such case, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2024-25:

| Particulars | Amount |
|---|------------------|
| Income from other Sources | |
| Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds 50,000. | |
| - 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of “relatives & gifts from a relative are not chargeable to tax. | Nil |
| - 11,000 received from married sister-in law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax. | Nil |
| - Gift received from close friends of his wife 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceeds 50,000 | 16,00,000 |
| Total Income | 16,00,000 |
| Tax on total income of 16,00,000 [Refer Note] | 2,17,500 |
| Upto 2,50,000 Nil | |
| 2,50,001 – 5,00,000 [2,50,000 @ 5%] 12,500 | |
| 5,00,001 – 7,50,000 [2,50,000 @ 10%] 25,000 | |
| 7,50,001 – 10,00,000 [2,50,000 @ 15%] 37,500 | |

| Particulars | Amount |
|--|-----------------|
| 10,00,001 – 12,50,000 [2,50,000 @ 20%] 50,000 | |
| 12,50,001 – 15,00,000 [2,50,000 @ 25%] 62,500 | |
| 15,00,001 – 16,00,000[1,00,000 @ 30%] 30,000 | |
| Add: Health and Education cess @ 4% | 8,700 |
| Total tax payable | 2,26,200 |

Note: Since his tax payable as per normal provisions is 3,04,200 [2,92,500 (1,12,500 plus 30% on 6,00,000 income exceeding 10,00,000) plus 11,700, being health and education cess @4%], which is higher than the tax payable computed as per concessional tax rates available under section 115BAC, it is beneficial for him to opt for section 115BAC.

Concept Problem 17 Solution

- a) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India.

In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is **not taxable** in India.

- b) Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India.

Hence, the royalty is **taxable** in India.

- c) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India.

Hence, 10 lakhs is **not taxable** in India in the hands of Mr. Thomas.

- d) 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat.

Hence, the same would be **taxable** in India in the hands of Mr. Thomas.

Concept Problem 18 Solution

- i) As per section 9(1)(iii), salaries (*including, inter alia, allowances*) payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India.

Thus, salary received from Government by Mr. Rahul, being a non-resident of 7,50,000 for rendering services in Japan would be taxable in his hands, after allowing standard deduction of INR 50,000.

However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7).

Hence, INR 2,40,000, being the allowance would be exempt.

- ii) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.

Thus, income of 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.

- iii) Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a

business or profession carried on by such non-resident in India or earning any income from any source in India.

In the present case, since Mr. Rakesh, a non-resident, paid the royalty of 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.

- iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India.

In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of 1,20,000 (10,00,000 x 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.

Concept Problem 19 Solution

As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding 15 lakhs.

However, if such person has total income, other than the income from foreign sources, exceeding 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

In this case, total income, other than the income from foreign sources, of Mr. Dhanush for P.Y. 2023-24 under Optional Tax Regime would be:

| Particulars | Amount |
|---|------------------|
| Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source) | - |
| Dividend from Indian companies (included in total income, since deemed to accrue or arise in India) | 5,50,000 |
| Agricultural income from land situated in Punjab [Exempt u/s 10(1)] | - |
| Rent received/ receivable from house property in Lucknow (Included in total income, since deemed to accrue or arise in India) | 4,00,000 |
| Less: 30% of 4 lakhs | 1,20,000 |
| Profits from a profession in USA, which was setup in India, received there | 6,00,000 |
| Total Income, other than the income from foreign sources | 14,30,000 |

Since, Mr. Dhanush is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2023-24 and his total income, other than income from foreign sources does not exceed 15 lakhs, he would be non-resident for the A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow:

| Particulars | Amount |
|---|----------|
| Salary From XYZ Inc. USA received in USA (Not taxable, since it neither accrues or arises in India nor it is received in India) | - |
| Dividend from Indian Companies, (Taxable, since deemed to accrue or arise in India) | 5,50,000 |

| Particulars | Amount |
|---|-----------------|
| Agricultural income from land situated in Punjab [Exempt u/s 10(1)] | - |
| Rent received/ receivable from house property in Lucknow (Taxable, since it is deemed to accrue or arise in India) | 4,00,000 |
| Less: 30% of 4 lakhs | 1,20,000 |
| Profit from a profession in USA, which was set up in India, received there | - |
| Gross Total Income/ Total Income | 8,30,000 |

Concept Problem 20 Solution

Mrs. Shruti is an Indian citizen in employment in UAE. She comes on a visit to India during the P.Y.2023-24 for 157 days.

Her stay in India in the four immediately preceding previous years is as follows :

| P.Y. | No. of days |
|--------------|-------------|
| P.Y. 2019-20 | 200 |
| P.Y. 2020-21 | 100 |
| P.Y. 2021-22 | 76 |
| P.Y. 2022-23 | 45 |
| Total | 421 |

Computation of Total Income of Mrs. Shruti under Optional Tax Regime: (excluding income from foreign sources)

| Particulars | Amount |
|---|------------------|
| Income from salary earned and received in UAE (income from a foreign source, hence, to be excluded) | - |
| Income earned and received from a house property situated in UAE (income from a foreign source, hence, to be excluded) | - |
| Income deemed to accrue or arise in India | 5,00,000 |
| Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India) | 10,00,000 |
| Income accrued and arising in India | 3,00,000 |
| | 18,00,000 |
| Less: Deduction u/s 80C (LIC premium paid by cheque in India) – Assuming other conditions are fulfilled | 1,50,000 |
| Total Income (excluding income from foreign sources) | 16,50,000 |

Mrs. Shruti, an Indian citizen visiting India in the P.Y. 2023-24, would be a resident in India for A.Y. 2024-25 , if she satisfies either of the following conditions -

- i) She is in India for 182 days or more during the P.Y. 2023-24 or
- ii) She is in India for a period of 120 days or more during the P.Y. 2023-24 and her stay in India in the four immediately preceding previous year is 365 days or more.

[This condition will apply to her since she comes on a visit to India during the previous year 2023-24 and her total income (excluding income from foreign sources) is 16.50 lakhs , which exceeds the threshold of 15 lakhs]

The first condition is not satisfied since she is in India only for 157 days during the P.Y. 2023-24

The second condition is satisfied, since she has stayed in India for 157 days during the P. Y. 2023-24 and 421 days in the four immediately preceding previous year. Since she has become resident in India for A.Y. 2024-25 by satisfying this condition, by default, she would be treated as resident but not ordinarily resident.

Conclusion – Mrs. Shruti residential status for A.Y. 2024-25 is resident but not ordinarily resident.

Note – The provisions of section 6(1A) deeming an Indian citizen to be a resident but not ordinarily resident, irrespective of the period of her stay in India in the relevant previous year, if she is not liable to tax in any other country would not apply to Shruti, since she is a resident as per the provisions of section 6(1).

Concept Problem 21 Solution

Computation of gross total Income of Mrs. Roma for the A.Y. 2024-25 under Optional Tax Regime:

| Particulars of income | | Resident but not ordinarily Resident | Non-Resident |
|---------------------------|---|--------------------------------------|-----------------|
| 1 | Salary income received in Malaysia for services rendered there (Note 1) | 2,00,000 | 2,00,000 |
| | Less: Standard deduction under section 16(ia) | 50,000 | 50,000 |
| | | 1,50,000 | 1,50,000 |
| 2 | Profit from business carried on in Orissa [Since it accrues or arises in India] | 80,000 | 80,000 |
| 3 | Loss from business carried on in Baroda [Since it accrues or arises in India] | (20,000) | (20,000) |
| 4 | Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris) [Since it accrues or arises outside India] | Nil | Nil |
| 5 | Loss from business carried on in Canada (business is controlled from Dehradun) | (46,000) | Nil |
| 6 | Unabsorbed depreciation of business in Canada | (16,000) | Nil |
| 7 | Profit from Indonesia business (business is controlled from Delhi) | 70,000 | 28,000 |
| 8 | Rent from property situated in Canada and received in Canada | Nil | Nil |
| Gross Total Income | | 2,18,000 | 2,38,000 |

Note 1 - Income from “Salaries” payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.

Note 2 – In case of a non-resident, only income received or deemed to be received in India and income accruing or arising or deemed to accrue or arise in India is chargeable to tax. However, in case of a resident but not ordinarily resident, income derived from a business controlled in or profession set up in India is also taxable even though it accrues or arises outside India.

Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Mrs. Roma in both cases if she is a resident but not ordinarily resident or if she is a non-resident.

Loss from business carried on in Canada, unabsorbed depreciation of business in Canada and Profit from Indonesia business would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from Indonesia business is taxable in case of non-resident to the extent of such profits received in India.

Concept Problem 22 Solution

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

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

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 Mrs. Rose, an Australian, 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 previous 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 15.09.2023 | 168 days |
| 23.03.2024 to 31.03.2024 | 9 days |
| Total | 177 days |

| Four preceding previous years | |
|--------------------------------------|----------------|
| P.Y.2022-23 [1.4.2022 to 31.3.2023] | 42 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 | 42 days |

The total stay of Mrs. Rose during the previous year in India was less than 182 days and during the four years preceding this year was for 42 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 gross total income of Mrs. Rose for the A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount | Amount |
|---|-----------------|---------------|
| Income from house property | | |
| Flat located in Delhi let-out from 01.05.2023 to 31.03.2024 @ 25,000/- p.m. Gross Annual Value [25,000 x 11] | 2,75,000 | 7,000 |
| Less: Municipal taxes | Nil | |
| Net Annual Value (NAV) | 2,75,000 | |
| Less: Deduction under section 24 | | |
| 30% of NAV | 82,500 | |
| Interest on loan [fully allowable as deduction, since property is let-out] | 1,85,500 | 2,68,000 |
| Income from Other Sources | | |
| Gold chain worth 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax. | | Nil |

| Particulars | Amount | Amount |
|--------------------|--------|--------|
| Gross Total income | | 7,000 |

Concept Problem 23 Solution

- I. 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 INR 23 lakhs, **which exceeds the threshold of INR 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 under Optional Tax Regime:

| | Particulars | Amount |
|-------|--|------------------|
| (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 born in Dubai and his parents were born in India, he would not be an Indian citizen, but he may qualify as person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him.

Accordingly, he would be non-resident in India during the P.Y. 2023-24 and his total income would be 13 lakhs.

Note – In sub-part III, it is inferred that he is not a citizen of India since he is not born in India. It is assumed that he has not applied for citizenship by fulfilling the other specified eligibility conditions.

CHAPTER 3

AGRICULTURAL INCOME

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

Computation of Business Income and Agriculture Income of Mr. B

| Particulars | Business Income | Agricultural Income | |
|--|-----------------|---------------------|------------------|
| Sale of Sugar | | | |
| Business income | | | |
| Sale Proceeds of sugar | 25,00,000 | | |
| Less: Market value of sugar (70%) | 22,00,000 | | |
| Less: Manufacturing exp. | 1,50,000 | | |
| | 1,50,000 | | |
| Agricultural income | | | |
| Market value of sugar (70%) | | 22,00,000 | |
| Less: Cost of cultivation | | <u>14,00,000</u> | |
| | | | 8,00,000 |
| Sale of sugarcane | | | |
| Agricultural Income | | | |
| Sale proceeds of sugarcane (30%) | | 10,00,000 | |
| Less: Cost of cultivation | | 5,00,000 | 5,00,000 |
| | | | 13,00,000 |

Concept Problem 2 Solution

The total income of Assessee comprises of agricultural income and business income.

Total profit from sale rubber = 30 lacs – 10 lacs – 8 lacs = 12 lacs.

Agricultural Income = 65% of 12 lacs = 7.8 lacs

Business Income = 35% of 12 lacs = 4.2 lacs

Concept Problem 3 Solution

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

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

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

- Net agricultural income exceeds INR 5,000 p.a. and
- Non-agricultural income exceeds the basic exemption limit of INR 2,50,000.

His tax liability is computed in the following manner:

| Particulars | Amount | Amount |
|--|------------|-----------------|
| Income from salary | | 2,80,000 |
| Income from house property | | 2,50,000 |
| Net agricultural income [4,80,000 –1,70,000] | 3,10,000 | |
| Less: Exempt under section 10(1) | (3,10,000) | - |
| Gross Total Income | | 5,30,000 |
| Less: Deductions under Chapter VI-A | | - |
| Total Income | | 5,30,000 |

| | | |
|------------------------|-----------------------------|---|
| Step 1: | INR 5,30,000 + INR 3,10,000 | INR 8,40,000. |
| | Tax on INR 8,40,000 | INR 80,500 (i.e., 5% of INR 2,50,000 + 20% of 3,40,000) |
| Step 2: | INR 3,10,000 + INR 2,50,000 | INR 5,60,000 |
| | Tax on INR 5,60,000 | INR 24,500 (i.e., 5% of INR 2,50,000 + 20% of 60,000) |
| Step 3: | INR 80,500 –INR 24,500 | INR 56,000. |
| Step 4 & 5: | Total Tax Liability | INR 56,000 + 4% of INR 56,000 = INR 58,240 |

(b) Computation of tax liability (age 70 years)

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

1. Net agricultural income exceeds INR 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of INR 3,00,000.

His tax liability is computed in the following manner:

| | | |
|------------------------|-----------------------------|---|
| Step 1: | INR 5,30,000 + INR 3,10,000 | INR 8,40,000. |
| | Tax on INR 8,40,000 | INR 78,000 (i.e., 5% of INR 2,00,000 + 20% of 3,40,000) |
| Step 2: | INR 3,10,000 + INR 3,00,000 | INR 6,10,000 |
| | Tax on INR 6,10,000 | INR 32,000 (i.e., 5% of INR 2,00,000 + 20% of 1,10,000) |
| Step 3: | INR 78,000 –INR 32,000 | INR 46,000. |
| Step 4 & 5: | Total Tax Payable | INR 46,000 + 4% of INR 46,000 = INR 47,840 |

Concept Problem 5 Solution

Where an Assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income as per Rule 7B of the Income Tax Rules 1962.

As per the above Rule, 75% of income derived from sale of coffee grown and cured by the seller in India shall be treated as agriculture income and 25% of such income shall be deemed to be business income.

| Particulars | Amount | Amount |
|-----------------------------------|----------|-----------|
| Sale value of cured coffee | | 22,00,000 |
| Less: expenses for growing coffee | 3,10,000 | |
| Car expenses (80% of INR 50,000) | 40,000 | |

| Particulars | Amount | Amount |
|--|-----------------|------------------|
| Depreciation on car (80% of 15% of INR 3,00,000) (WN) | 36,000 | |
| Total cost of agricultural operations | 3,86,000 | |
| Expenditure for coffee curing operations | 3,00,000 | |
| Add: Depreciation on machinery (15% of 15,00,000) [WN] | 2,25,000 | |
| Total cost of the curing operations | 5,25,000 | 9,11,000 |
| Total profits from composite activities | | 12,89,000 |
| Business income (25% of above) | | 3,22,250 |
| Agricultural income (75% of above) | | 9,66,750 |

Computation of value of depreciable assets as on 31.3.2024:

| Particulars | Amount | Amount |
|---|--------|------------------|
| Car | | |
| Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23) | | 3,00,000 |
| Depreciation thereon at 15% | 45,000 | |
| Less: disallowance @20% for personal use | 9,000 | |
| Depreciation actually allowed | | 36,000 |
| Closing value as on 01.4.2024 | | 2,64,000 |
| Machinery | | |
| Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23) | | 15,00,000 |
| Less: Depreciation @ 15% for PY 2023-24 | | 2,25,000 |
| Closing value as on 01.4.2024 | | 12,75,000 |

Note: In cases of composite income for the purpose of computing written down value of assets, the total amount of depreciation shall be computed as if the entire composite income of the Assessee (and not just 25%) is chargeable under the head “Profits and gains of business or profession”. The depreciations so computed shall be deemed to have been “actually allowed” to the Assessee. In other words, entire depreciation is allowed instead of proportionate amount.

If car is used only for agricultural use and machine was used for curing business, this implies both are being used for agricultural purpose and not for personal use. Hence, depreciation allowable for car shall be 45,000 and car expense allowed shall be 50,000. Composite income shall be 12,70,000.

There will be no impact on WDV as on 01.04.2024.

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 6 Solution

If Mr. Asim is engaged only in the business of roasting and grounding of coffee (and not growing and curing of coffee), his entire income of INR 10 lakhs would be treated as business income and his tax liability would be INR 1,14,400 (INR 1,10,000 + INR 4,400).

If Mr. Asim is also engaged in the business of growing and curing of coffee, in addition to roasting and grinding of coffee, 40% of such income shall be treated as business income and the balance as agricultural income.

Therefore, in such a case, the business income would be 40% of INR 10,00,000 = INR 4,00,000.

, the agricultural income would be 60% of INR 10,00,000 = INR 6,00,000.

Calculation of tax liability for AY 2024-25 under Optional Tax Regime::

| Particulars | Amount |
|--|---------------|
| Tax on INR 10,00,000 [being the aggregate of non-agricultural income (i.e., INR 4,00,000) and agricultural income (i.e., INR 6,00,000)] (A) | 1,10,000 |
| Less: Tax on INR 9,00,000 [being aggregate of agricultural income (i.e., INR 6,00,000) and basic exemption limit (i.e., INR 3,00,000)] (B) | 90,000 |
| Tax on non-agricultural income [A-B] | 20,000 |
| Less: Rebate u/s 87A | 12,500 |
| Tax Liability | 7,500 |

Note: Basic exemption in case resident senior citizen is 3,00,000.

Note: Since Total Income is not exceeding 5,00,000, rebate u/s 87A shall be allowed.

Concept Problem 7 Solution

| Particulars | Income | Agricultural Income (%) | Business Income (%) |
|-----------------------------------|----------|-------------------------|---------------------|
| Growing and manufacture of rubber | 5,00,000 | 325,000 (65%) | 175,000 (35%) |
| Sale of coffee grown and cured | 3,50,000 | 262,500 (75%) | 87,500 (25%) |
| Growing and manufacture of tea | 7,00,000 | 420,000 (60%) | 280,000 (40%) |
| Sale of plants and nursery | 1,00,000 | 100,000 | - |
| Total | | 11,07,500 | 542,500 |

| Computation of gross total Income | Amount |
|------------------------------------|-----------------|
| Income under the head PGBP | 5,42,500 |
| Income from long term capital gain | 3,13,500 |
| Gross total income | 8,56,000 |
| Less: deduction u/s 80C to 80u | Nil |
| Total income | 8,56,000 |
| Agricultural Income | 11,07,500 |

Concept Problem 8 Solution

In cases where the Assessee himself grows rubber plants and manufactures rubber processed from latex obtained from rubber plants in India, then, as per Rule 7A, 35% of profit on sale of rubber is taxable as business income under the head “Profits and gains from business or profession”, and the balance 65% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of rubber processed from latex = 47 lakhs – 25 lakhs – 7 lakhs = 15 lakhs

Agricultural Income = 65% of 15 lakhs = 9.75 lakhs

Business Income = 35% of 15 lakhs = 5.25 lakhs.

The tax liability of Mr. Rana has to be computed applying the concept of partial integration, since his total income comprises of both agricultural income and non- agricultural income and his agricultural income exceeds INR 5,000 p.a. and his non- agricultural income exceeds the basic exemption limit i.e., INR 2,50,000 (applicable, in his case).

Accordingly, his tax liability would be computed in the following manner:

Computation of tax liability of Mr. Rana for the A.Y. 2024-25 under Optional Tax Regime::

| Particulars | Amount |
|---|---------------|
| Tax on total income of INR 15,00,000, being agricultural income and non-agricultural income | 2,62,500 |
| Less: Tax on agricultural income and basic exemption limit i.e., INR 12,25,000 [INR 9,75,000 plus INR 2,50,000] | 1,80,000 |
| | 82,500 |
| Add: Health and Education cess @ 4% | 3,300 |
| Total Tax liability | 85,800 |

Concept Problem 9 Solution

Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2024-25 under Optional Tax Regime:

| S. No | Sources of Income | Gross | Business Income | | Agricultural income |
|-------|---|----------|-----------------|-----------------|---------------------|
| | | INR | % | INR | INR |
| i. | Sale of latex from rubber plants grown in India. | 3,00,000 | 35% | 1,05,000 | 1,95,000 |
| ii. | Sale of coffee grown and cured in India. | 1,00,000 | 25% | 25,000 | 75,000 |
| iii. | Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below) | 2,50,000 | 100% | 2,50,000 | - |
| iv. | Sale of tea grown and manufactured in India | 4,00,000 | 40% | 1,60,000 | 2,40,000 |
| v. | Saplings and seedlings grown in nursery in India (See Note 2 below) | 80,000 | | Nil | 80,000 |
| | Total | | | 5,40,000 | 5,90,000 |

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in **India**, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India doesn't make it agricultural income.

In the case of an Assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.

- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

CHAPTER 4

SALARY

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

| Particulars | Amount |
|---|---------------|
| HRA received | 1,80,000 |
| Less: exempt under section 10(13A) [Note] | 1,36,800 |
| Taxable HRA | 43,200 |

Note:

Exemption shall be least of the following three limits:

- The actual amount received (INR 15,000 x 12) = INR 1,80,000
- Excess of the actual rent paid by the Assessee over 10% of his salary
 = rent paid – 10% of salary for the relevant period
 = (16,000 x 12) – 10% of [(40,000 + 6,000) x 12]
 = INR 1,92,000 – INR 55,200 = INR 1,36,800
- 40% salary as his accommodation is situated at Kanpur
 40% of [(INR 40,000 + INR 6,000) x 12] = INR 2,20,800

Note:

For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide but excludes all other allowance and perquisite.

Concept Problem 2 Solution

Taxable allowance in the hands of Mr. Srikanth is computed as under:

If Mr. Srikanth exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

| Particulars | Amount |
|--|---------------|
| Children Education Allowance: | 600 |
| Elder son [(INR 150 – INR 100) p.m. × 12 months] = 600 | |
| Younger son [(INR 70 – INR 70) p.m. × 12 months] = Nil | |
| Transport allowance [INR 1,800 p.m. × 12 months] | 21,600 |
| Tribal area allowance [(INR 500 – INR 200) p.m. × 12 months] | 3,600 |
| Taxable allowances | 25,800 |

If Mr. Srikanth pays tax under default tax regime under section 115BAC

| Particulars | Amount |
|--|--------|
| Children Education Allowance: [(150 + 70) p.m. × 12 months] | 2,640 |

| | |
|--|---------------|
| Transport allowance [1,800 p.m. × 12 months] | 21,600 |
| Tribal area allowance [500 p.m. × 12 months] | 6,000 |
| Taxable allowances | 30,240 |

Concept problem 3 Solution

(a) He is a government employee.

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

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

| | | |
|--|------------|-----------------|
| Uncommuted pension received (Oct-Mar) [(5,000 × 4m) + (40% of 5,000 × 2m)] | | 24,000 |
| Commutated pension received | 3,00,00 | |
| Less: Exempt u/s 10(10A) (1/3 × INR 3,00,000/60% × 100%) | (1,66,667) | 1,33,333 |
| Taxable pension | | 1,57,333 |

(c) He is a private sector employee and is not in receipt of gratuity at the time of retirement.

| | | |
|---|----------|---------------|
| Uncommuted pension received (Oct –Mar) [(5,000 × 4 m) + (40% of 5,000 × 2 m)] | | 24,000 |
| Commutated pension received | 3,00,000 | |
| Less: Exempt u/s 10(10A) (1/2 × INR 3,00,000/60% × 100%) | 2,50,000 | 50,000 |
| Taxable pension | | 74,000 |

Concept Problem 4 Solution

i) He is covered by the Payment of Gratuity Act 1972.

| | |
|--|-----------------|
| Gratuity received at the time of retirement | 15,00,000 |
| Less: Exemption under section 10(10) (Note) | 9,34,615 |
| Taxable Gratuity | 5,65,385 |

Note: Exemption under section 10(10)

Least of the following is exempt:

- i. Gratuity received INR 15,00,000
- ii. Statutory limit INR 20,00,000
- iii. 15 days salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months
 $15/26 \times \text{last drawn salary} \times \text{years of service}$
 $15/26 \times (\text{INR } 50,000 + \text{INR } 10,000) \times 27$ INR 9,34,615

ii) He is not covered by the Payment of Gratuity Act 1972.

| | |
|--|-----------------|
| Gratuity received at the time of retirement | 15,00,000 |
| Less: Exemption under section 10(10) (Note) | 8,58,000 |
| Taxable Gratuity | 6,42,000 |

Note: Exemption under section 10(10) is least of the following:

- i. Gratuity received INR 15,00,000
- ii. Statutory limit INR 20,00,000
- iii. Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

iii) He is a government employee

| | |
|---|-----------------|
| Gratuity received at the time of retirement | 15,00,000 |
| Less: Exemption under section 10(10) | 15,00,000 |
| Taxable Gratuity | 6,42,000 |

Concept Problem 5 Solution

a) He is a government employee

| | |
|---|------------|
| Leave Salary received at the time of retirement | 5,00,000 |
| Less: Exemption under section 10(10AA) | 5,00,000 |
| Taxable Leave salary | Nil |

b) He is a non-government employee

| | |
|---|-----------------|
| Leave Salary received at the time of retirement | 5,00,000 |
| Less: Exemption under section 10(10AA) [See Note below] | 26,400 |
| Taxable Leave salary | 4,73,600 |

Note: Exemption under section 10(10AA) is least of the following:

- i. Leave salary received INR 5,00,000
- ii. Statutory limit INR 25,00,000
- iii. 10 months' salary based on average salary of last 10 months

= 10 x Salary of last 10 months i.e. Feb to Nov.

10

= 10 x $(5000 \times 8) + (4000 \times 2) + (60\% \times 3,000 \times 10)$ = INR 66,000

10

- iv. Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months (max. 30 days per year of service)

Leave Due = Leave allowed – Leave taken = (30 days per year × 20 years) – 480 days = 120 days

= $\frac{120 \text{ days}}{30 \text{ days}} \times \frac{66,000}{10}$ = INR 26,400

Concept Problem 6 Solution

Taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the A.Y. 2024-25 is computed hereunder:

| Particulars | Amount |
|--|-----------------|
| Amount taxable under the head “Salaries”: | |
| Employer’s share in the payment received from the URPF | 2,20,000 |
| Interest on the employer’s share | 50,000 |
| Total | 2,70,000 |
| Amount taxable under the head “Income from Other Sources” | |
| Interest on the employee’s share | 60,000 |
| Total amount taxable from the amount received from the fund | 3,30,000 |

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

Concept Problem 7 Solution

Since the fund is a recognized one, and the maturity is taking place after a service of 25 years, the entire amount received on maturity of RPF shall be exempt.

Concept Problem 8 Solution

Computation of Gross Salary of Mr. B for the A.Y 2024-25:

| Particulars | Amount | Amount |
|--|--------|-----------------|
| Basic salary [INR 10,000 x 12] | | 1,20,000 |
| Dearness allowance [INR 8,000 X 12] | | 96,000 |
| Commission on turnover [0.1% x 50,00,000] | | 5,000 |
| Bonus | | 40,000 |
| Gratuity [note 1] | | 25,000 |
| Employee’s contribution to RPF [Note 2] | | - |
| Employer’s contribution to RPF [20% of INR 1,20,000] | 24,000 | |
| Less: Exempt [Note 3] | 20,760 | 3,240 |
| Interest accrued in the RPF @ 13% p.a. | 13,000 | |
| Less: exempt @ 9.5% p.a. | 9,500 | 3,500 |
| Gross salary | | 2,92,740 |

Note 1: Gratuity received during service is fully taxable

Note 2: Employer’s contribution in the RPF is exempt up to 12% of the salary i.e.,

12% of [basic salary + DA forming part of retirement benefits + commission based on turnover]

12% of [INR 1,20,000 + (50% x INR 96,000) + INR 5,000]

12% of INR 1,73,000 = INR 20,760

Note 3: Employee’s contribution to RPF is not taxable. It is eligible for deduction under section 80C, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Concept Problem 9 Solution

| Particulars | Amount |
|--|-----------------|
| Voluntary retirement compensation received | 7,00,000 |
| Less: exemption under section 10(10C) [see note below] | 5,00,000 |
| Taxable voluntary retirement compensation | 2,00,000 |
| Notes: Exemption is to the extent of least of the following: | |
| i) Compensation actually received | 7,00,000 |
| ii) Statutory limit | 5,00,000 |
| iii) Last drawn salary x 3 x completed years of service (INR 20,000 + INR 5,000) x 3 x 30 years | 22,50,000 |
| iv) Last drawn salary x remaining months of service (INR 20,000 + INR 5,000) x 6 x 12 months | 18,00,000 |

Concept Problem 10 Solution

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) = $(PC/2)*R + (PC_1 + TP_1)*R$
 $= (27,600/2)*0.111 + 0$
 $= ₹ 1,532$

PC ABC Ltd.'s contribution in excess of 7.5 lakh to recognized provident fund during P.Y. 2022-23 = 27,600

PC₁ Nil since employer's contribution is less than 7.5 lakh to recognized provident fund in P.Y. 2021-22 and there is no employer's contribution in P.Y. 2020-21.

TP₁ Nil

R $I/F_{avg} = 2,06,711/18,62,093 = 0.111$

I RPF balance as on 31.3.2023 – employee's and employer's contribution during the year – RPF balance as on 1.4.2022 =
 $2,06,711 (27,43,048 - 7,77,600 - 7,77,600 - 9,81,137)$

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 = $(9,81,137 + 27,43,048)/2 = 18,62,093$

Note: Interest on the aggregate of following will also be chargeable to tax during A.Y. 2023-24 –

- 2,03,600 [Employee's contribution exceeding 2,50,000 during P.Y. 2021-22]
- 5,27,600 [Employee's contribution exceeding 2,50,000 during P.Y. 2022-23]
- interest accrued on 2,03,600 being excess employee's contribution of P.Y. 2021-22

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

1. 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

2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$

$$= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$$

$$= 1,308 + 2,761 = 4,069$$

PC ABC Ltd.'s contribution in excess of 7.5 lakh to recognized provident fund during P.Y. 2023-24 = 27,600

PC1 Amount of employer's contribution in excess of 7,50,000 to RPF in P.Y. 2020-21 and P.Y. 2021-22 = 27,600

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2022-23 = 1,532

R $I/\text{Favg} = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 =

$$3,50,307 (46,48,555 - 7,77,600 - 7,77,600 - 27,43,048)$$

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 = $(27,43,048 + 46,48,555)/2 = 36,95,802$

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2024-25:

- i) 2,03,600 [Employee's contribution exceeding 2,50,000 during P.Y. 2021-22]
- ii) 5,27,600 [Employee's contribution exceeding 2,50,000 during P.Y. 2022-23]
- iii) 5,27,600 [Employee's contribution exceeding 2,50,000 during P.Y. 2023-24]
- iv) interest accrued on 2,03,600 being excess employee's contribution of P.Y. 2021-22
- v) interest accrued on 5,27,600 being excess employee's contribution of P.Y. 2022-23

Concept Problem 11 Solution

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

Concept Problem 12 Solution

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children.

| | |
|---------------------------|-----------------------------|
| Taxable LTC | $15,000 \times 1/3 = 5,000$ |
| LTC exemption is only for | 55,000 (60,000 – 5,000) |

Concept Problem 13 Solution
Computation of taxable value of perquisite in the hands of Mr. G

| Particulars | Amount | Amount |
|-------------|--------|--------|
|-------------|--------|--------|

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

Note: Grandfather and independent brother are not included within the meaning of family of Mr. G.

Concept Problem 14 Solution

a)

Value of the rent-free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of [(INR 6000 × 5) + (INR 2,000 × 30% × 5) + (INR 1,500 × 5)] [See Note below]

= 15% of INR 40,500 = INR 6,075.

Note: Since, Mr. C occupies the house only from 1.11.2023, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2023 to 31.03.2024) will be considered.

b)

First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

In this case, 15% of salary would be 6,075 (i.e. 15% of 40,500). The rent paid by the employee is 5,000 (i.e., 1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the rent-free unfurnished accommodation = INR 6,075

Less: Rent paid by the employee (INR 1,000×5) = INR 5,000

Perquisite value of unfurnished accommodation given at concessional rent = INR 1,075

c)

Here again, we have to see whether the accommodation is provided at a concessional rate.

In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 15% of salary is 6,075 (i.e. 15% of 40,500). Rent paid by the employer is 6,000 (i.e. 1,200 × 5). The

lower of the two is 6,000, which exceeds the rent paid by the employee i.e., 5,000 (1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

| | |
|---|----------------|
| Value of the rent-free unfurnished accommodation [Note] | = 6,000 |
| <u>Less: Rent paid by the employee (INR 1,000×5)</u> | <u>= 5,000</u> |

Value of unfurnished accommodation given at concessional rent = 1,000

Note: Value of the accommodation is lower of

- i) Lease rent paid by the company for relevant period = 1,200 × 5 = 6,000
- ii) 15% of salary for the relevant period (computed earlier) = 6,075

d)

Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 25 lakh, the accommodation would be deemed to have been provided at a concessional rate, if 15% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 15% of salary is 6,075 (i.e. 15% of 40,500). The value of furniture of 4,625 (See Note below) is to be added to 15% of salary. The rent paid by the employee is 5,000 (i.e. 1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

| | |
|---|----------------|
| Value of the rent-free unfurnished accommodation (computed earlier) | = 6,075 |
| <u>Add: Value of furniture provided by the employer [Note]</u> | <u>= 4,625</u> |

Value of rent-free furnished accommodation = 10,700

| | |
|--|----------------|
| <u>Less: Rent paid by the employee (INR 1,000 × 5)</u> | <u>= 5,000</u> |
|--|----------------|

Value of furnished accommodation given at concessional rent = 5,700

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

e)

In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

In this case, 3,500 (licence fees: 700 x 5) + 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is 5,000 (i.e. 1,000x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

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

Concept Problem 16 Solution

Computation of Gross Total Income of Mr. X for A.Y. 2024-25:

| Particulars | Amount |
|-------------|--------|
|-------------|--------|

| Particulars | Amount |
|---|-----------------|
| Basic Salary = INR 20,000 x 10 | 2,00,000 |
| Dearness Allowance = 50% of basic salary | 1,00,000 |
| Gift Voucher (See Note - 1) | 6,000 |
| Transfer of car (See Note - 2) | 56,000 |
| Gratuity (See Note - 3) | 80,769 |
| Leave encashment (See Note - 4) | 1,30,000 |
| Uncommuted pension (INR 5000 x 2) | 10,000 |
| Commutated pension (See Note - 5) | 1,50,000 |
| Gross Salary | 7,32,769 |
| Less: Standard deduction u/s 16(ia) | 50,000 |
| Taxable Salary /Gross Total Income | 6,82,769 |

Notes:

- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding INR 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of INR 5,000. Therefore, the entire amount of INR 6,000 is liable to tax as perquisite.

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 1,000 and gross total income would be 7,27,769.

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

| Particulars | Amount |
|-----------------------------|-----------------|
| Purchase price (30.01.2021) | 5,00,000 |
| Less: Depreciation @ 20% | 1,00,000 |
| WDV on 29.1.2022 | 4,00,000 |
| Less: Depreciation @ 20% | 80,000 |
| WDV on 29.1.2023 | 3,20,000 |
| Less: Depreciation @ 20% | 64,000 |
| WDV on 29.1.2024 | 2,56,000 |
| Less: Amount recovered | 2,00,000 |
| Value of perquisite | 56,000 |

The rate of 15% as well as the straight-line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

- Taxable gratuity**

| Particulars | Amount |
|-------------------|----------|
| Gratuity received | 6,00,000 |

| Particulars | Amount |
|--|---------------|
| Less: Exempt under section 10(10) - Least of the following: | |
| Notified limit = INR 20,00,000 | |
| Actual gratuity = INR 6,00,000 | |
| $15/26 \times \text{INR } 30,000 \times 30 = \text{INR } 5,19,231$ | 5,19,231 |
| Taxable Gratuity | 80,769 |

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

4. Taxable leave encashment

| Particulars | Amount |
|--|-----------------|
| Leave Salary received | 3,30,000 |
| Less: Exempt under section 10(10AA) - Least of the following: | |
| Notified limit = | 3,00,000 |
| Actual gratuity = | 3,30,000 |
| 10 months x 20,000 = (assuming DA does not form part of retirement benefit) | 2,00,000 |
| Cash equivalent of leave to his credit [$330/30 \times 20,000$] | 2,20,000 |
| Taxable Leave encashment | 1,30,000 |

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be INR 3,00,000 (i.e., 10 x INR 30,000) and the fourth limit INR 3,30,000, in which case, the taxable leave encashment would be INR 30,000 (INR 3,30,000- INR 3,00,000). In such a case, the gross total income would be INR 6,32,769.

5. Commuted Pension

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

| Particulars | Amount |
|--|-----------------|
| Amount received | 3,00,000 |
| Exemption under section 10(10A) = $1/3 \times [3,00,000 \times 3/2]$ | 1,50,000 |
| Taxable amount | 1,50,000 |

6. The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Concept Problem 17 Solution

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

- i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = INR 1,500 × 12 = INR 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be INR 18,000.

- ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed INR 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed INR 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds INR 1,000 per month. The taxable perquisite value would be INR 14,400 (INR 1,200×12).

Note – An alternate view possible is that only the sum in excess of INR 1,000 per month is taxable. In such a case, the value of perquisite would be INR 2,400.

- iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is INR 1,10,000.

The perquisite value would be 10% of the actual cost i.e., INR 11,000, being 10% of INR 1,10,000.

- iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding INR 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of INR 5,000.

Therefore, the entire amount of INR 10,000 is liable to tax as perquisite.

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.

- v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax-free perquisite.
- vi) The value of the benefit to the Assessee resulting from the provision of interest- free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

| Month | Maximum outstanding balance as on last date of month | Perquisite value at 4% for the month |
|-----------------|--|--------------------------------------|
| April, 2023 | 5,88,000 | 1,960 |
| May, 2023 | 5,76,000 | 1,920 |
| June, 2023 | 5,64,000 | 1,880 |
| July, 2023 | 5,52,000 | 1,840 |
| August, 2023 | 5,40,000 | 1,800 |
| September, 2023 | 5,28,000 | 1,760 |

| Month | Maximum outstanding balance as on last date of month | Perquisite value at 4% for the month |
|----------------|--|--------------------------------------|
| October, 2023 | 5,16,000 | 1,720 |
| November, 2023 | 5,04,000 | 1,680 |
| December, 2023 | 4,92,000 | 1,640 |
| January, 2024 | 4,80,000 | 1,600 |
| February, 2024 | 4,68,000 | 1,560 |
| March, 2024 | 4,56,000 | 1,520 |
| | Total value of this perquisite | 20,880 |

Total value of taxable perquisite = INR 74,280 [i.e. 18,000 + 14,400 + 11,000 + 10,000 + 20,880].

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

Concept Problem 18 Solution

- i) As per section 17(2)(vi) the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the Assessee as reduced by the amount actually paid by or recovered from the Assessee in respect of such shares.

| Particulars | Amount |
|---|-----------------|
| Fair market value of 1000 sweat equity shares @ INR 300 each | 3,00,000 |
| Less: amount recovered from Sri Chand 1000 shares @ 200 each | 2,00,000 |
| Value of perquisite of sweat equity shares allotted to Sri Chand | 1,00,000 |

- ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Capital Gains chapter)

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand the cost of acquisition would be INR 3,00,000.

Concept Problem 19 Solution

Computation of the value of perquisite chargeable to tax in the hands of Mr. Y for the A.Y 2024-25:

| Particulars | Amount | Amount | Amount |
|---|----------|-----------------|----------|
| Value of concessional accommodational | | | |
| Actual amount of lease rental paid by X Ltd. | 1,80,000 | | |
| 15% of salary i.e., 15% of INR 10,00,000 | 1,50,000 | | |
| Lower of the above | | 1,50,000 | |
| Less: rent paid by Mr. Y (INR 5,000 x 12) | | 60,000 | |
| | | 90,000 | |
| Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (3,000 x 12) | | 36,000 | 1,26,000 |
| Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(INR 1,800 + INR 900) x 12] | | | 32,400 |
| Perquisite Value of gift voucher | | | 10,000 |

| Particulars | Amount | Amount | Amount |
|---------------------------------------|--------|--------|----------|
| Value of perquisite chargeable to tax | | | 1,68,400 |

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

Concept Problem 20 Solution

Computation of salary of Mr. Goyal for the A.Y.2024-25 under default tax regime u/s 115BAC

| Particulars | Amount | Amount |
|--|--------|-----------------|
| Basic salary | | 4,00,000 |
| Dearness allowance | | 1,50,000 |
| Commission | | 1,00,000 |
| Entertainment allowance received | | 40,000 |
| Employee's contribution to RPF (Note) | | - |
| Medical expenses reimbursed | | 25,000 |
| Professional tax paid by the employer | | 1,000 |
| Gross salary | | 7,16,000 |
| Less: Deduction under section 16 | | |
| Under section 16(ia) – standard deduction of upto INR 50,000 | | 50,000 |
| Income from salary | | 6.66,000 |

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

Computation of salary of Mr. Goyal for the A.Y.2024-25 under the optional tax regime (normal provisions of the Act)

| Particulars | Amount | Amount |
|--|--------|-----------------|
| Basic salary | | 4,00,000 |
| Dearness allowance | | 1,50,000 |
| Commission | | 1,00,000 |
| Entertainment allowance received | | 40,000 |
| Employee's contribution to RPF (Note) | | - |
| Medical expenses reimbursed | | 25,000 |
| Professional tax paid by the employer | | 1,000 |
| Gross salary | | 7,16,000 |
| Less: Deduction under section 16 | | |
| under section 16(ia) – standard deduction of upto INR 50,000 | | 50,000 |
| under section 16(ii) - Entertainment allowance being lowest of : | | |
| a) Allowance received | 40,000 | |
| b) One fifth of basic salary [$1/5 \times 4,00,000$] | 80,000 | |
| c) Statutory amount | 5,000 | 5,000 |

| Particulars | Amount | Amount |
|---|--------|-----------------|
| under section 16(iii) - Professional tax paid | | 2,000 |
| Income from Salary | | 6,59,000 |

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

Concept Problem 21 Solution

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

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

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

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

Computation of relief under section 89

| S. No | Particulars | Amount | Amount |
|-------|--|----------|---------------|
| i. | Tax payable in A.Y.2024-25 on arrears: | | |
| | Tax on income including arrears | 2,28,280 | |
| | Less: Tax on income excluding arrears | 1,20,640 | 1,07,640 |
| ii. | Tax payable in respective years on arrears: | | |
| | Tax on income including arrears (1,00,837 + 1,38,638 + 1,51,925) | 3,91,400 | |
| | Less: Tax on income excluding arrears (78,280 + 1,02,485 + 1,18,450) | 2,99,215 | 92,185 |
| | Relief under section 89 - difference between tax on arrears in A.Y 2024-25 and tax on arrears in the respective years | | 15,455 |

Tax payable for A.Y.2024-25 after relief under section 89

| Particulars | Amount |
|-------------|--------|
|-------------|--------|

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

Concept problem 22 Solution

Computation of gross salary of Mr. Mohit for AY 2024-25:

| Particulars | Amount |
|---|-----------------|
| Basic salary [(INR 10,000 x 10) + (INR 11,000 x 2)] | 1,22,000 |
| Dearness Allowance (100% of basic salary) | 1,22,000 |
| House Rent Allowance (Working Note) | 21,300 |
| Gross Salary | 2,65,300 |

Working Note: Computation of Taxable House Rent Allowance (HRA)

| Particulars | April-May (₹) | June-Oct (₹) | Nov-Dec (₹) | Jan (₹) | Feb-Mar (₹) |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Basic salary per month | 10,000 | 10,000 | 10,000 | 10,000 | 11,000 |
| Dearness allowance (included in salary as per terms of employment) (50% of basic salary) | 5,000 | 5,000 | 5,000 | 5,000 | 5,500 |
| Salary per month for the purpose of computation of house rent allowance | 15,000 | 15,000 | 15,000 | 15,000 | 16,500 |
| Relevant period (in months) | 2 | 5 | 2 | 1 | 2 |
| Salary for the relevant period (Salary per month × relevant period) | 30,000 | 75,000 | 30,000 | 15,000 | 33,000 |
| Rent paid for the relevant period | Nil | 30,000 (₹ 6,000×5) | 16,000 (₹ 8,000×2) | 8,000 (₹8,000×1) | 16,000 (₹ 8,000×2) |
| House rent allowance (HRA) received during the relevant period (A) | 12,000 (₹ 6,000×2) | 30,000 (₹ 6,000×5) | 12,000 (₹ 6,000×2) | 7,000 (₹7,000×1) | 14,000 (₹ 7,000×2) |
| Least of the following is exempt u/s 10(13A) | | | | | |
| 1. Actual HRA received | - | 30,000 | 12,000 | 7,000 | 14,000 |
| 2. Rent paid (-) 10% of salary | - | 22,500 | 13,000 | 6,500 | 12,700 |
| 3. 40% of salary (Residence at Ghaziabad – June to Oct, 2023) 50% of salary (Residence at Delhi– Nov, 21 - March, 22) | - | 30,000 (40% × 75,000) | 15,000 (50% × 30,000) | 7,500 (50% × 15,000) | 16,500 (50% × 33,000) |
| Exempt HRA (B) | Nil | 22,500 | 12,000 | 6,500 | 12,700 |

| | | | | | |
|---|--------|-------|-----|-----|-------|
| Taxable HRA [Actual HRA – Exempt HRA] (A-B) | 12,000 | 7,500 | Nil | 500 | 1,300 |
|---|--------|-------|-----|-----|-------|

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

Concept Problem 23 Solution

Tax treatment of medical benefits, allowances and Medclaim premium in the hands of Ms. Rakhi for A.Y. 2024-25:

| Particulars | |
|--------------------|--|
| 1. | Reimbursement of medical expenses incurred by Ms. Rakhi |
| (A) | The amount of INR 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. |
| (B) | The amount of INR 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. |
| (C) | The amount of INR 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. |
| | The aggregate sum of INR 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite |
| 2. | Medical insurance premium of INR 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per clause (iii) of the first proviso to section 17(2). |
| 3. | Medical allowance of INR 2,000 per month i.e., INR 24,000 p.a. is a fully taxable allowance. |
| 4. | As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of INR 5,000 on her son's treatment in a hospital maintained by the Government is an exempt perquisite. |
| 5. & 6. | As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – |
| i) | Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [INR 1,05,000, in this case]; |
| ii) | Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [INR 1,20,000, in this case]. |
| | The conditions subject to which the above expenditure would be exempt are as follows - |
| a) | The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; |
| b) | The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed INR 2 lakh. |
| | Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed 2 lakhs. |

Concept Problem 24 Solution

Computation of income from salary of Mr. X for the A.Y. 2024-25:

| Particulars | Amount | Amount |
|-------------|--------|--------|
|-------------|--------|--------|

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

Note: 1

Value of rent-free unfurnished accommodation

= 15% of salary for the relevant period

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

Note 2

Value of perquisite for interest on personal loan

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

Note 3

Depreciated value of the motor cycle

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

= INR 60,000 – (INR 60,000 x 10% p.a. x 3 years) = INR 42,000.

Perquisite = INR 42,000 – INR 30,000 = INR 12,000

Concept Problem 25 Solution

Computation of taxable salary of Mr. Balaji for A.Y 2024-25:

| Particulars | Amount | Amount |
|--|--------|----------|
| Basic salary (INR 50,000 x 7) (INR 60,000 x 5) | | 6,50,000 |
| Dearness allowance (40% of basic salary) | | 2,60,000 |
| Bonus (INR 50,000 + 40% of 50,000) (see note 1) | | 70,000 |
| Employer's contribution to recognised provident fund in excess of 12% of salary = 4% of INR 6,50,000 (see note 4) | | 26,000 |
| Professional tax paid by employer | | 2,000 |
| Perquisite of motor car (INR 2,400 for 5 months) (see note 5) | | 12,000 |

| Particulars | Amount | Amount |
|---|--------|------------------|
| Gross salary | | 10,20,000 |
| Less: Deduction under section 16 | | |
| Standard deduction u/s 16(ia) | 50,000 | |
| Professional tax u/s 16(iii) (see note 6) | 2,500 | 52,500 |
| Taxable salary | | 9,67,000 |

Notes:

- Since bonus was paid in the month of October, the basic salary of INR 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 an exempt perquisite, whether used for official or personal purpose or both.
- 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 INR 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.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of INR 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).

- 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 INR 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 salary is provided on account of tax on employment i.e., professional tax paid during the year.

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

Concept Problem 26 Solution

Computation of taxable salary of Mr. X for A.Y 2024-25:

| Particulars | Amount |
|---|----------|
| Basic pay [(INR 20,000 x 9) + (INR 21,000 x 3)] = INR 1,80,000 + INR 63,000 | 2,43,000 |
| Dearness allowance (10% of basic pay) | 24,300 |
| Bonus | 21,000 |
| Employer’s contribution to recognized provident fund in excess of 12% (15% - 12% = 3% of INR 2,67,300) [see note 1 below] | 8,019 |
| Taxable allowances | |
| Telephone allowance | 6,000 |
| Taxable perquisite | |

| Particulars | Amount |
|---|-----------------|
| Rent free accommodation [see note 1 & 2 below] | 44,145 |
| Medical reimbursement | 25,000 |
| Reimbursement of salary of housekeeper | 12,000 |
| Gift voucher [see note 6 below] | 10,000 |
| Gross Salary | 3,93,464 |
| Less: Deduction under section 16 (ia) – Standard Deduction of upto INR 50,000 | 50,000 |
| Salary income chargeable to tax | 3,43,464 |

Notes:

- It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower. For the purpose of valuation of rent-free house, salary includes:
 - Basic salary i.e., INR 2,43,000
 - Dearness allowance (assuming that it is included for calculating retirement benefits) i.e., INR 24,300
 - Bonus i.e., INR 21,000
 - Telephone allowance i.e., INR 6,000

Therefore, salary works out to INR 2,43,000 + INR 24,300 + INR 21,000 + INR 6,000 = INR 2,94,300

15% of salary = INR 2,94,300 x 15/100 = INR 44,145

Value of rent-free house = lower of rent paid by the employer i.e. 1,20,000 or 15% of salary (i.e., 44,145).

Therefore, the perquisite value is INR 44,145.

- Facility of use of laptop is not a taxable perquisite.
- Conveyance allowance is exempt since it is based on actual reimbursement for official purpose.
- The value of any gift or voucher or taken in lieu of gifts received by the employer or by member of his household below INR 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limits of INR 5,000.

Therefore, the entire amount of INR 10,000 is liable to tax as perquisite.

Note: An alternate view possible is that only the sum in excess of INR 5,000 is taxable. As per this view, the value of perquisite would be INR 5,000.

- Premium of INR 5,000 paid by the company for personal accident policy is not liable to tax.

Concept Problem 27 Solution

Computation of income under the head “Salaries” of Mr. Raja for the A.Y.2024-25 under default tax regime

| Particulars | Amount | Amount |
|---|--------|----------|
| Basic Salary = 25,000 x 9 months | | 2,25,000 |
| House Rent Allowance = 6,000 x 9 months [Fully taxable under default tax] | | 54,000 |

| Particulars | Amount | Amount |
|--|----------|-----------------|
| regime] | | |
| Gratuity | 3,50,000 | |
| Less: Least of the following exempt under section 10(10)(ii) | 3,50,000 | Nil |
| i) Actual Gratuity received - 3,50,000 | | |
| ii) 15 days salary for every year of completed service [$15/26 \times 25,000 \times 26$] = 3,75,000 | | |
| iii) Notified limit = 20,00,000 | | |
| Leave encashment | 3,15,000 | |
| Less: Least of the following exempt under section 10(10AA) | 2,50,000 | 65,000 |
| i) 25,00,000 | | |
| ii) Leave salary actually received 3,15,000 | | |
| iii) 2,50,000, being 10 months' salary x 25,000 | | |
| iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times 25,000 = 3,12,500$ [Leave Due = Leave allowed – Leave taken] $= 750$ (30 days per year \times 25 years) – 375 days (15 days \times 25) $= 375$ days] | | |
| Uncommuted Pension received [$(5,000 \times 1) + (5,000 \times 2 \times 40\%)$] | | 9,000 |
| Commutated Pension received | 3,00,000 | |
| Less: Exempt under section 10(10A) [$1/3 \times 3,00,000/60\% \times 100\%$] | 1,66,667 | 1,33,333 |
| Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding 5,000 in aggregate during the previous year is exempt] | | Nil |
| Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder) | | Nil |
| Gross Salary | | 4,86,333 |
| Less: Standard deduction u/s 16 [Actual salary or 50,000, whichever is less] [Allowable under default tax regime] | | 50,000 |
| Net Salary | | 4,36,333 |

Concept Problem 28 Solution

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

| Particulars | Amount |
|--------------|----------|
| Basic Salary | 6,20,000 |

| Particulars | Amount |
|---|------------------|
| 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) × 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 | |
| Entertainment allowance | 50,000 |
| Income chargeable under the head “Salaries” | 11,76,600 |

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 INR 12,21,600 and INR 11,71,600, respectively.

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 29 Solution

Computation of taxable salary of Mr. Anand for A.Y 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|----------|
| Basic pay [(INR 25,000 × 11) + (INR 27,500 × 1)] = INR 2,75,000 + INR 27,500 | 3,02,500 |

| Particulars | Amount |
|--|-----------------|
| Dearness allowance [15% of basic pay] | 45,375 |
| Bonus [INR 27,500 x 1.5] | 41,250 |
| Employer's contribution to recognized provident fund in excess of 12% (18% -12% = 6% of INR 3,47,875) | 20,873 |
| Taxable allowances | |
| Telephone allowance | 12,000 |
| Taxable perquisite | |
| Rent free accommodation [see note 1 below] | 60,169 |
| Medical reimbursement | 40,000 |
| Reimbursement of salary of housekeeper [INR 2,000 x 12] | 24,000 |
| Gift voucher [see Note 4 below] | - |
| Motor car owned and driven by employee, running and maintenance charges borne by the employer [INR 36,600 – INR 21,600 (i.e., INR 1,800 x 12)] | 15,000 |
| Value of free lunch facility [see note 5 below] | - |
| Gross Salary | 5,61,167 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Salary income chargeable to tax | 5,11,167 |

| Notes | |
|--------------|---|
| 1. | Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary; whichever is lower. |
| | For the purposes of valuation of rent-free house, salary includes: |
| | Basic salary |
| | Dearness allowance |
| | Bonus |
| | Telephone allowance |
| | Total |
| | 15% of salary = INR 4,01,125 x 15/100 = INR 60,169 |
| | Value of rent-free house will be |
| | ➤ Actual amount of lease rental paid by employer (i.e. INR 1,80,000) or |
| | ➤ 15% of salary (i.e. INR 60,169) |
| | whichever is lower. |
| | Therefore, the perquisite value is INR 60,169 |
| 2. | Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family in private hospital is taxable. |
| 3. | Medical insurance premium paid by the employer to effect an insurance on the health of the employee is fully exempt. |

Notes

- | | |
|----|--|
| 4. | If the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is less than INR 5,000 in aggregate during the previous year, the perquisite value is Nil. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is less than INR 5,000. Therefore, the perquisite value of gift voucher is nil. |
| 5. | Free lunch provided by the employer during office hours is not a perquisite assuming that the value does not exceeds INR 50 per meal. |

Concept Problem 30 Solution

Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Aarohi for A.Y.2024-25 under Optional Tax Regime::

| Particulars | Amount |
|--|------------------|
| Basic Salary [INR 70,000 x 12] | 8,40,000 |
| Dearness allowance [INR 24,000 x 12] | 2,88,000 |
| Bonus [INR 21,000 x 12] | 2,52,000 |
| Perquisite value in respect of concessional rent [See Working Note below] | 36,000 |
| Gift voucher given by employer on Ms. Aarohi’s birthday (entire amount is taxable since the perquisite value exceeds INR 5,000) [See Note for Alternative view] | 10,000 |
| Employer’s contribution to recognized provident fund in excess of 12% of salary = 18% x [(70,000 + 24,000) x 12] – 12% x {[70,000 + 7,200 (being 30% of 24,000)] x 12} = 2,03,040 – 1,11,168 [Salary = Basic Salary + DA, to the extent it forms part of pay for retirement benefits] | 91,872 |
| Medical insurance premium of INR 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite | - |
| Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be INR 2400/- p.m. [INR 2,400 x 5 months] | 12,000 |
| Gross salary | 15,29,872 |
| Less: Standard deduction under section 16(ia) | 50,000 |
| Salary chargeable to tax | 14,79,872 |

Working Note:

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% 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 1.11.2023 to 31.3.2024 = INR 60,000 [INR 12,000 x 5 months]

15% of salary = INR 73,650 [15% x (INR 70,000 + INR 7,200 + INR 21,000) x 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is INR 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = 60,000 – 24,000 (4,800 x 5 months) = 36,000

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 INR 5,000 in aggregate during the previous year would be exempt.

In this case, the gift voucher of INR 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of INR 5,000, the entire amount of INR 10,000 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 INR 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto INR 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 INR 5,000. The salary chargeable to tax, in this case, would be INR 14,84,872.

Concept Problem 31 Solution

Computation of Income under the head “Salaries” in the hands of Ms. Suhaani for A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Basic Salary [INR 48,000 x 12] | 5,76,000 |
| Dearness allowance [10% of basic salary] | 57,600 |
| Bonus [Taxable in the P.Y. 2023-24, since it is taxable on receipt basis] | 52,000 |
| Fixed Medical Allowance [Taxable] | 48,000 |
| Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2024-25, even though father is included in the meaning of “family” on account of standard deduction being introduced in lieu of reimbursement of medical expenditure]. | 4,900 |
| Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both] | Nil |
| Reimbursement of salary of domestic servant [INR 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee] | 60,000 |
| Value of equity shares allotted [700 equity shares x 110 (280, being the fair market value – INR 170, being the amount recovered)] | 77,000 |
| Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee] | 1,400 |
| Gross Salary | 8,76,900 |
| Less: Deduction under section 16 | |
| Professional tax paid | 2,200 |
| Standard Deduction (Lower of INR 50,000 or amount of salary) | 50,000 |
| Taxable Salary | 8,24,700 |

Concept Problem 32 Solution

Computation of Total Income of Mr. Satya for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Basis pay [(25,000 x 3) + (26,500 x 9)] (WN 1) | 3,13,500 |
| Dearness Allowance (WN 2) | 35,550 |
| Gross salary | 3,49,050 |

| | |
|-------------------------------------|-----------------|
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income uth Salary | 2,99,050 |
| Gross Total Income | 2,99,050 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 2,99,050 |

Computation of Tax Liability

| Particulars | Amount |
|---|------------|
| Tax on INR 2,99,050 at slab rate | 2,450 |
| Less: Rebate u/s 87A | (2,450) |
| Tax before Health and education cess | Nil |

| Working Note 1: Basic Salary | Amount |
|------------------------------|-------------|
| 01.07.2017 - 30.06.2018 | 20,000 p.m. |
| 01.07.2018 - 30.06.2019 | 21,000 p.m. |
| 01.07.2019 – 30.06.2020 | 22,000 p.m. |
| 01.07.2020 – 30.06.2021 | 23,000 p.m. |
| 01.07.2021 – 30.06.2022 | 24,000 p.m. |
| 01.07.2022 - 30.06.2023 | 25,000 p.m. |
| 01.07.2023 - 30.06.2024 | 26,500 p.m. |

| Working Note 2: Dearness Allowance | Amount |
|--|---------------|
| From April to June (25,000 x 3) x 5% | 3,750 |
| From July to December (26,500 x 6) x 11% | 17,490 |
| From January to March (26,500 x 3) x 18% | 14,310 |
| | 35,550 |

Concept problem 33 Solution

Computation of Income under the head Salary for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|---|-----------------|
| Basis pay (60,000 x 12) | 7,20,000 |
| Dearness allowance (10,000 x 12) | 1,20,000 |
| Bonus | 20,000 |
| Commission (50,00,000 x 2%) | 1,00,000 |
| Employer's contribution to recognized provident fund in excess of 12% of retirement benefit salary (Working Note) | 19,200 |
| Interest credited in excess of 9.5% p.a. (1,00,000 / 10% x .5%) | 5,000 |
| Gross Salary | 9,84,200 |

| Particulars | Amount |
|-------------------------------------|-----------------|
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income uth Salary | 9,34,200 |

Computation of Total Income

| Particulars | Amount |
|---|-----------------|
| Income under the head Salary | 9,34,200 |
| Gross Total Income | 9,34,200 |
| Less: Deductions u/s 80C – Employee’s contribution to recognized provident fund | 1,32,000 |
| Total Income | 8,02,200 |

| Computation of Tax Liability | Amount |
|-------------------------------------|---------------|
| Tax on INR 8,02,200 at slab rate | 72,940 |
| Add: Health and education Cess @ 4% | 2,918 |
| Tax liability | 75,858 |
| Rounded off u/s 288B | 75,860 |

Working Note:

| | |
|--|---------------|
| Retirement benefit salary = 7,20,000+1,20,000+1,00,000 | 9,40,000 |
| Employer’s contribution = 11,000 x 12 | 1,32,000 |
| Contribution exempt upto 12% of RBS | 1,12,800 |
| Excess taxable contribution (1,32,000 – 1,12,800) | 19,200 |

Concept problem 34 Solution

Computation of Income under the head Salary for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Basis pay (60,000 x 12) | 7,20,000 |
| Dearness allowance (10,000 x 12) | 1,20,000 |
| Bonus | 20,000 |
| Commission (50,00,000 x 2%) | 1,00,000 |
| Employer’s contribution to unrecognized provident fund in excess of 12% of retirement benefit salary | Nil |
| Interest credited in excess of 9.5% p.a. | Nil |
| Gross Salary | 9,60,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income uth Salary | 9,10,000 |

Computation of Total Income

| Particulars | Amount |
|-------------|--------|
|-------------|--------|

| Particulars | Amount |
|---|-----------------|
| Income under the head Salary | 9,10,000 |
| Gross Total Income | 9,10,000 |
| Less: Deductions u/s 80C – Employee’s contribution to unrecognized provident fund | Nil |
| Total Income | 9,10,000 |

| Computation of Tax Liability | Amount |
|-------------------------------------|---------------|
| Tax on INR 9,10,000 at slab rate | 94,500 |
| Add: Health and education cess @ 4% | 3,780 |
| Tax liability | 98,280 |

Concept Problem 35 Solution

Computation of Total Income for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount | Amount |
|--|----------|------------------|
| Basic pay (1,00,000 x12) | | 12,00,000 |
| Contribution to the pension fund by Central Government (10,000 x 12) | | 1,20,000 |
| Gross Salary | | 13,20,000 |
| Less: Standard Deduction u/s 16(ia) | | 50,000 |
| Income under the head salary | | 12,70,000 |
| Gross total income | | 12,70,000 |
| Less: Deduction u/s 80C (NSC) | 1,00,000 | |
| Less: Deduction u/s 80CCC | 3,000 | |
| Less: Deduction u/s 80CCD (1) | 1,20,000 | |
| Deduction under section 80C + 80CCC + 80CCD (1) restricted to | | 1,50,000 |
| Less: Additional deduction for contribution to NPS u/s 80CCD (1B) | | 50,000 |
| Less: Employer contribution to NPS u/s 80CCD (2) | | 1,20,000 |
| Total income | | 9,50,000 |

Computation of tax liability

| Particulars | Amount |
|-------------------------------------|-----------------|
| Tax on INR 9,50,000 at slab rate | 1,02,500 |
| Add: Health and education cess @ 4% | 4,100 |
| Tax Liability | 1,06,600 |

(b) Presume investment in NSC is INR 30,000.

In this case deduction allowed shall be

| Particulars | Amount | Amount |
|-------------------------|--------|--------|
| Deduction u/s 80C (NSC) | 30,000 | |

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Deduction u/s 80CCC | 3,000 | |
| Deduction u/s 80CCD (1) | 1,20,000 | |
| Deduction under section 80C + 80CCC + 80CCD restricted to | | 1,50,000 |
| Additional deduction for contribution to NPS u/s 80CCD (1) | | 3,000 |
| Employer contribution to NPS (2) | | 1,20,000 |
| Total Deduction from GTI | | 2,73,000 |
| Revised Total Income | | 9,97,000 |
| Tax Liability (Round off) | | 1,16,380 |

Concept Problem 36 Solution

Computation of Total Income for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Basis Pay [(27,000 x 8)] | 2,16,000 |
| Uncommuted pension {Sec 17(1)(ii)} (6,000 x 3 m + 6,000 x 2/3 x 1 m) | 22,000 |
| Commuted Pension {Sec 10(10A)} | Nil |
| Leave Salary {Sec 10(10AA)} Refer working Note | 1,05,000 |
| Gross salary | 3,43,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income under the head salary | 2,93,000 |

Working Note:

| Least of the following shall be exempt | |
|--|-----------------|
| a) INR 3,75,000 | |
| b) $10 \times 27,000 = \text{INR } 2,70,000$ | |
| c) INR 3,00,000 | |
| d) $355/30 \times 27,000 = \text{INR } 3,19,500$ | |
| Leave salary Received | 3,75,000 |
| Leave salary Exempt | 2,70,000 |
| Taxable leave salary | 1,05,000 |
| Computation of Leave at credit | |
| Leave entitlement (20 x 20) | 400 |
| Less: Leave availed | 35 |
| Less: Leave encashed | 10 |
| Leave at credit | 355 |

Concept Problem 37 Solution

The taxable retrenchment compensation will be:

| Particulars | Amount |
|--|-----------------|
| Retrenchment compensation received | 10,00,000 |
| Less: Exemption under section 10(10B) (W.N.) | (4,32,692) |
| Taxable Retrenchment Compensation | 5,67,308 |

Working Note:

As per section 10(10B) exemptions available to Mr. Rohit in respect of retrenchment compensation in this case will be the least of the following limits:

| Particulars | Amount |
|---|-----------|
| Compensation actually received | 10,00,000 |
| Statutory limit | 5,00,000 |
| Amount calculated in accordance with the provisions of section 25F of the Industrial Disputes act, 1947 [15/26 x (20,000x3) + (5,000 x 3)/3 x 30 years] | 4,32,692 |
| Therefore, INR 4,32,692 being the least of the above limits, would be exempt u/s 10(10B) | |

Concept problem 38 Solution
Situation 1: (Mr. A)
Computation of taxable amount of House rent allowance

| Particulars | Amount |
|--|---------------|
| HRA Received | 60,000 |
| HRA Exempt u/s 10(13A) (refer working note) | Nil |
| Taxable HRA | 60,000 |
| Working note | |
| Least of the three shall be exempt: | |
| a) House rent allowance received (5,000 x 12) | 60,000 |
| b) Rent paid over 10% of retirement benefit salary (1,500 – 2,000) x 12 | Nil |
| c) 50% of retirement benefit salary (Retirement benefit salary = 2,40,000) | 1,20,000 |

Situation 2: (Mr. B)
Computation of taxable amount of House rent allowance

| Particulars | Amount |
|--|------------|
| HRA Received | 60,000 |
| HRA Exempt u/s 10(13A) (refer working note) | 60,000 |
| Taxable HRA | Nil |
| Working note | |
| Least of the three shall be exempt: | |
| a) House rent allowance received (5,000 x 12) | 60,000 |
| b) Rent paid over 10% of retirement benefit salary (12,000 – 2,000) x 12 | 1,20,000 |
| c) 40% of retirement benefit salary | 96,000 |

Concept Problem 39 Solution

Computation of Income under the head Salary for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Basic salary (30,000 x 12) | 3,60,000 |
| Dearness allowance (7,000 x 12) | 84,000 |
| Servant allowance (2,000 x 12) | 24,000 |
| Entertainment allowance (1,000 x 12) (WN) | 12,000 |
| City compensatory allowance (600 x 12) | 7,200 |
| Gross salary | 4,87,200 |
| Less: Entertainment allowance (Working Note) | 5,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income uth Salary | 4,32,200 |

Working Note:

Least of the following is allowed as deduction:

| |
|---|
| a) 20% of basic salary (3,60,000 x 20% = 72,000) |
| b) INR 5,000 |
| c) The actual allowance received by the employee INR 12,000 |

Concept Problem 40 Solution

i. Salary is due on last day of the month

In this case salary shall be taxable from April 2023 to March 2024 and shall be as given below:

| Particulars | Amount |
|--------------------------------------|-----------------|
| April 2023 to June 2023 (50,000 x 3) | 1,50,000 |
| July 2023 to March 2024 (70,000 x 9) | 6,30,000 |
| Gross salary | 7,80,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income uth Salary | 7,30,000 |

ii. Salary is due on first of next month

In this case salary shall be taxable from March 2023 to February 2024 and shall be as given below:

| Particulars | Amount |
|---|-----------------|
| March 2023 to June 2023 (50,000 x 4) | 2,00,000 |
| July 2023 to February 2024 (70,000 x 8) | 5,60,000 |
| Gross salary | 7,60,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income uth Salary | 7,10,000 |

Concept Problem 41 Solution

Computation of relief u/s 89 of Mr. Ashok for the A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount | Amount |
|--|---------------|-----------------|
| Assessment year 2024-25 | | |
| Salary Income for the year excluding arrears | | 7,25,000 |
| Add: Arrears relating to Financial Year 2011-12 | | 80,000 |
| Total Income (including arrears) | | 8,05,000 |
| Tax on INR 8,05,000 | | |
| First INR 2,50,000 Nil | Nil | |
| Next INR 2,50,000 @ 5% | 12,500 | |
| Balance INR 3,05,000 @ 20% | 61,000 | |
| Tax before Health and education cess | 73,500 | |
| Add: Health and education cess @ 4% | 2,940 | |
| Tax on total income (including arrears) (A) | 76,440 | |
| | | |
| Total Income excluding arrears | | 7,25,000 |
| Tax on INR 7,25,000 | | |
| First INR 2,50,000 Nil | Nil | |
| Next INR 2,50,000 @ 5% | 12,500 | |
| Balance INR 2,25,000 @ 20% | 45,000 | |
| Tax before Health and education cess | 57,500 | |
| Add: Health and education cess @ 4% | 2,300 | |
| Tax on total income (excluding arrears) (B) | 59,800 | |
| Difference between A & B (I) | | 16,640 |
| | | |
| Assessment Year 2012-13 | | |
| Total Income assessed | | 2,40,000 |
| Add: Arrears relating to financial year 2011-12 | | 80,000 |
| Total income (including arrears) | | 3,20,000 |
| Tax on INR 3,20,000 | 18,000 | |
| Add: Education Cess @ 3% | 540 | |
| Tax on total income (including arrears) (C) | 18,540 | |
| | | |
| Total Income excluding arrears | | 2,40,000 |
| Tax on INR 2,40,000 | 8,000 | |
| Add: Education Cess @ 3% | 240 | |
| Tax on total income (excluding arrears) (D) | 8,240 | |

| Particulars | Amount | Amount |
|----------------------------------|--------|--------|
| Difference between C & D (II) | | 10,300 |
| Relief under section 89 (I – II) | | 6,340 |

Note:

It has been assumed that salary income of INR 7,25,000 for the year, as given in the question, does not include salary of INR 80,000 for the F.Y. 2011-12 received during the year.

Concept Problem 42 Solution

Computation of Total Income for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Basic salary (20,000 x 12) | 2,40,000 |
| Dearness allowance (10,000 x 12) | 1,20,000 |
| Bonus (1,000 x 12) | 12,000 |
| Commission (2,000 x 12) | 24,000 |
| Children education allowance (WN 1) | 3,000 |
| Hostel allowance (WN 2) | 2,400 |
| Entertainment allowance (500 x 12) | 6,000 |
| Transport allowance | 21,600 |
| Professional tax (200 x 12) | 2,400 |
| Club facility {See 17(2)(viii) Rule 3(7)(vi)} (1,000 x 12) | 12,000 |
| Rent free accommodation {See 17(2)(i), Rule 3(i)} (WN 3) | 55,350 |
| Gross salary | 4,98,750 |
| Less: 16(iii) Professional tax | 2,400 |
| Less: Standard deduction | 50,000 |
| Income under the head salary | 4,46,350 |

WN 1 - Children education allowance {See 10(14) rule 2BB}

| Particulars | Amount |
|-----------------------------|--------------|
| Received = INR 150 x 3 x 12 | 5,400 |
| Exempt = INR 100 x 2 x 12 | (2,400) |
| Taxable | 3,000 |

WN 2 - Hostel allowance {See 10(14) Rule 2BB}

| Particulars | Amount |
|-------------------------|--------------|
| Received = 500 x 1 x 12 | 6,000 |
| Exempt = 300 x 1 x 12 | 3,600 |
| Taxable | 2,400 |

WN 3 – Rent Free Accommodation

Working Note:

15% of rent-free accommodation salary or rent paid whichever is less

Rent free accommodation salary

= Basic pay+ dearness allowance +Bonus +commission +children education allowance +hostel allowance + entertainment allowance + transport allowance

= 2,40,000 + 60,000 + 12,000 + 24,000 + 3,000 + 2,400 + 6,000 + 21,600 = INR 3,69,000

Perquisite value of unfurnished house: Lower of

a) 15% of rent-free accommodation salary = INR 55,350

b) Rent paid = INR 11,000 x 12 = INR 1,32,000

Perquisite value = INR 55,350

Concept Problem 43 Solution

i. Computation of perquisite value of Rent-Free Accommodation

7.5% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

7.5% of 6,00,000 = 45,000

Perquisite value of rent-free accommodation = INR 45,000

ii. Computation of perquisite value of Rent-Free Accommodation

7.5% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

7.5% of 6,00,000 = 45,000

Perquisite value of rent-free accommodation = INR 45,000

iii. Computation of perquisite value of Rent-Free Accommodation

10% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 12 = 6,00,000

10% of 6,00,000 = 60,000

Perquisite value of rent-free accommodation = INR 60,000

i. Computation of perquisite value of Rent-Free Accommodation

15% of rent-free accommodation salary

Rent free accommodation salary = 50,000 x 3 = 1,50,000

15% of 1,50,000 = 22,500

Perquisite value of rent-free accommodation = INR 22,500

Concept Problem 44 Solution

Computation of tax liability for AY 2024-25 under Optional Tax Regime:

Situation 1 (Mr. A):

| Particulars | Amount |
|--|----------|
| Basic salary (25,000 x 12) | 3,00,000 |
| Perquisite value of Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} | 24,000 |

| Particulars | Amount |
|-------------------------------------|-----------------|
| Gross salary | 3,24,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income under the head salary | 2,74,000 |
| Tax on INR 2,74,000 at slab rate | 1,200 |
| Less: rebate u/s 87A | 1,200 |
| Tax liability | Nil |

| Working Note: | Amount |
|---|---------------|
| Rent free accommodation salary | 3,00,000 |
| 10% of rent-free accommodation salary | 30,000 |
| Value of unfurnished house | 30,000 |
| Less: Amount recovered from the employee (500 x 12) | (6,000) |
| Perquisite value of accommodation at concessional rent | 24,000 |

Situation 2 (Mr. B)

| Particulars | Amount |
|---|-----------------|
| Basic salary (25,000 x 12) | 3,00,000 |
| Perquisite value of Accommodation at concessional rent {Sec 17(2)(ii) Rule 3 (1)} | 39,000 |
| Gross salary | 3,39,000 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income under the head salary | 2,89,000 |
| Tax on INR 2,89,000 at slab rate | 1,950 |
| Less: rebate u/s 87A | 1,950 |
| Tax liability | Nil |

| Working Note: | Amount |
|---|---------------|
| Rent free accommodation salary | 3,00,000 |
| 15% of rent-free accommodation salary | 45,000 |
| Value of unfurnished house | 45,000 |
| Less: Amount recovered from the employee (500 x 12) | 6,000 |
| Perquisite value of accommodation at concessional rent | 39,000 |

Situation 3 (Mr. C)

| Particulars | Amount |
|--|-----------------|
| Basic salary (25,000 x 12) | 3,00,000 |
| Perquisite value of Accommodation at concessional rent {Sec 17(2)(ii) Rule 3(1)} | 39,000 |
| Gross salary | 3,39,000 |

| Particulars | Amount |
|-------------------------------------|-----------------|
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income under the head salary | 2,89,000 |
| Tax on INR 2,89,000 at slab rate | 1,950 |
| Less: rebate u/s 87A | 1,950 |
| Tax liability | Nil |

| Working Note: | Amount |
|--|---------------|
| Rent paid or 15% of rent-free accommodation salary whichever is less | |
| Rent free accommodation salary | 3,00,000 |
| 15% of rent-free accommodation salary | 45,000 |
| Rent paid (4,000 x 12) | 48,000 |
| Value of unfurnished house | 45,000 |
| Less: amount recovered from the employee (500 x 12) | 6,000 |
| Perquisite value of accommodation at concessional rent | 39,000 |

Concept Problem 45 Solution

Computation of Total Income for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|---|-----------------|
| Basis pay (22,000 x 12) | 2,64,000 |
| Professional Tax paid by employer (75 x 12) | 900 |
| Rent free accommodation {Sec 17(2)(i) Rule 3(1)} [WN 1] | 19,800 |
| Motor Car {Sec 17(2)(iii) Rule 3(2)} [WN 2] | 1,62,600 |
| Gross salary | 4,47,300 |
| Less: Standard Deduction u/s 16(ia) | (50,000) |
| Less: Professional Tax u/s 16(iii) | (1,200) |
| Income under the head salary | 3,96,100 |

Working Note 1 - Perquisite value of rent-free accommodation

| Particulars | Amount |
|---|----------|
| Rent free accommodation salary | 2,64,000 |
| 7.5% of rent-free accommodation salary | 19,800 |
| Perquisite value of rent-free accommodation | 19,800 |

Working Note 2 - Perquisite value of rent-free accommodation

Working Note:

option I

Presuming Car 1 is for official & personal purposes and Car II & Car III for personal use, perquisite value shall be:

$$\text{Car I} = (\text{INR } 2,400 + \text{INR } 900) \times 12 = \text{INR } 39,600$$

Car II = INR 30,000 + INR 10,000 + INR 4,000 + INR 36,000 = INR 80,000

Car III = INR 25,000 + INR 15,000 + INR 3,000 = INR 43,000

Perquisite value = INR 1,62,600

Option II

Presuming Car II is for official & personal purpose and Car I & Car II is for personal use, perquisite value shall be:

Car I = INR 40,000 + INR 3,000 + INR 5,000 + INR 48,000 = INR 96,000

Car II = (INR 1,800 + INR 900) x 12 = INR 32,400

Car III = INR 43,000

Perquisite value = INR 1,71,400

Option III

Presuming Car III is for official & personal purpose and Car I & Car II is for personal use, perquisite value shall be:

Car I = INR 96,000

Car II = INR 80,000

Car III = INR 1,800 x 12 = INR 21,600

Perquisite value = INR 1,97,600

So, 1st Option is better.

Perquisite value of motor car = INR 1,62,600.

Concept Problem 47 Solution

Computation of perquisite value of furniture

| Particulars | Amount |
|--|---------------|
| Cost of the furniture | 75,000 |
| Less: Depreciation on straight line method @ 10% from 31.03.2019 to 30.03.2022 | 30,000 |
| Written down value | 45,000 |
| Less: amount paid by the Assessee | 25,000 |
| Perquisite value to Furniture | 20,000 |

Computation of perquisite value of Microwave oven

| Particulars | Amount |
|--|---------------|
| Cost of microwave oven | 25,000 |
| Less: Depreciation on straight line method @ 10% from 01.06.2021 to 31.05.2022 | 2,500 |
| Written down value | 22,500 |
| Less: amount paid by the Assessee | - |
| Perquisite value of microwave oven | 22,500 |

Computation of perquisite value of Motor car

| Particulars | Amount |
|-------------------|----------|
| Cost of the motor | 2,40,000 |

| Particulars | Amount |
|---|-----------------|
| Less: Depreciation on reducing balance method @ 20% from 11.07.2020 to 10.07.2021 | 48,000 |
| Written down value | 1,92,000 |
| Less: Depreciation on reducing balance method @ 20% from 11.07.2021 to 10.07.2022 | 38,400 |
| Written down value | 1,53,600 |
| Less: amount paid by the Assessee | 95,000 |
| Perquisite value of motor car | 58,600 |

Computer of perquisite value of Computer

| Particulars | Amount |
|---|---------------|
| Cost of the computer | 55,000 |
| Less: Depreciation on reducing balance method @ 50% from 10.01.2021 to 09.01.2022 | 27,500 |
| Written down value | 27,500 |
| Less: Depreciation on reducing balance method @ 50% from 10.01.2022 to 09.01.2023 | 13,750 |
| Written down value | 13,750 |
| Less: Depreciation on reducing balance method @ 50% from 10.01.2023 to 09.01.2024 | 6,875 |
| Written down value | 6,875 |
| Less: amount paid by the Assessee | 30,000 |
| Perquisite value of computer | Nil |

Concept problem 49 Solution

Computation of taxable income of Mr. Vignesh for the A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Income from salaries (See Working Note below) | | 7,12,800 |
| Income from other sources | | |
| Interest on fixed deposit with a company | 5,000 | |
| Income from specified mutual fund | 3,000 | |
| Interest on Fixed Deposit received by minor daughter (3,000 - 1500) | 1,500 | 9,500 |
| Gross total income | | 7,22,300 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C – PPF | 40,000 | |
| Section 80CCC | 1,00,000 | 1,40,000 |
| Total Income | | 5,82,300 |
| Tax on total income | | 28,960 |
| Add: Health and education cess @ 4% | | 1,158 |
| Total tax liability | | 30,118 |
| Total tax liability (rounded off) | | 30,120 |

Working Note:

Computation of salary income of Mr. Vignesh for the Assessment Year 2024-25:

| Particulars | Amount |
|---|-----------------|
| Income under the head “salaries” | |
| Salary [INR 46,000 x 12] | 5,52,000 |
| Medical facility [in the hospital maintained by the company is exempt] | - |
| Rent free accommodation (15% of salary is taxable i.e. 5,52,000 × 15%) | 82,800 |
| Use of dining table for 4 months [INR 60,000 x 10 /100 x 4 /12] | 2,000 |
| Valuation of perquisite of interest on loan [10% - 6% = 4%] | 24,000 |
| Gift given on the occasion of wedding anniversary is exempt, since value is less than 5,000 | Nil |
| Perquisite on sale of dining tables (WN 1) | 12,000 |
| Purchase through credit card – not being a privilege but covered by section 17(2)(iv) | 10,000 |
| Perquisite on sale of car (WN 2) | 80,000 |
| Gross Salary | 7,62,800 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income from Salaries | 7,12,800 |

Working Note 1 - Perquisite on sale of dining tables

| | |
|--|---------------|
| Cost | 60,000 |
| Less: Depreciation on straight line method @ 10% for 3 years | 18,000 |
| Written Down Value | 42,000 |
| Less: Amount paid by the Assessee | 30,000 |
| Perquisite on sale of dining tables | 12,000 |

Working Note 2 - Perquisite on sale of car

| | |
|--|-----------------|
| Perquisite on sale of car | |
| Original cost of car | 2,50,000 |
| Less: Depreciation from 16.7.2020 to 15.7.2021 @ 20% | 50,000 |
| | 2,00,000 |
| Less: Depreciation from 16.7.2021 to 15.7.2022 @ 20% | 40,000 |
| Value as on 14.07.2023 - being the date of sale to employee | 1,60,000 |
| Less: Amount received from the Assessee on 14.07.2023 | 80,000 |
| Perquisite on sale of car | 80,000 |

Note:

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

In the given case the third year of use of ambassador car is completed on 15.7.2023 whereas the car was sold to the employee on 14.7.2023. The solution worked out above provides for wear and tear for only two years.

Concept problem 50 Solution

Computation of income under the head Salary for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|---|-----------------|
| PwC | |
| Basic Pay (12,000 x 10) | 1,20,000 |
| Dearness Allowance (3,000 x 10) | 30,000 |
| Commission | 6,000 |
| Rent free accommodation (WN 1) | 21,150 |
| Best suggestion award (Gift) (12,000 - 5,000) | 7,000* |
| Lunch Facility (10 x 2,000) – (50 x 25 x 10) (assuming 25 working days in a month) | 7,500 |
| Gratuity {sec 10(10)} (WN 2) | 1,18,654 |
| Uncommuted pension (3,000 x 50 x 2) | 3,000 |
| Commuted Pension {sec 10(10A)} (WN 3) | 75,000 |
| Refund of employer's contribution (including interest) | 2,50,000 |
| EY Ltd. | |
| Basic pay (8,000 x 2) | 16,000 |
| House rent allowance (WN 4) | 600 |
| Motor Car (2,400 x 22) | 4,800 |
| Gross salary | 6,59,704 |
| Less: Standard Deduction u/s 16(ia) | 50,000 |
| Income under the head Salary | 6,09,704 |
| Income under the head Other Sources (interest on employee's contribution to unrecognized provident fund) | 1,00,000 |
| Gross Total income | 7,09,704 |
| Less; Deduction u/s 80C to 80U | Nil |
| Total income (R/off u/s 288B) | 7,09,700 |

Computation of tax Liability

| Particulars | Amount |
|-------------------------------------|---------------|
| Tax on Amount 7,09,700 at Slab rate | 54,440 |
| Add: Health and education cess @ 4% | 2,178 |
| Tax Liability | 56,618 |
| Rounded off u/ s 288 B | 56,620 |

Working Note 1

| Particulars |
|--|
| 15% of rent-free accommodation salary or rent paid whichever is less |
| Rent free accommodation salary |

| Particulars | |
|---|--------|
| = Basic Pay + Dearness Allowance + Commission | |
| = 1,20,000 + 15,000 + 6,000 = 1,41,000 | |
| 15% of rent-free accommodation salary | 21,150 |
| Rent Paid = 5,000 x 10 | 50,000 |
| Perquisite value of rent-free accommodation | 21,150 |

Working Note 2

Least of the following is exempt

| |
|--|
| a) Gratuity received 3,35,000 |
| b) 10,00,000 |
| c) $15/26 \times 25 \times 15,000 = 2,16,346.15$ |
| Received = 3,35,000 |
| Exempt = (2,16,346.15) |
| Taxable = 1,18,653.85 |

Working Note 3

Least of the following is exempt

| | |
|--------------------------------|---------------|
| Received | 2,25,000 |
| Exempt = $4,50,000 \times 1/3$ | (1,50,000) |
| Taxable | 75,000 |

Working Note 4

Least of the following is exempt

| |
|---|
| a) INR 3,000 |
| b) INR 4,000 - INR 1,600 = INR 2,400 |
| Retirement benefit salary = Amount 16,000 |
| c) 40% of Retirement benefit salary = 6,400 |
| HRA Received = 3,000 |
| HRA Exempt = (2,400) |
| Taxable HRA = 600 |

Concept Problem 51 Solution

Computation of tax liability of Kashyap under Optional Tax Regime under both the options

| Particulars | Option I-HRA (Rs.) | Option – II- RFA (Rs.) |
|--|-----------------------|---------------------------|
| Basic Salary (Rs. 40,000 x 12 Months) | 4,80,000 | 4,80,000 |
| Perquisite value of rent –free accommodation = (15% of Rs. 4,80,000) | N.A. | 72,000 |
| House rent Allowance (Rs. 8,000 x 12 Months) = | Rs. 96,000 | |

| Particulars | Option I-HRA (Rs.) | Option – II- RFA (Rs.) |
|--|-----------------------|---------------------------|
| Less: Exempt u/s 10(13A) – least of the following - | | |
| - 50% of Basic Salary | Rs. 2,40,000 | |
| - Actual HRA received | Rs. 96,000 | |
| - Rent paid less 10% of Salary | Rs. 30,000 | 66,000 |
| Gross Salary | 5,46,000 | 5,52,000 |
| Less: Standard deduction u/s 16(ia) | 50,000 | 50,000 |
| Net Salary | 4,96,000 | 5,02,000 |
| Less: Deduction under Chapter VI-A | - | - |
| Total Income | 4,96,000 | 5,02,000 |
| Tax on total income | 12,300 | 12,900 |
| Less: Rebate under section 87A – Lower of Rs. 12,500 or income – tax of Rs. 12,300, since total income does not exceed Rs. 5,00,000. | 12,300 | Nil |
| | Nil | 12,900 |
| Add: Health and Education cess@4% | Nil | 516 |
| Total tax payable | Nil | 13,416 |
| Tax payable (Rounded off) | Nil | 13,420 |

Cash Flow Statement

| Particulars | Option I- HRA | Option II- RFA |
|--------------------------|------------------|-------------------|
| Inflow: Salary | 5,76,000 | 4,80,000 |
| Less: Outflow: Rent paid | (78,000) | - |
| Tax on total income | Nil | (13,420) |
| Net Flow | 4,98,000 | 4,66,580 |

Since the net cash inflow under Option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance.

Concept Problem 52 Solution

Computation of total income of Mr. Kamal for the A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount | Amount |
|--|-----------|--------|
| I Income from salaries | | |
| Basic Salary [3,50,000 x 12] | 42,00,000 | |
| Client entertainment reimbursement [2,40,000 - 2,00,000] | 40,000 | |
| Leave Travel Allowance [4,00,000 - 1,00,000] [Note 1] | 3,00,000 | |
| Performance Bonus (20% of Basic Salary) | 8,40,000 | |
| Interest on Housing loan [15,00,000 x (8% - 2.5%) x 10/12] | 68,750 | |

| Particulars | | Amount | Amount |
|-------------|---|------------------|------------------|
| | Sweat Equity allotted by the employer (1,500 - 1,300) x 1,500 | 3,00,000 | |
| | Gross Salary | 57,48,750 | |
| | Less: Standard deduction | 50,000 | |
| | Taxable Salary | | 56,98,750 |
| II. | Income from house property | | |
| | Gross Annual Value under section 23(1) [Rent received for 9 months has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent] [$35,000 \times 9$] | 3,15,000 | |
| | Less: Municipal taxes paid [Paid by Mr. Kamal] | | |
| | Net Annual Value (NAV) | | |
| | Less: Deduction u/s 24 | | |
| | @30% of NAV | | |
| | Interest on borrowed capital [$15,00,000 \times 2.5\% \times 10/12$] | 12,000 | 3,03,000 |
| III. | Capital gains | | |
| | STCG on sale of sweat equity shares [$1,500 \times (2,100 - 1,500)$] | 9,00,000 | |
| IV. | Income from other sources | | |
| | Dividend Income | | |
| | Interest on RBI bonds [$30,00,000 \times 7\% \times 4/12$] | | |
| | Gross total Income | | |
| | Less: Deduction under Chapter VI-A | | |
| | Deduction u/s 80C for LIC premium paid for self and wife [Note 2] | | |
| | Deduction u/s 80 D [Note 3] | | |
| | Total Income | | |

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

| Particulars | Amount | Amount |
|--|-----------|------------------|
| Tax on STCG u/s 111A @ 15% on 9,00,000 | | 1,35,000 |
| Tax on other income of 64,14,600 | | |
| Upto 2,50,000 | Nil | |
| 2,50,001 - 5,00,000 @ 5% | 12,500 | |
| 5,00,001 - 10,00,000 @ 20% | 1,00,000 | |
| 10,00,001 - 64,14,600 @ 30% | 16,24,380 | 17,36,880 |
| | | 18,71,880 |
| Add: Surcharge @ 10% since total income exceeds 50 lakhs but does not exceed 1 crore | | 1,87,188 |
| | | 20,59,068 |

| Particulars | Amount | Amount |
|-------------------------------------|--------|------------------|
| Add: Health and Education cess @ 4% | | 82,363 |
| Tax Liability | | 21,41,431 |
| Tax Liability (Rounded off) | | 21,41,430 |

Notes:

- (1) Hotel Bookings and lodgings are not covered under leave travel facility. Hence, only 1,00,000 of cost of tickets would be exempt under section 10(5).
- (2) Premium for life insurance policy of father is not allowed as deduction under section 80C.
- (3) Medical insurance premium on the health of brother is not allowable since brother does not come within the meaning of family u/s 80D. In case of son, premium is paid in cash, hence, the same is not allowed.

Concept Problem 53 Solution

I. Computation of income chargeable to tax under the head “Salaries” for A.Y. 2024-25, under Optional Tax Regime:

| Particulars | Amount | Amount |
|---|----------|------------------|
| Basic Pay [85,000 x 9 + 87,000 x 3] | | 10,26,000 |
| Dearness Allowance [10,26,000 x 40%] | | 4,10,400 |
| Bonus | | 87,000 |
| Travelling allowance [Exempt, since provided towards duty tours] | | - |
| Research and training allowance [3,000 x 12] | | 36,000 |
| Medical allowance [1500 x 12] | | 18,000 |
| Children Education allowance [600 x 12 x 3] | 21,600 | |
| Less: Exempt [100 x 12 x 2] | 2,400 | 19,200 |
| Salary (for the purpose of valuation of Rent-free accommodation) | | 15,96,600 |
| Value of Rent-free accommodation [15% of 15,96,600] | 2,49,490 | |
| Add: Value of furniture [2,00,000 × 10% p.a. for 6 months] | 10,000 | 2,39,490 |
| Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital] | | 15,000 |
| Health insurance premium paid by PQR Ltd. [Exempt] | | - |
| Employers’ contribution to RPF in excess of 12% of salary = 2% of 14,36,400 (10,26,000 + 4,10,400) | | 28,728 |
| Gross Salary | | 18,89,818 |
| Less: Deductions under section 16 | | |
| Standard deduction | | 50,000 |
| Income chargeable under the head “Salaries” | | 18,39,818 |

II. Computation of income chargeable to tax under the head “Salaries” for A.Y. 2024-25, under default tax regime u/s 115BAC:

| Particulars | Amount |
|-------------|--------|
|-------------|--------|

| Particulars | Amount |
|---|------------------|
| Income chargeable under the head “Salaries” | 18,39,818 |
| <i>Add:</i> Exemption in respect of children education allowance [Not allowable u/s 115BAC] | 2400 |
| <i>Add:</i> Standard deduction [Not allowable as per section 115BAC] | 50,000 |
| | 18,92,218 |
| <i>Less:</i> Value of rent-free accommodation (As per regular provisions) | 2,49,490 |
| | 16,42,728 |
| <i>Add:</i> Value of Rent-free accommodation [15% of 15,99,000 (15,96,600 (as calculated above) + 2,400)] | 2,39,850 |
| <i>Add:</i> Value of furniture [2,00,000 × 10% p.a. for 6 months] | 10,000 |
| Income chargeable under the head “Salaries” | 18,92,578 |

CHAPTER 5

HOUSE PROPERTY

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

| Particulars | House I | House II | House III | House IV | House V |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| a) Municipal Value | 80,000 | 55,000 | 65,000 | 24,000 | 75,000 |
| b) Fair Rent | 90,000 | 60,000 | 65,000 | 25,000 | 80,000 |
| c) Higher of (a) and (b) | 90,000 | 60,000 | 65,000 | 25,000 | 80,000 |
| d) Standard Rent | NA | 75,000 | 58,000 | NA | 78,000 |
| Lower of © and (d) | 90,000 | 60,000 | 58,000 | 25,000 | 78,000 |
| e) Expected Rent | 90,000 | 60,000 | 58,000 | 25,000 | 78,000 |
| f) Actual Rent | 72,000 | 72,000 | 60,000 | 30,000 | 72,000 |
| GAV (Higher of (e) and (f)) | 90,000 | 72,000 | 60,000 | 30,000 | 78,000 |

Concept Problem 2 Solution

For the P.Y. 2023-24, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y.2024-25:

| Particulars | Amount |
|---|--------------------|
| Gross Annual Value (£ 10,000 × 12 × 95) | 1,14,00,000 |
| Less: Municipal taxes paid (£ 8,000 × 95) | 7,60,000 |
| Net Annual Value (NAV) | 1,06,40,000 |

Concept Problem 3 Solution

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2024-25:

| Particulars | Amount |
|---|--------|
| I Interest on loan taken for acquisition of residential house property at Bombay | |

| | | |
|---|---|-----------------|
| | 30,00,000 x 10% = ₹ 3,00,000 Restricted to ₹ 2,00,000 | 2,00,000 |
| II | Interest on loan taken for repair of residential house property at Delhi | |
| | ₹ 5,00,000 x 11% = ₹ 55,000 Restricted to ₹ 30,000 | 30,000 |
| Total interest | | 2,30,000 |
| Deduction u/s 24(b) in respect of (I) and (II) above to be restricted to | | 2,00,000 |

Concept Problem 4 Solution

Computation of Income from house property of Mr. Anirudh for A.Y.2024-25:

| Particulars | | Amount in INR | |
|-----------------------------------|---|---------------|-----------------|
| Computation of GAV | | | |
| Step 1 | Compute ER | | |
| | ER = Higher of MV of INR 1,30,000 p.a. and FR of INR 1,10,000 p.a., but restricted to SR of INR 1,20,000 p.a. | 1,20,000 | |
| Step 2 | Compute actual rent received/receivable | | |
| | Actual rent received/receivable less unrealized rent as per Rule 4 = INR 1,32,000 - INR 11,000 | 1,21,000 | |
| Step 3 | Compare ER of INR 1,20,000 and Actual rent received/receivable of INR 1,21,000. | | |
| Step 4 | GAV is the higher of ER and Actual rent received/receivable | 1,21,000 | |
| Gross Annual Value (GAV) | | | 1,21,000 |
| Less: | Municipal taxes (paid by the owner during the previous year) = 10% of INR 1,30,000 | | 13,000 |
| Net Annual Value (NAV) | | | 1,08,000 |
| Less: | Deductions under section 24 | | |
| | (a) 30% of NAV | 32,400 | |
| | (b) Interest on borrowed capital (actual without ceiling limit) | 40,000 | 72,400 |
| Income from house property | | | 35,600 |

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of INR 1,20,000 and actual rent of INR 1,32,000. Thereafter, unrealized rent of INR 11,000 and municipal taxes of INR 13,000 would be deducted from GAV of INR 1,32,000 to arrive at the NAV of INR 1,08,000.

Concept Problem 5 Solution

Computation of income from house property of Ganesh for A.Y. 2024-25:

| Particulars | | Amount in ₹ | |
|---------------------------|--|-------------|--|
| Computation of GAV | | | |
| Step 1 | Compute ER | | |
| | Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ | 2,10,000 | |

| Particulars | Amount in ₹ | |
|--|-------------|-----------------|
| 2,10,000 p.a. | | |
| Step 2 Compute Actual rent received/ receivable | | |
| Actual rent received/ receivable for let out period less unrealized rent as per Rule 4 = ₹ 2,00,000 – ₹ 20,000 | 1,80,000 | |
| Step 3 Compare ER & Actual rent received/ receivable | | |
| Step 4 In this case the actual rent of ₹1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2024). Therefore, actual rent is the GAV. | 1,80,000 | |
| Gross Annual Value (GAV) | | 1,80,000 |
| Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000 | | 20,000 |
| Net Annual Value (NAV) | | 1,60,000 |
| Less: Deductions under section 24 | | |
| (a) 30% of NAV = 30% of ₹ 1,60,000 | 48,000 | |
| (b) Interest on borrowed capital (actual without any ceiling limit) | 65,000 | 1,13,000 |
| Income from house property | | 47,000 |

Note: Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

Concept Problem 6 Solution

Computation of income from house property of Smt. Poorna for A.Y. 2024-25:

| Particulars | | Amount |
|---|--|------------------|
| Annual Value of one house used for self-occupation under section 23(2) | | Nil |
| Less: | Deduction under section 24 | |
| | Interest on borrowed capital | 2,00,000 |
| | Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of INR 2,00,000 (including apportioned pre-construction interest) will be allowed as deduction. In this case the total interest is INR 1,80,000 + INR 72,000 (Being 1/5 th of INR 3,60,000) = INR 2,52,000. However, the interest deduction is restricted to INR 2,00,000. | |
| Loss from house property | | -2,00,000 |

Concept Problem 7 Solution

Computation of income from house property of Smt. Rajalakshmi for the A.Y.2024-25:

| Particulars | Amount in INR | |
|--------------------|---------------|--|
| Computation of GAV | | |

| Particulars | | Amount in INR | |
|-----------------------------------|---|---------------|-----------------|
| Step 1 | Compute ER for the whole year | | |
| | ER = Higher of MV of INR 5,00,000 and FR of INR 4,20,000, but restricted to SR of INR 4,80,000 | 4,80,000 | |
| Step 2 | Compute Actual rent received/receivable | | |
| | Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (INR 50,000×9) - (INR 50,000×2) = INR 4,50,000 – INR 1,00,000 | 3,50,000 | |
| Step 3 | Compare ER for the whole year with the actual rent received/receivable for the let-out period i.e. INR 4,80,000 and INR 3,50,000 | | |
| Step 4 | GAV is the higher of ER computed for the whole year and Actual rent received/ receivable computed for the let-out period. | 4,80,000 | |
| Gross Annual Value (GAV) | | | 4,80,000 |
| Less: | Municipal taxes (paid by the owner during the PY) = 12% of INR 5,00,000 | | 60,000 |
| Net Annual Value (NAV) | | | 4,20,000 |
| Less: | Deductions under section 24 | | |
| | (a) 30% of NAV = 30% of INR 4,20,000 | 1,26,000 | |
| | (b) Interest on borrowed capital | 25,000 | 1,51,000 |
| Income from house property | | | 2,69,000 |

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be INR 4,80,000, being higher of expected rent of INR 4,80,000 and actual rent of INR 4,50,000. Thereafter, unrealized rent of INR 1,00,000 and municipal taxes of INR 60,000 would be deducted from GAV of INR 4,80,000 to arrive at the NAV of INR 3,20,000. The deduction u/s 24(a) would be INR 96,000, being 30% of INR 3,20,000. The income from house property would, therefore, be INR 1,99,000.

Concept Problem 8 Solution

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2024-25:

| Particulars | | Amount in INR | | |
|--|---|-----------------|-----------------|-----------------|
| | | House I | House II | House III |
| Gross Annual Value (GAV) | | | | |
| ER is the GAV of house property | | | | |
| ER = Higher of MV and FR, but restricted to SR | | 3,50,000 | 3,60,000 | 3,75,000 |
| Less: | Municipal taxes (paid by the owner during the PY) | 36,000 | 28,800 | 19,800 |
| Net Annual Value (NAV) | | 3,14,000 | 3,31,200 | 3,55,200 |
| Less | Deductions under section 24 | | | |
| | (a) 30% of NAV | 94,200 | 99,360 | 1,06,560 |
| | (b) Interest on borrowed capital | - | 55,000 | 1,75,000 |
| Income from house property | | 2,19,800 | 1,76,840 | 73,640 |

Ganesh can opt to treat any two of the above house properties as self-occupied.

Under default tax regime under section 115BAC

OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

| Particulars | Amount in INR |
|--|---------------|
| House I (Self-occupied) | Nil |
| House II (Self-occupied) (No interest deduction) | Nil |
| House III (Deemed to be let-out) | 73,640 |
| Income from house property | 73,640 |

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

| Particulars | Amount in INR |
|---|-----------------|
| House I (Self-occupied) | Nil |
| House II (Deemed to be let-out) | 1,76,840 |
| House III (Self-occupied) (No interest deduction) | Nil |
| Income from house property | 1,76,840 |

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

| Particulars | Amount in INR |
|---|-----------------|
| House I (Deemed to be let-out) | 2,19,800 |
| House II (Self-occupied) (no interest deduction) | Nil |
| House III (Self-occupied) (no interest deduction) | Nil |
| Income from house property | 2,19,800 |

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be INR 73,640 for the A.Y. 2024-25 under default tax regime under section 115BAC.

If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

| Particulars | Amount in INR |
|--|---------------|
| House I (Self-occupied) | Nil |
| House II (Self-occupied) (Interest deduction restricted to 30,000) | (30,000) |
| House III (Deemed to be let-out) | 73,640 |
| Income from house property | 43,640 |

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

| Particulars | | Amount in INR |
|-----------------------------------|--|---------------|
| House I (Self-occupied) | | Nil |
| House II (Deemed to be let-out) | | 1,76,840 |
| House III (Self-occupied) | | (1,75,000) |
| Income from house property | | 1,840 |

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

| Particulars | | Amount in INR |
|--|----------|-----------------|
| House I (Deemed to be let-out) | | 2,19,800 |
| House II (Self-occupied) (Interest deduction restricted to 30,000) | 30,000 | Nil |
| House III (Self-occupied) | 1,75,000 | |
| (Total interest deduction restricted to 2,00,000) | | 2,00,000 |
| Income from house property | | 2,19,800 |

Since Option 2 is most beneficial in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be 1,840 for the A.Y. 2024-25 under the optional tax regime i.e., the normal provisions of the Act.

Concept Problem 9 Solution

There are two units of the house. Unit I with 2/3rd area is used by Prem for self- occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2024-25 under the optional tax regime (i.e., the normal provisions of the Act)

| Particulars | | Amount in INR | |
|---|---|---------------|-----------------|
| Unit I (2/3rd area – self-occupied) | | | |
| Annual Value | | | Nil |
| Less: Deduction under section 24(b) [2/3 rd of INR 1,20,000] | | | 80,000 |
| Income from Unit I (self-occupied) | | | (80,000) |
| Unit II (1/3rd area – let out) | | | |
| Computation of GAV | | | |
| Step I | Compute ER | | |
| | ER = Higher of MV and FR, restricted to SR However, in this case, SR of INR 1,10,000 (1/3 rd of INR 3,30,000) is more than the higher of MV of INR 1,00,000 (1/3 rd of INR 3,00,000) and FR of INR 90,000 (1/3 rd of INR 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV. | 1,00,000 | |

| Particulars | | Amount in INR | |
|--|---|---------------|-----------------|
| Step 2 | Compute actual rent received/ receivable [INR 8,000×12 = INR 96,000] | 96,000 | |
| Step 3 | Compare ER and actual rent received/ receivable | | |
| Step 4 | GAV is the higher of ER and actual rent received/receivable i.e. higher of INR 1,00,000 and INR 96,000 | 1,00,000 | |
| Gross Annual Value (GAV) | | | 1,00,000 |
| Less: | Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3 rd of (10% of INR 3,00,000) = INR 30,000/3 = INR 10,000 | | 10,000 |
| Net Annual Value (NAV) | | | 90,000 |
| Less: | Deductions under section 24 | | |
| | (a) 30% of NAV = 30% of INR 90,000 | 27,000 | |
| | (b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of INR 1,20,000 | 40,000 | 67,000 |
| Income from Unit II (let-out) | | | 23,000 |
| Loss under head “Income from house property” = INR (80,000) + INR 23,000 = INR (57,000) | | | |

Under the default tax regime, Prem would not be entitled to interest deduction of INR 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be 23,000, being income from Unit II, which is let out.

Concept Problem 10 Solution

Since the unrealised rent was recovered in the P.Y.2023-24, the same would be taxable in the A.Y.2024-25 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year.

Further, the arrears of rent was also received in the P.Y.2023-24, and hence the same would be taxable in the A.Y.2024-25 under section 25A, even though Mr. Anand was not the owner of the house in that year.

A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2024-25.

| Particulars | Amount |
|-----------------------------------|---------------|
| Unrealised rent recovered | 10,000 |
| Arrears of rent received | 69,000 |
| Total | 79,000 |
| Less: Deduction @ 30% | 23,700 |
| Income from house property | 55,300 |

Concept Problem 11 Solution

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2024-25:

| Particulars | Amount |
|---|--------|
| I. Interest on loan taken for acquisition of residential house property at Calcutta | |
| ₹ 50,00,000 x 10% = ₹ 5,00,000 | |

| | |
|---|-----------------|
| Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 | |
| Restricted to ₹ 2,00,000 | 2,00,000 |
| II. Interest on loan taken for repair of flat at Pune | |
| ₹ 3,00,000 x 12% = ₹ 36,000 | |
| Restricted to ₹ 30,000 | 30,000 |
| Total interest | 2,30,000 |
| Deduction u/s 24(b) in respect of (I) & (II) above to be restricted to | 2,00,000 |

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2024-25:

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

Concept Problem 12 Solution

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

| Particulars | Amount |
|---|-----------------|
| Gross Annual Value | 1,80,000 |
| (a) Municipal value of property | 1,60,000 |
| (b) Fair rent | 1,50,000 |
| (c) Higher of (a) and (b) | 1,60,000 |
| (d) Standard rent | 1,70,000 |
| (e) Annual Letting Value / Expected Rent [Lower of (c) and (d)] | 1,60,000 |
| (f) Actual rent [15,000 * 12] | 1,80,000 |
| Gross Annual Value [higher of (e) and (f)] | 1,80,000 |
| Less: Municipal taxes – paid by the tenant, hence not deductible | Nil |
| Net Annual Value (NAV) | 1,80,000 |
| Less: Standard deduction 30% of NAV u/s 24(a) | (54,000) |
| Less: Interest on housing loan u/s 24(b) | |
| Interest on loan taken from bank | (25,000) |
| Interest on fresh loan to repay old loan for this property | (5,000) |
| Income under the head house property | 96,000 |
| 50% share taxable in the hands of Raman uth House Property | 48,000 |

Notes:

- Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.

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

Concept Problem 13 Solution

Computation of Income from house property for A.Y. 2024-25:

| Particulars | Amount | Amount |
|---|--------|----------------|
| (A) Rented unit (50% of total area – See Note below) | | |
| Step I - Computation of Expected Rent | | |
| Municipal valuation (INR 1,90,000 x 1/2) | 95,000 | |
| Fair rent (INR 1,85,000 x 1/2) | 92,500 | |
| Standard rent (INR 1,62,000 x 1/2) | 81,000 | |
| Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent | 81,000 | |
| Step II - Actual Rent | | |
| Rent receivable for the whole year (INR 8,000 x 10) | 80,000 | |
| Step III – Computation of Gross Annual Value | | |
| Actual rent received owing to vacancy (INR 96,000 – INR 16,000) Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value | 80,000 | |
| Gross Annual Value | | 80,000 |
| Less: Municipal taxes (5% of INR 95,000) | | 4,750 |
| Net Annual value | | 75,250 |
| Less: Deductions under section 24 - | | |
| (i) 30% of net annual value | 22,575 | |
| (ii) Interest on borrowed capital (INR 750 x 12) | 9,000 | 31,575 |
| Taxable income from let out portion | | 43,675 |
| (B) Self-occupied unit (50% of total area – See Note below) | | |
| Annual value | Nil | |
| Less: Deduction under section 24 - | | |
| Interest on borrowed capital (INR 750 x 12) | 9,000 | 9,000 |
| Loss from self-occupied portion | | (9,000) |
| Income from house property | | 34,675 |

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

Concept Problem 14 Solution

Computation of income from house property of Mr. Vikas for the A.Y. 2024-25:

| Particulars | | Amount |
|---|------------|-----------------|
| Income from house property | | |
| I. Self-occupied portion (Two third) | | |
| Net Annual value | | Nil |
| Less: Deduction under section 24(b) | | |
| Interest on loan (See Note below) (INR 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)] | | 12,400 |
| Loss from self-occupied property (A) | | (12,400) |
| II. Let-out portion (One third) | | |
| Gross Annual Value | | |
| (a) Actual rent received (INR 5,000 x 12) | INR 60,000 | |
| (b) Expected rent [higher of municipal valuation (INR 96,000) and fair rent (i.e., 1,26,000) but restricted to standard rent (i.e., INR 1,08,000)] = 1,08,000 x 1/3 | INR 36,000 | |
| Higher of (a) or (b) | | 60,000 |
| Less: Municipal taxes (INR 96,000 x 11% x 1/3) | | 3,520 |
| Net Annual Value | | 56,480 |
| Less: Deductions under section 24 | | |
| a) 30% of NAV | | 16,944 |
| b) Interest on loan (See Note below) (INR 18,600 x 1/3) | | 6,200 |
| Income from let out portion (B) | | 33,336 |
| Income from house property (A + B) | | 20,936 |

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of INR 1,00,000 = INR 12,000

Pre-construction period interest = 12% of INR 1,00,000 for 33 months (from 1.7.2015 to 31.3.2019) = INR 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of INR 6,600 from the year of completion of construction i.e., from F.Y. 2019-20 till F.Y. 2023-24.

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

Concept Problem 15 Solution

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

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2024-25 will be calculated as under:

| S. No | Particulars | Amount | Amount |
|-------|--|----------|-------------------|
| 1. | Self-occupied house at Los Angeles | | |
| | Annual value | Nil | |
| | Less: Deduction under section 24 | Nil | |
| | Chargeable income from this house property | | Nil |
| 2. | Self-occupied house property at Chennai | | |
| | Annual value | Nil | |
| | Less: Deductions u/s 24(b) for Interest on borrowed capital (Note below) | 1,91,940 | (1,91,940) |
| 3. | Arrears in respect of Bangalore property (Section 25A) | | |
| | Arrears of rent received | 60,000 | |
| | Less: Deduction @ 30%u/s 25A(2) | 18,000 | 42,000 |
| | Income under head "Income from house property" | | (1,49,940) |

Note: Interest on borrowed capital u/s 24(b)

| | Amount |
|--|-----------------|
| Interest for the current year (50,800 + 1,31,300) | 1,82,100 |
| Add: 1/5th of pre-construction interest (49,200 x 1/5) | 9,840 |
| Interest deduction allowable under section 24 | 1,91,940 |

Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be 42,000.

Concept Problem 16 Solution

(i) If Arun and Bimal pay tax under the default tax regime u/s 115BAC

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

| Particulars | Arun | Bimal |
|---|------------|------------|
| Income from house property | | |
| I. Occupied portion (25%) | | |
| Annual value | Nil | Nil |
| Less: Deduction under section 24(b) | Nil | Nil |
| Loss from self-occupied property | Nil | Nil |
| II. Let out portion (75%) – See Working Note below | 1,25,850 | 1,25,850 |

| Particulars | Arun | Bimal |
|----------------------------|-----------------|-----------------|
| Income from house property | 1,25,850 | 1,25,850 |
| Other income | 2,90,000 | 1,80,000 |
| Total Income | 4,15,850 | 3,05,850 |

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

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

(ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

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

| Particulars | Arun | Bimal |
|---|-----------------|-----------------|
| Income from house property | | |
| Occupied portion (25%) | | |
| Annual value | Nil | Nil |
| Less: Deduction under section 24(b) Interest on loan taken for construction 37,500 (being 25% of INR 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)] | 37,500 | 37,500 |
| Loss from self-occupied property | (37,500) | (37,500) |
| Let out portion (75%) – See Working Note above | 1,25,850 | 1,25,850 |
| Income from house property | 88,350 | 88,350 |
| Other income | 2,90,000 | 1,80,000 |
| Total Income | 3,78,350 | 2,68,350 |

2. ICAI RTPS, MTPS, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS
Concept Problem 17 Solution

Computation of income from house property of Mr. Raphael for AY 2024-25 under optional tax regime:

| Particulars | Amount |
|--|-------------------|
| Shopping complex | |
| Gross Annual Value [30,000 × 9] | 2,70,000 |
| Less: Municipal Taxes | 8,000 |
| Net Annual Value (NAV) | 2,62,000 |
| Less: Deduction u/s 24(a) @ 30% of NAV | 78,600 |
| Less: Interest on borrowed capital u/s 24(b) (Working Note) | 2,83,333 |
| Loss from shopping complex (A) | (99,933) |
| Self-occupied residential house | |
| Gross Annual Value | Nil |
| Less: Municipal Taxes | Nil |
| Net Annual Value (NAV) | Nil |
| Less: Deduction u/s 24(a) @ 30% of NAV | Nil |
| Less: Interest on borrowed capital u/s 24(b) (Note b) | 2,00,000 |
| Loss from self-occupied house (B) | (2,00,000) |
| Taxability of arrears of Rent under section 25A | |
| Arrears of rent received | 1,20,000 |
| Less: Deduction @ 30% u/s 24(a) | 36,000 |
| Taxable amount (C) | 84,000 |
| Net Income under the head House Property (A+B+C) | (2,15,933) |

Working Note: Interest on borrowed capital (Shopping Complex)

| Particulars | Amount |
|--|-----------------|
| Interest for the current year (10% of INR 25 lakhs) | 2,50,000 |
| Add: 1/5 th of pre-construction interest (interest for the period from 1.8.2022 to 31.3.2023 i.e., for 8 months) [(INR 25,00,000 × 10% × 8/12) × 1/5] | 33,333 |
| Interest deduction allowable under section 24 | 2,83,333 |

Note: It has been assumed that loan of INR 25 lakhs has to be repaid after the five-year period. Hence, there has been no repayment upto 31.3.2023. Interest computation has been made accordingly.

Income under the head Other Sources

Rent received in relation to under-construction house property = 30,000 × 3 = 90,000

Concept Problem 18 Solution

Computation of income from house property of Mr. Vihaan for A.Y. 2024-25 under optional tax regime:

| Particulars | Amount |
|---|-------------------|
| 1. Income from let-out property in Singapore [See Note 1 below] | |
| Gross Annual Value (SGD 4,000 p.m. x 12 months x INR 51) | 24,48,000 |
| Less: Municipal taxes paid during the year [SGD 2,000 (SGD 1,250 + SGD 750) x INR 51] | 1,02,000 |
| Net Annual Value (NAV) | 23,46,000 |
| Less: Deductions under section 24 | |
| (a) 30% of NAV | 7,03,800 |
| Income from let-out property in Singapore | 16,42,200 |
| 2. Income from self-occupied property in Pune | |
| Annual Value [Nil, since the property is self-occupied] [No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property] | NIL |
| Less: Deduction in respect of interest on housing loan [See Note 2 below] | 2,00,000 |
| | (2,00,000) |
| Income from house property [INR 16,42,200 – INR 2,00,000] | 14,42,200 |

Notes:

1) Since Mr. Vihaan is a resident but not ordinarily resident in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Singapore would be taxable in India since such income is received by him in India.

2) Interest on housing loan for construction of self-occupied property allowable as deduction u/s 24

Interest for the current year (INR 25,00,000 x 12%) = 3,00,000

Pre-construction interest

For the period 01.06.2019 to 31.03.2021 (INR 25,00,000 x 12% x 22/12) = INR 5,50,000

INR 5,50,000 allowed in 5 equal instalments (INR 5,50,000/5) = 1,10,000

Total = 4,10,000

In case of self-occupied property, interest deduction to be restricted to 2,00,000.

Concept Problem 19 Solution

Computation of income from house property of Mr. Vihaan for A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Amount | Amount |
|---|--------|--------|--------|
| Income from House Property | | | |
| Let out portion [First floor] | | | |
| Gross Annual Value [Rent received is taken as GAV = INR 10,000 p.m. x 6 months] | | 60,000 | |

| Particulars | Amount | Amount | Amount |
|--|--------|---------------|-----------------|
| Less: Municipal taxes paid by her in the P.Y.2023-24 pertaining to let out portion $[(\text{INR } 5,000 + \text{INR } 5,000)/2]$, allowable since it is paid during the year, even if it relates to earlier years | | 5,000 | |
| Net Annual Value (NAV) | | 55,000 | |
| Less: Deduction u/s 24 | | | |
| (a) 30% of INR 55,000 | 16,500 | | |
| (b) Interest on housing loan $[(60,000 (+) 40,000)/2]$ | 50,000 | 66,500 | |
| | | (11,500) | |
| Self-occupied portion [Ground Floor] | | | |
| Annual Value | Nil | | |
| Less: Deduction u/s 24 | | | |
| Interest on housing loan for reconstruction 50,000 $[(\text{INR } 60,000 + \text{INR } 40,000)/2]$ restricted to | 30,000 | (30,000) | (41,500) |
| IV Income from Other Sources | | | |
| Power back up charges from tenant (3,000 p.m. x 6 months) | | 18,000 | 18,000 |
| GTI | | | 23,500 |

Concept problem 20 Solution

Interest on capital borrowed for the previous year 2023-24 u/s 24(b).

| Particulars | Amount |
|--|---------------|
| Current period Interest | |
| <u>From 01.04.2023 to 31.03.2024</u> | |
| $(5,00,000 \times 10\%)$ | 50,000 |
| Prior period interest | |
| <u>From 01.10.2020 to 31.03.2023</u> | |
| $5,00,000 \times 10\% \times 30/12 =$ | 1,25,000 |
| Instalment $(1,25,000/5)$ | 25,000 |
| Total Interest $(50,000 + 25,000)$ allowed u/s 24(b) in PY 2023-24 | 75,000 |

Concept problem 21 Solution

Computation of Total Income for previous year 2023-24 under optional tax regime:

| Particulars | Amount |
|----------------------------|------------------|
| GAV (Refer Note 1) | 11,00,000 |
| Less: Municipal Tax | 30,000 |
| Net Annual Value | 10,70,000 |
| Less: 30% of NAV u/s 24(a) | 3,21,000 |

| Particulars | Amount |
|---|-----------------|
| Less: Interest on capital borrowed u/s 24(b) (Refer Note 2) | 2,84,400 |
| Income under the head house property | 4,64,600 |
| Gross Total Income | 4,64,600 |
| Less: Deduction u/s 80C | 1,00,000 |
| Total Income | 3,64,600 |

Note 1

| Gross Annual Value | Amount |
|---|------------------|
| Fair Rent (1,00,000 x 11) | 11,00,000 |
| Expected Rent | 11,00,000 |
| Rent received/ receivable (90,000 x 9) | 8,10,000 |
| If there was no vacancy, in that case rent received/ receivable would have been INR 990,000 (90,000*11) and it was still less than expected Rent, therefore GAV shall be expected rent. | |
| GAV | 11,00,000 |

Note 2

| | |
|---|-----------------|
| Current period Interest | |
| <u>From 01.04.2023 to 31.03.2024</u> | |
| $(13,00,000 \times 12\% \times 9/12) + (12,00,000 \times 12\% \times 3/12) =$ | 1,53,000 |
| Prior period interest | |
| <u>From 01.07.2019 to 31.03.2023</u> | |
| $15,00,000 \times 12\% \times 30/12 =$ | 4,50,000 |
| $14,00,000 \times 12\% \times 12/12 =$ | 168,000 |
| $13,00,000 \times 12\% \times 3/12 =$ | 39,000 |
| Instalment (6,57,000/5) | 131,400 |
| Total Interest (1,53,000 + 131,400) | 2,84,400 |

Concept Problem 22 Solution

Case I

| Computation of Gross Annual Value | Amount |
|--|----------|
| a) Fair Rent (9,000 x 12) | 1,08,000 |
| b) Municipal Valuation (10,000 x 12) | 1,20,000 |
| c) Higher of (a) or (b) | 1,20,000 |
| d) Standard Rent (12,000 x 12) | 1,44,000 |
| e) Expected Rent {Lower of (c) or (d)} | 1,20,000 |
| f) Rent Received / Receivable (7,000 x 11) | 77,000 |

| Computation of Gross Annual Value | Amount |
|--|-----------------|
| If there was no vacancy, in that case rent received/ receivable would have been INR 84,000 and it was still less than expected Rent, therefore GAV shall be expected rent. | |
| Gross Annual Value | 1,20,000 |

Case II

| Computation of Gross Annual Value | Amount |
|---|-----------------|
| a) Fair Rent (13,000 x 12) | 1,56,000 |
| b) Municipal Valuation (9,000 x 12) | 1,08,000 |
| c) Higher of (a) or (b) | 1,56,000 |
| d) Standard Rent (11,000 x 12) | 1,32,000 |
| e) Expected Rent {Lower of (c) or (d)} | 1,32,000 |
| f) Rent Received/Receivable (11,500 x 11) | 1,26,500 |
| In this case, if there was no vacancy, rent received/receivable would have been INR 1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable | |
| Gross Annual Value | 1,26,500 |

Case III

| Computation of Gross Annual Value | Amount |
|---|-----------------|
| a) Fair Rent (12,000 x 12) | 1,44,000 |
| b) Municipal Valuation (9,000 x 12) | 1,08,000 |
| c) Higher of (a) or (b) | 1,44,000 |
| d) Standard Rent (7,000 x 12) | 84,000 |
| e) Expected Rent {Lower of (c) or (d)} | 84,000 |
| f) Rent Received / Receivable (20,000 x 10) | 2,00,000 |
| In this case, rent R/R is higher than the expected Rent, GAV shall be Rent R/R. | |
| Gross Annual Value | 2,00,000 |

Case IV

| Computation of Gross Annual Value | Amount |
|--|----------|
| a) Fair Rent (16,000 x 12) | 1,92,000 |
| b) Municipal Valuation (18,000 x 12) | 2,16,000 |
| c) Higher of (a) or (b) | 2,16,000 |
| d) Standard Rent (16,000 x 12) | 1,92,000 |
| e) Expected Rent {Lower of (c) or (d)} | 1,92,000 |
| f) Rent Received / Receivable (16,500 x 10) | 1,65,000 |
| In this case, if there was no vacancy, rent received/receivable would have been INR 198,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable | |

| Computation of Gross Annual Value | Amount |
|-----------------------------------|-----------------|
| Gross Annual Value | 1,65,000 |

Concept Problem 23 Solution

Case I

| Computation of Gross Annual Value | Amount |
|---|-----------------|
| a) Fair Rent (11,000 x 12) | 132,000 |
| b) Municipal Valuation (12,000 x 12) | 1,44,000 |
| c) Higher of (a) or (b) | 1,44,000 |
| d) Standard Rent (13,000 x 12) | 1,56,000 |
| e) Expected Rent {Lower of (c) or (d)} | 1,44,000 |
| f) Rent Received / Receivable (8,000 x 11) | 88,000 |
| Gross Annual Value (Higher of e and f) | 1,44,000 |

Case II

| Computation of Gross Annual Value | Amount |
|--|-----------------|
| a) Fair Rent (14,000 x 12) | 1,68,000 |
| b) Municipal Valuation (9,000 x 12) | 1,08,000 |
| c) Higher of (a) or (b) | 1,68,000 |
| d) Standard Rent (8,000 x 12) | 96,000 |
| e) Expected Rent {Lower of (c) or (d)} | 96,000 |
| f) Rent Received / Receivable (21,000 x 8) | 1,68,000 |
| Since rent received/ receivable is higher than expected Rent, therefore GAV shall be rent received/ receivable | |
| Gross Annual Value | 1,68,000 |

Case III

| Computation of Gross Annual Value | Amount |
|--|-----------------|
| a) Fair Rent (16,000 x 12) | 1,92,000 |
| b) Municipal Valuation (18,000 x 12) | 2,16,000 |
| c) Higher of (a) or (b) | 2,16,000 |
| d) Standard Rent (17,000 x 12) | 2,04,000 |
| e) Expected Rent {Lower of (c) or (d)} | 2,04,000 |
| f) Rent Received / Receivable (17,000 x 8) | 1,36,000 |
| If there was no vacancy, in that case, rent received/ receivable would be 187,000 and it was still lower than expected Rent, therefore GAV shall be expected rent. | |
| Gross Annual Value | 2,04,000 |

Concept Problem 24 Solution

Computation of income under the head House Property under optional tax regime:

Income from self-occupied property = Nil

Income from let out property

| Particulars | Amount |
|---|-----------------|
| Gross Annual Value | 1,50,000 |
| a) Fair Rent (12,500*12) | 1,50,000 |
| b) Municipal Value (11,000*12) | 1,32,000 |
| d) Expected Rent {Higher of a or b} | 1,50,000 |
| f) Rent received /receivable (10,000 x 9.5) | 95,000 |
| If there was no vacancy, in that case, rent received/ receivable would be 1,05,000 which is still less than expected Rent, therefore GAV shall be expected rent | |
| GAV | 1,50,000 |
| Less: Municipal Tax | 1,500 |
| Net Annual Value | 1,48,500 |
| Less: 30% of NAV u/s 24(a) | 44,550 |
| Less: Interest on capital borrowed u/s 24 (b) | Nil |
| Income under the head House Property | 1,03,950 |

Computation of income under the head Business/Profession

| Particulars | Amount |
|---|-----------------|
| Income before debiting any expense under house property | 2,00,000 |
| Less: Municipal taxes | 750 |
| Less: Insurance charges | 1,500 |
| Less: Repairs | 2,000 |
| Less: Land revenue | 1,000 |
| Less: Ground rent | 750 |
| Less: Depreciation | 3,000 |
| Income under the head Business/Profession | 1,91,000 |

Computation of Total Income

| Particulars | Amount |
|---|-----------------|
| Income under the head house property | 1,03,950 |
| Income under the head Business/Profession | 1,91,000 |
| Gross Total Income | 2,94,950 |
| Less: Deduction u/s 80C | Nil |
| Total Income | 2,94,950 |

Concept Problem 25 Solution

Computation of income under the head House Property under optional tax regime:

| Particulars | Amount |
|--|-----------------|
| GAV (45,000*12) | 5,40,000 |
| Less: Municipal Tax | 2,500 |
| Net Annual Value | 5,37,500 |
| Less: 30% of NAV u/s 24(a) | 1,61,250 |
| Less: Interest on capital borrowed u/s 24(b) | 10,000 |
| Income under the head house property | 3,66,250 |

Computation of income under the head Other Source

| Particulars | Amount |
|---|---------------|
| Income from Generator (5,000*12) | 60,000 |
| Less: Repair charges | 3,500 |
| Less: Fuel charges | 6,000 |
| Less: Salary (500*12) | 6,000 |
| Income under the head Other Source | 44,500 |

Computation of Total Income

| Particulars | Amount |
|--------------------------------------|-----------------|
| Income under the head house property | 3,66,250 |
| Income under the head Other Source | 44,500 |
| Gross Total Income | 4,10,750 |
| Less: Deduction u/s 80C | Nil |
| Total Income | 4,10,750 |

Concept Problem 26 Solution

Computation of income from house property of Mrs. Ram in USA for the AY 2024-25 under optional tax regime:

| Particulars | Amount |
|---|------------------|
| GAV of the house in USA (\$ 2000 p.m. x INR 65 per USD x 12 months) | 15,60,000 |
| Less: Municipal taxes paid (\$1500 x INR 65 per USD) | (97,500) |
| Net annual value | 14,62,500 |
| Less: Statutory deduction under section 24(a)@ 30% of NAV | (4,38,750) |
| Income from house property | 10,23,750 |

Computation of income from House at Mumbai (let out portion) - 1st Floor

| Particulars | Amount |
|---|-----------------|
| Gross annual value (10,000 x 12) | 1,20,000 |
| Less: Municipal taxes paid (1/2 of INR 7,500) | (3,750) |
| Net annual value (NAV) | 1,16,250 |

| | |
|---|---------------|
| Less: Statutory deductions under section 24(a) @ 30% of NAV | (34,875) |
| Less: interest on Housing loan (1/2 of INR 24,000) 24(b) | 12,000 |
| Income from house property | 69,375 |

Computation of income from House at Mumbai (Self-occupied portion) – Ground Floor

| Particulars | Amount |
|--|------------------|
| GAV of house at Mumbai | Nil |
| Less: Municipal taxes | Nil |
| Net annual value | Nil |
| Less: Statutory deduction under section 24(a) @ 30% of NAV | Nil |
| Less: Interest on Housing loan (1/2 of INR 24,000) 24(b) | (12,000) |
| Loss from house property | (12,000) |
| Income from house property | 10,81,125 |
| Gross total income | 10,81,125 |
| Less: deduction u/s 80C (Repayment of housing loan) | (30,000) |
| Total income (rounded off 288A) | 10,51,130 |

Concept Problem 27 Solution

In case of Raj Prakash, income shall be computed under the head House property under optional tax regime:

| Particulars | Amount |
|---|------------------|
| GAV (2,00,000*12) | 24,00,000 |
| Less: Municipal Tax | 1,00,000 |
| NAV | 23,00,000 |
| Less: Deduction u/s 24(a) | 690,000 |
| Income under the head House Property | 16,10,000 |

Income of Rohit shall be computed under the head Other Sources

| Particulars | Amount |
|--|-------------------|
| Gross Rent received (80,000*12) | 9,60,000 |
| Less: Rent paid by him (2,00,000*50%*12) | 12,00,000 |
| Loss under the head Other Sources | (2,40,000) |

Concept Problem 29 Solution

Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for A.Y. 2024-25 under optional tax regime will be calculated as under:

| S.No. | Particulars | Amount | Amount |
|-----------|---|----------|-------------------|
| 1. | Self – occupied house at Delhi | | |
| | Annual Value | | Nil |
| | Less: Deduction under section 24 | Nil | |
| | Interest on borrowed capital (See Note below) | | 2,00,000 |
| | Chargeable income from this house property | | (2,00,000) |
| 2. | Let out house property at Bangalore | | |
| | Expected rent, being higher of 3,58,000 municipal value and fair rent of 4,58,000 but restricted to standard rent of 4,20,000 | 4,20,000 | |
| | Actual rent [40,000 x 12] | 4,80,000 | |
| | Gross Annual value, being higher of expected rent and actual rent | | 4,80,000 |
| | Less: Municipal taxes | | 5400 |
| | Net Annual Value | | 4,74,600 |
| | Less: Deduction under section 24 | | |
| | - 30% of net annual value [30% x 4,74,600] | 1,42,380 | |
| | - Interest on borrowed capital (actual allowable as deduction without any ceiling limit) | 2,50,000 | 3,92,380 |
| | | | 82,220 |
| | Loss uth “Income from house property” (2,00,00 -82,220) | | (1,17,780) |

Note: - Interest on borrowed capital

| Particulars | Amount |
|---|-----------------|
| Interest for the current year [18,00,000 x 9.5%] | 1,71,000 |
| Add: 1/5 th of pre- construction interest (2,85,000 x 1/5) | 57,000 |
| 1.8.2021 to 31.03.2022 – (18,00,000 x 9.5% x 8/12) | 1,14,000 |
| 1.4.2022 to 31.03.2023 – (18,00,000 x 9.5%) | 1,71,000 |
| | 2,28,000 |
| Interest deduction allowable under section 24, restricted to | 2,00,000 |

Concept Problem 30 Solution

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

- 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 Mrs. Jasmin, an Australian, 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 10.08.2023 | 132 days |
| 23.02.2024 to 31.03.2024 | 37 days |
| Total | 169 days |

Four preceding previous years

| | |
|--------------------------------------|----------------|
| P.Y. 2022-23 [1.4.2022 to 31.3.2023] | 14 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 | 14 days |

The total stay of Mrs. Jasmin during the previous year in India was less than 182 days and during the four years preceding this year was for 14 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 gross total income of Mrs. Jasmin for A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Amount |
|---|-----------------|-----------------|
| Income from house property | | |
| Flat located in Mumbai let- out from 01.05.2023 to 31.03.2024 @ 28,000 p.m. | | |
| Gross Annual Value [28,000 x 11] | 3,08,000 | |
| Less: Municipal taxes | Nil | |
| Net Annual Value (NAV) | 3,08,000 | |
| Less: Deduction under section 24 | | |
| 30% of NAV | 92,400 | |
| Interest on loan [fully allowable as deduction, since property is let-out] | 2,15,500 | 100 |
| Income from other sources | | |
| Gold chain worth 1,50,000 received from parents of husband would be exempt, since parents of husband fail within the definition of relatives and gifts from a relative are not chargeable to tax. | Nil | |
| Car worth 6,25,000 received from married sister of her husband is exempt, since sister-in-law fails within the definition of relative and gifts from a relative are not chargeable to tax. Moreover, car is not included in the definition of property. | Nil | |
| Gift received from friends of her husband aggregating to 1,72,000 is taxable u/s 56(2) (x) since the amount of cash gifts 1,72,000 exceeds 50,000. | 1,72,000 | 1,72,000 |
| Gross Total Income | | 1,72,000 |

Concept Problem 31 Solution

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

| Particulars | Amount | Amount |
|---|------------------|------------------|
| Income from House Property | | |
| Gross Annual Value | | |
| Expected rent = 29,80,000 [Higher of Municipal value of 27,00,000 p.a. and Fair Rent of 30,00,000 p.a., but restricted to Standard Rent of 29,80,000 p.a.] | | |
| Actual rent = 29,40,000 [30,00,000, being annual rent for house property less rent of 60,000 (2,40,000 x 4/12 x 3/4) due to vacancy] | | |
| Gross Annual Value | 29,40,000 | |
| In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent. | | |
| Les: Municipal taxes actually paid during the year. | | |
| [4,00,000 – rebate of 40,000] = 3,60,000 | | |
| [1,40,000 arrears – 25,000 interest] = 1,15,000 | 4,75,000 | |
| Net Annual Value | 24,65,000 | |
| <i>Less: Deduction from Net Annual Value</i> | | |
| 30% of Net Annual Value | 7,39,500 | |
| | | 17,25,500 |
| Income from Other Sources/ Profits and gains from business or profession | | |
| Rent for amenities | 10,00,000 | |
| Less: Loss due to vacancy [2,40,000 x 4/12 x 1/2] | 20,000 | |
| | 9,80,000 | |
| Less: Expenditure in respect thereof | | |
| Lift maintenance expenses excluding cash payment of 30,000 disallowed] = 2,40,000 – 30,000 | 2,10,000 | |
| Salary to staff [88,000 x 1/4, being the proportion pertaining to amenities] | 22,000 | 2,32,000 |
| | | 7,48,000 |
| Total Income | | 24,73,500 |

Concept Problem 32 Solution

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.] | | |

| Particulars | Amount | Amount |
|---|-----------------|-----------------|
| Actual Rent 1,80,000 i.e., [20,000 x 10] less unrealized rent of 20,000 for January 2024 | | |
| 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 |
| Unit 2 - 25% floor area used for business purposes [Profits and gains from business or profession] | | |
| Business Income [without deducting expenditure of Unit 2] | 2,40,000 | |
| Less: Expenditure in respect of Unit - 2 | | |
| Municipal Taxes [25% of 30,000] | 7500 | |
| Repairs [25% of 7000] | 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 | |
| PGBP | | 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, unrealized 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.

Concept Problem 34 Solution

Computation of Gross total income of Mr. Akash for the A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Amount |
|--|----------|--------|
| I Income from House Property | | |
| Unit-II (75% of floor area) | | |
| Gross Annual Value | | |
| a) Actual rent received (8,500 x 12) | 1,02,000 | |
| b) Expected rent | 1,27,500 | |
| [Higher of municipal value (i.e. 1,60,000) and fair rent (i.e. 1,70,000) but | | |

| Particulars | | Amount | Amount |
|---|--------|-----------------|-----------------|
| restricted to standard rent (i.e. 1,90,000) 1,70,000 x 75%] | | | |
| Higher of (a) or (b) is GAV | | 1,27,500 | |
| Less: Municipal taxes (1,60,000 x 8% x 75%) | | 9,600 | |
| NAV | | 1,17,900 | |
| Less: Deductions u/s 24 | | | |
| (a) 30% of NAV | 35,370 | | |
| (b) Interest on loan (See note) | 96,750 | 1,32,120 | (14,220) |
| II. Profits & Gains of business & profession | | | |
| Income from Profession | | 8,00,000 | |
| Less: Light & Water Charges (25% of 2,000) | | 500 | |
| Municipal taxes (25% of 12,800) | | 3,200 | |
| Repairs (25% of 1,45,000) | | 36,250 | |
| Interest on loan taken for repair (25% of 36,000) | | 9,000 | |
| Interest on loan taken for construction of house property (25% of 60,000) | | 15,000 | 7,28,050 |
| Gross Total Income | | | 7,13,830 |

Note: Computation of Interest on loan

| | Amount |
|---|-----------------|
| Interest for the year (5,00,000 x 12%) | 60,000 |
| Pre-construction period Interest- | |
| 12% of 5,00,000 for 33 months = 1,65,000 | |
| To be allowed in 5 equal instalments from the year of completion (1,65,000 x 1/5) | 33,000 |
| Interest on loan taken for repair (no restriction for let out property) | 36,000 |
| Total Interest deduction u/s 24(b) | 1,29,000 |
| Total Interest deduction u/s 24(b) for let out property (75% x 1,29,000) | 96,750 |

Concept Problem 35 Solution

Computation of income from house property of Mr. Ramesh for A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Amount |
|--|----------|-------------------|
| 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) | - | <u>4,000</u> |
| 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 90,000 allowed in 5 equal installments 90000/5 = 18,000 per annum | <u>9,000</u> | |
| Total deduction under section 24(b) | <u>69,000</u> | <u>94,800</u> |
| Income from house property (A) - (B) | <u>(69,000)</u> | <u>(8,800)</u> |
| 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 (a) Fair rent = $1,00,000 \times 9 / 12 = 75,000$ & (b) 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)

CHAPTER 6

PGBP

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

Computation of depreciation and additional depreciation for A.Y. 2024-25:

| Particulars | Plant and machinery (15%) | Computer (40%) |
|--|---------------------------|-----------------|
| Written down value as on 1.4.2023 | 30,00,000 | |
| Add: Plant & Machinery purchased on 08.6.2023 | 20,00,000 | |
| Add: Plant & Machinery acquired on 15.12.2023 | 8,00,000 | - |
| Computer acquired and installed in the office premises | - | 3,00,000 |
| Written down value as on 31.03.2024 | 58,00,000 | 3,00,000 |
| Normal depreciation | | |
| @ 15% on INR 50,00,000 [See Working Notes 1 & 2] | 7,50,000 | - |
| @ 7.5% (50% of 15%, since put to use for less than 180 days) on 8,00,000 | 60,000 | - |
| @ 20% (50% of 40%, since put to use for less than 180 days) on 3,00,000 | - | 60,000 |
| Additional Depreciation | | |
| @ 20% on 20,00,000 (new machinery put to use for more than 180 days) | 4,00,000 | - |
| @10% (50% of 20%, since put to use for less than 180 days) on 8,00,000 | 80,000 | - |
| Total depreciation | 12,90,000 | 60,000 |

Notes:

- Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2023 and computer acquired and installed on 02.01.2024, is restricted to 50% of 15% and 40%, respectively.

The additional depreciation on the said plant and machinery is restricted to INR 80,000, being 10% (i.e., 50% of 20%) of INR 8 lakhs.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- The balance additional depreciation of INR 80,000 being 50% of INR 1,60,000 (20% of INR 8,00,000) would be allowed as deduction in the A.Y. 2025-26.
- Additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house. Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Concept Problem 2 Solution

As per section 43(1), the expression “Actual Cost” would mean the actual cost of asset to the Assessee. The purchase price of INR 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e., INR 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the AY 2023-24 would be INR 78,750, being INR 5,25,000 x 15%.

Note: The provision regarding reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

Concept Problem 3 Solution
Computation of depreciation allowable for A.Y.2024-25:

| Block of Assets | | Amount |
|---|----------------------|---------------|
| Block 1: Furniture –rate 10% | 3,00,000 *10% | 30,000 |
| Block 2: Computer– rate 40% | | |
| Computer including software (put to use for 180 days or more) | 35000 x 40% = 14,000 | |
| Computer UPS (put to use for less than 180 days) | 8500 x 20% = 1,700 | |
| Computer printer (put to use for 180 days or more) | 12500 x 40% = 5,000 | |
| Laptop (put to use for less than 180 days) | 43000 x 20% = 8,600 | 29,300 |
| | | |
| Block 3: Books - Rate 40% | 13,000 x 40% | 5,200 |
| | | |
| Block 4: Plant –Rate 15% | | |
| Fire extinguisher | Nil | |
| Total Depreciation for PY 2023-24 | | 64,500 |

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate.

In this case, since Mr. Dhaval commenced his practice in the P.Y. 2023-24 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Note: No depreciation allowed on goodwill.

Concept Problem 4 Solution
Computation of depreciation allowable for the A.Y. 2024-25 in the hands of Gamma Ltd.

| Particulars | Amount (INR in crore) | |
|---|-----------------------|-------|
| Total cost of plant and machinery | 120 | |
| Less: used for scientific research {Note 1} | 15 | |
| | 105 | |
| Normal depreciation at 15% on INR 105 crore | | 15.75 |
| Additional depreciation: | | |

| Particulars | Amount (INR in crore) | |
|--|-----------------------|--------------|
| Cost of plant and machinery | 120 | |
| Less: Second hand plant and machinery (Note 2) | 20 | |
| Less: Plant and machinery used for scientific research the whole of the actual cost of which is allowable deduction under section 35(2)(ia) (Note 2) | 15 | |
| | 85 | |
| Additional depreciation at 20% | | 17 |
| Depreciation allowable for A.Y 2023-24 | | 32.75 |

Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to Assessee business since 100% deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.
- Additional depreciation cannot be claimed in respect of second-hand plant and machinery.

Concept Problem 5 Solution
(i) If Mr. A is paying tax under default tax regime under section 115BAC
Computation of deduction under section 35 for the A.Y.2024-25:

| Particulars | Amount | Section | % of deduction | Amount of deduction |
|---|----------|-----------|--|---------------------|
| Payment for scientific research | | | | |
| Indian Institute of Science | 1,00,000 | 35(1)(ii) | Not allowable under default tax regime | Nil |
| IIT, Delhi | 2,50,000 | 35(2AA) | | Nil |
| X Ltd. | 4,00,000 | 35(1)(ia) | | Nil |
| Expenditure incurred on in-house research and development facility | | | | |
| Revenue expenditure | 3,00,000 | 35(1)(i) | Allowable under default tax regime | 3,00,000 |
| Capital expenditure (excluding cost of acquisition of land INR 5,00,000) | 2,50,000 | 35(1)(iv) | | 2,50,000 |
| Deduction allowable under section 35 | | | | 5,50,000 |

(ii) If Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)
Computation of deduction under section 35 for the A.Y.2024-25:

| Particulars | Amount | Section | % of deduction | Amount of deduction |
|--|----------|-----------|----------------|---------------------|
| Payment for scientific research | | | | |
| Indian Institute of Science | 1,00,000 | 35(1)(ii) | 100% | 1,00,000 |

| Particulars | Amount | Section | % of deduction | Amount of deduction |
|---|----------|-----------|----------------|---------------------|
| IIT, Delhi | 2,50,000 | 35(2AA) | 100% | 2,50,000 |
| X Ltd. | 4,00,000 | 35(1)(ia) | 100% | 4,00,000 |
| Expenditure incurred on in-house research and development facility | | | | |
| Revenue expenditure | 3,00,000 | 35(1)(i) | 100% | 3,00,000 |
| Capital expenditure (excluding cost of acquisition of land INR 5,00,000) | 2,50,000 | 35(1)(iv) | 100% | 2,50,000 |
| Deduction allowable under section 35 | | | | 13,00,000 |

Concept Problem 6 Solution

Computation of profits and gains of business or profession for A.Y.2024-25:

| Particulars | Amount (in lakhs) |
|--|-------------------|
| Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32) | 31 |
| Less: Depreciation under section 32 10% of INR 30 lakh, being (50 lakh – 30 lakh + 10 lakh) | 3 |
| Income chargeable under “Profits and gains from business or profession” | 28 |

Computation of income/loss from specified business under section 35AD

| Particulars | | Food Grains | Sugar | Total |
|-------------|--|----------------|-------------|-------------|
| | | INR (in lakhs) | | |
| (A) | Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD) | 16 | 14 | 30 |
| | Less: Deduction under section 35AD | | | |
| (B) | Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = 30 lakh (80 lakh – 50 lakh) and 20 lakhs (60 lakh – 40 lakh) | 30 | 20 | 50 |
| (C) | Capital expenditure incurred during the P.Y. 2023-24 | 20 | 15 | 35 |
| (D) | Total capital expenditure (B + C) | 50 | 35 | 85 |
| (E) | Deduction under section 35AD 100% of capital expenditure (food grains/sugar) | 50 | 35 | 85 |
| | Total deduction u/s 35AD for A.Y. 2024-25 | 50 | 35 | 85 |
| (F) | Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E) | (34) | (21) | (55) |

Notes:

- i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y. 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.

However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

- ii) Mr. A can, however, claim depreciation @ 10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during P.Y.2023-24.
- iii) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of INR 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of INR 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Concept Problem 7 Solution

Computation of profits and gains of business or profession for A.Y. 2024-25:

| Particulars | Amount (L) | Amount (L) |
|---|------------|-------------|
| Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD) | | 25 |
| Less: Deduction under section 35AD | | |
| Capital expenditure incurred during the P.Y. 2023-24 (excluding the expenditure incurred on acquisition of land) = [200 lakhs – 150 lakhs] | 50 | |
| Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 | 50 | |
| Total deduction under section 35AD for A.Y. 2024-25 | | 100 |
| Loss from the specified business of new hotel in Madurai | | (75) |
| Profit from the existing business of running a hotel in Coimbatore | | 120 |
| Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A | | 45 |

Concept Problem 8 Solution

Since the capital asset in respect of which deduction of INR 50 lacs was claimed under section 35AD has been transferred by unit A carrying on specified business to unit B carrying on non-specified business in the P.Y. 2023-24, the deeming provision under section 35AD(7B) is attracted during the A.Y. 2024-25.

| Particulars | Amount |
|---|------------------|
| Deduction allowed under section 35AD for A.Y. 2023-24 | 50,00,000 |
| Less: depreciation allowable u/s 32 for A.Y. 2023-24 [10% of INR 50 lacs] | 5,00,000 |
| Deemed income under section 35AD (7B) | 45,00,000 |

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y. 2024-25. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

| Particulars | Amount |
|---|------------------|
| Actual cost to the assessee | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y. 2023-24 [10% of INR 50 lacs] | 5,00,000 |
| Actual cost in the hands of Mr. Arnav in respect of building in its Unit B | 45,00,000 |

Concept Problem 9 Solution

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source would attract disallowance @ 30% under section 40(a)(ia).

In case of salary, tax has to be deducted under section 192 at the time of payment and in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.

Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y. 2023-24, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y. 2024-25 is as follows:

| S. No | Particulars | Amount paid | Disallowed u/s 40(a)(ia) @ 30% |
|---|--|-------------|--------------------------------|
| 1. | Salary [Tax is deductible under section 192] | 12,00,000 | 3,60,000 |
| 2. | Director's remuneration [Tax is deductible u/s 194J] | 28,000 | 8,400 |
| Disallowance under section 40(a)(ia) | | | 3,68,400 |

If the tax is deducted on directors' remuneration in the next year i.e., P.Y. 2024-25 at the time of payment and remitted to the Government, the amount of INR 8,400 would be allowed as deduction while computing the business income of A.Y. 2025-26.

Concept Problem 10 Solution

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y. 2022-23 exceeds INR 1 crore.

Thus, in present case, since the turnover of the assessee is less than INR 1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

- (ii) The disallowance of 30% of the sums payable u/s 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source u/s 192 arises, in the hands of all assessee-employer even if the turnover amount does not exceed INR 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

- (iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of INR 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y. 2022-23 exceeds INR 1 crore.

Thus, in present case, since the turnover of the assessee is less than INR 1 crore, he is not liable to deduct tax at source u/s 194-H.

Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed INR 50 lakh during the P.Y. 2023-24. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Concept Problem 11 Solution

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

| Particulars | Amount |
|---|-----------------|
| On first INR 3 lakh of book profit [INR 3,00,000 × 90%] | 2,70,000 |
| On balance INR 7 lakh of book profit [INR 7,00,000 × 60%] | 4,20,000 |
| | 6,90,000 |

The excess amount of INR 60,000 (i.e., 7,50,000 – 6,90,000) would be disallowed as per section 40(b)(v).

Concept Problem 12 Solution

i) Computation of Book Profit of the firm under section 40(b)

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Net Profit (before deduction of depreciation, salary and interest) | | 7,00,000 |
| Less: Depreciation under section 32 | 1,50,000 | |
| Less: Interest @ 12% p.a. [the maximum allowable u/s 40(b)] (5,00,000 × 12%) | 60,000 | 2,10,000 |
| Book Profit | | 4,90,000 |

ii) Salary actually paid to working partners = INR 20,000 × 2 × 12 = INR 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits

| | |
|---|---|
| On the first 3,00,000 of book profit or in case of loss | 1,50,000 or 90% of book profit, whichever is more |
| On the balance of book profit | 60% of the balance book profit |

Therefore, the maximum allowable working partners' salary for the A.Y. 2024-25 in this case would be:

| Particulars | Amount |
|--|-----------------|
| On the first INR 3,00,000 of book profit [Higher of (1,50,000 or 90% of 3,00,000)] | 2,70,000 |
| On the balance of book profit [60% of (4,90,000 – 3,00,000)] | 1,14,000 |
| Maximum allowable partner's salary | 3,84,000 |

Hence, allowable working partners' salary for the AY 2024-25 u/s 40(b)(v) is INR 3,84,000.

Concept Problem 13 Solution

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

| Particulars | Amount |
|---|------------------|
| Basic Salary | 10,00,000 |
| Dearness Allowance @ 40% of basic salary [DA forms part of pay] | 4,00,000 |
| Salary for the purpose of section 36(1)(iva) (Basic Salary + DA) | 14,00,000 |
| Actual contribution (20% of basic salary i.e., 20% of INR 10 lakh) | 2,00,000 |

| Particulars | Amount |
|---|-----------------|
| Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of INR 14,00,000 = INR 1,40,000) | 1,40,000 |
| Excess contribution disallowed under section 40A(9) | 60,000 |

Concept Problem 14 Solution

According to section 43B, any interest payable on the loans to specified financial institutions or scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the Assessee.

Where there is default in the payment of interest by the Assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be considered as payment of interest for the purpose of section 43B.

The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of INR 15,00,000 due to APSFC and of INR 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion.

Hence, claim of Hari that the entire interest of INR 45,00,000 is to be allowed as deduction in the year of conversion is not tenable/valid. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y. 2024-25 shall be calculated as follows:

| | Interest outstanding | Number of instalments | Amount per instalment | Instalments paid | Interest allowable |
|--|----------------------|-----------------------|-----------------------|------------------|--------------------|
| APSFC | 15 Lakhs | 60 | 25,000 | 5 | 1,25,000 |
| Indian Bank | 30 Lakhs | 60 | 50,000 | 3 | 1,50,000 |
| Total amount eligible for deduction | | | | | 2,75,000 |

Concept Problem 15 Solution

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded INR 1,50,000; or
- if it is a new profession which is setup in the relevant previous year, it is likely to exceed INR 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded INR 1,50,000 in financial year 2020-21, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Concept Problem 16 Solution

- Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover ($14,00,000/2,98,50,000 \times 100$)

and his total turnover for the F.Y.2023-24 is below INR 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

- ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be 18,19,000 (1,12,000, being 8% of 14,00,000 + 17,07,000, being 6% of 2,84,50,000).
- iii) Mr. Praveen had declared profit for the previous year 2022-23 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2023-24 relevant to A.Y.2024-25, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2025-26 to A.Y. 2029-30.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2024.

In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

Concept Problem 17 Solution

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. INR 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and INR 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 | 2.1.2024 | 3 | 3 |
| | | | 55 |

The presumptive income of Mr. X under section 44AE for A.Y. 2024-25 would be -

INR 6,82,500, i.e., 55 × INR 7,500, being for other than heavy goods vehicle + 18 × 1,000 × 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.

Concept Problem 18 Solution

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2024:

| Particulars | Plant & machinery (INR in lacs) | Computer (INR in lacs) |
|--|---------------------------------|------------------------|
| Opening written down value (as on 31.03.2023) | 30 | Nil |
| Less: Depreciation inc. additional depreciation for P.Y. 2022-23 | 4.75 | |
| Opening balance as on 1.4.2023 | 25.25 | |
| Add: Actual cost of new assets acquired during the year | | |
| ➤ New machinery purchased on 1.9.2023 | 10 | - |
| ➤ New machinery purchased on 1.12.2023 | 8 | - |
| ➤ Computer purchased on 3.1.2024 | - | 4 |
| | 43.25 | 4 |
| Less: Assets sold/discarded/destroyed during the year | Nil | Nil |
| Closing Written Down Value (as on 31.03.2024) | 43.25 | 4 |

(i) If Mr. Venus exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for A.Y. 2024-25

| S. No | Particular | Plant & machinery (lakhs) | Computer (lakhs) |
|-------|--|---------------------------|------------------|
| 1. | Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation | | |
| | Normal Depreciation | | |
| | Opening WDV of plant and machinery (INR 25.25 lacs x 15%) | 3.79 | - |
| | New Machinery purchased on 1.9.2023 (INR 10 lacs x 15%) | 1.50 | - |
| | (A) | 5.29 | - |
| | Additional Depreciation | | |
| | New Machinery purchased on 1.9.2023 (INR 10 lacs x 20%) | 2.00 | - |
| | Balance additional depreciation in respect of new machinery purchased on 31.10.2022 and put to use for less than 180 days in the P.Y. 2022-23 (INR 10 lakhs x 20% x 50%) | 1.00 | |
| | (B) | 3.00 | |

| S. No | Particular | Plant & machinery (lakhs) | Computer (lakhs) |
|-------|---|---------------------------|------------------|
| 2. | Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation | | |
| | Normal Depreciation | | |
| | New machinery purchased on 1.12.2023 [8 lacs x 7.5% (i.e., 50% of 15%)] | 0.60 | - |
| | Computer purchased on 3.1.2024 [INR 4 lacs x 20% (50% of 40%)] | - | 0.80 |
| | (C) | 0.60 | 0.80 |
| | Total Depreciation (A+B+C) | 8.89 | 0.80 |

Notes:

- 1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an Assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, –

- Any office appliances or road transport vehicles;
- Any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

- Car purchased on 1.12.2023; and
- Computer purchased on 3.1.2024, installed in office.

- 2) As per third proviso to section 32(1)(ii), balance 50% of additional depreciation on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year

Hence, in this case, the balance additional depreciation @ 10% (i.e., 1 lakh, being 10% of 10 lakhs) in respect of new machinery which had been purchased during the previous year 2022-23 and put to use for less than 180 days in that year can be claimed in P.Y. 2023-24 being immediately succeeding previous year.

(ii) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of Depreciation for A.Y. 2024-25

| S. No | Particular | Plant & machinery (lakhs) | Computer (lakhs) |
|-------|--|---------------------------|------------------|
| 1. | Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation | | |
| | Normal Depreciation | | |
| | Opening WDV of plant and machinery (INR 25.25 lacs x 15%) | 3.79 | - |
| | New Machinery purchased on 1.9.2023 (INR 10 lacs x 15%) | 1.50 | - |
| | (A) | 5.29 | - |

| S. No | Particular | Plant & machinery (lakhs) | Computer (lakhs) |
|-------|---|---------------------------|------------------|
| 2. | Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation | | |
| | Normal Depreciation | | |
| | New machinery purchased on 1.12.2023 [8 lacs x 7.5% (i.e., 50% of 15%)] | 0.60 | - |
| | Computer purchased on 3.1.2024 [INR 4 lacs x 20% (50% of 40%)] | - | 0.80 |
| | (C) | 0.60 | 0.80 |
| | Total Depreciation (A+B+C) | 5.89 | 0.80 |

Concept Problem 19 Solution
Computation of depreciation under section 32 for A.Y. 2024-25:

| Particulars | Amount | Amount |
|---|----------|------------------|
| Depreciation @ 15% on 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2023 of 50,00,000 – Depreciation for P.Y. 2022-23 of 7,50,000 + Purchase cost of imported machinery of 9,00,000] | 7,72,500 | |
| Depreciation @ 7.5% on 10,00,000, being new machinery put to use for less than 180 days | 75,000 | |
| | 8,47,500 | |
| Depreciation @ 40% on computers purchased INR 2,00,000 | 80,000 | 9,27,500 |
| Additional Depreciation (Refer Note below) | | |
| Additional Depreciation @ 10% of INR 10,00,000 [being actual cost of new machinery purchased on 12-10-2023] | 1,00,000 | |
| Additional Depreciation @ 20% on new computer installed in generation wing of the unit [20% of INR 2,00,000] | 40,000 | 1,40,000 |
| Depreciation on Plant and Machinery | | 10,67,500 |

Note:

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing of the unit is eligible for additional depreciation @ 20%.

Since the new machinery was purchased only on 12.10.2023, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2024-25. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

Concept Problem 20 Solution
Computation of business income of Mr. Sivam for the A.Y. 2024-25:

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Net profit as per profit and loss account | | 50,000 |
| Add: Inadmissible expenses/ losses | | |
| - Under valuation of closing stock | 18,000 | |
| - Salary paid to brother – unreasonable [section 40A(2)] | 2,000 | |
| - Printing and stationary whole amount of printing & stationary paid in cash would be disallowed since such amount exceeds INR 10,000 [section 40A (3)] | 23,200 | |
| - Depreciation (considered separately) | 1,05,000 | |
| - Short term capital loss on shares | 8,100 | |
| - Donation to public charitable trust | 2,000 | 1,58,300 |
| | | 2,08,300 |
| Less: Items to be deducted: | | |
| - Under valuation of opening stock | 9,000 | |
| - Income from UTI (Chargeable under the head “Income from Other Sources) | 2,400 | 11,400 |
| Business income before depreciation | | 1,96,900 |
| Less: Depreciation (see note 1) | | 66,000 |
| PGBP | | 1,30,900 |

Computation of business income as per section 44AD

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

The business income under section 44AD is INR 6,72,690

Notes:
i) Calculation of depreciation

| Particulars | Amount |
|--|-----------------|
| Opening balance of plant & machinery as on 1.4.2023 (i.e. WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23) | 4,20,000 |
| Add: Cost of new plant and machinery | 70,000 |
| | 4,90,000 |
| Less: sale proceeds of assets sold | 50,000 |
| WDV of the block of plant and machinery as on 31.3.2024 | 4,40,000 |
| Depreciation @ 15% | 66,000 |
| No additional depreciation is allowable as the Assessee is not engaged in | |

| Particulars | Amount |
|--|--------|
| manufacture or production of any article | |

- ii) Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible u/s 43B

Concept Problem 21 Solution

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

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

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

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

Notes:

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

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

Calculation of presumptive income as per section 44AE

| Type of carriage | No. of months | Rate per ton per month/ per month | Ton | Amount (INR) |
|---|---------------|-----------------------------------|-------------------|------------------|
| (1) | (2) | | (3) | (4) |
| Heavy goods vehicle | | | | |
| 1 goods carriage upto 1 st May | 2 | 1,000 | 15 (15,000/1,000) | 30,000 |
| 5 goods carriage held throughout the year | 12 | 1,000 | 15 (15,000/1,000) | 9,00,000 |
| Goods vehicle other than heavy goods vehicle | | | | |
| 1 goods carriage from 6 th May | 11 | 7,500 | - | 82,500 |
| 4 goods carriage held throughout the year | 12 | 7,500 | - | 3,60,000 |
| Total | | | | 13,72,500 |

Concept Problem 22 Solution
Computation of total income of Mr. Raju for the A.Y 2024-25:

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Net profits as per profit and loss account | | 5,00,000 |
| Add: Excess commission paid to brother disallowed under section 40A(2) | 10,000 | |
| Disallowance u/s 40A(3) is not attracted since the limit for one-time cash payment is INR 35,000 in respect of payment to transport operators. Therefore, amount of INR 33,000 paid in cash to a transport carrier is allowable deduction | Nil | |
| Salary paid to staff not recorded in the books (assuming that the expenditure is in the nature of unexplained expenditure and hence is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See note 1] | 48,000 | |
| Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B | 40,000 | |
| State GST penalty paid disallowed [see Note 2 below] | 5,000 | |
| Depreciation debited to profit and loss account | 2,00,000 | 3,03,000 |
| | | 8,03,000 |
| Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”] | 15,000 | |
| Income from agricultural [exempt under section 10(1)] | 1,80,000 | |
| Depreciation under the income tax act 1961 (as per working note) | 2,23,500 | 4,18,500 |
| Income uth PGBP | | 3,84,500 |
| Income from house property | | |
| Annual value of self-occupied property | Nil | |
| Less: deduction under section 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime] | Nil | Nil |
| Income from Other Source | | |
| Dividend from domestic companies | | 15,000 |
| Gross total income | | 3,99,500 |
| Less: deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime] | | Nil |
| Total income | | 3,99,500 |

Working note:
Computation of depreciation under the Income tax Act 1961

| Particulars | Amount |
|---|----------|
| Depreciation @ 15% on INR 13.90 lakh (WDV as on 31.3.2023 less depreciation for P.Y. 2022-23 i.e. 11.90 lakh plus assets purchased during the year and used | 2,08,500 |

| Particulars | Amount |
|--|-----------------|
| for more than 180 days INR 2 lakh) | |
| Depreciation @ 7.5% on INR 2 lakh (Assets used for less than 180 days) | 15,000 |
| | 2,23,500 |

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(ia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the Assessee has offered satisfactory explanation for the same. In such a case the same should not be added back as unexplained expenditure but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of GST but for contravention of provisions of the GST, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be INR 3,94,500.

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS
Concept Problem 23 Solution

Since Mr. Prakash 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. As per section 44AE, INR 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and INR 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.

Calculation of presumptive income as per section 44AE

| Type of carriage | No. of months the vehicle is owned by Mr. Prakash | Rate per ton per month | Ton | Amount |
|--|---|------------------------|-------------------|----------------------|
| (1) | (2) | (3) | (4) | (5) [(2)x(3)x(4)] |
| Heavy goods vehicle | | | | |
| Vehicle B (13,000 kgs) held throughout the year | 12 | 1,000 | 13 (13,000/1,000) | 1,56,000 |
| Vehicle E (15,000 kgs) purchased on 15.5.2023 | 11 | 1,000 | 15 (15,000/1,000) | 1,65,000 |
| Goods vehicles other than heavy goods vehicle | | Rate per month | | |
| Vehicle A held throughout the year | 12 | 7,500 | - | 90,000 |

| | | | | |
|------------------------------------|----|-------|--------------|-----------------|
| Vehicle C held throughout the year | 12 | 7,500 | - | 90,000 |
| Vehicle D purchased on 30.4.2023 | 12 | 7,500 | - | 90,000 |
| | | | Total | 5,91,000 |

The “put to use” date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Prakash.

Concept Problem 24 Solution

Computation of depreciation under section 32 for A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Amount |
|--|------------------|------------------|
| Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @ 15%) | | 58,00,000 |
| Machinery L acquired from Swayam Ltd. in cash and installed on 8.8.2023 [Since payment of INR 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable] | | NIL |
| Second hand Machinery M from Sunshine Ltd on 18.12.2023 assuming it is installed and put to use in P.Y. 2023-24. [Since payment is made to Sunshine Ltd by way of use of ECS] | | 15,00,000 |
| Actual Cost | | 73,00,000 |
| Depreciation for P.Y. 2023-24 | | |
| Depreciation @ 15% on Machineries X, Y and Z on INR 58 lakhs | 8,70,000 | |
| Depreciation @ 7.5% (50% of 15%) on INR 15 lakhs for Machinery M since it is put to use for less than 180 days | 1,12,500 | |
| | 9,82,500 | |
| Additional Depreciation @ 20% on INR 58 lakhs | 11,60,000 | |
| Additional depreciation is not allowable on second hand machinery | - | |
| Depreciation under section 32 for A.Y. 2024-25 | 21,42,500 | |

Concept Problem 25 Solution

Computation of deduction u/s 35 under optional tax regime:

| Particulars | Amount | % of weighted deduction | Amount of deduction |
|--|--------|-------------------------|---------------------|
| Payment for scientific research | | | |
| K Research Ltd. | 20 | 100% | 20 |
| LMN College | 15 | 100% | 15 |
| OPQ College | 10 | Nil | Nil |
| National Laboratory | 8 | 100% | 8 |
| In-house research | | | |

| Particulars | Amount | % of weighted deduction | Amount of deduction |
|---|--------|-------------------------|---------------------|
| Capital expenditure | 25 | 100% | 25 |
| Revenue expenditure | 12 | 100% | 12 |
| Deduction allowable under section 35 | | | 80 |

Notes:

- Payment to OPQ College:** Since the note in the question below item (vi) clearly mentions that only K Research Ltd. and LMN College (mentioned in item (i) and (ii), respectively) are approved research institutions, it is a logical conclusion that OPQ College mentioned in item (iii) is not an approved research institution. Therefore, payment to OPQ College would not qualify for deduction under section 35.
- Deduction for in-house research and development:** Company Assessee are entitled to weighted deduction @ 100% under section 35(2AB) in respect of in-house research and development expenditure incurred.

In this case, the Assessee is an individual. Therefore, he would be entitled to deduction @ 100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.
- Payment to K Research Ltd.:** Any sum paid to a company registered in India which has as its main object scientific research, as is approved by the prescribed authority, qualifies for a weighted deduction of 100% under section 35(1)(ia).
- Payment to National Laboratory:** The percentage of weighted deduction under section 35(2AA) in respect of amount paid to National Laboratory with specific direction for usage in scientific research is 100%.

Concept Problem 26 Solution

Computation of depreciation allowable to Honest Industry for the A.Y. 2024-25 under optional tax regime:

| Description | Plant & Machinery | Building | Patents | Total |
|--|-------------------|------------------|------------------|------------------|
| Rate of depreciation | 15% | 10% | 25% | |
| Opening Balance as on 1.04.2023 | 14,50,000 | 25,00,000 | 15,00,000 | |
| Add: Assets acquired during the year | 16,00,000 | 15,00,000 | 5,00,000 | |
| Less: Moneys payable in respect of asset sold or destroyed | 50,000 | - | 3,00,000 | |
| W.D.V as on 31.03.2024 | 30,00,000 | 40,00,000 | 17,00,000 | |
| Asset held for less than 180 days | 4,00,000 | 15,00,000 | - | |
| Depreciation @ 50% of applicable rate | 30,000 | 75,000 | - | 1,05,000 |
| Asset held for more than 180 days | 26,00,000 | 25,00,000 | 17,00,000 | |
| Depreciation at the applicable Rates | 3,90,000 | 2,50,000 | 4,25,000 | 10,65,000 |
| Total Depreciation allowable | | | | 11,70,000 |

Note:

Land is not a depreciable asset. Therefore, INR 3 lacs, being the value of land, has been reduced from INR 18 lacs, being the value of building acquired during the year, for the purpose of computing depreciation.

Concept Problem 27 Solution

Computation of depreciation allowance under section 32 for the A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Plant and machinery (15%) | Plant and machinery (40%) |
|---|----------|---------------------------|---------------------------|
| Opening WDV as on 01.04.2023 | | 5,78,000 | - |
| Add: Plant and Machinery acquired during the year | | | |
| - Second hand machinery | | 2,00,000 | |
| - Machinery Y | | 8,00,000 | |
| - Air conditioner for office | | 3,00,000 | |
| - Machinery Z | | 3,25,000 | |
| - Air pollution control equipment | | - | 2,50,000 |
| | | 22,03,000 | 2,50,000 |
| Less: Asset sold during the year | | 3,10,000 | NIL |
| Written down value before charging depreciation | | 18,93,000 | 2,50,000 |
| Normal depreciation | | | |
| 40% on air pollution control equipment (INR 2,50,000 x 40%) | | - | 1,00,000 |
| Depreciation on plant and machinery put to use for less than 180 days @ 7.5% (i.e., 50% of 15%) | | | |
| - Second hand machinery (INR 2,00,000 x 7.5%) | 15,000 | | |
| - Machinery Z (INR 3,25,000 x 7.5%) | 24,375 | 39,375 | |
| 15% on the balance WDV being put to use for more than 180 days (INR 13,68,000 x 15%) | | 2,05,200 | |
| Additional depreciation | | | |
| - Machinery Y (INR 8,00,000 x 20%) | 1,60,000 | | |
| - Machinery Z (INR 3,25,000 x 10%, being 50% of 20%) | 32,500 | | |
| - Air pollution control equipment (INR 2,50,000 x 20%) | - | 1,92,500 | 50,000 |
| Total depreciation | | 4,37,075 | 1,50,000 |

Notes:

- Power generation equipment qualifies for claiming additional depreciation in respect of new plant and machinery.
- Additional depreciation is not allowed in respect of second-hand machinery.
- No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.
- The balance 50% additional depreciation in respect of Machinery Z of INR 32,500 (10% x INR 3,25,000) can be claimed as deduction in subsequent financial year i.e., F.Y. 2024-25.

Concept Problem 29 Solution

Computation of Depreciation and Additional Depreciation u/s 32 for PY 2023-24 under optional tax regime:

| Particulars | Amount in crores |
|---|------------------|
| Plant and machinery (acquired on 01.06.2023) | 90 |
| Plant and machinery (acquired on 01.11.2023) | 75 |
| WDV as on 31.03.2024 | 165 |
| Less: | |
| (i) Normal Depreciation @ 15% u/s 32 | |
| On 90 crores (90 x 15%); put to use for a period equal to or more than 180 days | 13.5 |
| On amount (75 x 15% x 50%); put to use for a period less than 180 days | 5.63 |
| (ii) Additional Depreciation @ 20% | |
| On 90 Crores (90 x 20%); put to use for a period equal to or more than 180 days | 18 |
| On 60 Crores (60 x 20% x 50); put to use for a period less than 180 days | 6 |
| WDV as 01.04.2024 | 121.87 |

Depreciation for PY 2023-24 = 19.13

Additional Depreciation for PY 2023-24 = 24

Note

- Plant & Machinery put to use for less than 180 days is eligible for 50% of depreciation and additional depreciation only. Balance 50% of additional depreciation will be available in the subsequent assessment year.
- Additional Depreciation shall not be allowed in respect of second-hand machinery.

Concept Problem 30 Solution

Computation of depreciation for the assessment years 2023-24 and 2024-25 under optional tax regime:

| Particulars | Amount |
|--|------------------|
| Assessment year 2023-24 | |
| Cost of the asset [1,00,000 x 65] | 65,00,000 |
| Less: Depreciation @ 15% | 9,75,000 |
| WDV as on 01.04.2023 | 55,25,000 |
| Add: Exchange rare difference u/s 43A [1,00,000 x 2] | 2,00,000 |
| WDV as on 31.3.2024 | 57,25,000 |
| Depreciation @ 15% | 8,58,750 |
| WDV as 01.04.2024 | 48,66,250 |

| Particulars | Amount |
|-----------------------------|----------|
| Depreciation for AY 2023-24 | 9,75,000 |

| | |
|-----------------------------|----------|
| Depreciation for AY 2024-25 | 8,58,750 |
|-----------------------------|----------|

Concept Problem 31 Solution

In this case, notional depreciation shall be allowed as per explanation No. 5 to section 43(1) and depreciation allowable for the Assessment Year 2024-25 shall be computed in the manner given below:

| Particulars | Amount |
|--|------------------|
| Cost of building as on December 1 st , 2021 | 12,00,000 |
| Less: depreciation for the previous year 2021-22 (2.5% of 12,00,000) | -30,000 |
| (As building purchased during PY 2021-22 is put to use for less than 180 days during year) | |
| Written down value as on 01.04.2022 | 11,70,000 |
| Less: depreciation for previous year 2022-23 @ 5% | -58,500 |
| Written down value as on 01.04.2023 | 11,11,500 |
| Depreciation for the previous year 2023-24 @ 5% | 55,575 |

Concept Problem 32 Solution

Computation of Total Income A.Y. 2023-24 and 2024-25 under optional tax regime:

| Computation of Total Income for AY 2024-25 | Amount |
|--|------------------|
| Net profit as per profit and loss account | 7,00,000 |
| Add | |
| Expenditure on advertisement | 3,00,000 |
| Expenditure in connection with travelling and stay in hotels | 45,000 |
| Excessive expenditure under section 35D (Note) | 4,28,000 |
| Income under the head business and profession | 14,73,000 |
| Gross Total income | 14,73,000 |
| Less: Deductions | Nil |
| Total income | 14,73,000 |

Working Note

| Particulars | Amount |
|---|------------------|
| Eligible expenditure u/s 35D | |
| Expenditure on preparation of project report | 85,000 |
| Expenditure on drafting and printing of memorandum and articles | 4,00,000 |
| Total | 4,85,000 |
| Expenditure allowed u/s 35D cannot exceed 5% of capital employed (57,00,000*5%) | 2,85,000 |
| | |
| Installment allowed (285,000/5) | 57,000 |
| Expenditure disallowed (485,000 - 57,000) | (428,000) |

Concept Problem 33 Solution

Computation of deduction u/s 35 DDA

| AY 2023-24 | AY 2024-25 | AY 2025-26 | AY 2026-27 | AY 2027-28 | AY 2028-29 |
|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | - |
| | 1,00,000 | 1,00,000 | 1,00,000 | 1,00,000 | 1,00,000 |
| 60,000 | 1,60,000 | 1,60,000 | 1,60,000 | 1,60,000 | 1,00,000 |

Concept Problem 34 Solution

Computation of Total Income for AY 2024-25 under optional tax regime:

| Particulars | Amount |
|---|------------------|
| Net Profit as per profit and loss account | 20,00,000 |
| Add: Opening stock overvalued (33,00,000/110*10) | 3,00,000 |
| Add: Duty drawback received | 7,00,000 |
| Add: Sale of import entitlement license | 3,00,000 |
| Add: Interest payable to a Non-Resident without deduction of tax | 12,000 |
| Add: Interest payable to a Resident without deduction of tax (15,000 x 30%) | 4,500 |
| Add: Drawings (being a personal expense) | 50,000 |
| Add: Proportionate rent of the building used for personal expense disallowed | 5,000 |
| Add: Capital expenditure on raising a compound wall | 1,00,000 |
| Less: Depreciation on compound wall (1,00,000 x 10%) (assuming more than 180 days of use) | 10,000 |
| Income under the head Business/Profession | 34,61,500 |
| Gross Total Income | 34,61,500 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 34,61,500 |

Concept Problem 35 Solution

| Income under the head Business Profession under Optional Tax Regime | Amount |
|---|----------|
| Net Profit as per profit and loss account | 27,000 |
| Add: | |
| Salary and bonus to partners | |
| X INR 3,00,000 | |
| Y INR 2,50,000 | |
| Z INR 1,50,000 | 7,00,000 |
| Municipal tax payable (sec 43B) | 30,000 |
| Technical Know-how | 40,000 |
| Income tax (Sec 40(a)) | 70,000 |
| Interest on capital | |

| Income under the head Business Profession under Optional Tax Regme | Amount |
|---|-----------------|
| X (65,000 x 3/13) | 15,000 |
| Y (39,000 x 3/13) | 9,000 |
| Z (26,000 x 3/13) | 6,000 |
| Rent of own building (Sec 30) | 1,20,000 |
| Less: | |
| Depreciation on technical Know-how (40,000 x 25% x 1/2) | -5,000 |
| Interest from Indian company | -60,000 |
| Income tax refund | -5,000 |
| Book Profit | 9,47,000 |
| Salary and bonus allowed to partners | |
| X (6,58,200 x 3/7) | -2,82,085.71 |
| Y (6,58,200 x 2.5/7) | -2,35,071.43 |
| Z (6,58,200 x 1.5/7) | -1,41,042.86 |
| Income under the head business/profession | 2,88,800 |
| Less: Brought forward business loss | -1,00,000 |
| Income under the head Business/Profession | 1,88,800 |

| Income under the head Other Sources | Amount |
|--|---------------|
| Interest from Indian Company | 60,000 |
| Income under the head Other Sources | 60,000 |

Computation of Total Income

| Particulars | Amount |
|---|-----------------|
| Income under the head Business/Profession | 1,88,800 |
| Income under the head Other Sources | 60,000 |
| Gross Total Income | 2,48,800 |
| Less: Deductions u/s 80C to 80U | Nil |
| Total Income | 2,48,800 |

Working note

| Computation of remuneration allowed to partners |
|--|
| 3,00,000 x 90% = INR 2,70,000 |
| 6,47,000 x 60% = INR 3,88,200 |
| Total remuneration = INR 6,58,200 |
| Salary allowed to partners maximum to INR 6,58,200 |

| Computation of Tax Payable | Amount |
|-----------------------------------|---------------|
|-----------------------------------|---------------|

| Computation of Tax Payable | Amount |
|-------------------------------------|-----------------|
| Tax on INR 2,48,800 @ 30% | 74,640 |
| Add: Health and education cess @ 4% | 2,985.6 |
| Tax Liability | 77,625.6 |
| Less: Income tax paid | -70,000 |
| Tax Payable | 7,625.6 |
| Rounded off u/s 288B | 7,630 |

| Computation of total Income and Tax Liability of Mr. X | Amount |
|---|--------------------|
| Salary from partnership firm | 2,82,085.71 |
| Interest from partnership firm | 50,000 |
| Income under the head Business/profession | 3,32,085.71 |
| Income from house property | 5,00,000 |
| Gross Total Income | 8,32,085.71 |
| Less: Deduction u/s 80C {National Saving Certificate} | -80,000 |
| Total Income (rounded off u/s 288A) | 7,52,090 |
| Tax on INR 7,52,090 at slab rate | 62,918 |
| Add: Health and education cess @ 4% | 2,516.72 |
| Tax Liability | 65,434.72 |
| Rounded off u/s 288B | 65,430 |

| Computation of Total Income and Tax Liability of Mr. Y | Amount |
|---|--------------------|
| Salary from partnership firm | 2,35,071.43 |
| Interest from partnership firm | 30,000 |
| Income under the head business/profession | 2,65,071.43 |
| Income from house property | 2,00,000 |
| Gross Total Income | 4,65,071.43 |
| Less: Deduction u/s 80C {National Saving Certificate} | -1,00,000 |
| Total Income (Rounded off u/s 288A) | 3,65,070 |
| Tax on INR 3,65,070 at slab rate | 5,754 |
| Rebate u/s 87A | 5,754 |
| Tax Liability | Nil |

| Computation of total income and tax liability of Mr. Z | Amount |
|---|--------------------|
| Salary from partnership firm | 1,41,042.86 |
| Interest from partnership firm | 20,000 |
| Income under the head Business/Profession | 1,61,042.86 |
| Loss from house property | -2,00,000 |

| | |
|---|------------|
| Net house property loss carried forward | -38,957.14 |
|---|------------|

Concept Problem 36 Solution

| Financial Year | Expenditure | Payment | Allowability (PY) | Remarks |
|----------------|-----------------------|------------|-------------------|------------------------|
| 2023-24 | Municipal Tax | 24.06.2024 | 2023-24 | |
| 2023-24 | GST | 01.10.2024 | 2024-25 | |
| 2023-24 | Entertainment Tax | 01.04.2025 | 2025-26 | |
| 2023-24 | Interest to Bank | 28.04.2025 | 2025-26 | |
| 2023-24 | Rent | 20.04.2025 | 2023-24 | 43B is not applicable |
| 2023-24 | Advertisement expense | 20.04.2026 | 2023-24 | 43B is not applicable. |

Concept Problem 37 Solution

Computation of income under the head Business/Profession of Mr. Ram for AY 2024-25 under optional tax regime:

| Particulars | Amount |
|---|-----------------|
| Legal consultancy fees | 9,20,000 |
| Less: | |
| - Rent of building | -2,20,000 |
| - Office expenses | -30,000 |
| - Depreciation on computer (WN) | -11,060 |
| - Depreciation on car (4,00,000*7.5%) | -30,000 |
| - Depreciation on books (9,000*20%) | -1,800 |
| - Subscription to bar association | -3,000 |
| Income under the head Business/Profession | 6,24,140 |
| Working Note: | |
| Computer – W.D.V. as on 01.04.2023 | 2,300 |
| + New compute purchase and put to use on 01.11.2023 | 35,000 |
| + Compute purchase and put to use on 10.11.2023 | 25,000 |
| (-) Sale of computer | (7,000) |
| W.D.V. as on 31.03.2024 | 55,300 |
| Depreciation @ 20% | 11,060 |

Computation of income under the head Capital Gains on sale of house

| Particulars | Amount |
|---|-----------------|
| Full Value of Consideration | 9,80,000 |
| Less: Cost of acquisition | (6,70,000) |
| Income under the head Capital Gains (STCG) | 3,10,000 |

Computation of income under the head Other Sources

| Particulars | Amount |
|--|---------------|
| Remuneration from Delhi University | 4,000 |
| Honorarium for delivering lectures | 3,000 |
| Interest from UTI | 12,000 |
| Income under the head Other Sources | 19,000 |

Computation of Total Income

| Particulars | Amount |
|--|-----------------|
| Income under the head Business/Profession | 6,24,140 |
| Income under the head Capital Gains (STCG) | 3,10,000 |
| Income under the head Other Sources | 19,000 |
| Gross Total Income | 9,53,140 |
| Less: Deduction u/s 80C | (12,000) |
| Total Income | 9,41,140 |

Computation of Tax Liability

| Particulars | Amount |
|-------------------------------------|-----------------|
| Tax on INR 9,41,140 at slab rate | 1,00,728 |
| Add: Health and education cess @ 4% | 4029 |
| Tax Liability | 1,04,757 |
| Less: Advance tax payable | 12,000 |
| Tax Payable | 92,757 |
| Rounded off u/s 288B | 92,760 |

Concept Problem 38 Solution

Computation of Total Income of Mr. Ram for AY 2024-25 under optional tax regime:

| Particulars | Amount |
|--|--------|
| Computation of Business Income | |
| Net Profit as per profit and loss account | 87,000 |
| Add: Inadmissible expenses | |
| Provision for doubtful debts | 16,000 |
| Depreciation Reserve | 21,000 |
| Household Expenses | 20,000 |
| Donations | 30,000 |
| Cash purchase in excess INR 10,000 | 80,000 |
| Cost of neon sign board (capital expenditure) | 5,000 |
| Patents purchase | 70,000 |
| Installment for preliminary expenses under section 35D (15,000 – 3,000) (WN) | 12,000 |

| Particulars | Amount |
|--|-----------------|
| Opening stock overvalue [1,15,000 x 15/115] | 15,000 |
| Closing stock undervalued [1,70,000 x 15/85] | 30,000 |
| Less: Admissible expenses | |
| Interest on company deposit | -50,000 |
| Depreciation on neon sign @ 10% on INR 5,000 | -500 |
| Depreciation on patents @ 12.5 on INR 70,000 | -8,750 |
| Income under the head Business/Profession | 3,26,750 |
| Income under the head Other Sources | 50,000 |
| Gross Total Income | 3,76,750 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 3,76,750 |

| |
|--|
| Working Note: |
| 15,000 but subject to a maximum of 10,00,000 x 5% = 50,000 |
| Installment allowed INR 15,000/5 = INR 3,000 |

Computation of Tax Liability

| Particulars | Amount |
|-----------------------------------|------------|
| Tax on INR 3,76,750 at slab rates | 6,338 |
| Less: Rebate u/s 87A | 6,338 |
| Tax Liability | Nil |

Concept Problem 39 Solution

| I. | Tax consequences in the hands of Mr. Ramesh |
|----|--|
| | <p>In the hands of Mr. Ramesh, the provisions of section 43CA would be attracted, since he is a property dealer and he has transferred the residential units for a consideration less than the stamp duty value. The consideration received would be the full value of consideration if the stamp duty value does not exceed 110% of the consideration received.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of, <i>inter alia</i>, account payee cheque.</p> <p>In respect of residential unit sold to Mr. Vikas</p> <p>In case of residential unit sold to Mr. Vikas, since the down payment of 5 lakhs is received on the date of agreement by account payee cheque, stamp duty value on the date of agreement would be considered. Accordingly, in this case, business income would be computed in the hands of Mr. Ramesh for A.Y.2024-25, taking the consideration of 55 lakhs as the full value of consideration arising on transfer of residential unit, since the stamp duty value of 60 lakhs on the date of agreement does not exceed 110% of the actual consideration of 55 lakhs and all the other conditions are satisfied.</p> <p>In respect of residential unit sold to Mr. Raj, Mr. Ashok and Mr. Ashish</p> <p>In case of residential unit sold to Mr. Raj, Mr. Ashok and Mr. Ashish, business income would be computed in the hands of Mr. Ramesh for A.Y.2024-25, taking the stamp duty value of 70 lakhs as the full value of consideration arising on transfer of each residential unit, since the same exceeds 110% of actual consideration of 60 lakhs. Therefore, the full value of consideration would be 210 lakhs (70 lakhs x 3).</p> |

| | |
|-------------|---|
| I. | Tax consequences in the hands of Mr. Ramesh |
| II. | Tax consequences in the hands of Mr. Vikas |
| | <p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of 50,000 or 10% of actual sales consideration.</p> <p>The option to adopt stamp duty value on the date of agreement can be exercised only if whole or part of consideration has been paid on or before date of agreement by way of, inter alia, account payee cheque.</p> <p>In this case, since the down payment of 5 lakhs is paid on the date of agreement by account payee cheque, stamp duty value on the date of agreement would be considered.</p> <p>No income would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2024-25 since the difference between the stamp duty value of 60 lakhs and actual consideration of 55 lakhs does not exceed 5,50,000, being higher of 50,000 and 10% of actual sale consideration of 55 lakhs.</p> |
| III. | Tax consequences in the hands of Mr. Raj, Ashok and Ashish |
| | <p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of 50,000 or 10% of actual sales consideration.</p> <p>In this case, 10 lakhs would be taxable in the hands of Mr. Raj, Mr. Ashok and Mr. Ashish each under the head “Income from Other Sources” in A.Y. 2024-25 since the difference between the stamp duty value of 70 lakhs and actual consideration of 60 lakhs exceeds 6,00,000, being the higher of 50,000 and 10% of actual sale consideration of 60 lakhs.</p> |

CHAPTER 7

CAPITAL GAINS

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

- i) **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- ii) **Bonus shares** - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
- iii) **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

Concept problem 2 Solution

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be covered by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

Concept problem 3 Solution

Since the capital asset is converted into stock-in-trade during the previous year 2022-23 relevant to the A.Y. 2023-24, it will be a transfer u/s 2(47) during the P.Y. 2022-23. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2024-25, since the stock-in-trade has been sold only on June 10, 2023.

For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2023) will be the full value of consideration for computation of capital gains. The business income of 50,000 (i.e., 6,00,000 (-) 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2024-25. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2024-25.

Concept Problem 4 Solution

In the above Question, the transaction is squarely covered u/s 47. Such transaction is not treated as Transfer and Not liable to Tax. Hence, the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

Concept Problem 5 Solution

Capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- a) As per the provisions of section 47(iii), transfer of a capital asset under a gift is **not regarded as transfer** for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- b) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu Undivided Family is **not regarded as transfer** for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

- c) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not regarded as transfer** for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Concept Problem 6 Solution

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

Concept Problem 7 Solution

Solution

i) False:

As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as “transfer” for the purpose of capital gains.

ii) True

Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

iii) True:

As per section 2(48), ‘Zero Coupon Bond’ means a bond issued by any infrastructure capital company or infrastructure capital fund or a public-sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

iv) False:

As per section 10(37), where an individual owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer, and the same is compulsorily acquired under any law and the compensation is determined or approved by the Central Government or the Reserve Bank of India, resultant capital gain will be exempt.

In this case, the compensation has been fixed by State Government and hence, the exemption will not be available.

v) False

In view of the provisions of section 56(2)(i), dividend income is taxable under the head "Income from other sources" in the case of all assesses.

vi) False

As per section 2(14)(ii), the term “personal effects” excludes any work of art. As a result, any work of art will be considered as a capital asset and sale of the same will attract capital gains tax.

vii) True

As per section 47(xa), any transfer by way of conversion of bonds referred to in section 115AC into shares and debentures of any company is not regarded as transfer. Therefore, there will be no capital gains on conversion of foreign currency exchangeable bonds into shares or debentures.

viii) False:

The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e., bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to INR 50,00,0000, whether such investment is made during the relevant previous year or the subsequent previous year, or both.

Therefore, in this case, the exemption under section 54EC can be availed only to the extent of INR 50 lakh, provided the investment is made before 1.11.2021 (i.e., within six months from the date of transfer).

Concept Problem 8 Solution:

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2022-23) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2023- 24). Profits from business will also be taxable in the year of sale of the stock-in- trade (P.Y. 2023-24).

The LTCG and business income for the A.Y.2024-25 are calculated as under:

| Particulars | Amount | |
|---|----------|-----------------|
| Profits and Gains from Business or Profession | | |
| Sale proceeds of the stock-in-trade | 6,50,000 | |
| Less: Cost of the stock-in-trade (FMV on the date of conversion) | 4,50,000 | 2,00,000 |
| Long Term Capital Gains | | |
| Full value of the consideration (FMV on the date of the conversion) | 4,50,000 | |
| Less: Indexed cost of acquisition (INR 50,000 x 331/109) | 1,51,835 | 2,98,165 |

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Concept Problem 9 Solution
(i) Computation of depreciation for A.Y. 2024-25:

| Particulars | Amount |
|--|-----------------|
| Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23] | 8,50,000 |
| Add: Purchase of second-hand plant during the year | 8,50,000 |
| | 17,00,000 |
| Less: Sale consideration of old machinery during the year | 11,00,000 |
| W.D.V of the block as on 31.03.2024 | 6,00,000 |

Since the value of the block as on 31.3.2024 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is 45,000, being 7½% of 6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of the block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- (iii) If the three machines are sold in June, 2023 for INR 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

| Particulars | | |
|--|----------|-----------------|
| Sale consideration | | 21,00,000 |
| Less: W.D.V. of the machines as on 1.4.2023 (i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23) | 8,50,000 | |
| Less: Purchase of second plant during the year | 8,50,000 | 17,00,000 |
| Short term capital gains | | 4,00,000 |

Concept Problem 10 Solution

Computation of capital gains on slump sale of Unit 1

| Particulars | Amount |
|---|------------------|
| Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2023 or FMV of monetary consideration received] | 30,00,000 |
| Less: Expenses on sale | 28,000 |
| Net sale consideration | 29,72,000 |
| Less: Net worth (See Note 1 below) | 12,50,625 |
| Long-term capital gain | 17,21,375 |

Notes

1. Computation of net worth of Unit 1 of Akash Enterprises

| Particulars | Amount |
|--|------------------|
| Building (excluding INR 3 lakhs on account of revaluation) | 9,00,000 |
| Machinery | 3,00,000 |
| Debtors | 1,00,000 |
| Patents (See Note 2 below) | 28,125 |
| Other assets (INR 1,50,000 – INR 50,000) | 1,00,000 |
| Total assets | 14,28,125 |
| Less: Creditors | 37,500 |
| Less: Bank Loan | 1,40,000 |
| Net worth | 12,50,625 |

2. Written down value of patents as on 1.4.2023

| Value of patents | Amount |
|---------------------|--------|
| Cost as on 1.7.2021 | 50,000 |

| Value of patents | Amount |
|---|---------------|
| Less: Depreciation @ 25% for Financial Year 2021-22 | 12,500 |
| WDV as on 1.4.2022 | 37,500 |
| Less: Depreciation for Financial Year 2022-23 | 9,375 |
| WDV as on 1.4.2023 | 28,125 |

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of INR 3 lakh and INR 9 lakh (12 lakh – 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Concept Problem 11 Solution

The house is sold before 24 months from the date of purchase. Hence the house is a short-term capital asset and no benefit of indexation would be available.

| Particulars | Amount |
|--------------------------------|-----------------|
| Sale consideration | 20,00,000 |
| Less: cost of acquisition | (10,00,000) |
| Less: Cost of improvement | (2,00,000) |
| Short term capital gain | 8,00,000 |

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is INR 8,00,000.

Concept Problem 12 Solution

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Computation of income-tax liability for the A.Y.2023-24:

| Particulars | Mr. A (age 45) | Mrs. B (age 62) | Mr. C (age 81) | Mr. D (age 82) |
|---|-----------------------------------|---|--|----------------------|
| Residential Status | Resident | Non-resident | Resident | Non- resident |
| Applicable basic exemption limit | 3,00,000 | 3,00,000 | 3,00,000 | 3,00,000 |
| Asset sold | Vacant site | Listed equity shares (STT paid on both sale and purchase of shares) | Rural agricultural land | - |
| Long-term capital gain (on sale of above asset) | 85,000 [Taxable @ 20% u/s 112] | 10,000 [exempt u/s 112A since it is less than 1,00,000] | 60,000 (Exempt – not a capital asset) | - |
| Other income | 2,40,000 | 3,10,000 | 5,90,000 | 4,80,000 |
| Tax liability | | | | |

| | | | | |
|---|--------------|------------|---------------|--------------|
| On LTCG (after adjusting unexhausted Basic Exemption limit) | 5,000 | - | - | - |
| On Other income | Nil | 500 | 14,500 | 9,000 |
| | 5,000 | 500 | 14,500 | 9,000 |
| Less: Rebate u/s 87A | 5,000 | - | - | - |
| | Nil | 500 | Nil | 9,000 |
| Add: Health and education cess @ 4% | Nil | 20 | Nil | 360 |
| Total tax liability | Nil | 520 | Nil | 9,360 |

Note: Since Mr. A and Mr. C are residents whose total income does not exceed INR 7 lakhs, they are eligible for rebate of INR 25,000 or the actual tax payable, whichever is lower, under section 87A.

(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

Computation of income-tax liability for the A.Y.2024-25:

| Particulars | Mr. A (age 45) | Mrs. B (age 62) | Mr. C (age 81) | Mr. D (age 82) |
|---|-----------------------------------|---|--|----------------------|
| Residential Status | Resident | Non-resident | Resident | Non- resident |
| Applicable basic exemption limit | 2,50,000 | 2,50,000 | 5,00,000 | 2,50,000 |
| Asset sold | Vacant site | Listed equity shares (STT paid on both sale and purchase of shares) | Rural agricultural land | - |
| Long-term capital gain (on sale of above asset) | 85,000 [Taxable @ 20% u/s 112] | 10,000 [exempt u/s 112A since it is less than 1,00,000] | 60,000 (Exempt – not a capital asset) | - |
| Other income | 2,40,000 | 3,10,000 | 5,90,000 | 4,80,000 |
| Tax liability | | | | |
| On LTCG (after adjusting Basic Exemption limit) | 15,000 | - | - | - |
| On Other income | Nil | 3,000 | 18,000 | 11,500 |
| | 15,000 | 3,000 | 18,000 | 11,500 |
| Less: Rebate u/s 87A | 12,500 | - | - | - |
| | 2,500 | 3,000 | 18,000 | 11,500 |
| Add: Health and education cess @ 4% | 100 | 120 | 720 | 460 |
| Total tax liability | 2,600 | 3,120 | 18,720 | 11,960 |

Notes:

- i) Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of 3,00,000 and 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they are not eligible for rebate under section 87A even though their total income does not exceed 5 lakh.
- ii) Since Mr. A is a resident whose total income does not exceed 5 lakh, he is eligible for rebate of 12,500 or the actual tax payable, whichever is lower, under section 87A.

Concept Problem 13 Solution

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

| Particulars | Amount |
|---|-----------------|
| Long term capital gains on sale of original shares | |
| Gross sale consideration (100 x INR 4,000) | 4,00,000 |
| Less: Brokerage @ 1% | 4,000 |
| Net sale consideration | 3,96,000 |
| Less: Cost of acquisition of original shares (100 x INR 2000) (Note b) | 2,00,000 |
| Long term capital gain | 1,96,000 |
| Short term capital gain on sale of bonus shares | |
| Gross sale consideration (100 x INR 4000) | 4,00,000 |
| Less: Brokerage @ 1% | 4,000 |
| Net sale consideration | 3,96,000 |
| Less: Cost of acquisition of Bonus Shares | Nil |
| Short term Capital Gains | 3,96,000 |
| Income from other sources | |
| Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share] | 2,000 |
| Total Income | 5,94,000 |
| Tax Liability | |
| Tax on dividend (since it is lower than the basic exemption limit) | Nil |
| Tax on STCG u/s 111A 15% of (3,96,000 - 2,98,000 being unexhausted basic exemption limit) | 14,700 |
| Tax on LTCG u/s 112A 10% of (1,96,000 - 1,00,000) | 9,600 |
| | 24,300 |
| Less: Rebate u/s 87A | 14,700 |
| | 9,600 |
| Add: Health and education cess @ 4% | 384 |
| Tax payable | 9,600 |
| Tax payable (Rounded off) | 9,600 |

Notes:

- a) Long-term capital gains exceeding INR 1 Lakh on sale of original shares through a recognised stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10% without indexation benefit.
- b) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of:
- Cost of acquisition i.e. INR 1,000 per share and
 - Lower of-
 - Fair Market value of such asset i.e. INR 2,000 per share and
 - Full value consideration i.e. INR 4,000 per share.
- So, the cost of acquisition of original shares is INR 2,000 per share.
- c) Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax @ 15% as per section 111A after adjusting the unexhausted basic exemption limit (3,00,000 less 2,000, being the amount of dividend). Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of INR 3,00,000 for A.Y. 2024-25.
- d) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- e) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- f) Securities transaction tax is not allowable as deduction.

Concept Problem 14 Solution

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

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

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2024-25.

| Particulars | Amount |
|--|---------------|
| Capital Gains | |
| Sale consideration (Fair market value on the date of conversion) | 3,00,000 |
| Less: Indexed cost of acquisition (80,000 × 348/113) | 2,46,372 |
| Long-term capital gain | 53,628 |
| Profits & Gains of Business or Profession | |
| Sale price of stock-in-trade | 3,25,000 |
| Less: Fair market value on the date of conversion | 3,00,000 |
| | 25,000 |

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

| Particulars | Amount |
|---|--------|
| Profits and gains from business or profession | 25,000 |
| Long term capital gains | 53,628 |

| Particulars | Amount |
|----------------|--------|
| Taxable income | 78,628 |

Concept Problem 15 Solution
Computation of capital gains and business income of Harshita for A.Y. 2024-25

| Particulars | Amount |
|---|--------------------|
| Capital Gains | |
| Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2) | 2,10,00,000 |
| Less: Indexed cost of acquisition [$35,00,000 \times 331/113$] | 1,02,52,212 |
| | 1,07,47,788 |
| Proportionate capital gains arising during A.Y. 2024-25 [$1,07,47,788 \times 2/3$] | 71,65,192 |
| Less: Exemption under section 54EC | 50,00,000 |
| Capital gains chargeable to tax for A.Y. 2024-25 | 21,65,192 |
| Business Income | |
| Sale price of flats [$10 \times \text{INR } 30 \text{ lakhs}$] | 3,00,00,000 |
| Less: Cost of flats | |
| Fair market value of land on the date of conversion [$\text{INR } 210 \text{ lacs} \times 2/3$] | 1,40,00,000 |
| Cost of construction of flats [$10 \times \text{INR } 10 \text{ lakhs}$] | 1,00,00,000 |
| Business income chargeable to tax for A.Y. 2024-25 | 60,00,000 |

Notes:

- The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2022-23, in this case).
- However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2022-23) and not up to the year of sale of stock-in-trade (i.e., P.Y.2023-24).
- For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y. 2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.
- On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC.

In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be INR 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of INR 50 lakhs has been made in bonds of NHAI during the P.Y. 2023-24 and investment of INR 50 lakhs has been made in bonds of RECL during the P.Y. 2024-25, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2024-25, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only INR 50 lakhs.

Concept Problem 17 Solution

Computation of income under the head "Capital Gains" of Mr. Sarthak for the AY 2024-25

| Particulars | | Amount |
|--|-------------|------------------|
| Capital Gains on sale of residential house | | |
| Actual sale consideration | 1,50,00,000 | |
| Value adopted by Stamp Valuation Authority on the date of agreement | 1,70,00,000 | |
| <p>[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered 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 such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since 20% of INR 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]</p> | | |
| Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration] | | 1,70,00,000 |
| Less: Indexed cost of acquisition of residential house [INR 30 lakhs x 348/100] | | 1,04,40,000 |
| Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer] | | 65,60,000 |
| Less: Exemption u/s 54 | | 55,00,000 |
| <p>Since, long-term capital gains do not exceed INR 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. 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 these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of INR 55,00,000 being INR 20,00,000 and INR 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.</p> | | |
| Long term capital gains chargeable to tax | | 10,60,000 |

Concept Problem 18 Solution

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

| Particulars | Amount (in lakhs) | Amount (in lakhs) |
|---|----------------------|----------------------|
| Capital Gains on sale of residential building | | |
| Actual sale consideration INR 810 lakhs | | |
| Value adopted by Stamp Valuation Authority INR 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 INR 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 INR 810 lakhs) | | 8.10 |
| Net Sale consideration | | 801.90 |
| Less: Indexed cost of acquisition | | |
| - Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/117] | 261.74 | |
| - Construction cost of residential building (₹ 100 lakhs × 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 INR 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., INR 130 lakhs as exemption. | | |
| Less: Exemption under section 54EC | | 50.00 |
| Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2024), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of INR 50 | | |

| Particulars | Amount (in lakhs) | Amount (in lakhs) |
|--|----------------------|----------------------|
| lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of INR 50 lakh out of INR 90 lakhs, even if the both the investments are made on or before 13.7.2024 (i.e., within six months after the date of transfer). | | |
| Long term capital gains chargeable to tax | | 90.39 |

Note: Advance of INR 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.

Concept Problem 19 Solution

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2024-25:

| Particulars | Amount | Amount |
|--|-----------|------------------|
| Actual sale consideration | 30,50,000 | |
| Valuation as per Stamp duty Authority on the date of agreement | 39,00,000 | |
| (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration) Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration] | | 39,00,000 |
| Less: Expenses on transfer (Brokerage @ 1% of INR 30,50,000) | | 30,500 |
| Net sale consideration | | 38,69,500 |
| Less: Indexed cost of acquisition (Note 1) | 33,37,320 | |
| Less: Indexed cost of improvement (Note 2) | 5,34,331 | 38,71,651 |
| Long term capital loss | | (2,151) |

Note:

(1) Computation of indexed cost of acquisition

| Particulars | Amount | Amount |
|----------------------|--------|-----------|
| Cost of acquisition, | | 10,70,000 |
| Being the higher of | | |

| | | |
|--|-----------|-----------------|
| i) Lower of Fair market value i.e., INR 11,85,000 and Stamp duty value i.e., INR 10,70,000, on April 1, 2001 | 10,70,000 | |
| ii) Actual cost of acquisition (INR 3,24,000 + 35,000, being stamp duty @ 10% of INR 3,50,000) | 3,59,000 | |
| Less: Advance money taken from Mr. Mohan and forfeited | | 1,11,000 |
| Cost of acquisition for indexation | | 9,59,000 |
| Indexed cost of acquisition (INR 9,59,000 x 348/100) | | 33,37,320 |

(2) Computation of indexed cost of improvement

| Particulars | Amount |
|---|----------|
| Cost of construction of first floor in August, 2015 | 3,90,000 |
| Indexed cost of improvement (3,90,000 x 348/254) | 5,34,331 |

- (3) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. 10,70,000 – 1,11,000 (being the advance money forfeited during the P.Y. 2008-09) = 9,59,000].

However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS
Concept Problem 20 Solution
Gold

| Particulars | Amount |
|--|------------------|
| Full value of consideration | 40,00,000 |
| Less: Indexed cost of acquisition | |
| = 4,00,000/Index of 2001-02 x Index of 2023-24 | |
| = 4,00,000/100 x 348 | 13,92,000 |
| Long term capital gain | 26,08,000 |

Land

| Particulars | Amount |
|--|------------------|
| Full value of consideration | 40,00,000 |
| Less: Indexed cost of acquisition | |
| = 6,50,000/Index of 2001-02 x Index of 2023-24 | |
| = 6,50,000/100 x 348 | 22,62,000 |
| Long term capital gain | 17,38,000 |

Residential House

| Particulars | Amount |
|---|-----------------|
| Full value of consideration | 20,00,000 |
| Less: Indexed cost of acquisition | |
| = 8,00,000/Index of 2004-05 x Index of 2023-24 | |
| = 8,00,000 / 113 x 348 | 24,63,717 |
| Less: Indexed cost of improvement | |
| = 4,00,000/ Index of 2005-06 x Index of 2023-24 | |
| = 4,00,000/ 117 x 348 | 11,89,744 |
| Long term capital loss | 3,46,540 |

Personal Music System

It is not a capital asset as per section 2(14).

Concept Problem 21 Solution

Computation of Capital Gains Section 45(2) for PY 2023-24 under Optional Tax regime:

| Particulars | Amount |
|---|------------------|
| Capital gain shall be computed in the year in which the asset was acquired i.e., in the PY 2017-18 and shall be taxed in the year in which the first payment has been received i.e., in the PY 2023-24. | |
| Full value of consideration | 50,00,000 |
| Less: Indexed cost of acquisition | |
| = 5,00,000/105 x 272 | (12,95,238) |
| Long Term Capital Gains | 37,04,762 |
| Less: Exemption u/s 54 | (2,00,000) |
| Long Term Capital Gains | 35,04,762 |
| Income under the head Capital Gain (LTCG) | 35,04,762 |
| Gross total income | 35,04,762 |
| Less: Deduction u/s 80C TO 80U | Nil |
| Total Income (rounded off u/s 288A) | 35,04,760 |

Computation of Tax Liability for AY 2024-25

Since normal income is Nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat of 20%.

| Particulars | Amount |
|---|-----------------|
| Tax on INR 32,54,760 (INR 35,04,760 – INR 2,50,000) @ 20% | 6,50,952 |
| Add: Health and education cess @ 4% | 26,038 |
| Tax Liability | 6,76,990 |

Computation of capital gain for the assessment year 2025-26

| Capital gain on sale of House | Amount |
|-------------------------------|----------|
| Full value of consideration | 4,00,000 |

| Capital gain on sale of House | Amount |
|--|-----------------|
| Less: cost of acquisition (INR 2,00,000 - INR 2,00,000) | Nil |
| Short term capital gains | 4,00,000 |
| Hence short-term capital gain for assessment year 2025-26 | 4,00,000 |

Concept problem 22 Solution

Computation of Capital Gains Section 45(2) for PY 2023-24:

| Particulars | Amount |
|---|-----------------|
| Full value of consideration | 11,00,000 |
| Less: Indexed cost of acquisition | |
| =3,00,000 / Index of 2001-02 x Index of 2010-11 | |
| =3,00,000/100 x 167 | (5,01,000) |
| Long Terms Capital Gains | 5,99,000 |

Computation of Total Income

| Previous year 2023-24 | Amount |
|---|-----------------|
| Long Term Capital Gain (1/2 of INR 5,99,000) | 2,99,500 |
| Business Income (INR 6,50,000 - INR 5,50,000) | 1,00,000 |
| Total Income | 3,99,500 |

| Previous year 2024-25 | Amount |
|---|-----------------|
| Long Term Capital Gain (1/2 of INR 5,99,000) | 2,99,500 |
| Business Income (INR 7,50,000 - INR 5,50,000) | 2,00,000 |
| Total Income | 4,99,500 |

Concept Problem 23 Solution

Computation of income under the head Capital Gains

Capital gain shall be computed in the year in which the asset was acquired by the Government i.e., in the PY 2017-18 and shall be taxed in the year in which the first payment has been received by Assessee i.e., PY 2023-24.

| | Amount |
|---|------------------|
| Full value of consideration | 60,00,000 |
| Less: Indexed cost of acquisition | |
| =2,50,000/Index of 2001-02 x Index of 2017-18 | |
| =2,50,000/100 x 272 | (6,80,000) |
| Less: Indexed cost of improvement | |
| =2,00,000/Index of 2013-14 x Index of 2017-18 | |
| =2,00,000/220 x 272 | (2,47,273) |
| Long Term Capital Gain | 50,72,727 |

| Computation of income under the head other sources | Amount |
|--|-----------------|
| Interest income | 2,00,000 |
| Less: Deduction u/s 57 @ 50% | (1,00,000) |
| Income under the head Other Sources | 1,00,000 |

| Computation of Total Income under Optional Tax regime | Amount |
|---|------------------|
| Income under the head Business Profession | 20,03,990 |
| Income from long term capital gains | 50,72,727 |
| Income under the head Other Sources | 1,00,000 |
| Gross Total Income | 71,76,717 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 71,76,717 |
| LTCG | 50,72,727 |
| Normal income | 21,03,990 |

| Computation of Tax Liability under Optional Tax regime | Amount |
|--|------------------|
| Tax on LTCG INR 50,72,727 @ 20% u/s 112 | 10,14,546 |
| Tax on INR 21,03,990 at slab rate | 4,43,697 |
| Add: Surcharge @ 10% (14,58,242 x 10%) | 1,45,824 |
| Tax before Health and education cess | 16,04,067 |
| Add: Health and education cess @ 4% | 64,163 |
| Tax Liability | 16,68,230 |

Enhanced compensation of INR 5,00,000 received on 01/06/2024 shall be taxable as LTCG in PY 2024-25 and cost of acquisition and cost of improvement in this case shall be Nil.

Concept Problem 24 Solution

- i) In the given problem, compulsory acquisition of an urban agricultural land has taken place and the land had also been used for at least 2 years by the Assessee himself for agricultural purposes.

Thus, as per section 10(37), entire capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e., A.Y.2024-25.

- ii) As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr. Kumar.

- iii) As per section 10(37), exemption is available only when such land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such HUF. Since the Assessee has not used it for agricultural activities, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of Mr. Kumar.

- iv) Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. If the land belongs to ABC Ltd., a company, the provisions of this section are not attracted and capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.

Concept Problem 25 Solution

Computation of taxable capital gain of Mr. Malik for A.Y.2024-25:

| Particulars | Amount | Amount |
|---|-----------|-----------------|
| Factory building | | |
| Sale price of building | 8,00,000 | |
| Less: WDV as on 1.4.2023 | 8,74,800 | |
| Short-term capital loss on sale of building | | (74,800) |
| | | |
| Land appurtenant to the above building | | |
| Sale value of land | 40,00,000 | |
| Less: Indexed cost of acquisition (INR 11,50,000 × 348/105) | 38,11,429 | |
| Long-term capital gains on sale of land | | 1,88,571 |
| Chargeable long-term capital gain | | 1,13,771 |

Investment under section 54EC

In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset, being land or building or both including depreciable asset (building) held for more than 24 months, are invested in five-year redeemable bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer.

As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is INR **1,13,771** (rounded off to INR **1,13,770**) in this case.

Notes:

- Forfeiture of advance money prior to 01.04.2014 is reduced from the cost of acquisition and Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. INR 12,00,000 – INR 50,000 = INR 11,50,000.
- Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
- Land is not a depreciable asset; hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.
- As per section 74, short term capital loss can be set-off against any income under the head “Capital gains”, long-term or short-term. Therefore, in this case, short-term capital loss of INR 74,800 can be set-off against long-term capital gain.

Concept Problem 26 Solution

Computation of Capital gains and Total Income for AY 2024-25 under Optional Tax regime:

| Particulars | Amount |
|--|--------------------|
| Full value of consideration | 1,23,00,000 |
| Less: Indexed cost of acquisition (2,00,000 / 100 x 348) | 6,96,000 |
| Long Term Capital Gain | 1,16,04,000 |
| Less: Exemption u/s 54B | (2,00,000) |
| Less: Exemption u/s 54EC | (75,000) |

| Particulars | Amount |
|--|--------------------|
| Long Term Capital Gain | 1,13,29,000 |
| Income under the head Capital Gain (LTCG) | 1,13,29,000 |
| Gross Total Income | 1,13,29,000 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 1,13,29,000 |

Computation of Tax Liability

Since normal income is nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%.

| Particulars | Amount |
|---|------------------|
| Tax on INR 1,11,41,000 (INR 1,13,29,000 – INR 2,50,000) @ 20% | 22,15,800 |
| Add: Surcharge @ 15% | 3,32,370 |
| Tax before education cess | 25,48,170 |
| Add: Health and education cess @ 4% | 1,01,927 |
| Tax Liability [R/off u/s 288B) | 26,50,100 |

Capital Gain on sale of bonds within 5 years - Assessment year 2025-26

| Particulars | Amount |
|---|-----------------|
| Full value of consideration | 3,00,000 |
| Less: Cost of acquisition | (75,000) |
| Short Term Capital | 2,25,000 |
| Long Term Capital Gain (withdrawal of exemption) | 75,000 |

Concept Problem 27 Solution

Computation of amount chargeable to tax under the head “Capital Gains” in the hands of Mr. Rajan

| | Particulars | Amount |
|-------------|--|------------------|
| (i) | Sale of 10,000 shares of A Ltd. on 5.4.2023 @ 650 per share | |
| | Sales consideration (10,000 x INR 650) | 65,00,000 |
| | Less: Cost of Acquisition | 30,00,000 |
| | Higher of | |
| | - Actual cost (10,000 x 100) | 10,00,000 |
| | - Lower of: | 30,00,000 |
| | • 30,00,000 (INR 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.01.2018); 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 B Mutual Fund5 on 20.4.2023 @ INR 50 per unit | |

| | Particulars | Amount |
|--------------|---|---------------|
| | 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] | NIL |
| (iii) | Sale of 100 shares of C Ltd. on 25.4.2023 @ 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 | Amount |
|---|-----------------|
| Tax under section 112A @ 10% on long-term capital gains of INR 34,00,000 [LTCG of INR 35,00,000 (-) INR 1,00,000] arising on sale of shares of A Ltd. | 3,40,000 |
| Tax under section 112 @ 20% on long-term capital gains of INR 2,600 arising on sale of unlisted shares of C Ltd. | 520 |
| Total Tax payable on capital gains (Rounded off u/s 288B) | 3,40,520 |

Concept Problem 28 Solution
Computation of capital gains for the A.Y.2024-25

| Particulars | Option 1 with Indexation | Option 2 without Indexation |
|--|---------------------------------|------------------------------------|
| Sale consideration | 3,41,476 | 3,41,476 |
| Less: Indexed Cost of Acquisition / Cost of Acquisition | (10,000 / 280 * 348) = (12,429) | (10,000) |
| Long –Term Capital Gain | 3,16,618 | 3,31,476 |
| Less: Basic exemption limit applicable | (2,50,000) | (2,50,000) |
| Taxable long – term capital gain | 66,618 | 81,476 |
| Tax rate applicable u/s 112 | 20% | 10% |
| Tax on long – term capital gain | 13,324 | 8,148 |

- In case of transfer of listed security on which STT is not paid, then the Assessee can opt for 20% tax rate with indexation benefit or 10% tax rate without indexation benefit whichever is **more beneficial** to him. In the given case, **option 2** is more beneficial to the Assessee (i.e., lower tax) and therefore it is consideration in the calculations.
- As per sec. 112, no deduction shall be allowed under chapter VI-A for long term capital gain.
- In case of transfer of unlisted security tax on LTCG shall be calculated at 20% and the Assessee has no option to compute/ adopt for 10% without any indexation benefit.

4. When total income of resident individual does not exceed INR 5 lakh **rebate u/s 87A = 100% of tax payable** or INR 12,500 whichever is **less**.

| Tax payable under Optional Tax regime: | Listed shares |
|---|----------------------|
| Income from Capital gain: | |
| Long term capital gain | 3,31,476 |
| Gross total income | 3,31,476 |
| Less: Deduction under chapter VI-A (W.N.3) | Nil |
| Total income (R/off u/s 288A) | 3,31,480 |
| Tax on total income @ 10% [3,31,480 – 2,50,000] | 8,148 |
| Less: rebate u/s 87A | (8,148) |
| Tax payable | Nil |

Concept Problem 29 Solution
Computation of capital gains in the hands of Mr. R for the A.Y.2024-25:

| Particulars | Amount |
|--|---------------|
| 1000 Original shares | |
| Sale proceeds (1000 × INR 300) | 3,00,000 |
| Less: Indexed cost of acquisition [INR 75,000 × 348/100] | 2,61,000 |
| Long term capital gain (A) | 39,000 |
| | |
| 200 Right shares | |
| Sale proceeds (200 × INR 300) | 60,000 |
| Less: Cost of acquisition [INR 160 × 200] [Note 1] | 32,000 |
| Short term capital gain (B) | 28,000 |
| | |
| Sale of Right Entitlement | |
| Sale proceeds (200 × INR 30) | 6,000 |
| Less: Cost of acquisition [Note 2] | NIL |
| Short term capital gain (C) | 6,000 |
| Capital Gains (A+B+C) | 73,000 |

Note 1:

Since the holding period of these shares is not more than 24 months, they are short term capital assets and hence cost of acquisition will not be indexed.

Note 2:

The cost of the rights renounced in favour of another person for a consideration is taken to be Nil. The consideration so received is taxed as short-term capital gains in full. The period of holding is taken from the date of the rights offer to the date of the renouncement.

Computation of capital gains in the hands of Mr. Q for the A.Y. 2024-25:

| Particulars | Amount |
|--|---------------|
| 200 shares | |
| Sale proceeds (200 × INR 280) | 56,000 |
| Less: Cost of acquisition [200 shares × (INR 30 + INR 160)] [See Note below] | 38,000 |
| Short term capital gain | 18,000 |

Note:

The cost of the rights is the amount paid to Mr. R as well as the amount paid to the company. Since the holding period of these shares is not more than 24 months, they are short term capital assets.

Concept Problem 30 Solution

Computation of capital gains in the hands of Mr. R for the A.Y. 2024-25:

| Particulars | Amount |
|---|------------------|
| Full value of consideration (Note 1) | 65,00,000 |
| Less: Indexed cost of acquisition - Land (INR 3,00,000 × 348/105) (Note 2 & 3) | 9,94,286 |
| Less: Indexed Cost of acquisition - Building (INR 15,00,000 × 348/184) (Note 3) | 28,36,957 |
| Less: Indexed Cost of improvement - Building (INR 5,00,000 × 348/220) | 7,90,909 |
| Long term capital gain | 18,77,848 |

Notes:

- As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration if SDV exceeds 110% of actual consideration. Accordingly, full value of consideration will be INR 65 lakhs in this case.
- Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., INR 3,00,000, in this case.
- Indexation benefit is available since both land and building are long-term capital assets and period of holding of previous owner shall also be considered.

Concept Problem 31 Solution

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

| Particulars | Amount |
|--|------------------|
| Income under the Other Sources | |
| As per section 51, amount so forfeited is income under Other Sources | 25,000 |
| Computation of capital Gains | |
| Full value of consideration | 55,00,000 |
| Less: Indexed cost of acquisition | |
| = 5,00,000 / Index of 2003-04 × Index of 2023-24 | |
| = 5,00,000 / 109 × 348 | (15,96,330) |
| Long Term Capital Gain | 39,03,670 |
| Gross Total Income | 39,28,670 |

| Particulars | Amount |
|--|------------------|
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income (rounded off u/s 288A) | 39,28,670 |

Concept Problem 32 Solution

Computation of taxable capital gains of Mr. Aakash for the A.Y. 2024-25:

| Particulars | Amount |
|---|-----------------|
| Sale consideration | 12,00,000 |
| Less: Indexed cost of acquisition (Working Note: 1) | 2,43,600 |
| Less: Indexed cost of improvement (Working Note: 2) | 6,06,390 |
| Long term capital gain | 3,50,010 |

Working Note:

1. Indexed cost of acquisition is determined as under:

| Particulars | Amount |
|--|-----------------|
| Cost to the previous owner or FMV on 1 st April, 2001, whichever is more, is to be taken as cost of acquisition of Mr. Aakash INR 1,50,000 | 1,50,000 |
| Less: Advance money forfeited by Mr. Aakash (as per section 51) (Note: Advance forfeited by Mr. Rakesh, the previous owner, should not be deducted) | 80,000 |
| Cost of acquisition | 70,000 |
| Indexed Cost of acquisition (70,000 × 348/100) | 2,43,600 |

2. Indexed cost of Improvement is determined as under:

| Particulars | Amount |
|--|-----------------|
| Expenditure incurred before 1 st April, 2001 should not be considered | Nil |
| Expenditure incurred on or after 1 st April, 2001 | |
| During 2003-04: Indexed cost of Improvement [50,000 × 348/109] | 1,59,633 |
| During 2009-10: Indexed cost of Improvement [1,90,000 × 348/148] | 4,46,757 |
| Total indexed cost of improvement | 6,06,390 |

Concept Problem 33 Solution

(a)

| Computation of capital Gains | Amount |
|--|------------------|
| Full value of consideration | 50,00,000 |
| Less: Indexed cost of acquisition (3,00,000 / 105 × 348) | (9,94,286) |
| Long Term Capital Gain | 40,05,714 |
| Less: Exemption u/s 54B | (10,00,000) |
| Long Term Capital Gain (LTCG) | 30,05,714 |
| Income under the head Capital gain | 30,05,714 |

| Computation of capital Gains | Amount |
|--|------------------|
| Gross Total Income | 30,05,714 |
| Less: Deduction u/s 80C {Deduction u/s 80C is not allowed from LTCG} | Nil |
| Total Income (Rounded off u/s 288A) | 30,05,710 |

Computation of Tax Liability under Optional Tax regime

Since normal income is Nil, as per section 112, deficiency of INR 5,00,000 shall be allowed from long term capital gain and balance income shall be taxed at flat of 20%.

| Particulars | Amount |
|--|-----------------|
| Tax on INR 25,94,290 (INR 30,05,714 – INR 5,00,000) @ 20% | 5,01,143 |
| Add: Health and education cess @ 4% | 20,046 |
| Tax Liability (Rounded off) | 5,21,190 |

Note: If land is purchased in rural area, exemption is allowed under section 54B but on its sale exemption is not withdrawn.

Solution (b):

| Computation of Capital Gains | Amount |
|-------------------------------|------------------|
| Long Term Capital Gain | 40,05,714 |
| Less: Exemption u/s 54B | (10,00,000) |
| Long Term Capital Gain | 30,05,714 |

On Sale of new urban agriculture land

| Particulars | Amount |
|---|------------------|
| Full value of consideration | 11,00,000 |
| Less: Cost of acquisition (10,00,000 – 10,00,000) | Nil |
| Short Term Capital Gain | 11,00,000 |
| Income under the head Capital Gains | 30,05,714 |
| Gross Total Income | 41,05,714 |
| Less: Deduction u/s 80C {NSC} | (30,000) |
| Total Income (Rounded off) | 40,75,710 |

Computation of tax liability

| Particulars | Amount |
|--|-----------------|
| Tax on long term capital gain INR 30,05,714 @ 20% | 6,01,143 |
| Tax on INR 10,69,996 at slab rate | 1,20,999 |
| Tax before cess | 7,22,142 |
| Add: Health and education cess @ 4% | 28,886 |
| Tax Liability (Rounded off) | 7,51,030 |

Concept Problem 34 Solution

Computation of Total Income for Assessment year 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|------------------|
| Full value of consideration | 35,00,000 |
| Less: Selling expenses | (37,000) |
| Net consideration | 34,63,000 |
| Less: Indexed cost of acquisition (INR 3,00,000 / 100 x 348) | (10,44,000) |
| LTCG | 24,19,000 |
| Less: Exemption u/s 54F [INR 700,000/34,63,000*24,19,000] | (4,88,969) |
| Income under the head Capital Gain (LTCG) | 19,30,031 |
| Loss uth PGBP | (10,000) |
| Gross Total Income | 19,20,031 |
| Less: Deduction u/s 80C to 80U | Nil |
| Total Income | 19,20,030 |

Computation of Tax Liability

Since normal income is Nil, as per section 112, deficiency of INR 2,50,000 shall be allowed from long term capital gain and balance income shall be taxed at flat rate of 20%.

| Particulars | Amount |
|--|-----------------|
| Tax on 17,44,230 (INR 19,20,030 – INR 2,50,000) @ 20% | 3,34,006 |
| Health and education cess @ 4% | 13,360 |
| Tax Liability (round off u/s 288B) | 3,47,370 |

Previous year 2026-27

| Particulars | Amount |
|--|-----------------|
| Amount deposited in capital gains account scheme | 3,00,000 |
| Less: Amount withdrawn | 2,00,000 |
| Balance Amount | 1,00,000 |
| LTCG [24,19,000/34,63,000*100,000] | 69,853 |

Proportionate exemption with regard to unutilized amount lying in the capital gain account scheme is chargeable to tax after expiry of period of three years.

Concept Problem 35 Solution

Computation of capital gains on slump sale on shop

| Particulars | Amount | |
|---|-----------|--|
| Sale Value | 40,00,000 | |
| Less: Expense on sale [professional fees & brokerage] | 80,000 | |
| Net Sale consideration | 39,20,000 | |
| Less: Net Worth (See working Note below) | 10,42,500 | |

| Particulars | Amount | |
|---|----------|------------------|
| Short - term capital gain [Since shop is held for not more than 36 months immediately preceding the date of transfer] | | 28,77,500 |
| Working Note: | | |
| Computation of net worth of shop | | |
| Building | 5,00,000 | |
| Furniture | 5,00,000 | |
| Less: Depreciation on 1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year | 7,500 | |
| | 4,92,500 | |
| Debtors | 2,00,000 | |
| Other Assets | 8,00,000 | |
| Less: Depreciation on 2,00,000, being intangible asset @ 25% | 50,000 | |
| | 7,50,000 | |
| Total assets | | 19,42,500 |
| Less: Bank loan | 5,00,000 | |
| Trade Creditors | 2,50,000 | |
| Unsecured loan 2,00,000 less 50,000, being the amount waived off by his wife | 1,50,000 | |
| | | 9,00,000 |
| Net worth | | 10,42,500 |

Concept Problem 36 Solution

Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000.

Thus, share received by M/s XYZ (P) Ltd. from Mrs. Neha for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000.

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

It is presumed that the shares of ABC (P) Ltd are unquoted shares.

The full value of consideration (Rs. 5,00,000) less the indexed cost of acquisition (Rs. 4,30,000) would result in a long-term capital gain of Rs. 70,000 in the hands of Mrs. Neha.

Concept Problem 37 Solution

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.

Concept Problem 38 Solution

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Computation of capital gain on slump sale of Unit 2

| Particulars | Amount |
|--|-----------------|
| Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., 18,00,000) whichever is higher] | 18,10,000 |
| Less: Expenses on sale [professional fees & brokerage] | 78,000 |
| Net full value of consideration | 17,32,000 |
| Less: Cost of acquisition, being the net worth of Unit 2 (Note 1) | 13,35,781 |
| Long term capital gains arising on slump sale | 3,96,219 |
| (The capital gains is long-term as the Unit 2 is held for more than 36 months) | |

Notes

1. Computation of net worth of Unit 2

| Particulars | Amount |
|--|------------------|
| 1) Book value of non-depreciable assets | |
| i) Land (Revaluation not to be considered) | 5,00,000 |
| ii) Debtors | 3,50,000 |
| 2) Written down value of depreciable assets under section 43(6) | |
| i) Furniture (See Note 2) | 4,75,000 |
| ii) Patents (See Note 3) | 4,75,781 |
| Aggregate value of total assets | 18,00,781 |
| Less: Current liabilities of Unit 2 | |
| Bank Loan [8,50,000 x 30%] | 2,55,000 |
| Trade Creditors [4,50,000 x 20%] | 90,000 |
| Unsecured Loan [4,00,000 x 30%] | 1,20,000 |
| Net worth of unit 2 | 13,35,781 |

2. Written down value of furniture as on 1.4.2023

| Value of patents | Amount |
|---|----------|
| Cost as on 1.12.2022 | 5,00,000 |
| Less: Depreciation @ 10% x 50% for Financial Year 2022-23 | 25,000 |

| Value of patents | Amount |
|--------------------|----------|
| WDV as on 1.4.2023 | 4,75,000 |

3. Written down value of patents as on 1.4.2023

| Particulars | Amount |
|---|-----------------|
| Cost as on 1.12.2021 | 7,25,000 |
| Less: Depreciation @ 25% x 50% for Financial Year 2021-22 | 90,625 |
| WDV as on 1.4.2022 | 6,34,375 |
| Less: Depreciation @ 25% for Financial Year 2022-23 | 1,58,594 |
| WDV as on 1.4.2023 | 4,75,781 |

Concept Problem 39 Solution
Computation of total income of Ms. Mishika for the A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|--|------------------|------------------|
| Income from house property [Self – occupied] | | |
| Net Annual Value | Nil | |
| Less: Interest on housing loan of 3,55,000 [35,50,000 x 12% x 10/12 month] restricted to 2,00,000/- | <u>2,00,000</u> | |
| | (2,00,000) | |
| <u>Less: Set-off loss against long-term capital gains</u> | <u>2,00,000</u> | Nil |
| 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. 2017-18 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 [15,00,000 x 348/148] | <u>35,27,027</u> | |
| Long – term capital gain | 47,52,973 | |
| 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 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 26,40,541 (47,52,973 x 46,00,000 / 82,80,000) | <u>26,40,541</u> | |
| Long – term capital gains | 21,12,432 | |
| Less: Set-off of loss from house property | <u>2,00,000</u> | |
| | | 19,12,432 |
| Short – term capital gains | | |

| | | |
|---|------------------|-------------------------|
| Sale of 15% share in shopping mall [short – term capital asset, since held for not more than 24 months] | 65,00,000 | |
| Net sales consideration | | |
| Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [41,14,00,000 x 15%] | <u>62,10,000</u> | |
| Short-term capital gains | | <u>2,90,000</u> |
| Gross Total Income | | 22,02,432 |
| Less: Deductions under Chapter VI-A (allowable against short term capital gains of 2,90,000) | | |
| Deduction under section 80C – repayment of principal amount of housing loan | 1,30,000 | |
| Deduction under section 80EEA | Nil | <u>1,30,000</u> |
| Total Income | | <u>20,72,432</u> |
| Total Income (rounded off) | | <u>20,72,430</u> |

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.2017-18 in this case.

As per the plain reading of definition of ‘indexed cost of acquisition’, the CII of the year in which the asset (land, in this case) is transferred has to be considered. Accordingly, as per this interpretation, CII of F.Y. 2017-18 i.e., 272 can be considered for computing indexed cost of acquisition. If the CII of F.Y.2017-18 is considered on the basis of this line of reasoning, the figures of long-term capital gains and total income would accordingly change. However, the CII of F.Y.2017-18 has not been given in the question for the purpose of making such computation.

Concept Problem 40 Solution

| |
|---|
| I. Tax consequences in the hands of Mr. Ramesh |
| <p>As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered 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 such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since 15 lakhs is received through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration.</p> |

Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2024-25, taking the actual consideration of 45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration.

Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA

II. Tax consequences in the hands of Mr. Vikas

In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of 50,000 or 10% of actual sales 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 such other electronic mode as may be prescribed, on or before the date of agreement.

In this case, since 15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.

Therefore, nothing would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2024-25 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed 4,50,000, being the higher of 50,000 and 10% of consideration.

At the time of subsequent sale of property by Mr. Vikas to Ms. Babli (on 21.3.2024), short-term capital gains would arise in the hands of Mr. Vikas in A.Y.2024-25, since the property is held by him for less than 24 months.

| Particulars | Amount |
|---|-----------------|
| Full value of consideration (Since actual consideration of 55 lakh is higher than stamp duty value of 54 lakhs) | 55 lakhs |
| Less: Cost of acquisition | 45 lakhs |
| Short-term capital gains | 10 lakhs |

CHAPTER 8

OTHER SOURCES (IFOS)

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., 4,00,000 and not the amount of loan which is 5,00,000.

Concept Problem 2 Solution

The entire interest of INR 5,00,000 would be taxable in the year of receipt, namely, PY 2023-24.

| Particulars | Amount |
|---|-----------------|
| Interest on enhanced compensation taxable u/s 56(2) | 5,00,000 |
| Less: Deduction under section 57 @ 50% | 2,50,000 |
| Interest chargeable under the head Income from other sources | 2,50,000 |

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

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

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

Concept Problem 3 Solution

| S. No | Particulars | Head of income |
|-------|---|--|
| i) | Rental income in case property held as stock-in-trade for 3 years | Income from House Property |
| ii) | Dividend on shares in case of a dealer in shares | Income from Other Sources |
| iii) | Salary by partner from his partnership firm | Profit and gains of business or profession |

| S. No | Particulars | Head of income |
|-------|--|---|
| iv) | Rental income of machinery (See Note below) | Profits and gains of business or profession/ Income from other sources |
| v) | Winnings from lotteries by a person having the same as business activity | Income from Other Sources |
| vi) | Salaries payable to a Member of Parliament | Income from Other Sources |
| vii) | Receipts without consideration | Income from Other Sources |
| viii) | In case of retirement, interest on employee's contribution if provident fund is unrecognized | Income from Other Sources |
| ix) | Rental income in case of a person engaged in the business of letting out of properties | Profits and gains from business or profession |

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head “Income from Other Sources”, if the same is not chargeable to income-tax u/h “Profits and Gains of Business/Profession”.

Concept Problem 4 Solution

a) Yes, 1,20,000 is chargeable to tax.

The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).

b) Yes, 48,000 is chargeable to tax.

As per section 145A, interest received by the Assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the Assessee.

Interest of INR 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2023-24 under section 56 after providing deduction of 50% under section 57. Therefore, INR 48,000 is chargeable to tax under the head “Income from other sources”

c) Yes, 72,000 is chargeable to tax.

Agricultural income in India is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes.

Therefore, INR 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head “Income from other sources”.

Concept Problem 5 Solution

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

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

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

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

Computation of interest on enhanced compensation taxable as “Income from other sources” for the A.Y 2024-25:

| Particulars | Amount |
|---|-----------------|
| Interest on enhanced compensation taxable u/s 56(2) | 5,00,000 |
| Less: Deduction under section 57 @ 50% | 2,50,000 |
| Interest chargeable under the head Income from other sources | 2,50,000 |

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 6 Solution

| S No. | Chargeability | Amount liable to tax | Reason |
|-------|----------------|----------------------|---|
| (i) | Partly taxable | 96,000 | <p>Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt upto lower of</p> <ul style="list-style-type: none"> ➤ 70% of such allowance (i.e. 12,600 per month being, 70% of INR 18,000) or 10,000 per month ➤ provided he is not in receipt of any daily allowance. <p>Hence, 1,20,000 i.e., 10,000 x 12 is exempt. Balance INR 96,000 (2,16,000 – 1,20,000) is taxable in the hands of Mr. Uttam Prakash under the head Salary.</p> |
| (ii) | Taxable | 13,97,000 | <p>Any income by way of dividends received from a company, whether domestic or foreign, is taxable in the hands of shareholder at normal rates of tax under the head Income from Other Sources.</p> <p>Similarly, any interest or dividend income received from units of mutual fund is also taxable in the hands of investor at normal rates of tax.</p> <p>Hence, INR 13,97,000, shall be taxable in hands of Mrs. Aadhya.</p> |

Concept Problem 7 Solution

Computation of Total Income of Mrs. Ashish for A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount | Amount |
|---|--------|-----------------|
| Family pension (7,000 x 12) | 84,000 | |
| Less: Deduction u/s 57 1/3 of INR 84,000 or INR 15,000 whichever is less | 15,000 | 69,000 |
| Dividend income | | 7,00,000 |
| Income under the head Other Sources | | 7,69,000 |
| Gross Total Income | | 7,69,000 |
| Less: Deduction u/s 80C to 80U | | Nil |
| Total Income | | 7,69,000 |

Concept Problem 9 Solution

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”.

- In this case, since MLX Investments (P) Ltd., a closely held company issued 1,00,000 shares (having face value of INR 100 each) at par i.e., INR 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
- In this case, since shares are issued at a premium, the amount by which the issue price of INR 105 each exceeds the FMV of INR 85 each would be chargeable to tax under the head “Income from other sources”. Hence, INR 20 lakh, being INR 20 (i.e., 105 - 85) x 1,00,000 shares, would be chargeable u/s 56(2)(viib).
- If shares are issued at INR 105 each and FMV of share is INR 120 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.

Concept Problem 10 Solution

Computation of income chargeable under the head “Income from Other Sources” for AY 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|--|-----------------|
| Directors’ fees | 10,000 |
| Interest on bank deposit | 3,000 |
| Income from undisclosed source (taxable @ 60% plus Surcharge @ 25% u/s 115BBE) | 12,000 |
| Royalty on books written (See Note below) | 9,000 |
| Lectures in seminars | 5,000 |
| Interest on loan given to a relative | 7,000 |
| Interest on listed debentures (36,000 x 100/90) | 40,000 |
| Interest on Post Office Savings Bank [exempt under section 10(15)] | - |
| Interest on Government securities | 2,200 |
| Interest on Post Office Monthly Income Scheme | 33,000 |
| Income from Other Sources | 1,21,200 |

Concept Problem 11 Solution

Computation of Total Income for AY 2024-25 under Optional Tax Regime:

| Income under the head Other Sources | Amount |
|--|----------|
| Gross interest from State Bank of India | 50,000 |
| Interest from Government securities (1,00,000 – 1,500) | 98,500 |
| Interest from Tax Ltd [(3,60,000/90 x 100) - INR 30] | 3,99,970 |
| Interest on Post office saving account [3,500 exempt u/s 10(15)] | 6,500 |
| Interest on PPF [exempt u/s 10(15)] | Nil |
| Interest from ABC Ltd. | (30,030) |
| Gross interest = INR 1,35,000 / 90 x 100 = 1,50,000 | |
| Less: Collection charges = 30 | |
| Less: Interest paid on loan = 1,80,000 (15,00,000*12%) | |
| Winning from lottery (70,000 / 70 x 100) | 1,00,000 |

| Income under the head Other Sources | Amount |
|--|------------------|
| Loan taken from XYZ Pvt. Ltd. [taxable u/s 2(22)(e)] | 3,00,000 |
| Honorarium | 10,000 |
| Interest on loan received from a relative | 5,000 |
| Net Royalty income | 19,000 |
| Income under the head Other Sources | 9,58,940 |
| Income under the head House Property | 4,00,000 |
| Gross Total Income | 13,58,940 |
| Less: Deduction u/s 80TTA | 10,000 |
| Total Income | 13,48,940 |

Concept Problem 12 Solution

As per section 69B, if the assessee is found to be the owner of gold (market value of which is 50 lakhs) during the financial year ending 31.3.2024 but he has recorded to have spent only 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and 10 lakhs i.e., 40 lakhs as the income of the assessee for A.Y.2024-25, if the assessee offers no satisfactory explanation thereof.

Such income would be chargeable to tax @ 78% (@ 60% plus surcharge @ 25% and cess @ 4%).

Concept Problem 13 Solution

Computation of “Income from Other Sources” of Mr. Lalit for the A.Y. 2024-25 under Optional Tax Regime:

| | Particulars | Amount |
|------|---|------------------|
| i. | Motor car is not included in the definition of “property” for the purpose of section 56(2) (x), hence, value of the same is not taxable, even though it is received without any consideration. | - |
| ii. | Cash gift is taxable under section 56(2)(x) [Since the aggregate of 84,000 (21,000 x 4) exceeds 50,000] | 84,000 |
| iii. | Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds 50,000. | 6,00,000 |
| iv. | Difference of 2 lakh [1000 shares x 200] in the value of shares of ABC Ltd., purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock in trade of Mr. Lalit (since he is a dealer in shares) and not capital asset. | - |
| v. | Difference between the stamp duty value of 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of 20 lakh paid is taxable under section 56(2)(x), since the difference exceeds 2,00,000, being the higher of 50,000 and 10% of consideration. | 4,00,000 |
| vi. | Distribution of assets by ABC (P) Ltd., on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c). | 1,25,000 |
| | Income taxable under the head ‘Income from other Sources’ | 12,09,000 |

Computation of “Capital Gains” of Mr. Lalit for the A.Y. 2024-25

| Particulars | Amount |
|---|---------------|
| Capital gains on sale of land at Jaipur | |

| Particulars | Amount |
|---|------------------------|
| Sale consideration | 8,00,000 |
| Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)] | 6,00,000 |
| Short term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered) | <u>2,00,000</u> |
| <u>Capital gains on distribution of assets on liquidation of ABC (P) Ltd.</u> | |
| Full value of consideration for capital gains on distribution of assets on liquidation of ABC(P) Ltd. | |
| FMV of assets distributed | 1,50,000 |
| Cash | 50,000 |
| | <u>2,00,000</u> |
| Less: Deemed dividend under section 2(22)(c) | 1,25,000 |
| Full value of consideration for computing capital gains | <u>75,000</u> |

Note -

- i) As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.
- ii) As per section 56(1)(i), dividend income is chargeable under the head “Income from Other Sources”. Hence, deemed dividend u/s 2(22)(c) would be taxable under the head “Income from Other Sources” in the hands of Mr. Lalit, who is a dealer in shares.

CHAPTER 9

TAXABILITY OF GIFT

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

Computation of “Income from other sources” of Mr. A for the A.Y.2024-25:

| S. No | Particulars | Amount |
|----------------------------------|---|-----------------|
| 1. | Cash gift is taxable under section 56(2)(x), since it exceeds INR 50,000 | 75,000 |
| 2. | Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds INR 50,000 | 60,000 |
| 3. | Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x) | 5,00,000 |
| 4. | Difference of INR 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A. | Nil |
| 5. | Difference between the stamp duty value of INR 23 lakh on the date of booking and the actual consideration of INR 20 lakh paid is taxable under section 56(2)(x) as difference between SDV and consideration exceeds higher of 50,000 and 10% of consideration. | 3,00,000 |
| Income from Other Sources | | 9,35,000 |

Computation of “Capital Gains” of Mr. A for the A.Y.2024-25:

| Particulars | Amount |
|---|-----------------|
| Sale Consideration | 7,00,000 |
| Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)] | 5,00,000 |
| Short-term capital gains | 2,00,000 |

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Concept Problem 2 Solution

| Particulars | Taxable/Non taxable | Amount |
|--|---------------------|--------|
| Sum of money exceeding INR 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Akhil’s sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF. | Taxable | 75,000 |
| Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2). | Non - taxable | Nil |

| Particulars | Taxable/Non taxable | Amount |
|---|---------------------|--------|
| As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (10,000) and jewellery (45,000) exceeds 50,000. Hence, the entire amount of 55,000 shall be taxable. | Taxable | 55,000 |
| Car is not included in the definition of property and hence is not taxable u/s 56(2)(x) | Non-Taxable | Nil |

Concept Problem 3 Solution

Case 1: Tax implications if Mr. Hari is a property dealer

| In the hands of the seller, Mr. Hari | In the hands of the buyer, Mr. Rajesh |
|--|--|
| <p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through such other prescribed electronic mode on or before the date of agreement. In this case, since the down payment of INR 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> <p>Therefore, INR 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., INR 150 lakh, and the purchase price i.e., INR 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration</p> | <p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds INR 9,00,000, being the higher of INR 50,000 and 10% of consideration.</p> <p>Therefore, INR 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., INR 150 lakh) and the actual consideration (i.e., INR 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through such other prescribed electronic mode such as credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p> |

Case 2: Tax implications if Mr. Hari is a stock broker

| In the hands of the seller, Mr. Hari | In the hands of the buyer, Mr. Rajesh |
|---|---|
| <p>In case Mr. Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Thus, INR 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., INR 150 lakh) and the purchase price (i.e., INR 75 lakh) would be chargeable as short-term</p> | <p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker.</p> <p>Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds INR 9,00,000, being the higher of INR 50,000 and 10% of consideration.</p> <p>Therefore, INR 60 lakh, being the difference</p> |

| In the hands of the seller, Mr. Hari | In the hands of the buyer, Mr. Rajesh |
|--|---|
| <p>capital gains.</p> <p>It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through such other prescribed electronic mode such as credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement.</p> <p>In this case, since the down payment of INR 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> | <p>between the stamp duty value of the property on the date of registration (i.e., INR 150 lakh) and the actual consideration (i.e., INR 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through such other prescribed electronic mode such as credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay..</p> |

Concept Problem 4 Solution

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

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

- ii)** The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.

- iii)** To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual’s son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds INR 50,000 in a year.

“Sum of money” has, however, not been defined under section 56(2)(x).

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

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

Income assessable as “Income from other sources”

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

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

Concept Problem 5 Solution

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

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

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

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

- ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AA.

Therefore, the cash gift of INR 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AA, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 6 Solution

Computation "Income from Other Sources" in the hands of Mrs. Rupali for A.Y. 2024-25:

| S. No | Particulars | Amount |
|--|---|-----------------|
| 1 | Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares exceeds 50,000 i.e., 75,000 (1,55,000 – 80,000), the difference would be chargeable to tax under section 56(2)(x) | 75,000 |
| 2 | Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received on the occasion of wedding anniversary. The gift of 1,01,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Rupali. | 1,01,000 |
| 3 | The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of platinum ring received from her brother is not taxable u/s 56(2)(x), even though jewellery falls within the definition of "property". | Nil |
| 4 | To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds 50,000 in a year. Since, the aggregate value of cash gifts received by Mrs. Rupali exceeds 50,000 during the PY 2023-24, the cash gifts aggregating 25,000 received from her four friends would be chargeable to tax in her hands. | 25,000 |
| 5 | The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Since maternal uncle is a relative, the amount of 49,000 received by way of cheque from him would not be chargeable to tax. | Nil |
| Amount chargeable to tax under the head "Income from other Sources" | | 2,01,000 |

Concept Problem 7 Solution

Computation "Income from Other Sources" in the hands of Smt. Laxmi for A.Y. 2024-25:

| S. No | Particulars | Amount |
|-------|---|-----------------|
| (i) | Cash gift of INR 1,20,000 received on the occasion of his marriage is not taxable since gifts received by an individual on the occasion of marriage are excluded under section 56, even if the same are from non-relatives. | Nil |
| (ii) | Even though mother's maternal aunt does not fall within the definition of "relative" under section 56, gift of INR 40,000 received from her by cheque is not chargeable to tax since the aggregate sum of money received without consideration from non-relatives does not exceed INR 50,000. | Nil |
| (iii) | Purchase of land for inadequate consideration on 01.12.2023 would attract the provisions of section 56. Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding higher of INR 50,000 and 10% of consideration, the difference between the stamp duty value and consideration is chargeable to tax in the hands of the individual. Therefore, in the given case INR 75,000 is taxable in the hands of Laxmi. | 75,000 |
| (iv) | Since shares are included in the definition of "property" and difference between the purchase price and fair market value of shares is INR 55,000 (INR 1,15,000 – INR 60,000) i.e., it exceeds INR 50,000, the difference would be taxable u/s 56. | 55,000 |
| (v) | Cell phone is not included in the definition of "property" as per section 56. Hence, it is not taxable. | Nil |
| | Amount chargeable to tax | 1,30,000 |

Concept Problem 8 Solution

Under section 6(1), an individual, being a person of Indian origin and who comes on a visit to India and he is having total income other than income from foreign sources exceeding 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2023-24 would be resident but not ordinarily resident.

Mr. Manek is a person of Indian origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds 15,00,000, he would be a resident in India if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

His stay in India during the previous year 2023-24 is as under:

P.Y. 2023-24

| | |
|--------------------------|-----------------|
| 01.04.2023 to 10.07.2023 | 101 days |
| 24.02.2024 to 25.03.2024 | 30 days |
| Total | 131 days |

Since he stays in India is for 131 days during the P.Y. 2023-24 and for 400 days during the 4 years immediately preceding the P.Y. 2023-24, he is resident but not ordinarily resident in India for the P.Y. 2023-24.

In such case, his total income and tax liability would be computed in the following manner:

Computation of total income and tax liability of Mr. Manek for the A.Y. 2024-25 under default tax regime:

| Particulars | Amount |
|----------------------------------|--------|
| Income from Other Sources | |

| Particulars | | Amount |
|---|------------------|------------------|
| Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds 50,000. | | |
| - 1,51,000 received from parents of wife would be exempt, since wife's parents fall within the definition of relatives and gifts from a relative are not chargeable to tax. | | Nil |
| - 21,000 received from a married sister-in law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax. | | Nil |
| - Gift received from close friend of his wife of 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceed 50,000. | | 16,00,000 |
| Total Income | | 16,00,000 |
| Tax on total income of 16,00,000 u/s 115BAC | | |
| Upto 3,00,000 | Nil | - |
| From 3,00,001 to 6,00,000 | 3,00,000 x 5% = | 15,000 |
| From 6,00,001 to 9,00,000 | 3,00,000 x 10% = | 30,000 |
| From 9,00,001 to 12,00,000 | 3,00,000 x 15% = | 45,000 |
| From 12,00,001 to 15,00,000 | 3,00,000 x 20% = | 60,000 |
| From 12,00,001 to 16,00,000 | 1,00,000 x 30% = | 30,000 |
| | | 1,80,000 |
| Health and Education cess @ 4% | | 7,200 |
| Tax Liability | | 1,87,200 |

Concept Problems 9 Solution

| S No. | Taxability |
|-------|------------------|
| i) a | Taxable |
| i) b | Taxable 4,00,000 |
| i) c | Taxable |
| ii) | Not Taxable |
| iii) | Not Taxable |
| iv) | Not Taxable |
| v) | Not Taxable |
| vi) | Taxable |
| vii) | Not Taxable |
| viii) | Not Taxable |
| ix) | Not Taxable |
| x) | Not Taxable |
| xi) | Taxable |
| xii) | Not Taxable |

| | |
|-------|-------------|
| xiii) | Taxable |
| xiv) | Taxable |
| xv) | Not Taxable |
| xvi) | Not Taxable |

CHAPTER 10

CLUBBING OF INCOME

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Concept Problem 2 Solution

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

| Particulars | Amount | Amount |
|--|----------|------------------|
| Salary received by Mrs. A ($\text{₹}30,000 \times 12$) | 3,60,000 | |
| Less: Standard deduction under section 16(ia) | 50,000 | 3,10,000 |
| Other Income | | 7,00,000 |
| Gross total income | | 10,10,000 |

The gross total income of Mrs. A is ₹ 4,00,000.

Concept Problem 3 Solution

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000 [Other Income].

Gross total income of Mrs. A = Salary received by Mrs. A [$\text{₹} 30,000 \times 12$] less ₹ 50,000, being the standard deduction under section 16(ia) plus Other Income [$\text{₹} 4,00,000$] = ₹ 7,10,000.

Concept Problem 4 Solution

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

Computation of Gross total income of Mr. B

| Particulars | Amount |
|--|-----------------|
| Income from Salary of Mrs. B (Computed) | 3,44,000 |
| Income from other sources | |
| Interest on securities | 30,000 |
| Gross total income | 3,74,000 |

Computation of Gross total income of Mrs. B

| Particulars | Amount | Amount |
|-------------|--------|--------|
|-------------|--------|--------|

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

Concept Problem 5 Solution

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 INR 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 out of gift from Mrs. Vaishaly | Total |
|---|------------------------------------|---|----------|
| Capital as on 1.4.2023 | 3,00,000 (5,00,000 – 2,00,000) | 5,00,000 | 8,00,000 |
| 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 (3:5) | 1,50,000 (4,00,000 x 3/8) | 2,50,000 (4,00,000 x 5/8) | 4,00,000 |

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25 is INR 2,50,000.

In case Mrs. Vaishaly gave the said amount of INR 5,00,000 as a bona fide loan, then, clubbing provision 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 INR 50,000 without consideration from a relative i.e., his wife.

Concept Problem 6 Solution

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of INR 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration

and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

Note: If the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Concept Problem 7 Solution

Taxable income, in respect of minor children, in the hands of Mr. A is

| Particulars | Amount | Amount |
|---|--------|--------------|
| Twin minor daughters [INR 2,000 × 2] | 4,000 | |
| Less: Exempt under section 10(32) [INR 1,500 × 2] | 3,000 | 1,000 |
| Minor son | 1,200 | |
| Less: Exempt under section 10(32) | 1,200 | Nil |
| Income to be clubbed in the hands of Mr. A | | 1,000 |

Note: As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000) would be taxable directly in her hands as the deemed owner of the said property.

Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

Concept Problem 8 Solution

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

Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

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

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

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

| Particulars | Amount | Amount |
|---|--------|----------|
| Income from profession | | 3,90,000 |
| Income of minor son B from company deposit | | |
| Income from company deposit | 15,000 | |
| Less: Exemption under section 10(32) | 1,500 | 13,500 |
| Income of minor daughter C | | |
| From special talent – not to be clubbed | - | |
| Interest from bank | 3,000 | |
| Gift of INR 2,500 received from a non-relative is not taxable under | Nil | |

| Particulars | Amount | Amount |
|--|--------------|-----------------|
| section 56(2)(x) being less than the aggregate limit of INR 50,000 | | |
| | 3,000 | |
| Less: Exemption under section 10(32) | 1,500 | 1,500 |
| Gross Total Income | | 4,05,000 |

Concept Problem 9 Solution

In the given case, Mr. Vasudevan gifted a sum of INR 6 lakhs to his brother's wife on 14.06.2023 and simultaneously, his brother gifted a sum of INR 5 lakhs to Mr. Vasudevan's wife on 12.07.2023. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife.

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

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

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

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

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

Concept Problem 10 Solution

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or 1,500, whichever is lower. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

| Particulars | Amount |
|--|--------------|
| Income of one daughter | 9,000 |
| Less: Income exempt under section 10(32) | 1,500 |
| Total (A) | 7,500 |
| Income of two sons (INR 6,200 + INR 4,300) | 10,500 |
| Less: Income exempt under section 10(32) [1,500 + 1,500] | 3,000 |
| Total (B) | 7,500 |

| Particulars | Amount |
|---|---------------|
| Total Income to be clubbed as per section 64(1A) (A+B) | 15,000 |

Notes: It has been assumed that:

- The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- This is the first year in which clubbing provisions are attracted.

Concept Problem 11 Solution

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2024-25:

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

Notes:

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

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

In this case, the commission income of 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification

for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.

3. According to section 27, an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

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

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

Therefore, the income of 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of INR 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of INR 2,40,000.

Therefore, INR 18,500 (i.e., INR 20,000 – INR 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

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

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

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

Concept Problem 12 Solution

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. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.

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

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

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

In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of INR 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. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

Concept Problem 13 Solution

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of INR 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2024-25 is computed as under:

| Particulars | Smt. Rani's Capital Contribution | Capital Contribution Out of gift from husband | Total |
|--|----------------------------------|---|-----------------|
| Capital as at 1.4.2022 | 3,00,000 | - | 3,00,000 |
| Investment on 10.04.2022 out of gift received from her husband | | 2,00,000 | 2,00,000 |
| | 3,00,000 | 2,00,000 | 5,00,000 |
| Profit for F.Y. 2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2022 | 1,50,000 | - | 1,50,000 |
| Capital employed as at 1.4.2023 | 4,50,000 | 2,00,000 | 6,50,000 |
| Profit for F.Y. 2023-24 to be apportioned on the basis of capital employed as at 1.4.2023 (i.e. 45 : 20) | 2,70,000 | 1,20,000 | 3,90,000 |

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y. 2024-25 is INR 1,20,000.

Concept Problem 14 Solution

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsists, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

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

Tax implications

- i) Income of INR 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- ii) Salary of INR 26,000 (INR 76,000 less standard deduction under section 16(ia) of INR 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.

- iii) Income from fixed deposit of INR 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as “Income from other sources”, since his income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as “Income from other sources”.

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

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

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 15 Solution

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

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, INR 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 INR 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 INR 25,000 (INR 75,000, being the sale consideration less INR 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 INR 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.

Concept Problem 16 Solution

Since, Ram is holding 20% and more voting power in the Company along with his father, he has substantial interest in Tax Ltd. His wife is working without qualification. Thus, clubbing provisions shall be attracted and salary of Ram's wife shall be clubbed in the salary of Ram.

Computation of Gross Total Income of Mr. Ram:

| Particulars | Amount | Amount |
|---|----------|------------------|
| Salary received by Ram's wife (30,000*12) | 3,60,000 | |
| Less: Standard deduction under section 16(ia) | 50,000 | 3,10,000 |
| Other Income | | 7,00,000 |
| Gross Total Income | | 10,10,000 |

Gross Total income of Ram's wife shall be 4,00,000.

Part 2 of Question

If Mrs. Ram possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. Ram = INR 7,00,000 [Other Income].

Gross total income of Mrs. Ram = Salary received by Mrs. Ram [INR 30,000 × 12] less INR 50,000, being the standard deduction under section 16(ia) plus other income [INR 4,00,000] = INR 7,10,000

Concept Problem 17 Solution

As per section 64(1), income arising from assets transferred without adequate consideration by any individual to his spouse is clubbed in the hands of the individual but if there is any accretion to the asset, any income on such accretion should not be clubbed.

Therefore, INR 30,000 being the interest on debentures received by Mrs. Ram in September 2023 will be clubbed in the hands of individual since he had transferred the asset without consideration.

However, the interest of INR 3,000 upto March 2024 earned by Mrs. Ram on the interest of debentures deposited by her with the bank shall be taxable in her individual capacity and shall not be clubbed with income of Mr. Ram.

Concept Problem 18 Solution

Computation of total income and tax liability of Shri Madan for A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Amount |
|---|-----------------|
| Income from house property (Refer Note 1) | 80,500 |
| Business Income | 1,00,000 |
| Long-term Capital Gains | 50,000 |
| Income from Other Sources | 1,50,000 |
| Total Income | 3,80,500 |
| Long-term Capital Gain of INR 50,000 @ 20% | 10,000 |
| Other income of INR 3,30,500 | |
| (INR 3,30,500 – INR 3,00,000) × 5% (Refer Note 2) | 1,525 |
| Tax before cess | 11,525 |
| Less: Rebate u/s 87A | (11,525) |
| Tax liability | Nil |

Computation of total income and tax liability of Smt. Hema for A.Y. 2024-25:

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Short-term Capital Gains | 2,00,000 | |
| Less: Business loss | 75,000 | 1,25,000 |
| Income from Other Sources | | 50,000 |
| Total Income | | 1,75,000 |
| Tax liability (Since total income is less than basic exemption limit of INR 2,50,000) | | Nil |

Notes:

- As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual. Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01.10.2023 is includible in the hands of Shri Madan.

| Particulars | Madan (01.04.2023 to 30.09.2023) | Hema (01.10.2023 to 31.03.2024) |
|--|--|---------------------------------------|
| Gross Annual Value (INR 10,000 × 6 months) | 60,000 | 60,000 |
| (Rental income taken as GAV in the absence of information relating to Municipal Value, fair value and standard rent) | | |
| Less: Municipal taxes paid (paid in June for first half year) | 5,000 | Nil |
| Net Annual Value (NAV) | 55,000 | 60,000 |
| Less: Deduction under section 24(a) @ 30% of NAV | 16,500 | 18,000 |
| Income from House Property | 38,500 | 42,000 |
| Income from House Property of Hema to be clubbed in the hands of Madan as per section 64(1)(vi) | 42,000 | |
| Income from house property | 80,500 | |

- The basic exemption limit for A.Y. 2024-25 in respect of an individual who is of the age of 60 years or more during the relevant PY is INR 3,00,000. The same has been considered while calculating Madan's tax liability.

Concept Problem 19 Solution

| Particulars | Tanuj | Sneha |
|---|-----------------------------------|-----------------------------|
| Other incomes | 20,00,000 | 35,00,00 |
| Gift received (Note 1) | | 8,00,000 |
| Interest on 8,00,000 fixed deposit (Note 1) | | 66,000 (8L x 9% x 11/12) |
| Interest on fixed deposit (Note 2) | 10,356 (500,000 x 9% x 84/365) | |
| Total Income | 20,10,356 | 43,66,000 |

Note 1: Gift of 8,00,000 received by Sneha from her boyfriend shall be taxable in the hands of Sneha u/s 56(2)(x) since she was not a relative of Tanuj at the time of receipt of money.

Further, interest on fixed deposit of 8,00,000 shall also be not clubbed in the hands of Tanuj since, for an income to be clubbed, the relationship of spouse should exist both at the time of gifting of the asset as well at the time of accrual of income.

Note 2: Gift of 5,00,000 received by Sneha from her husband is exempt in the hands of Sneha as per section 56(2)(x) since she is relative of Tanuj.

Further, interest on fixed deposit of 5,00,000 shall be clubbed in the hands of Tanuj u/s 64(1) since income from an asset transferred by a person to his spouse without consideration is clubbed in the hands of the transferor.

Concept Problem 20 Solution

If any person has transferred any assets to son's wife, directly or indirectly, clubbing provision shall apply in the similar manner as in case of transfer of assets to spouse.

In this case, Mr. Ram has transferred 1 lakh to his wife. Income of wife arising from this money shall be clubbed in the hands of Mr. Ram. Further, Ram's wife gifts this amount to the son's wife. This amounts to indirect transfer of asset by Mr. Ram to his daughter-in-law and hence income of daughter-in-law arising from this money shall also be clubbed in the hands of Ram.

Hence, Mrs. Ram's contention is correct.

In case Mrs. Ram has gifted the money to minor grandson, the income from such asset shall be clubbed in the hands of parents of grandson i.e. son or daughter-in-law of Mrs. Ram; whoever has higher income.

Concept Problem 21 Solution

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2024-25 under Optional Tax Regime:

| Particulars | Mr. Dharmesh | Mrs. Anandi |
|---|------------------|-----------------|
| Salary income (computed) | | 9,60,000 |
| Income from granted trading business | 17,50,000 | |
| Total income before including income of minor children | 17,50,000 | 9,60,000 |
| <u>Income of minor son "A"</u> | | |
| 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] | - | |
| <u>Income of minor son "B"</u> | | |
| Income of 1,00,000 from scholarship [Exempt u/s 10 (16)] | - | |
| Income from fixed deposit with PNB [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 of deposit is made out of income earned from scholarship] | 5,000 | |
| Less: Exemption under section 10(32) | <u>1,500</u> | |
| | 3,500 | |
| <u>Income of minor daughter "C"</u> | | |
| 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] Hence, clubbing provisions will not apply in this | - | |

| Particulars | Mr. Dharmesh | Mrs. Anandi |
|--|------------------|-----------------|
| 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 u/s 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, specialized 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.

Concept Problem 22 Solution

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.

Concept Problem 23 Solution

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2024-25 under Optional Tax regime:

| | Particulars | Mr. R | Mrs. R |
|------------|--|----------|----------|
| | | Amount | Amount |
| I. | Income from House Property | | |
| | Income from property transferred to HUF without consideration | | |
| | Since Mr. R has transferred his property to his HUF without consideration, income of 50,000 from such property would be included in the total income of Mr. R as per section 64(2). | 50,000 | |
| II. | Capital Gains | | |
| | Income from equity shares transferred by Mrs. R to Mr. R without consideration | | 3,25,000 |
| | Capita gain arising to Mr. R from transfer of equity shares of RSB Ltd., gifted shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be | 1,95,000 | |

| | | | |
|-------------|---|-----------------|------------------|
| | dubbed with the income of transferor of the original asset i.e., Mrs. R [5,20,000 x 3,000/8,000] | | |
| III. | Income from Other Sources | | |
| | Income from commission | 4,00,000 | |
| | Interest income | | 3,30,000 |
| | Interest income on 4 lakhs transferred by Mr. R to Mrs. R without consideration | | |
| | Income of 44,000 i.e, 11% of 4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R | 44,000 | |
| | Income of 38,500 i.e. 11% of 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr R (i.e., interest income) cannot be included in the income of Mr R. | | 38,500 |
| | Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest] | 6,89,000 | 6,93,500 |
| IV. | Salary income from a company in which both Mr. R and Mrs. R have substantial interest | | |
| | Since both Mr. R and Mrs. R have substantial interest in AMG Ltd, (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of spouse, whose total income, before including such income, is higher i.e. Mr. R. | | |
| | Salary income of Mr. R = 3,20,000 – 50,000 (standard deduction) | | 2,70,000 |
| | Salary income of Mrs. R = 2,70,000 – 50,000 (standard deduction) | | 2,20,000 |
| | Gross Total Income | 6,89,000 | 11,83,500 |

Concept Problem 24 Solution

Tax Implication under Optional Tax regime:

| | Amount |
|--|--------|
| Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income of the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2023 (6/12 x 70,000 [Net Annual Value of 1,00,000 less deduction under section 24(a) @ 30%] would be included in the total income of Mr. Sarthak. | 35,000 |
| Since the HUF was partitioned on 1.10.2023, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would be included in the total income of MR. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak | |
| Sarthak's share [25% of 35,000 (70,000 x 6/12)] | 8,750 |

| | Amount |
|---|---------------|
| Juhi's Share [25% of 35,000] included in the total income of Mr. Sarthak | 8,750 |
| Income from house property includible in the income of Mr. Sarthak | 52,500 |

Notes:

- 25% share of Sarthak minor daughter, Aditi, i.e., 8,750, being 25% of 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosever total income, before including Aditi's income, is higher.
- Such parent shall be entitled to an exemption of 1,500 under section 10(32).
- 25% share of Sarthak's major son, Arjun i.e., 8,750, being 25% of 35,000, would be included in Arjun's total income.
- Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.

Concept Problem 25 Solution

| Particulars | Mr. Tushar | Mrs. Tushar |
|---|------------|-------------|
| Profit for P.Y. 2023-24 to be apportioned on the basis of capital employed on the first day of previous year i.e. as on 1 st May, 2023, since business started on 1.5.2023 (6:5) | 2,18,182 | 1,81,818 |
| Share of income of Mr. Tushar [4,00,000 x 6/11] | | |
| Share of Income of Mrs. Tushar [4,00,000 x 5/11] | | |
| Section 64(1)(iv) of the Income-tax Act, 1961 provided for the clubbing of income in the hands of the individual, if the income earned is form 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. | | |

Concept Problem 26 Solution

Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Mr. Raman | Mrs. Savita |
|--|-----------|-------------|
| | Amount | |
| i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [5,00,000 x 6%] | 30,000 | |
| ii) Salary income [3,00,000 (25,000 x 12) less standard deduction of 50,000] [Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant] | | 2,50,000 |
| iii) Savita gifted 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., 1/3 x 3,00,000) arising from such investment is to be included in the total income of Savita. Mr. Raman's contribution in capital as on 1.4.2023 = 8,00,000 [10,00,000 - 2,00,000] Mrs. Savita's contribution on 1.4.2023 = 4,00,000 3,00,000, being the profit for P.Y.2023-24 to be apportioned on the basis of capital employed on the first day of the PY i.e., as on 1.4.2023 (8:4 or 2:1) | 2,00,000 | 1,00,000 |

| Particulars | Mr. Raman | Mrs. Savita |
|---|-----------------|-----------------|
| | Amount | |
| Total income [before considering minor income from interest on savings account] | 2,30,000 | 3,50,000 |
| iv) Cash award won in a debate by Sajan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent. However, interest of 7,000 on savings bank account (after providing for deduction of 1,500) is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband [7,000 - 1,500] | - | 5,500 |
| Gross Total Income | 2,30,000 | 3,55,500 |
| Less: Deduction under section 80TTA (Interest on savings bank account) | - | 5,500 |
| Total Income | 2,30,000 | 3,50,000 |

CHAPTER 11

SET OFF AND CARRY FORWARD OF LOSSES

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

i) Computation of total income of Mr. A for the A.Y.2024-25 under normal provisions of the Act

| Particulars | Amount | Amount |
|--|--------------|-----------------|
| Income from salary | 4,00,000 | |
| Less: Loss from house property of INR 2,20,000 to be restricted to INR lakhs by virtue of section 71(3A) | (-) 2,00,000 | 2,00,000 |
| <i>Balance loss of INR 20,000 from house property to be carry forward to next assessment year</i> | | |
| Income from other sources (interest on fixed deposit with bank) | 80,000 | |
| Less: Business loss of 1,00,000 set-off to the extent of 80,000 | (-) 80,000 | - |
| <i>Business loss of INR 20,000 to be carried forward for set-off against business income of the next assessment year</i> | | |
| Gross total income [See Note below] | | 2,00,000 |
| Less: Deduction under Chapter VI-A | | Nil |
| Total income | | 2,00,000 |

Note:

- i) Gross Total Income includes salary income of 2,00,000 after adjusting loss of 2,00,000 from house property. The balance loss of 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- ii) Business loss of 1,00,000 is set off against bank interest of 80,000 and remaining business loss of 20,000 will be carried forward as it cannot be set off against salary income.

ii) Computation of total income of Mr. A for the A.Y.2024-25 under default provisions of the Act

| Particulars | Amount | Amount |
|--|------------|-----------------|
| Income from salary | | 4,00,000 |
| Income from other sources (interest on fixed deposit with bank) | 80,000 | |
| Less: Business loss set-off of 1,00,000 set-off to the extent of 80,000 | (-) 80,000 | - |
| <i>Business loss of INR 20,000 to be carried forward for set-off against business income of the next assessment year</i> | | |
| Gross total income/ Total income | | 4,00,000 |

Notes:

- a) Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of 2,20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- b) Business loss of 1,00,000 is set off against bank interest of 80,000 and remaining business loss of 20,000 will be carried forward as it cannot be set off against salary income.

Concept Problem 2 Solution
Total Income of Mr. B for the A.Y. 2024-25:

| Particulars | Amount (INR) | Amount (INR) |
|---|--------------|---------------|
| Income under the head salaries | | 45,000 |
| Income from house property | | |
| Loss from house property to be carried forward [Note (i)] | (24,000) | |
| Profit and gains of business and profession | | |
| Business loss to be carried forward [Note ii] | (22,000) | |
| Speculative loss to be carried forward [Note iii] | (4,000) | |
| | | |
| Capital Gains | | |
| Long term capital gain taxable u/s 112 | 19,000 | |
| Less: Short term capital loss INR 25,000 set off against long- term capital gains to the extent of INR 19,000 [Note (iv)] | (19,000) | Nil |
| Short term capital loss of 6,000 to be carried forward [Note iv] | | |
| Gross Total Income | | 45,000 |

Notes:

- i) Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any.
- ii) Business loss cannot be set-off against salary income. Therefore, loss of 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- iii) Loss of 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- iv) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of 25,000 can be set-off against long-term capital gains to the extent of 19,000. The balance short term capital loss of 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Concept Problem 3 Solution
Taxable capital gains of Mr. C for the A.Y. 2024-25

| Particulars | Amount | |
|--|----------|----------|
| Short term capital gains on sale of shares | 1,50,000 | |
| Less: Brought forward STCL of AY 2023-24 | (37,000) | 1,13,000 |

| | | |
|---|---------------|-----------------|
| Long term capital gain | 75,000 | |
| Less: Brought forward long-term capital loss of A.Y.2022-23; 96,000 set off to the extent of 75,000 | (75,000) | Nil |
| Taxable short-term capital gains | | 1,13,000 |

Note: Brought forward long-term capital loss cannot be set-off against short term capital gain. Hence, unadjusted long-term capital loss of AY 2022-23 of 21,000 (96,000 - 75,000) has to be carried forward to next year to be set-off against LTCG of that year.

Concept Problem 4 Solution

Total income of Mr. D for the A.Y. 2024-25

| Particulars | Amount | Amount |
|--|---------------|---------------|
| Income from the activity of owning and maintaining race horses | 75,000 | |
| Less: Brought forward loss of 96,000 from the activity of owning and maintaining race horses set-off to the extent of 75,000 | (75,000) | Nil |
| Balance loss of 21,000 (96,000 – 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y. 2025-26 | | |
| Income from textile business | 85,000 | |
| Less: Brought forward business loss from textile business. | 50,000 | 35,000 |
| Total income | | 35,000 |

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

Concept Problem 5 Solution

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

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

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

Concept Problem 6 Solution

Gross Total Income of Mr. F for the A.Y. 2024-25

| Particulars | Amount | Amount |
|--|---------------|---------------|
| Income from house property (Computed) | | 1,25,000 |
| Income from business | | |
| Profits before depreciation | 1,35,000 | |

| | | |
|--|---------------|-----------------|
| Less: Current year depreciation | 26,000 | |
| Less: Brought forward business loss | 45,000 | |
| | 64,000 | |
| Income from tea business (40% is business income) | 48,000 | 1,12,000 |
| Income from the capital gains | | |
| Short term capital gains | | 56,000 |
| Income from Other Sources | | |
| Dividend income (taxable in the hands of shareholders) | | 80,000 |
| Gross Total Income | | 3,73,000 |

Note:

- Dividend from Indian companies is fully taxable in the hands of shareholders.
- 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of INR 90,000 brought forward from A.Y.2023-24 cannot be set-off in the A.Y.2024-25, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2025-26.

Concept Problem 7 Solution

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

| Particulars | Amount | Amount |
|--|----------|----------|
| Salaries | | |
| Income from salary | 3,00,000 | |
| Less: Loss from house property set-off against salary income as per section 71 | (40,000) | 2,60,000 |
| Profits and gains of business or profession | | |
| Income from sugar business | 50,000 | |
| Less: Brought forward loss of 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of 50,000 | (50,000) | Nil |
| Balance business loss of INR 70,000 of P.Y. 2018-19 carried forward to AY 2025-26 | | |
| Capital gains | | |
| Long term capital gain | 40,000 | |
| Less: Short term capital loss of 60,000 set-off to the extent of 40,000 | (40,000) | Nil |
| Balance short-term capital loss of INR 20,000 to be carried forward | | |
| Short-term capital loss of INR 10,000 under section 111A also to be carried forward | | |
| Income from Other Sources | | |
| Dividend (fully taxable in the hands of shareholders) | 5,000 | |
| Winnings from lottery | 50,000 | |
| Winnings from card games | 6,000 | |
| Bank interest | 5,000 | 66,000 |

| Particulars | Amount | Amount |
|---|--------|-----------------|
| Gross Total Income | | 3,26,000 |
| Losses to be carried forward to A.Y. 2025-26 | | |
| Loss of iron-ore business (INR 1,20,000 – INR 50,000) | 70,000 | |
| Short term capital loss (INR 20,000 + INR 10,000) | 30,000 | |

Note: Agricultural income is Exempt under section 10(1).

Concept Problem 8 Solution

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

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Salaries | 1,00,000 | |
| Less: Current year loss from house property | (40,000) | 60,000 |
| [Since Mr. Batra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)] | | |
| Profit and gains of business or profession | | |
| Income from textile business | 50,000 | |
| Less: Loss of 60,000 from textile business b/f from A.Y. 2016-17 set-off to the extent of 50,000 | (50,000) | Nil |
| Balance business loss of A.Y. 2016-17 carry forward to AY 2025-26 = Nil [Note 1] | | |
| Income from the activity of owning and maintaining race horses | | |
| Income from activity of owning and maintaining race horses | 15,000 | |
| Less: Loss of 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2021-22 set-off to the extent of 15,000 | (15,000) | Nil |
| Balance loss of 10,000 to be carried forward to A.Y. 2025-26 [See Note 2] | | |
| Capital Gain | | |
| Short term capital gain | | 1,40,000 |
| Long term capital gain on sale of land | 30,000 | |
| Less: Long term capital loss of 1,00,000 on sale of unlisted shares set-off to the extent of 30,000 | (30,000) | |
| Balance loss of 70,000 to be carried forward to A.Y. 2025-26 [See Note 3] | | Nil |
| Gross Total Income | | 2,00,000 |

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

| Particulars | Amount |
|---|--------|
| Current year loss from speculative business [See Note-4] | 60,000 |
| Current year long term capital loss on sale of shares | 70,000 |
| Loss from activity of owning and maintaining of race horse pertaining to AY 2021-22 | 10,000 |

Notes:

1. As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2016-17 expired in the A.Y. 2024-25, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2025-26.
2. As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
3. Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
4. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Concept Problem 9 Solution

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

| Particulars | Amount |
|--|------------------|
| Income from retail trade – as per books (See Note 1 below) | 7,50,000 |
| Income from plying of vehicles – as per books (See Note 2 below) | 3,20,000 |
| | 10,70,000 |
| Less: Set off of brought forward depreciation relating to A.Y. 2022-23 | 1,00,000 |
| Gross total income | 9,70,000 |
| Less: Deduction under Chapter VI A | Nil |
| Taxable income | 9,70,000 |
| Tax liability | 1,06,500 |
| Add: Health and education cess @ 4% | 4,260 |
| Tax Payable | 1,10,760 |

Notes:

1. **Income from retail trade:** Presumptive business income under section 44AD is INR 8,41,340 i.e., 8% of INR 13,57,000, being 10% of the turnover received in cash and 6% of INR 1,22,13,000, being the amount of sales turnover received through A/c payee cheque.

However, the income computed as per books is INR 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of INR 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds INR 1 crore (the enhanced limit of INR 10 crore would not be available, since more than 5% of the turnover is received in cash).

Also, his case would be falling under section 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

2. **Income from plying of vehicles:** Income calculated under section 44AE(1) would be INR 7,500 x 12 x 5 which is equal to INR 4,50,000. However, the income from plying of vehicles as per books is INR 3,20,000, which is lower than the presumptive income of INR 4,50,000 calculated as per section 44AE(1).

Hence, the Assessee can adopt the income as per books i.e. INR 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

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

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

| Particulars | Amount |
|---|------------------|
| Income from retail trade under section 44AD [13,57,000 @ 8%] plus [1,22,13,000 @ 6%] | 8,41,340 |
| Income from plying of vehicles under section 44AE [7,500 x 12 x 5] | 4,50,000 |
| Income from business | 12,91,340 |
| Less: Set off of b/f depreciation not possible as its deemed that it has been allowed | Nil |
| Gross total income | 12,91,340 |
| Less: Deduction under Chapter VI A | Nil |
| Total income | 14,23,600 |
| Tax thereon | 1,99,902 |
| Add: Health and education cess @ 4% | 7,996 |
| Total tax liability | 2,07,898 |
| Total tax liability (rounded off) | 2,07,900 |

Concept Problem 10 Solution

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

| Particulars | Amount | Amount |
|---|--------------|----------|
| Salaries | | |
| Income from Salary | 3,00,000 | |
| Less: Loss from house property set-off against salary income u/s 71(1) | 2,00,000 | 1,00,000 |
| Loss from house property to the extent not set off i.e. INR 50,000 (2,50,000 – 2,00,000) to be carried forward to AY 2025-26 | | |
| Profits and gains of business or profession | | |
| Income from trading business | 45,000 | |
| Less: Brought forward loss from trading business of A.Y. 2019-20 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired. | 5,000 | 40,000 |
| Income from speculative business B | 5,000 | |
| Less: Loss of 25,000 from speculative business A set-off as per section 73(1) to the extent of 5,000 | 5,000 | Nil |

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Balance loss of 20,000 from speculative business A to be carried forward to A.Y.2025-26 as per section 73(2) | | |
| Loss of 20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A. | | |
| Capital Gains | | |
| Long term capital gain on sale of urban land | 2,00,000 | |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)] | 75,000 | |
| Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A | 1,02,000 | 23,000 |
| Total Income | | 1,63,000 |

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

| Particulars | Amount |
|---|--------|
| <p>Loss from House property</p> <p>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 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).</p> <p>As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2032-33, in this case.</p> | 50,000 |
| <p>Loss from speculative business A</p> <p>Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2028-29, in this case, as specified under section 73(4).</p> | 20,000 |
| <p>Loss from specified business</p> <p>Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.</p> <p>Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.</p> | 20,000 |
| <p>Loss from the activity of owning and maintaining race horses</p> <p>Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2026-27, in this case, as specified under section 74A(3).</p> | 2,000 |

Concept Problem 11 Solution

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

| Particulars | Amount | Amount |
|---|---------------|---------------|
| (i) Income from salary | | 15,000 |
| (ii) Profits and gains of business or profession | 66,000 | |
| Less: Unabsorbed depreciation brought forward from A.Y. 2023-24. (Unabsorbed depreciation can be set-off against any head of income other than salary) | <u>11,000</u> | 55,000 |
| (iii) Capital gains | | |
| Long term capital gain on sale of land | 10,800 | |
| Less: Brought forward short-term capital loss [Short- term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)] | 9,800 | 1,000 |
| Gross Total Income | | 71,000 |

Amount of loss to be carried forward to A.Y. 2025-26

| S. No | Particulars | Amount |
|-------|---|--------|
| (1) | Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of 22,000 brought forward from A.Y. 2023-24 has to be carried forward to A.Y. 2025-26 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y. 2027-28] | 22,000 |
| (2) | Loss on maintenance of race horses [to be c/f as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y. 2028-29] | 15,000 |
| (3) | Loss from gambling can neither be set-off nor be carried forward | |

Concept Problem 12 Solution

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

| Particulars | Amount | Amount |
|---|----------|--------|
| Salaries | | |
| Income from salaries | 2,20,000 | |
| Less: Loss from house property since Mr. Srivatsan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) | 1,90,000 | 30,000 |
| Profits and gains of business or profession | | |
| Income from speculation business | 30,000 | |
| Less: Loss from cloth business of 2,40,000 set off to the extent of 30,000 | 30,000 | Nil |

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Capital gains | | |
| Long-term capital gains from sale of urban land | 2,50,000 | |
| Less: Set-off of balance loss of 2,10,000 from cloth business | 2,10,000 | 40,000 |
| Income from other sources | | |
| Income from betting | | 45,000 |
| Gross Total Income | | 1,15,000 |
| Less: Deduction under section 80C (life insurance premium paid) | | 30,000 |
| Total Income | | 85,000 |

Losses to be carried forward:

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

Notes:

- Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.
- Business loss cannot be set off against salary income. However, the balance business loss of 2,10,000 (2,40,000 – 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be 40,000.
- Loss from card games can neither be set off against any other income, nor can be carried forward.
- For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium of 45,000 paid has to be restricted to 30,000 [i.e., Gross Total Income of 1,15,000 – 40,000 (LTCG) – 45,000 (Casual income)]. Mr. Srivatsan is entitled to deduction u/s 80C, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- 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.

Concept Problem 13 Solution

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

| Particulars | Amount | Amount |
|---|----------|--------|
| 1. Income from house property | | |
| House No. 1 | 72,000 | |
| House No. 2 | (30,000) | 42,000 |
| 2. Profits and gains of business or profession | | |
| Profit from leather business | 1,00,000 | |

| Particulars | Amount | Amount |
|--|-----------------|-----------------|
| Bad debts recovered taxable under section 41(4) | 35,000 | |
| | 1,35,000 | |
| Less: Current year loss of textile business | (40,000) | |
| | 95,000 | |
| Less: Brought forward business loss of textile business for A.Y. 2019-20 set off against the business income of current year | (95,000) | Nil |
| 3. Capital Gains | | |
| Short-term capital gain | | 60,000 |
| Gross Total Income | | 1,02,000 |
| Less: Deduction under Chapter VI-A | | |
| Under section 80C – LIC premium paid (not available since he is paying tax under the default tax regime) | | - |
| Total income | | 1,02,000 |

Statement of losses to be carried forward to A.Y. 2025-26

| Particulars | Amount |
|---|--------|
| Business loss of A.Y. 2020-21 to be carried forward under section 72 | 50,000 |
| Long term capital loss of A.Y. 2024-25 to be carried forward under section 74 | 35,000 |

Notes:

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

Concept Problem 14 Solution

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2024-25

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Profits and gains of business and profession | | |
| Salary received as a partner from a partnership firm is taxable under the head “Profits and gains of business and profession” | | 7,50,000 |
| Less: B/f business loss of 12,50,000 A.Y. 2022-23 to be set-off to the extent of 7,50,000 | | 7,50,000 |
| (Balance b/f business loss of 5,00,000 can be carried forward to the next year) | | Nil |
| Capital Gains | | |
| Long term capital gain on sale of land | 5,00,000 | |
| Less: Long term capital loss on shares on STT paid (See Note 2) | 3,00,000 | 2,00,000 |
| Income from Other Sources | | |
| Cash gift received from friends - since the value of cash gift exceeds INR 50,000, the entire sum is taxable | 51,000 | |
| Dividend income from a domestic company is fully taxable in the | 55,000 | 1,06,000 |

| | | |
|---------------------------|--|-----------------|
| hands of shareholders | | |
| Gross Total Income | | 3,06,000 |

Notes:

- Balance brought forward business loss of AY 2022-23 of INR 5,00,000 has to be carried forward to next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land u/s 70(3).

Concept Problem 15 Solution

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

| Particulars | Amount | Amount |
|--|----------|-----------------|
| (i) Income from salary | | 18,000 |
| (ii) Income from house property | | |
| Net Annual Value | 70,000 | |
| Less: Deduction under section 24 (30% of amount 70,000) | (21,000) | 49,000 |
| (iii) Income from business and profession | | |
| (a) Income from business | 80,000 | |
| Less: Current Year depreciation | (8,000) | |
| | 72,000 | |
| Less: Unabsorbed depreciation | (9,000) | 63,000 |
| (b) Income from speculative business | 12,000 | |
| Less: B/f loss of 16,000 from speculative business set off to the extent of 12,000 | (12,000) | Nil |
| (Balance loss of 4,000 (16,000 - 12,000) can be carried forward to next year) | | |
| (iv) Income from capital gain | | |
| Long term capital gain on sale of land | 15,800 | |
| Less: Brought forward short-term capital loss | 7,800 | 8,000 |
| Gross Total Income | | 1,38,000 |

Amount of loss to be carried forward to AY 2025-26

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

Notes:

- Loss on gambling can be neither set-off nor be carried forward.
- As per section 74A (3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- Speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to AY 2025-26. It may be notes that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 16 Solution

Computation of gross total income of Mr. Rajesh for A.Y. 2024-25 under default tax regime:

| 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.

Concept Problem 17 Solution

Computation of Total Income of Mr. Suresh for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount | Amount |
|---|--------------|-------------------|-----------------|
| <u>Profit and gains from Business and Profession</u> | | | |
| Income from Profession | | 10,00,000 | |
| Less: Loss from House Property (can be set-off to the extent of 2,00,000 as per section 71 (3A)) | | <u>2,00,000</u> | 8,00,000 |
| <u>Capital Gains</u> | | | |
| 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 gains as per section 74 | | <u>(4,20,000)</u> | Nil |
| <u>Income from Other Sources</u> | | | |
| <u>Income of minor son Raj</u> | | | |
| 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) | <u>1,500</u> | 1,58,500 | |
| <u>Income of minor daughter Rashmi</u> | | | |
| - Income of 15,00,000 of minor daughter Rashmi (Professional dancer) not included 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), since interest income arises out of deposit made and not on account of her special skills | 15,000 | | |
| Less: Exemption in respect of income of minor child u/s 10 (32) | <u>1,500</u> | 13,500 | <u>1,72,000</u> |
| Total Income | | | 9,72,000 |

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

| Particulars | Amount |
|--|----------|
| 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 | Amount |
|--|----------|
| 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 |

Concept Problem 18 Solution

Computation of total income of Mr. Kabir for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|--|-----------------|------------------------|
| Income from House Property | | |
| Net Annual Value | 4,20,000 | |
| Less: Deduction under section 24 (30% of 4,20,000) | 1,26,000 | |
| | 2,94,000 | |
| Less: Brought forward loss of 3 lakhs from house property set off to the extent of 2,94,000 | <u>2,94,000</u> | Nil |
| Profit and gains from business or profession | | |
| Income from tea business (40% is business income) | 2,00,000 | |
| Salary received as partner from a partnership firm is taxable under the head “Profits and gains from business or profession” | <u>4,50,000</u> | |
| | 6,50,000 | |
| Less: Losses from sugar business | <u>4,00,000</u> | |
| | 2,50,000 | |
| Less: Brought forward business loss from sugar business | <u>1,00,000</u> | 1,50,000 |
| Capital Gains | | |
| Short term capital gains on sale of land | 75,000 | |
| Less: Brought forward short-term capital loss | <u>45,000</u> | 30,000 |
| Income from other Sources | | |
| Dividend from Indian Company | 1,00,000 | |
| Agricultural income (exempt) | - | |
| Bank interest on fixed deposit | 55,000 | |
| Interest on saving bank account | 13,000 | 1,68,000 |
| Gross Total Income | | 3,48,000 |
| Less: Deduction under section 80C (life insurance premium paid) | 80,000 | |
| Less: Interest on saving bank account under section 80TTA, to the extent of | <u>10,000</u> | <u>90,000</u> |
| Total Income | | <u>2,58,000</u> |

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

| Particulars | Amount |
|--|----------|
| Loss from house property of A.Y. 2023-24 | 6,000 |
| Loss from maintenance of race horses of A.Y. 2023-24 | 60,000 |
| Long term capital loss on sale of STT paid listed shares | 3,00,000 |

Notes:

- i) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.

- ii) Agricultural income is exempt under section 10(1).
- iii) Loss from gambling can neither be set off against any other income, nor can be carried forward.
- iv) Long term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set off against long term capital gain only. Since there is no long-term capital gain in A.Y. 2024-25, it has to be carried forward for set-off against long term capital gains, if any, during A.Y. 2025-26.
- v) As per section 74A(3), loss from maintenance of race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. Since there is no income from the activity of owning and maintaining race horses in A.Y. 2024-25, it has to be set off against the income from the activity of owning and maintaining race horses, if any, in A.Y. 2025-26.

CHAPTER 12

DEDUCTIONS FROM GTI

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

a) **The statement is not correct.**

Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.

b) **The statement is correct.**

As per section 80AC, the Assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

Concept Problem 2 Solution

| S.No | Date of issue of policy | Person insured | Actual capital sum assured | Insurance premium paid during PY 2023-24 | Deduction u/s 80C for A.Y. 2024-54 | Remark (restricted to % of sum assured) |
|-------|-------------------------|--|----------------------------|--|------------------------------------|---|
| (i) | 30/3/2012 | Self | 6,00,000 | 48,000 | 48,000 | 20% |
| (ii) | 1/5/2018 | Spouse | 1,50,000 | 20,000 | 15,000 | 10% |
| (iii) | 1/6/2021 | Handicapped son (section 80U disability) | 4,00,000 | 80,000 | 60,000 | 15% |
| | | | | Total | 1,23,000 | |

Concept Problem 3 Solution

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

Concept Problem 4 Solution

Computation of deduction under section 80C for A.Y. 2024-25

| Particulars | Amount |
|---|-----------------|
| Deposit in public provident fund | 1,50,000 |
| Insurance premium paid on the life of the spouse (Maximum 10% of the assured value 2,00,000, as the policy is taken after 31.3.2012) | 20,000 |
| Total | 1,70,000 |
| However, the maximum permissible deduction u/s 80C is restricted to | 1,50,000 |

Concept Problem 5 Solution

(i) **Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out**

of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

- Employer’s contribution to such pension scheme would be treated as salary in the hands of employee. It is specifically included in the definition of “salary” under section 17(i)(viii). Therefore INR 1,80,000, being 15% of basic salary of INR 12,00,000 will be included in Mr. A’s salary.
- Mr. A’s contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary for this purpose means basic pay plus dearness allowance if it forms part of pay.

Therefore, “salary” for the purpose of deduction under section 80CCD for Mr. A would be –

| Particulars | Amount |
|--|------------------|
| Basic salary = INR 1,00,000 x 12 | 12,00,000 |
| Dearness allowance = 40% of INR 12,00,000 = INR 4,80,000 50% of Dearness Allowance forms part of pay = 50% of INR 4,80,000 | 2,40,000 |
| Salary for the purpose of deduction under section 80CCD | 14,40,000 |
| Deduction under section 80CCD (1) is restricted to 10% of INR 14,40,000 (Basic salary 12,00,000 + DA forming part of salary 2,40,000) | 1,44,000 |
| As per section 80CCD(1B), a further deduction of upto INR 50,000 is allowable. Therefore, deduction under section 80CCD (1B) is INR 36,000 (1,80,000 – 1,44,000) | 36,000 |

INR 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken in consideration and be subject to the overall limit of INR 1,50,000 under section 80CCE. INR 36,000 allowable as deduction under section 80CCD (1B) is outside the overall limit of INR 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- Employer’s contribution to pension scheme would be allowable as deduction u/s 80CCD (2) subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD (2) would also be restricted to INR 1,44,000, even though the entire employer’s contribution of INR 1,80,000 is included in salary u/s 17(1)(viii).

However, this deduction of employer’s contributions of INR 1,44,000 to pension scheme would be outside the overall limit of INR 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deduction which are subject to the limit of INR 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of INR 1,44,000 under section 80CCD(2) in respect of employer’s contribution to pension scheme.

Concept Problem 6 Solution

Computation of deduction under Chapter VI-A for the A.Y. 2024-25

| Particulars | Amount |
|---|----------|
| Deduction under section 80C | |
| (1) Contribution to PPF – fully allowed, since it is within the limit of INR 1,50,000 | 1,10,000 |
| (2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI | 45,000 |
| (3) Repayment of housing loan | 25,000 |

| Particulars | | Amount |
|---|---|-----------------|
| | | 1,80,000 |
| | Restricted to INR 1,50,000, being the maximum permissible deduction u/s 80C | 1,50,000 |
| Deduction under section 80CCC | | |
| (4) | Contribution to approved pension fund of LIC INR 1,05,000 | 1,05,000 |
| | | 2,55,000 |
| | As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD (1) has to be restricted to INR 1,50,000 | |
| Deduction allowable under Chapter VIA for the A.Y. 2024-25 | | 1,50,000 |

Concept Problem 7 Solution
Deduction allowable under section 80D for the A.Y. 2024-25

| S.No | Particulars | Actual payment | Maximum deduction |
|-----------|---|----------------|-------------------|
| A. | Premium paid and medical expenditure incurred for self and spouse | INR | INR |
| i. | Medical insurance premium paid for self and spouse | 20,000 | 20,000 |
| ii. | Contribution to CGHS | 3,600 | 3,600 |
| iii. | Exp. On preventive health check-up of self & spouse | 3,000 | 1,400 |
| | | 26,600 | 25,000 |
| B. | Premium paid and medical expenditure incurred for father who is senior citizen | | |
| i. | Mediclaime premium paid for father who is over 60 years of age | 47,000 | 47,000 |
| ii. | Expenditure on preventive health check-up of father | 4,000 | 3,000 |
| | | 51,000 | 50,000 |
| | Total deduction u/s 80D (INR 25,000 + INR 50,000) | | 75,000 |

Notes:

- The total deduction under A. (i) (ii) and (iii) above should not exceed 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to 1,400 being (25,000 – 20,000 – 3,600).
- The total deduction under B. (i) and (ii) above should not exceed INR 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to INR 3,000 being (50,000 – 47,000).
- In this case the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is 4,400 (i.e. 1,400 + 3,000) which is less than the maximum permissible limit of 5,000.

Concept Problem 8 Solution
Deduction allowable under section 80D for the A.Y. 2024-25

| S. No | Particulars | Amount | Amount |
|-------|--|--------|--------|
| (i) | Medical insurance premium paid for self, spouse and dependent children | 22,000 | |
| (ii) | Contribution to CGHS | 6,000 | |

| S. No | Particulars | Amount | Amount |
|-------|---|--------|---------------|
| | | 28,000 | |
| | Restricted to | | 25,000 |
| (iii) | Mediclaime premium paid for mother, who is over 60 years of age | 33,000 | |
| (iii) | Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance | 20,000 | |
| | | 53,000 | |
| | Restricted to | | 50,000 |
| | | | 75,000 |

Concept Problem 9 Solution

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

Concept Problem 10 Solution

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of INR 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be INR 1,25,000.

Concept Problem 11 Solution

Deduction under section 80E is available to an individual Assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing higher education by himself, spouse or children. Higher education means any course of study pursued after clearing senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

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

Concept Problem 12 Solution

| Particulars | Amount |
|--|----------|
| Interest deduction for AY 2024-25 | |
| i. Deduction allowable while computing income under the head “Income from house property” | |
| Deduction under section 24(b) INR 3,85,000 [35,00,000 x 11%] Restricted to | 2,00,000 |
| ii. Deduction under chapter VIA from gross total income | |
| deduction under section 80EE INR 1,85,000 (3,85,000 – 2,00,000) Restricted to | 50,000 |

Concept Problem 13 Solution

| Particulars | Amount |
|---|--------|
| Mr. A | |
| Interest deduction for A.Y. 2024-25 | |
| (i) Deduction allowable while computing income under the head “Income from house property” | |
| Deduction u/s 24(b) INR 3,87,000 [INR 43,00,000 × 9%] | |

| Particulars | | Amount |
|---|--|----------|
| | Restricted to | 2,00,000 |
| (ii) | Deduction under Chapter VI-A from Gross Total Income | |
| | Deduction u/s 80EEA INR 1,87,000 (INR 3,87,000 – INR 2,00,000) Restricted to | 1,50,000 |
| Mr. B | | |
| Interest deduction for A.Y. 2024-25 | | |
| (i) | Deduction allowable while computing income under the head “Income from house property” | |
| | Deduction u/s 24(b) INR 4,05,000 [INR 45,00,000 × 9%] Restricted to | 2,00,000 |
| (ii) | Deduction under Chapter VI-A from Gross Total Income | |
| | Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds INR 45 lakh. Deduction u/s 80EEA would not be permissible due to either violation listed above. | Nil |
| Mr. C | | |
| Deduction under Chapter VI-A from Gross Total Income | | |
| | Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [INR 20 lakhs x 10% = INR 2,00,000, restricted to INR 1,50,000, being maximum permissible deduction] | 1,50,000 |
| Mr. D | | |
| Deduction under Chapter VI-A from Gross Total Income | | |
| | Deduction u/s 80EEB is not permissible since loan was sanctioned before 01.04.2019 | Nil |

Concept Problem 14 Solution

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

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Gross Total Income | | 7,75,000 |
| Less: Deduction under section 80C | | |
| Deposit in PPF | 1,00,000 | |
| Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value INR 1,80,000, as the policy is taken after 31.3.2012) | 18,000 | |
| | 1,18,000 | |
| Deduction under section 80CCC in respect of LIC pension fund | 60,000 | |
| | 1,78,000 | |
| As per section 80CCE, deduction under section 80C & 80CCC is restricted to | | 1,50,000 |
| Deduction under section 80D | | |
| Medical Insurance premium in respect of self and spouse = 26,000 Restricted to | | 25,000 |
| Deduction under section 80G (See Working Note below) | | 87,500 |

| | | |
|---------------------|--|-----------------|
| Total income | | 5,12,500 |
|---------------------|--|-----------------|

Working Note: Computation of deduction under section 80G

| Particulars of donation | Amount donated | % of deduction | Deduction u/s 80G |
|---|-----------------------|--|--------------------------|
| National Children’s Fund | 25,000 | 100% | 25,000 |
| Jawaharlal Nehru Memorial Fund | 25,000 | 50% | 12,500 |
| Approved institution for promotion of family planning | 40,000 | 100% subject of qualifying limit | 40,000 |
| Public Charitable Trust | 50,000 | 50% subject to qualifying limit (note) | 10,000 |
| | | | 87,500 |

Note -Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., INR 6,00,000, in this case.

INR 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of INR 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted.

Hence, the contribution of INR 50,000 to public charitable trust is restricted to INR 20,000 (being, INR 60,000 – INR 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be INR 10,000, which is 50% of INR 20,000.

Concept Problem 15 Solution

The deduction under section 80GG will be computed as follows:

- Actual rent paid less 10% of total income

$$\text{INR } 1,44,000 - (10 \times \text{INR } 4,60,000) / 100 = \text{INR } 98,000 \text{ (A)}$$
- 25% of total income

$$25 \times 4,60,000 / 100 = \text{INR } 1,15,000 \text{ (B)}$$
- Amount calculated at INR 5,000 p.m. = INR 60,000 (C)

Deduction allowable u/s 80GG (least of A, B and C) = INR 60,000

Concept Problem 16 Solution

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of INR 2,25,000 under section 80GGB in respect of sum of INR 2 lakh contributed to an electoral trust and INR 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of INR 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Concept Problem 17 Solution

Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2024-25 as his total turnover from business exceeds INR 2 crores and he has employed “additional employees” during the P.Y. 2023-24.

I If Mr. A is engaged in the business of manufacture of computers

Additional employees’ cost = INR 24,000 x 12 x 75 [See working Note below] = INR 2,16,00,000

Deduction under section 80JJAA = 30% of INR 2,16,00,000 = INR 64,80,000

Working note:
Number of additional employees

| Particulars | No. of workmen | |
|---|----------------|-----------|
| Total number of employees employed during the year | | 350 |
| Less: Casual employees employed on 1.8.2023 who do not participate in recognized provident fund | 50 | |
| Regular employees employed on 1.5.2023 since their total monthly emoluments exceeds INR 25,000 | 125 | |
| Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y. 2023-24 | 100 | 275 |
| Number of “additional employees” | | 75 |

Notes:

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed INR 25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y.2023-24, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y. 2023-24 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2023, since they have been employed for more than 150 days in the previous year 2023-24.

Additional employee cost = INR 2,16,00,000 + INR 24,000 × 7 × 100 = INR 3,84,00,000

Deduction under section 80JJAA = 30% of INR 3,84,00,000 = INR 1,15,20,000.

Concept Problem 18 Solution

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB:

| Particulars | Amount |
|-------------|--------|
|-------------|--------|

| Particulars | Amount |
|--|-----------------|
| Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000 | |
| Restricted to | |
| Amount brought into India in convertible foreign exchange within prescribed time | 2,30,000 |
| Less: Expenses already allowed as deduction while computing royalty income | 40,000 |
| Deduction u/s 80QQB | 1,90,000 |

Concept Problem 19 Solution

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

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Profits and gains of business or profession | | 1,35,000 |
| Income from other sources | | |
| - Interest on Fixed Deposit | | 30,000 |
| - Lottery income | | 1,20,000 |
| Gross Total Income | | 2,85,000 |
| Less: Deductions under Chapter VIA [See Note below] | | |
| Under section 80C- Deposit in Public Provident Fund | 1,50,000 | |
| Under section 80TTB - Interest on Fixed Deposit with banks | 30,000 | |
| | 1,80,000 | |
| Restricted to | | 1,65,000 |
| Total Income | | 1,20,000 |

Notes:

- In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto 50,000 under section 80TTB.
- Though the value of eligible deductions is INR 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long-term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the Assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = 2,85,000 – 1,20,000 = 1,65,000.

80TTB/TTA/24(a)/16(ia) are silent killers.

Concept Problem 20 Solution

Computation of total income of Mr. Gurnam for the Assessment Year 2024-25:

| Particulars | Amount | Amount | Amount |
|--|--------|--------|-----------------|
| Income from salary | | | 5,50,000 |
| Interest on saving bank deposit | | | 14,500 |
| Gross Total Income | | | 5,64,500 |
| Less: Deduction under Chapter VIA | | | |
| Under section 80C (See Note 1) | | | |

| Particulars | Amount | Amount | Amount |
|--|--------|--------|-----------------|
| Life insurance premium paid for life insurance of: | | | |
| - major son | 19,500 | | |
| - self INR 22,500 restricted to 10% of INR 2,00,000 | 20,000 | 39,500 | |
| Under section 80D (See Note 2) | | | |
| Premium paid for INR 26,000 health insurance of self and wife by cheque, restricted to | 25,000 | | |
| Payment made for health check-up for parents | 4,500 | 29,500 | |
| Under section 80E | | | |
| For payment of interest on loan taken from bank for MBA course of his daughter | | 6,500 | |
| Under section 80TTA (See Note 4) | | | |
| Interest on savings bank account INR 14,500 restricted to | | 10,000 | 85,500 |
| Total income | | | 4,79,000 |

Notes: -

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

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

Therefore, in the present case, deduction of 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of INR 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

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

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

- No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding INR 2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of INR 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of INR 10,000. Therefore, deduction of INR 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is INR 14,500.

Concept Problem 21 Solution

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2023-24 falls within the first five-year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profits of business of unit A} \times \frac{\text{Export turnover of unit A}}{\text{Total turnover of unit A}} \times 100\%$$

$$= 30,00,000 \times \frac{50,00,000}{1,00,00,000} \times 100\% = 15,00,000$$

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

Concept Problem 22 Solution

a) **The statement is correct.**

The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual.

Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

b) **The statement is correct.**

Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

c) **The statement is not correct.**

There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

d) **The statement is not correct.**

An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

e) **The statement is not correct.**

The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2024-25.

f) **The statement is not correct.**

Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

Concept Problem 23 Solution

- The deduction of INR 75,000 under section 80DD is allowed in full, irrespective of the amount of expenditure incurred or paid by the Assessee. If the expenditure is incurred in respect of a dependent with severe disability, the deduction allowable is INR 1,25,000.
- The assessee Varun has deposited INR 25,000 for maintenance of dependent disabled. He is, however, eligible to claim INR 75,000 since the deduction of INR 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is INR 1,25,000.
- Section 80DD allows a deduction of INR 75,000 irrespective of the actual amount spent on maintenance of handicapped dependent and/or actual amount deposited with LIC. Therefore, the deduction will be INR 75,000 even though the total amount incurred/deposited is INR 45,000. If the dependent is a person with severe disability the quantum of deduction is INR 1,25,000.
- Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual Assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.

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

Concept Problem 24 Solution

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2024-25 under default tax regime:

| Particulars | Amount | Amount |
|---|--------|-----------------|
| Gross total income including long term capital gain | | 8,18,240 |
| Less: Deductions under Chapter VI-A: | | - |
| No deduction would be available under default tax regime u/s 115BAC | | |
| Total income | | 8,18,240 |
| Tax on total income | | |
| LTCG = INR 2,45,000 x 20% | | 49,000 |
| Balance total income INR 5,73,240 [Note 4] | | 13,662 |
| | | 62,662 |
| Add: Health and education cess @ 4% | | 2,506 |
| Total tax liability | | 65,168 |
| Total tax liability (Rounded off) | | 65,170 |

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2024-25 under the optional tax regime (i.e., the normal provisions of the Act)

| Particulars | Amount | Amount |
|---|--------|-----------------|
| Gross total income including long term capital gain | | 8,18,240 |
| Less: Long term capital gain | | 2,45,000 |
| Gross Total income | | 5,73,240 |
| Less: Deductions under Chapter VI-A: | | |

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Under section 80C in respect of PPF deposit | 1,20,000 | |
| Under section 80D (it is assumed that premium of INR 51,000 is paid by otherwise than by cash. The deduction would be restricted to INR 50,000, since Mr. Chaturvedi is a senior citizen) | 50,000 | |
| Under section 80G (See Notes 1 & 2 below) | 17,662 | |
| Under section 80TTB (See Note 3 below) | 50,000 | 2,37,662 |
| Total income (excluding long term capital gains) | | 3,35,578 |
| | | |
| Total income (including long term capital gains) | | 5,80,578 |
| Total income (rounded off) | | 5,80,580 |
| | | |
| Tax on total income (including LTCG of INR 2,45,000) | | |
| LTCG INR 2,45,000 x 20% | | 49,000 |
| Balance total income INR 3,35,580 [Note 4] | | 1,779 |
| | | 50,779 |
| Add: Health and education cess @ 4% | | 2,031 |
| Total tax liability | | 52,810 |

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

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

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding INR 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto INR 50,000 under section 80TTB is allowed, inter alia, to a resident senior citizen if gross total income includes interest income on bank deposits, both fixed deposit and saving account.
- Mr. Chaturvedi, being a senior citizen is eligible for basic exemption of INR 3,00,000.

Concept Problem 25 Solution
Computation of total income of Mr. Rajmohan for the A.Y. 2024-25

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

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G.

The adjusted total income is, therefore, INR 5,60,000 (i.e. 6,40,000 – 80,000), 10% of which is INR 56,000, which is higher than the actual donation of INR 25,000. Therefore, the deduction under section 80G would be INR 12,500, being 50% of the actual donation of INR 25,000.

Concept Problem 26 Solution
Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2024-25

| Particulars | Amount | Amount |
|--|-----------------|----------|
| Deduction under section 80C | | |
| Life insurance premium paid INR 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012) | 35,000 | |
| Public Provident Fund | 1,50,000 | |
| Repayment of housing loan to Bhartiya Mahila Bank, Bangalore | 20,000 | |
| | 2,05,000 | |
| Restricted to a maximum of INR 1,50,000 | 1,50,000 | |
| Deduction under section 80CCC for payment towards LIC pension fund | 1,40,000 | |
| | 2,90,000 | |
| As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to | | 1,50,000 |
| Deduction under section 80D | | |
| Payment of medical insurance premium of INR 30,000 towards medical | 25,000 | |

| Particulars | Amount | Amount |
|--|--------|-----------------|
| policy taken for self, wife and dependent children restricted to | | |
| Medical insurance premium paid INR 52,000 for parents, being senior citizen, restricted to | 50,000 | 75,000 |
| Eligible deduction under Chapter VI-A | | 2,25,000 |

Concept Problem 27 Solution

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

As per section 10AA, in computing the total income of Mr. Rudra 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 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

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

i. If Unit in SEZ was set up and began manufacturing from 22-05-2015:

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 goods, it shall be eligible for deduction of 50% of the profits derived from export of such goods, assuming all the other conditions specified in section 10AA are fulfilled

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

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

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2024 which is INR 3,00,00,000.

ii. If Unit in SEZ was set up and began manufacturing from 14-05-2019:

Since A.Y. 2024-25 is the 5th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of goods, it shall be eligible for deduction of 100% of the profits derived from export of such goods, assuming all the other conditions specified in section 10AA are fulfilled.

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

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

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

Working Note:

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

| Particulars | Rudra Ltd | Unit in DTA | Unit in SEZ |
|--------------|-----------|-------------|-----------------|
| Total sales | 6,00,000 | 2,00,000 | 4,00,000 |
| Export sales | 4,60,000 | 1,60,000 | 3,00,000 |

| | | | |
|------------|--------|-----------|-----------------|
| Net profit | 80,000 | 20,00,000 | 60,00,00 |
|------------|--------|-----------|-----------------|

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 28 Solution

Computation of Total Income of Mrs. Sharma for AY 2024-25 under Optional Tax regime:

| Computation of income under the head House property | Amount |
|---|------------------|
| Gross Annual value | 12,00,000 |
| Less: Municipal Tax | (1,00,000) |
| Net Annual value | 11,00,000 |
| Less 30% of NAV u/s 24 (a) | (3,30,000) |
| Less: Interest on capital borrowed u/s 24 (b) | NIL |
| Income under the head House Property | 7,70,000 |
| Income under the head other sources | 30,000 |
| Gross Total Income | 8,00,000 |
| Less: Deductions | |
| Deduction u/s 80C for NSC | (30,000) |
| Deduction u/s 80CCC for Jeevan Suraksha Policy | Nil |
| Deduction u/s 80D for medi-claim policy | (18,000) |
| Deduction u/s 80DD for Severe Disability | (1,25,000) |
| Deduction u/s 80E for Education Loan Interest | (10,000) |
| Total Income | 6,17,000 |
| Agricultural Income | 1, 00 000 |

Computation of Tax Liability

| Particulars | Amount |
|---|---------------|
| Step 1: Tax on (6,17,000 + 1,00,000) at slab rates | 55,900 |
| Step 2: Tax on (2,50,000 + 1,00,000) at slab rates | (5,000) |
| Deduct Tax at Step 2 from step 1 | 50,900 |
| Tax before Health and education cess | 50,900 |
| Add: Health and education cess @ 4% | 2,036 |
| Tax Liability rounded off u/s 288B | 52,940 |

Concept Problem 29 Solution

Deduction available to Mr. Darshan under Chapter VI-A for A.Y. 2024-25 under Optional Tax regime:

| Section | Particulars | INR | INR |
|------------|----------------------------------|----------|-----|
| 80C | Deposit in public provident fund | 1,50,000 | |

| Section | Particulars | INR | INR |
|-------------------------------------|--|-----------------|-----------------|
| | Life insurance premium paid INR 62,000 (deduction restricted to INR 30,000, being 10% of INR 3,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012) | 30,000 | |
| | Five-year term deposit with bank | 55,000 | |
| | | 2,35,000 | |
| | Restricted to | | 1,50,000 |
| 80CCD(1) | Contribution to NPS of the Central Government, INR 1,45,000 [1,95,000 – 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [INR 1,95,000 x 10/15] [See Note 1] | | 1,30,000 |
| | | | 2,80,000 |
| 80CCE | Aggregate deduction u/s 80C and 80CCD(1), INR 2,80,000, but restricted to | | 1,50,000 |
| 80CCD(1B) | INR 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] | | 1,30,000 |
| 80D | (i) (a) Medical insurance premium for self and his wife, deduction would be equal to INR 47,000 (INR 27,000 + INR 20,000), being 1/4 th of lumpsum premium, since policies would be in force for four previous years. | 47,000 | |
| | (i) (b) Preventive health check-up INR 6,000 for wife restricted to INR 3,000 (50,000 - 47,000, since maximum allowable deduction is INR 50,000 in case Assessee or one of the family members 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 INR 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 INR 90,000 | | 1,25,000 |
| 80TTB | Interest on fixed deposits with bank of INR 75,000, deduction restricted to | | 50,000 |
| Deduction under Chapter VI-A | | | 6,01,000 |

Notes:

- The deduction under section 80CCD(1B) would not be subject to overall limit of INR 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Darshan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of INR 1,45,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e., INR 1,30,000.
- 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 INR 1,50,000 under section 80CCE.

3. If the contribution towards NPS is INR 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of INR 50,000 under section 80CCD(1B) and the balance of INR 80,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of INR 1,50,000 under section 80CCE.

In any case, the aggregate deduction of INR 2,30,000 [i.e., INR 1,50,000 under section 80C and INR 80,000 under section 80CCD(1)] cannot exceed the overall limit of INR 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., INR 6,01,000.

Concept Problem 30 Solution

Computation of Total Income of Mr. Arihant for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount | Amount |
|--|--------|--------|-----------------|
| Gross Total Income | | | 7,50,000 |
| Less: Deduction under Chapter VI-A | | | |
| Under section 80C | 60,000 | | |
| - Life insurance premium of INR 70,000 (restricted to INR 60,000 i.e., 15% of INR 4,00,000, being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U) | | | |
| - Tax saver deposit of INR 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the Assessee himself to qualify for deduction u/s 80C | Nil | 60,000 | |
| Under section 80D | 25,000 | | |
| - Medical insurance premium for self and his wife, pertaining to the previous year 2023-24 is 26,000, being 1/3 rd of 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to | | | |
| - Deduction in respect of medical expenditure of INR 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of | 50,000 | 75,000 | |
| Under section 80G | | | |
| - Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit. | | 25,000 | 1,60,000 |
| Total Income | | | 5,90,000 |

Concept Problem 31 Solution

Computation of Total Income of Mr. Raj for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount |
|---|----------|
| Income under the head Business/Profession | 6,00,000 |
| Income under the head Capital Gains (LTCG) | 4,00,000 |
| Income under the head Capital Gain (STCG u/s 111A) | 2,00,000 |
| Income under the head Other Sources (casual income) | 1,00,000 |

| Particulars | Amount |
|--|------------------|
| Gross Total Income | 13,00,000 |
| Less: Deduction u/s 80CCC | (7,000) |
| Less: Deduction u/s 80G | |
| (i) National Defense Fund | (12,000) |
| (ii) Rajiv Gandhi Fund | (2,000) |
| (iii) Charitable Institution/ Social organization/ Religious organization (Working Note) | (34,650) |
| Total Income | 12,44,350 |

Working Note:

| | |
|------------------------|------------------------|
| Charitable Institution | 3,00,000 |
| Social organization | 1,00,000 |
| Religious organization | <u>4,00,000</u> |
| | <u>8,00,000</u> |

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)

$$= 13,00,000 - 4,00,000 - 2,00,000 - 7,000$$

$$= 6,93,000$$

Qualifying amount = 10% of AGTI or donation whichever is less

$$= 69,300 \text{ or } 8,00,000 \text{ whichever is less}$$

$$= 69,300$$

50% of the qualifying amount = 34,650

Computation of Tax Liability

| Particulars | Amount |
|---|-------------------|
| Tax on casual income INR 1,00,000 @ 30% u/s 115BB | 30,000 |
| Tax on STCG INR 2,00,000 @ 15% u/s 111A | 30,000 |
| Tax on LTCG INR 4,00,000 @ 20% u/s 112 | 80,000 |
| Tax on normal income INR 5,44,350 at slab rate | 21,370 |
| Tax before Health and education cess | 1,61,370 |
| Add: Health and education cess @ 4% | 6,454.8 |
| Tax Liability | 1,67,824.8 |
| Rounded off u/s 288B | 1,67,820 |

Concept Problem 32 Solution

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y. 2024-25 under Optional Tax regime:

| Section | Particulars | Amount | Amount |
|------------|----------------------------------|----------|--------|
| 80C | Deposit in public provident fund | 1,50,000 | |

| Section | Particulars | Amount | Amount |
|------------------|--|-----------------|-----------------|
| | Life insurance premium paid Rs. 62,000 (deduction restricted to Rs. 40,000, being 10% of Rs. 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 Central Government, Rs. 1,60,000 [Rs. 2,10,000 – Rs. 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [Rs. 2,10,000 x 10/15] [See Note 1] | 1,40,000 | |
| | | 2,90,000 | |
| 80CCE | Aggregate deduction u/s 80C and 80CCD(1), Rs. 2,90,000, but restricted to | | 1,50,000 |
| 80CCD(1B) | Rs. 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 | a. Medical insurance premium for self and his wife Deduction would be equal to Rs. 47,000 (Rs. 27,000 + Rs. 20,000), being 1/4 th of lumpsum premium, since policies would be in force for four previous years. | 47,000 | |
| | b. Preventive health checkup Rs. 6,000 for wife restricted to Rs. 3,000 (Rs. 50,000 - Rs.47,000, since maximum allowable deduction is Rs. 50,000 in case assessee or one of the family members is senior citizen) | 3,000 | |
| | (i) | 50,000 | |
| | Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name (ii) | 46,000 | |
| | Total of (i) and (ii) | | 96,000 |
| 80DD | Deduction of Rs. 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 Rs. 90,000 | | 1,25,000 |
| 80TTB | Interest on fixed deposits with bank of Rs. 75,000, deduction restricted to | | 50,000 |
| | Deduction under Chapter VI-A | | 6,11,000 |

Notes:

- The deduction u/s 80CCD(1B) would not be subject to overall limit of Rs. 1.5 lakh u/s 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction u/s 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 1,60,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. Rs. 1,40,000.
- 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 u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not subject to the overall limit of Rs. 1,50,000 u/s

Concept Problem 33 Solution

Computation of Total Income of Mr. X for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|---|-----------------|-----------------|
| Salaries | | |
| Basic Salary | 3,80,000 | |
| Dearness allowance | 1,20,000 | |
| Employer contribution to NPS = 20% of 3,80,000 | <u>76,000</u> | |
| | 5,76,000 | |
| Less: Standard deduction [50,000 or 5,76,000, whichever is lower] | <u>50,000</u> | 5,26,000 |
| Profit and gains of business or profession | | |
| Where the amount gifted by Mr. X (6 lakh, in this case) is invested by Mrs. X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment, as on 1.4.2023 the total investment in the business (10 lakh) would be included in the income of Mr. X [loss of 1,30,000 x 6/10] | <u>(78,000)</u> | |
| Income from Other Sources | | |
| All income of the minor son would be included in the income of the parent Mr. X, since his income is higher than the income of Mrs. X (loss of 52,000, based on the information given in the question). Accordingly, 70,000 being amount of gift received by minor son during the P.Y. 2023-24, would be included in the income of Mr. X as the amount of gift exceeds 50,000. | 70,000 | |
| Less: Exemption u/s 10(32) in respect of income of minor child included in Mr. X's income | <u>1,500</u> | |
| | 68,500 | |
| Less: Business loss of 78,000 set-off to the extent of | 68,500 | |
| (Balance business loss of 9,500 to be carried forward to the next year, since the same cannot be set-off against salary income) | | <u>Nil</u> |
| Gross Total Income | | 5,26,000 |
| Less: Deductions under Chapter VI-A | | |
| Under section 80C – Deposit in Sukanya Samridhi Account | 70,000 | |
| Under section 80CCC – Contribution to LIC Annuity Plan | 40,000 | |
| Under section 80CCD(1) – Employee contribution to NPS (76,000 - 50,000 deduction claimed u/s 80CCD(1B)], since it is lower than 42,800, being 10% of salary (3,80,000 + 48,000) | <u>26,000</u> | |
| Allowable in full, since less than 1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1) | 1,36,000 | |
| Under section 80CCD (1B) – Employee contribution to NPS | 50,000 | |
| Under section 80CCD(2) – Employer contribution to NPS restricted to 14%of basic salary +DA Forming part of pay, since employer is Central | | |

| Particulars | Amount | Amount |
|---|---------------|-----------------|
| Government = 14% x (3,80,000 + 48,000) | | |
| Under section 80E – Interest paid on loan taken for higher education | <u>15,000</u> | |
| | | <u>2,60,920</u> |
| Total Income | | 2,65,080 |

Notes:

The following assumptions have been made while solving the question –

Loan is taken from a financial institution or approved charitable institution, and hence, interest paid on such loan qualifies for deduction under section 80E.

The question mentions that gift of 6 lakhs is given by Mr. X to Mrs. X during the P.Y. 2016-17. However, the date of investment in business is not given. It has been assumed that it was invested between 2.4.2022 to 1.4.2023 for solving the problem, in the absence of other information in the question.

Concept Problem 34 Solution

Deduction in respect of repayment of loan under section 80C

Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

Since, Mr. Kunal has repaid loan of 2 lakhs during the A.Y. 2024-25, he is eligible for deduction under section 80C in respect of loan repayment. However, deduction under section 80C cannot exceed 1,50,000. Therefore, deduction under section 80C would be 1,50,000 for the A.Y. 2024-25.

Deduction in respect of interest on housing loan under section 24

As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. However, where the self-occupied property is acquired or constructed on or after 1.4.1999 and such acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed, the amount of deduction would not exceed 2 lakhs.

Hence, deduction under section 24 in respect of interest on housing loan would be 2 lakhs only.

Deduction under section 80EEA

As per section 80EEA, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of 1,50,000, provided following conditions are satisfied –

- i) Such loan is sanctioned by the financial institution during the period 1.4.2019 to 31.3.2023
- ii) The stamp duty value of the house does not exceed 45 lakhs and
- iii) the assessee does not own any residential house on the date of sanction of loan.

Therefore, in this case, since Mr. Kunal satisfies all the above conditions, he is eligible for deduction u/s 80EEA.

Mr. Kunal has paid interest of 2,80,000 out of which 2,00,000 is eligible under section 24(b), hence, interest of 80,000 would qualify for deduction under section 80EEA in the PY 2023-24.

Concept Problem 35 Solution

Computation of business income of Nathan Aviation Ltd.

| Particulars | Amount (in lakhs) |
|-------------|-------------------|
|-------------|-------------------|

| Particulars | Amount (in lakhs) |
|---|-------------------|
| Total profit derived from Units S & N (13 lacs + 4 lacs) | 17 |
| Less: Exemption under section 10AA [See Working Note below] | 12 |
| | 5 |
| Less: Brought forward business loss | 2 |
| Income from Business | 3 |

Working Note
Computation of exemption under section 10AA in respect of Unit S located in a SEZ

| Particulars | Amount in Lakhs |
|---|-----------------|
| Domestic turnover of Unit S | 10 |
| Export turnover of Unit S | 120 |
| Total turnover of Unit S | 130 |
| Profit derived from Unit S | 13 |
| Exemption under section 10AA | |
| Profit of Unit S X Total turnover of Unit S / Export turnover of unit S (13 x 120 / 130) | 12 |

Concept Problem 4 Solution
Computation of deduction under section 10AA for A.Y. 2024-25

Since A.Y. 2024-25 is the 6th assessment year from A.Y. 2019-20, relevant to the previous year 2018-19, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all other conditions specified in section 10AA are fulfilled.

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

$$= 20,00,000 \times \frac{40,00,000}{80,000,000} \times 50\% = 5,00,000$$

Working note:

| Particulars | Amount |
|---|------------------|
| Export Turnover | |
| Sale proceeds received in India | 45,00,000 |
| Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover | 5,00,000 |
| | 40,00,000 |
| Total turnover | 85,00,000 |
| Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, it has to be excluded from total turnover also] | 5,00,000 |
| | 80,00,000 |

CHAPTER 13

TAX DEDUCTION/COLLECTION AT SOURCE

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

| | |
|--|-----------------|
| Gross salary, allowances and monetary perquisites | 7,30,000 |
| Non-Monetary perquisites | <u>1,20,000</u> |
| | 8,50,000 |
| Less: Standard deduction under section 16(ia) | <u>50,000</u> |
| | 8,00,000 |
| Tax Liability | 75,400 |
| Average rate of tax ($75,400 / 8,00,000 \times 100$) | 9.425% |

Mr. A can deduct INR 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites = 9.425% of 1,20,000 = 11,310

Balance to be deducted from salary = 64,090

If Mr. A pays tax of INR 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

Concept Problem 2 Solution

- i) ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of INR 45,000 ($9\% \times \text{INR } 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, INR 4,500.
- ii) XYZ Bank has to deduct tax at source @ 10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is INR 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of INR 40,000.
Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of INR 60,750 exceeds the threshold limit of INR 40,000, tax has to be deducted @ 10% u/s 194A.
- iii) No tax has to be deducted under section 194A by PQR Bank on the interest of INR 28,000 falling due on recurring deposit on 31.3.2024 to Mr. Rajesh, since such interest does not exceed the threshold limit of INR 40,000

Concept Problem 3 Solution

In this case, the individual contract payments made to Mr. X does not exceed INR 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2023-24 exceeds INR 1,00,000 (on account of the last payment of INR 30,000, due on 1.3.2024, taking the total from INR 73,000 to INR 1,03,000), the TDS provisions under section 194C would get attracted.

Tax has to be deducted @ 1% on the entire amount of INR 1,03,000 from the last payment of INR 30,000 and the balance of INR 28,970 (i.e., 30,000 - 1,030) has to be paid to Mr. X.

Concept Problem 4 Solution

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds INR 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds INR 35,000. Therefore, payment or aggregate of payments up to INR 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:

- i) He owns ten or less goods carriages at any time during the previous year.
- ii) He is engaged in the business of plying, hiring or leasing goods carriages;
- iii) He has furnished a declaration to this effect along with his PAN.

Concept Problem 5 Solution

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

Concept Problem 6 Solution

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding INR 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed INR 1 crore in case of business and INR 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds INR 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source = 6,00,000 x 10% = 60,000

Concept Problem 7 Solution

Case I

Since Mr. X pays rent exceeding INR 50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @ 5% of such rent for F.Y. 2023-24 under section 194-IB. Thus, INR 27,500 [55,000 x 5% x 10] has to be deducted from rent payable for March, 2024.

Case II

If Mr. X vacated the premises in December, 2023, then tax of INR 19,250 [55,000 x 5% x 7] has to be deducted from rent payable for December, 2023.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 5%.

In case 1 above, this would amount to INR 1,10,000 [55,000 x 20% x 10] but the same has to be restricted to INR 55,000, being rent for March, 2024.

In case 2 above, this would amount to INR 77,000 [55,000 x 20% x 7] but the same has to be restricted to INR 55,000, being rent for December, 2023.

Concept Problem 8 Solution

TDS provisions under section 194J would not get attracted, since the limit of INR 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2023-24.

Concept Problem 9 Solution

| S No. | Particulars of the payer | Nature of payment | Aggregate of payments in F.Y. 2023-24 | Whether TDS provisions are attracted? |
|-------|---|--|---------------------------------------|--|
| 1 | Mr. Ganesh, an Individual carrying on retail business with turnover of INR 2.5 crores in the P.Y. 2022-23 | Contract for Payment for Repair of residential house | 5 lakhs | No, TDS u/s 194C is not attracted since the payment is for personal purpose and TDS u/s 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2023-24 does not exceed Rs. 50 lakhs. |
| | | Payment of commission to Mr. Vallish for business purposes | 80,000 | Yes, u/s 194H, since Payment exceeds 15,000, and Mr. Ganesh's turnover exceeds 1 crore in P.Y. 2022-23. |
| 2. | Mr. Rajesh, a wholesale trader whose turnover was INR 95 lakhs P.Y. 2022-23. | Contract Payment for reconstruction of residential house | 55 lakhs | Yes, u/s 194M, since the aggregate of payments (i.e., 55 lakhs) exceed 50 lakhs. Since, his turnover does not exceed 1 crore in P.Y. 2022-23, TDS provisions u/s 194C are not attracted in respect of payments made in P.Y. 2023-24. |
| 3. | Mr. Satish, a salaried individual | Payment of brokerage for buying a residential house | 51 lakhs | Yes, u/s 194M, since the payment of INR 51 lakhs made in March 2024 exceeds the threshold of Rs. 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case. |
| 4. | Mr. Dheeraj, a pensioner | Contract payment for reconstruction of residential house | 48 lakhs | TDS provisions u/s 194C are not attracted since Mr. Dheeraj is a pensioner and hence, not subject to tax audit. TDS provisions u/s 194M are also not applicable in this case, since the payment of INR 48 lakhs does not exceed the threshold of 50 lakhs. |

Concept Problem 10 Solution

- i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of INR 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on INR 75,000 (INR 4,50,000, being maturity proceeds - INR 3,75,000, being the entire amount of insurance premium paid).
- ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of INR 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of INR 95,000 due on 1.8.2023 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than INR 1 lakh.

Concept Problem 11 Solution

| | |
|--------------|---|
| (i) | Tax implications in the hands of Mr. X |
| | As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y. 2024-25. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X. |
| (ii) | Tax implications in the hands of Mr. Y |
| | In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(x) includes only capital assets specified thereunder. |
| (iii) | TDS implications in the hands of Mr. Y |
| | Since the sale consideration of house property or the stamp duty value of house property exceeds INR 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be INR 85,000, being 1% of INR 85 lakhs (higher of 60 lakhs or 85 lakhs). TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land. |

Concept Problem 12 Solution
(1) Computation of total income of Mr. Sharma for A.Y.2024-25

| Particulars | | Amount | Amount |
|-------------|--|----------|----------|
| I | Salaries | | |
| | Pension (52,000 x 12) | 6,24,000 | |
| | Less: Standard deduction u/s 16(ia) | 50,000 | |
| II | Income from Other Sources | | 5,74,000 |
| | Interest on fixed deposit (20 lakh x 8%) | 1,60,000 | |

| Particulars | | Amount | Amount |
|---------------------------|--|----------|-----------------|
| | Interest on savings account | 9,500 | 1,69,500 |
| Gross total income | | | 7,43,500 |
| Less: | Deductions under Chapter VI-A | | |
| | Under Section 80C | | |
| | Five-year term deposit (2 lakh, restricted to 1.5 lakh) | 1,50,000 | |
| | Under section 80TTB | | |
| | Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years. | 50,000 | 2,00,000 |
| Total Income | | | 5,43,500 |

| Computation of tax liability for A.Y. 2024-25 | |
|---|---------------|
| Tax payable [43,500 x 20% + 10,000] | 18,700 |
| Add: Health and Education Cess@4% | 748 |
| Tax liability | 19,448 |
| Tax liability (rounded off) | 19,450 |

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of INR 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a “specified senior citizen”. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

Concept Problem 13 Solution

- (1) Since Mr. Gupta’s turnover for F.Y. 2022-23 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y. 2023-24, he is liable to deduct tax @ 0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2023 and 12.8.2023, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2023 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2024.

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

- (2) If Mr. Gupta’s turnover for the F.Y. 2022-23 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y. 2022-23 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2023 and 12.8.2023, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2023 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit).

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2024.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @ 5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2023 and 25.3.2024, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax @ 1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2023 and 25.3.2024, respectively.

Concept Problem 14 Solution

As the turnover of Ashwin for F.Y. 2022-23, i.e., INR 105 lakh, has exceeded the monetary limit of INR 100 lakh, he has to comply with the tax deduction provisions during the FY 2023-24, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

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

Contract payment of INR 24,000 to Raj for 2 contracts of INR 12,000 each - TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed INR 30,000 in a single payment or INR 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

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

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

Concept Problem 15 Solution

- No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
 - He owns ten or less goods carriages at any time during the previous year.
 - He is engaged in the business of plying, hiring or leasing goods carriages;
 - He has furnished a declaration to this effect along with his PAN.
- As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds INR 30,000 during the financial year.

In the given case, since, the individual payments for fee of technical services i.e. INR 25,000 and royalty INR 20,000 is less than INR 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.

- Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2023 to M/s. X Ltd. is less than the threshold limit of INR 30,000.
- According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.

Therefore, there is no liability to deduct tax at source in respect of payment of INR 2,00,000 to Mr. A, since the contract is a contract for ‘sale’.

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

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed INR 2,50,000.

6. As per section 194H, tax is deductible at source @ 5% if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds INR 15,000.

Since the commission payment made to Mr. Y does not exceed INR 15,000, the provisions of section 194H are not attracted.

Concept Problem 16 Solution

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

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

Therefore, the amount of tax to be deducted at source: = ₹ 2,60,000 x 2% = ₹ 5,200.

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

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

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

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2023 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2023-24. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

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

Therefore, tax @ 10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 x 10% = ₹ 1,900.

Concept Problem 17 Solution

- a) 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

- b) 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.

- c) 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.

2. ICAI RTPs, MTPs, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 18 Solution

Interest under section 201 would be computed as below:

| Particulars | Amount |
|---|------------|
| 1% on tax deductible but not deducted i.e. 1% on 4,000 for 8 months (01.07.2023 to 28.02.2024) | 320 |
| 1.5% on tax deducted but not deposited i.e. 1.5% on 9,000 for 4 months (28.02.2024 to 22.06.2024) | 540 |
| Total | 860 |

Notes:

- a) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- b) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default under section 201(1) on account of payment of taxes by such payee, interest under section 201(1A)(i) i.e., @ 1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

However, where an order is made by the Assessing Officer for assessee-in-default, the interest shall be paid by the person in accordance with such order.

- c) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the Assessee.

Concept Problem 19 Solution

Computation of Total Income for AY 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Gross interest (2,70,000 x 100 / 90) | 3,00,000 | |
| Less: bank charges u/s 57 (2% of 2,70,000) | (5,400) | 2,94,600 |
| Dividend | 80,000 | |
| Less: bank charges u/s 57 | Nil | 80,000 |
| Income under the head Other Sources | | 3,74,600 |
| Total Income | | 3,74,600 |

Computation of Tax Liability

| Particulars | Amount |
|----------------------------------|--------|
| Tax on INR 3,74,600 at slab rate | 6,230 |

| Particulars | Amount |
|-----------------------|---------------|
| Less: Rebate u/s 87A | 6,230 |
| Tax Liability | Nil |
| Less: TDS on interest | (30,000) |
| Less: TDS on dividend | (8,000) |
| Tax Refund | 38,000 |

Concept Problem 20 Solution

Computation of Total Income for AY 2024-25 under Optional Tax regime:

| Computation of Total Income for AY 2024-25 | Amount | Amount |
|--|----------|-----------------|
| Income from lottery (4,20,000 /70%) | | 6,00,000 |
| Interest (90,000/90%) | 1,00,000 | |
| Less: Bank charges u/s 57 (1% of INR 90,000) | (900) | 99,100 |
| Family pension (6,000 x 12) | 72,000 | |
| Less: 1/3 of income or INR 15,000; whichever is less | (15,000) | 57,000 |
| Income under the head Other Sources | | 7,56,100 |
| Gross Total Income/Total Income | | 7,56,100 |

Computation of Tax Liability

| Particulars | Amount |
|---|-----------------|
| Tax on casual income INR 6,00,000 @ 30% u/s 115BB | 1,80,000 |
| Tax on INR 1,56,100 at slab rate | Nil |
| Tax before health and education cess | 1,80,000 |
| Add: Health and education cess @ 4% | 7,200 |
| Tax Liability | 1,87,200 |
| Less: TDS (1,80,000 + 10,000) | 1,90,000 |
| Tax Refund | 2,800 |

Concept problem 21 Solution

- a) As per section 194C, tax need not be deducted
- if the transporter does not own more than 10 goods carriages at any time during the previous year and
 - he has furnished his PAN.
- Hence, assuming that Mr. Ram does not own more than 10 goods carriages, no tax needs to be deducted.
- b) Rent payable to Central Government and State Government is not liable to deduction of tax at source u/s 194I.
- c) As per Circular issued by the CBDT, the GST paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of GST.

Therefore, tax deducted at source under section 194-I would be required to be made on the amount of rent paid or payable excluding the amount of GST, i.e., tax has to be deducted under section 194-I on INR 1 lakh per month i.e. 10,000 per month.

Concept Problem 22 Solution

Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding INR 10 lakhs, is required to collect tax at source @ 1% of the sale consideration from the buyer.

TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, Rahil & Co., even if the value of each car exceeds INR 10 lakhs.

However, TCS provisions would be attracted when Rahil & Co., sells cars to individual buyers, since the value of each car exceeds INR 10 lakhs. Rahil & Co. has to collect tax @ 1% of the consideration on sale of each car to an individual buyer.

Concept Problem 23 Solution

- a) No, as per section 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding INR 10 lakhs.
- b) Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding INR 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.
- c) The term “seller” includes inter alia, an individual whose turnover exceeds 1 crore in case of business or 50 lakhs in case of profession during the financial year immediately preceding the financial year in which the motor vehicle is sold. Thus, an individual shall be liable for collection of tax at source on sale of motor vehicle by him.
- d) TCS on sale of motor vehicle is applicable on all transactions of retail sales only. Accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Concept Problem 24 Solution

As per a circular, CBDT has clarified that liability to deduct tax u/s 194H is not attracted on payments made by television channels to the advertising agency for booking or procuring of or canvassing for advertisements as the relationship between the media company and the advertising agency is that of a 'principal-to-principal'.

Accordingly, in view of the clarification given by CBDT, no tax is deductible at source on the amount of INR 15 lakhs retained by Mudra Adco Ltd., the advertising company, from payment due to Cloud TV, a television channel.

Concept Problem 25 Solution

- i) On pre-mature withdrawal from EPF, no tax is deductible under section 192A even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health.
- ii) On credit of interest on recurring deposit by a banking company, no tax is deductible at source under section 194A since the interest on recurring deposit credited to the account of Mr. Hasan, a senior citizen, does not exceed INR 50,000 in the P.Y. 2023-24.
- iii) On payment of prize winnings of INR 21,000, Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of INR 21,000 payable to the customer, since the winnings exceed INR 10,000.
- iv) Even though service fee is included in the definition of “interest” as defined under section 2(28A), no tax is deductible at source u/s 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.
- v) Mr. Ashok, a salaried individual, is liable to deduct tax at source @ 5% under section 194-IB on INR 1,56,000 (being rent for 3 months from December 2023 to February 2024) from the rent of INR 52,000 payable on 1st February, 2024, since the monthly rent exceeds INR 50,000.
- vi) Tax @ 10% under section 193 is to be deducted on interest on 6 ½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., 5,00,000 exceed 10,000.

Interest on 6 ½ Gold Bonds, 1977 = 2,00,000 x 6.5% = 13,000

Interest on 7% Gold Bonds 1980 = 3,00,000 x 7% = 21,000

Tax to be deducted at source = $34,000 \times 10\% = 3,400$

vii) On payment of call centre service charges - Since Rashi Limited is engaged only in the business of operation of call centre, 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 centre service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2024.

viii) Since Vikas is a salaried person and does not have business or profession income, TDS u/s 194C is not attracted in his case. In any case, the contractor is engaged for reconstruction of residential house, hence, the amount paid to him is exclusively for personal purposes of Mr. Vikas. Consequently, section 194C would not be attracted.

Tax is deductible @ 5% under section 194M, since payments to Mr. Naveen, a contractor, for reconstruction of his residential house exceeds 50 lakhs in aggregate during the F.Y. 2023-24.

Amount of tax to be deducted = 5% of 60 lakhs = 3,00,000

Concept Problem 26 Solution

As per section 206(1H), tax is required to be collected at source @ 0.1% on the sales consideration exceeding 50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds 10 crores during the financial year immediately preceding the financial year in which sale of goods is carried out.

Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such considerations, exceeding 50 lakhs, TCS is required to be collected at source @ 0.1%, on amount of 40 lakhs i.e. value exceeding 50 lakhs.

Concept Problem 27 Solution

a) Mr. Kale, being a pensioner, would not be liable to deduct tax at source @ 5% u/s 194M since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of 50,00,000

Therefore, TDS u/s 194M would be = $52,50,000 \times 5\% = 2,62,500$.

b) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2022-23, being the financial year immediately preceding F.Y. 2023-24 in which such sum is paid, exceeds 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual. However, since payment is made during the period 14.05.2023 and 31.3.2024, tax is to be deducted at the reduced rate of 1%.

Therefore, TDS u/s 194C would be = $50,00,000 \times 1\% = 50,000$.

c) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds 50 lakhs.

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y. 2023-24 since his turnover from his business does not exceed 1 crore during P.Y. 2022-23.

Further, Mr. Golu is also not required to deduct tax at source u/s 194M in the said commission paid to Mr. Vinay since the commission paid does not exceed 50 lakhs during the P.Y. 2023-24.

d) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding 1 crore during the previous year, to any reason from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment.

Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding 1 crore (1.2 crore, in this case) in cash to ABC & Company, a partnership firm, during the F.Y. 2023-24, the bank is required deduct tax at source @ 2% of such sum.

Therefore, TDS u/s 194N would be = $20,00,000 \times 2\% = 40,000$.

Concept Problem 28 Solution

- i) The arrangement between Mr. Mahesh, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of INR 6 lakh paid by Mr. Mahesh to the cold storage company.

Accordingly, tax has to be deducted @ 2% on 6 lakhs.

$$\text{TDS u/s 194C} = 2\% \times 6 \text{ lakh} = 12,000$$

- ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 5% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2024), since the rent paid by him exceeds 50,000 p.m.

Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 5%. However, the same cannot exceed 60,000, being rent for March, 2024.

$$\text{TDS u/s 194-IB} = 5,40,000 (60,000 \times 9) \times 20\% = 1,08,000, \text{ but restricted to } 60,000, \text{ being rent for March, 2024.}$$

- iii) Mrinal & Sons has withdrawn aggregate cash of 1.30 crores during the previous year 2023-24. Since aggregate amount cash withdrawals exceed 1 crore, bank is required deducted tax at source @ 2% on the amount exceeding 1 crore i.e., 30 lakhs though he withdraws the same for buying agricultural produce from farmers, agriculturists, being raw material required for manufacture of finished products by it.

$$\text{TDS} = 2\% \text{ of } 30 \text{ lakhs} = 60,000$$

- iv) Tax has to be deducted at source by the transport company @ 10% under section 194A on payment of 51,000 made to Mr. A, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company, since the interest paid exceeds the specified threshold of 50,000.

$$\text{Tax to be deducted} = 51,000 \times 10\% = 5,100$$

Concept Problem 29 Solution

- i) Tax @ 5% is required to be collected u/s 206C by the seller of an overseas tour programme package, from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected @ 5% on 5 lakhs.

$$\text{TCS} = 5\% \times 5 \text{ lakh} = 25,000$$

- ii) Mr. Anu is required to collect tax @ 0.1% u/s 206C from Mr. Ram, since his turnover in the P.Y.2022-23 exceeds 10 crores, and the sales receipts from Mr. Ram in the P.Y.2023-24 exceeds 50 lakhs. Tax has to be collected by Mr. Anu on 25 lakhs, being the amount exceeding 50 lakhs, at the time of receipt. Since receipt is in the P.Y.2023-24, TCS provisions are attracted even though part of the sales may relate to the preceding previous years.

$$\text{TCS} = 0.1\% \times 25 \text{ lakhs} = 2,500.$$

Concept Problem 30 Solution

As per section 206C(1H), tax is not required to be collected under the said section if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.

As per section 194Q, the provision of section 194Q would not apply to a transaction on which tax is collectible under the provisions of section 206C, other than a transaction on which section 206C(1H) applies.

If a transaction is within the purview of both section 194Q and section 206C(1H), the tax is required to be deducted under section 194Q. The transaction would come out of the purview of section 206C(1H) after tax has been deducted by the buyer on that transaction. Once the buyer has deducted the tax on a transaction, the seller is not required to collect the tax under section 206C(1H) on the same transaction.

However, if, for any reason, tax has been collected by the seller under section 206C(1H), before the buyer could deduct tax under section 194Q on the same transaction, such transaction would not be subjected to tax deduction

again by the buyer.

Concept Problem 31 Solution

Section 206C(1C) provides for collection of tax @ 2% by every person who grants a lease in any mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Government of Madhya Pradesh is required to collect tax at source of 16,00,000, being 2% on 8 crores, being the charges for lease of coal mine.

Under section 206C(1), seller of certain goods, *inter alia*, coal is required to collect tax from the buyers @ 1%. However, no collection would be made under section 206C(1), in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power.

In the present case, ABC Co. Ltd. is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd. since Mahapower Ltd. has furnished a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power.

As per section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered under section 206C(1). In case of goods which are covered under section 206C(1) but exempted under section 206C(1A), tax will not be collectible under either section 206C(1) or section 206C(1H).

Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding 50 lakhs in any previous year, to deduct tax @ 0.1% of such sum exceeding INR 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C [except under section 206C(1H)].

Buyer means a person whose turnover from the business carried on by him exceeds 10 crores during the financial year preceding the financial year in which goods are purchased.

In this case, since Mahapower Ltd.'s turnover for P.Y. 2022-23 exceeds 10 crores, it is a buyer as per section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd., the provisions of section 194Q would apply and Mahapower Ltd. is required to deduct tax of 15,000 under section 194Q, being 0.1% of 1.5 crores, being the sum exceeding 50 lakhs.

Concept Problem 32 Solution

Computation of total income of Mr. Krishna for A.Y. 2024-25 under Optional Tax regime:

| | Particulars | Amount | Amount | Amount |
|-----------|--|----------|-------------|--------|
| I. | Income from business or profession | | | |
| | Net profit as per profit and loss account | | 5,64,44,700 | |
| | Add: Items of expenditure debited but not allowable while computing business income | | | |
| | 1. Donation to Gurudwara in cash [Not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income] | 20,000 | | |
| | 2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e- vehicle for personal is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income] | 1,67,000 | | |

| | Particulars | Amount | Amount | Amount |
|-------------|--|-----------------|------------------|--------------------|
| | 3. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of 2 lakh] | | <u>1,87,000</u> | |
| | | | 5,66,31,700 | |
| | Less: Items of income credited but not taxable or taxable under any other head of income | | | |
| | 4. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income] | 4,00,000 | | |
| | 5. Bad debt recovered [Actual bad debt is 2 lakhs, i.e., 5 lakhs less 3 lakhs, being the amount of bad debt recovered. Bad debt written off is 3 lakhs. Bad debt recovered to the extent of 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire 3 lakhs is credited to the profit and loss account, 2 lakhs has to be reduced] | <u>2,00,000</u> | <u>6,00,000</u> | |
| | | | 5,60,31,700 | |
| | Less: Allowable expenditure | | | |
| | 6. Contribution to a university approved and notified u/s 35 for scientific research [Eligible for deduction @ 100%. Since 100% of the expenditure is already debited to profit and loss account, no treatment] | | - | |
| | 7. Depreciation on car [(Dep @ 15% since car is put to use for more than 180 days in PY 2023-24 | | <u>1,80,000</u> | 5,58,51,700 |
| II. | Capital Gain | | | |
| | Long term capital gain on sale of house property | | 50,00,000 | |
| | Less: Exemption under section 54 [Since whole amount of long-term capital gain is invested in construction of house within the stipulated time limit] | | <u>50,00,000</u> | - |
| | [Capital gain of 25 lakhs in capital gain account scheme is not taxable in P.Y. 2023-24, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of 75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of 50 lakhs being long term capital gain on sale of house property during the P.Y. 2023-24] | | | |
| III. | Income from Other Sources | | | |
| | Royalty on patent [Taxable as “income from other sources”, since he is engaged in business of manufacturing furniture] | | | 4,00,000 |
| | Gross Total Income | | | 5,62,51,700 |

| | Particulars | Amount | Amount | Amount |
|--|--|--------------|----------|--------------------|
| | Less: Deduction under Chapter VI-A | | | |
| | Deduction under section 80D | | | |
| | - Mediciam premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous year. [30,000/6 years, being relevant previous years in which the insurance is in force] | 5,000 | | |
| | - Preventive health checkup of self and spouse [Preventive health checkup paid in cash allowed to the extent of 5,000] | <u>5,000</u> | 10,000 | |
| | Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2022-23, interest on loan taken for purchase of e-vehicle is allowed to the extent of 1,50,000] | | 1,50,000 | |
| | Deduction under section 80G [Donation of 20,000 to Gurudwara not allowable as deduction since amount exceeding 2000 paid in cash] | | - | |
| | Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the patent Act subject to a maximum of 3 lakhs] | | 3,00,000 | 4,60,000 |
| | Total Income | | | 5,57,91,700 |

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

| Particulars | Amount | Amount |
|---|-------------|--------------------|
| Tax on total income of INR 5,57,91,700 | | |
| Upto 3,00,000 | Nil | |
| 3,00,0001 – 5,00,000 [@ 5% of 2 lakh] | 10,000 | |
| 5,00,001 – 10,00,000 [@ 20% of 5,00,000] | 1,00,000 | |
| 10,00,001 – 5,57,91,700 [@ 30% of 5,47,91,700] | 1,64,37,510 | 1,65,47,510 |
| Add: Surcharge @ 37%, since total income exceeds 5,00,000 | | 61,22,579 |
| | | 2,26,70,089 |
| Add: Health and education cess @ 4% | | 9,06,804 |
| Total Tax Liability | | 2,35,76,892 |
| Less: TCS u/s 206C(1) @ 2.5% on 20 lakhs i.e., timber | 50,000 | |
| Less: TCS u/s 206C(1F) @ 1% of 12 lakhs i.e., sale of motor car where consideration exceeds 10 lakhs | 12,000 | |
| Less: TDS u/s 194IA @ 1% of 1 crore i.e., sale of immovable property where consideration is 50 lakh or more | 1,00,000 | 1,62,000 |
| Tax Payable | | 2,34,14,892 |
| Tax Payable (rounded off) | | 2,34,14,890 |

Concept Problem 33 Solution

- i) 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.

- ii) 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.

- iii) Since Mr. Purushotham’s turnover for F.Y. 2022-23 exceeds INR 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds INR 50 lakhs in the P.Y. 2023-24, he is liable to deduct tax @ 0.1% on INR 30 lakhs (being the sum exceeding INR 50 lakhs), at the time of credit or payment, whichever is earlier.

On 10.6.2023 = Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2023 since the purchases made till that date has not exceeded the threshold of INR 50 lakhs)

On 20.8.2023 = 0.1% of 2 lakhs (27 lakhs - 25 lakhs, being balance unexhausted limit) = 200

On 12.10.2023 = 0.1% of 28 lakhs = 2,800.

Concept Problem 34 Solution

| | 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. | (i) Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. (ii) Person who grants licence 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. (iii) Authorised dealer receiving amount for remittance out of India under the LRS of the RBI or seller of an overseas tour program package is responsible for collecting tax at source at the prescribed rate from the buyer. |
| (3) | 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. | 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 INR 10 lakhs and sale of goods exceeding INR 50 lakhs other than exported goods and goods mentioned in section 206C(1), tax collection at source is required at the time of receipt of sale consideration. |

CHAPTER 14

ADVANCE TAX & INTEREST

1. ICAI RTPS, MTPS, PAST YEAR QUESTIONS AND SELF-DRAFTED QUESTIONS

Concept Problem 3 Solution

Computation of Advance tax payable for the A.Y. 2024-25.

| Particulars | Amount |
|--|-----------------|
| Tax Payable | 4,40,000 |
| TDS (deductible but not deducted), cannot be reduced for computing advance tax liability | Nil |
| Net Tax Payable | 4,40,000 |

Due dates for payment of advance tax

| Due date of installment | Amount payable |
|---|---|
| On or before 15 th June, 2023 | INR 66,000 [15% of 4,40,000] |
| On or before 15 th September, 2023 | INR 1,32,000 [1,98,000 (45% of 4,40,000) less 66,000, (amount paid in earlier installment)] |
| On or before 15 th December, 2023 | INR 1,32,000 [INR 3,30,000 (75% of 4,40,000) Less 1,98,000 (amount paid in earlier installment or installments)] |
| On or before 15 th March, 2024 | INR 1,10,000, [INR 4,40,000 (whole amount of advance tax liability less 3,30,000 (amount paid in earlier installment or installments)] |

Concept Problem 4 Solution

Computation of advance tax of Mr. Ayush under presumptive Income Scheme as per section 44AD.

The total number of Mr. Ayaansh, a dealer of garments, is 105 lakhs. Since his total turnover from such business is less than 200 lakhs and he does not wish to get his books of account audited, he can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD.

| Particulars | Amount |
|--|-----------------|
| 6% of 15 lakhs, being turnover effected through account payee cheque | 90,000 |
| 8% of 90 lakhs, being cash turnover | 7,20,000 |
| | 8,10,000 |

An eligible assessee option for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability for Mr. Ayaansh as per normal provisions of Income-tax Act, 1961

| Particulars | Amount | Amount |
|-------------------------------------|----------|---------------|
| Total Income | 8,10,000 | |
| Tax on 8,10,000 | | |
| Upto 2,50,000 | Nil | |
| 2,50,001 – 5,00,000 @ 5% | 12,500 | |
| 5,00,001 – 8,10,000 @ 20% | 62,000 | 74,500 |
| Add: Health and Education cess @ 4% | | 2,980 |
| Tax Liability | | 77,480 |

Accordingly, he is required to pay advance tax of 77,480 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the act.

Concept Problem 5 Solution

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount |
|--|-----------------|
| Income under the head PGBP | 40,000 |
| Income under the head Other Sources | 5,60,000 |
| Income under the head Salary | 1,20,000 |
| Less: Loss under the head House Property | (30,000) |
| Total Income | 6,90,000 |
| Tax @ 30% u/s 115BB [5,60,000 x 30%] | 1,68,000 |
| Normal Income taxable at slab [6,90,000 – 5,60,000] = 1,30,000 | Nil |
| Tax before health and education cess | 1,68,000 |
| Health and education cess @ 4% | 6,720 |
| Tax Liability | 1,74,720 |
| Less: TDS | 1,68,000 |
| Tax payable | 6,720 |

Note: Since tax payable is less than 10,000, liability to pay advance tax does not arise.

Concept Problem 6 Solution

Computation of interest payable under section 234B by Mr. Chandra Prakash under Optional Tax regime:

| Particulars | Amount |
|--|----------|
| Tax on total income of INR 15,05,000 [Business income of INR 12,00,000 (See Note below) + Income from other sources of INR 3,05,000] | 2,64,000 |

| Particulars | Amount |
|---|-----------------|
| Add: Health and Education cess @ 4% | 10,560 |
| Tax on total income | 2,74,560 |
| Less: Tax deducted at source | 55,000 |
| Assessed Tax | 2,19,560 |
| 90% of assessed tax | 1,97,604 |
| Advance tax paid on 14-3-2024 | 1,45,000 |
| Interest under section 234B is leviable since advance tax of INR 1,45,000 paid is less than INR 1,97,604, being 90% of assessed tax | |
| Number of months from 1 st April, 2024 to 15 th December, 2024, being the date of payment of self-assessment tax | 9 |
| Interest under section 234B @ 1% per month or part of a month for 9 months on INR 74,500 [i.e., difference between assessed tax of INR 2,19,560 and advance tax of INR 1,45,000 paid being INR 74,560 which is rounded off to INR 74,500] | 6,705 |
| Interest under section 234B rounded off | 6,710 |

Note: The presumptive income computed under section 44AD would be INR 12 lakhs, being 8% of INR 45 lakhs and 6% of INR 140 lakhs.

Concept Problem 7 Solution

Computation of Tax Liability for A.Y. 2024-25 under Optional Tax regime

| | Amount |
|---|------------------|
| Normal Income | 11,00,000 |
| Long term capital gains | 3,00,000 |
| Total Income | 14,00,000 |
| | |
| Tax on INR 3,00,000 @ 20% u/s 112 | 60,000 |
| | |
| Tax on INR 11,00,000 at slab rate | |
| Upto 250,000 | Nil |
| 250,000 – 500,000 @ 5% | 12,500 |
| 500,000 – 10,00,000 @ 20% | 100,000 |
| Above 10,00,000 (100,000 @ 30%) | 30,000 |
| Tax on slab (b) | 1,42,500 |
| | |
| Tax before health and education cess (a+b) | 2,02,500 |
| Add: Health and education cess @ 4% | 8,100 |
| Tax Liability (R/off) | 2,10,600 |
| (Tax liability excluding capital gains INR 11,00,000 at slab rate + EC @ 4%) | 1,48,200 |

Interest u/s 234C

Since capital gains arise on 1st January 2024, instalments for 15th June 2023, 15th September 2023 and 15th December 2023 shall be checked without including tax on capital gain. Instalment for 15th March, 2024 shall be checked including tax on capital gain as given below:

| Date | Tax payable (1) | Cumulative Tax paid (2) | Minimum Tax payable (3) | Default (2-1) | Interest |
|------------------------------------|-----------------------------|-------------------------|--------------------------|---------------|-----------------------|
| 15.06.2023 | 1,48,200*15% = 22,230 | 0 | 1,48,200*12% = 17,784 | 22,230 | 22,200 x 1% x 3 = 666 |
| 15.09.2023 | 1,48,200*45% = 66,690 | 45,000 | 1,48,200*36% = 53,352 | 21,690 | 21,600 x 1% x 3 = 648 |
| 15.12.2023 | 1,48,200*75% = 1,11,150 | 95,000 | - | 16,150 | 16,100 x 1% x 3 = 483 |
| 15.03.2024 | 2,10,600*100% = 2,10,600 | 1,70,000 | - | 40,600 | 40,600 x 1% x 1 = 406 |
| Interest under section 234C | | | | | 2,203 |

Total Interest

| | |
|--|--------------|
| Interest u/s 234C | 2,203 |
| Interest u/s 234B (40,600 x 1% x 9) | 3,654 |
| Interest u/s 234A (40,600 x 1% x 5) | 2,030 |
| Total (R/off) | 7,887 |

Concept Problem 8 Solution

Interest under section 234C shall be computed in the manner given below:

| Date | Tax payable (1) | Cumulative Tax paid (2) | Minimum Tax payable (3) | Default (2-1) | Interest |
|------------------------------------|-----------------------------|-------------------------|----------------------------|---------------|---------------------------|
| 15.06.2023 | 7,00,000*15% = 1,05,000 | 50,000 | 7,00,000*12% = 84,000 | 55,000 | 55,000 x 1% x 3 = 1,650 |
| 15.09.2023 | 7,00,000*45% = 3,15,000 | 1,50,000 | 7,00,000*36% = 2,52,000 | 1,65,000 | 1,65,000 x 1% x 3 = 4,950 |
| 15.12.2023 | 7,00,000*75% = 5,25,000 | 3,00,000 | - | 2,25,000 | 2,25,000 x 1% x 3 = 6,750 |
| 15.03.2024 | 7,00,000*100% = 7,00,000 | 6,00,000 | - | 1,00,000 | 1,00,000 x 1% x 1 = 1,000 |
| Interest under section 234C | | | | | 14,350 |

Interest under section 234B shall be computed from 01.04.2024 to 10.12.2024 and is as given below:

| | |
|---|-------|
| 7,00,000 – 6,00,000 = 1,00,000 x 1% x 9 = | 9,000 |
|---|-------|

Interest under section 234A shall be computed from 01.11.2024 to 10.12.2024 and is as given below:

| | |
|---------------------|-------|
| 1,00,000 x 1% x 2 = | 2,000 |
|---------------------|-------|

Total Interest

| | |
|-------------------|---------------|
| Interest u/s 234C | 14,350 |
| Interest u/s 234B | 9,000 |
| Interest u/s 234A | 2,000 |
| Total | 25,350 |

(b) Presume actual tax liability is INR 6,50,000.

Interest under section 234C shall be computed in the manner given below:

| Date | Tax payable (1) | Cumulative Tax paid (2) | Minimum Tax payable (3) | Default (2-1) | Interest |
|------------------------------------|-----------------------------|-------------------------------|-------------------------------|------------------|---------------------------|
| 15.06.2023 | 6,50,000*15% = 97,500 | 50,000 | 6,50,000*12% = 78,000 | 47,500 | 47,500 1% x 3 = 1,425 |
| 15.09.2023 | 6,50,000*45% = 2,92,500 | 1,50,000 | 6,50,000*36% = 2,34,000 | 1,42,500 | 1,42,500 x 1% x 3 = 4,275 |
| 15.12.2023 | 6,50,000*75% = 4,87,500 | 3,00,000 | - | 1,87,500 | 1,87,500 x 1% x 3 = 5,625 |
| 15.03.2024 | 6,50,000*100% = 6,50,000 | 6,00,000 | - | 50,000 | 50,000 x 1% x 1 = 500 |
| Interest under section 234C | | | | | 11,825 |

Interest under section 234B

Advance tax paid is more than 90% of actual tax liability, hence no interest is payable.

Interest under section 234A shall be computed from 01.11.2024 to 10.12.2024 and is as given below:

| | |
|-------------------|-------|
| 50,000 x 1% x 2 = | 1,000 |
|-------------------|-------|

Total Interest

| | |
|-------------------|---------------|
| Interest u/s 234C | 11,825 |
| Interest u/s 234B | Nil |
| Interest u/s 234A | 1,000 |
| Total | 12,825 |

(c) Presume actual tax liability is INR 4,00,000 and refund was granted on 10.11.2024. Also compute interest under section 244A.
Interest under section 244A

2,00,000 x 0.5% x 8 = INR 8,000

Concept Problem 10 Solution
Self-assessment tax payable UNDER default tax regime u/s 115BAC

| Particulars | Amount |
|----------------------------------|--------|
| Tax on INR 7,50,000 at slab rate | |

| Particulars | Amount |
|--|---------------|
| Upto 3,00,000 | Nil |
| 3,00,000 – 6,00,000 @ 5% | 15,000 |
| 600,000 – 7,50,000 @ 10% | 15,000 |
| Tax | 30,000 |
| Add: Health and education cess @ 4% | 1,200 |
| | 31,200 |
| Less: Advance tax | 10,000 |
| Tax Payable | 21,200 |
| Add: Interest u/s 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2024 which is before the due date of filing return of income] | - |
| Add: Interest under section 234B would be levied on 21,200 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to 636 | 636 |
| Add: Interest under section 234C (Working note) | 1,172 |
| Self-assessment tax payable and interest thereon | 23,008 |
| Self-assessment tax payable and interest thereon (rounded off) | 23,010 |

Working Note: Interest u/s 234C

| Date | Tax payable (1) | Cumulative Tax paid (2) | Default (1-2) | Interest |
|--------------------------------|----------------------|-------------------------|---------------|-----------------------|
| 15.06.2023 | 31,200*15% = 4,680 | 0 | 4,680 | 4,600 x 1% x 3 = 138 |
| 15.09.2023 | 31,200*45% = 14,040 | 0 | 14,040 | 14,000 x 1% x 3 = 420 |
| 15.12.2023 | 31,200*75% = 23,400 | 10,000 | 13,400 | 13,400 x 1% x 3 = 402 |
| 15.03.2024 | 31,200*100% = 31,200 | 10,000 | 21,200 | 21,200 x 1% x 1 = 212 |
| Total Interest u/s 234C | | | | 1,172 |

Self-assessment tax payable [If Ms. Priya is opts to shift out of default tax regime u/s 115BAC]

| Particulars | Amount |
|--|---------------|
| Tax on INR 7,50,000 at slab rate | |
| Upto 3,00,000 | Nil |
| 3,00,000 – 500,000 @ 5% | 10,000 |
| 500,000 – 7,50,000 @ 20% | 50,000 |
| Tax | 60,000 |
| Add: Health and education cess @ 4% | 2,400 |
| | 62,400 |
| Less: Advance tax | 10,000 |
| Tax Payable | 52,400 |
| Add: Interest u/s 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2024 which is before the due date of filing return of income] | - |

| Particulars | Amount |
|---|---------------|
| Add: Interest under section 234B would be levied on 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to 1,572 | 1,572 |
| Add: Interest under section 234C (Working note) | 2,747 |
| Self-assessment tax payable and interest thereon | 56,719 |
| Self-assessment tax payable and interest thereon (rounded off) | 56,720 |

Working Note: Interest u/s 234C

| Date | Tax payable (1) | Cumulative Tax paid (2) | Default (1-2) | Interest |
|--------------------------------|--------------------------------|-------------------------|---------------|--------------------------------------|
| 15.06.2023 | $62,400 \times 15\% = 9,300$ | 0 | 9,300 | $9,300 \times 1\% \times 3 = 279$ |
| 15.09.2023 | $62,400 \times 45\% = 28,000$ | 0 | 28,000 | $28,000 \times 1\% \times 3 = 840$ |
| 15.12.2023 | $62,400 \times 75\% = 46,800$ | 10,000 | 36,800 | $36,800 \times 1\% \times 3 = 1,104$ |
| 15.03.2024 | $62,400 \times 100\% = 62,400$ | 10,000 | 52,400 | $52,400 \times 1\% \times 1 = 524$ |
| Total Interest u/s 234C | | | | 2,747 |

CHAPTER 16

FILING OF RETURN

Concept Problem 13 Solution

Computation of total income of Mr. Mukesh for A.Y.2024-25 under Optional Tax Regime [As per original return filed by him]

| | Particulars | Amount | Amount |
|------|--|----------|-----------------|
| i. | Salaries (Computed) | | 7,30,000 |
| ii. | Income from Other Sources | | |
| | Interest on savings bank account | 12,700 | |
| | Interest on fixed deposits | 43,000 | 55,700 |
| | Gross Total Income | | 7,85,700 |
| | Less: Deductions under Chapter VI – A | | |
| i. | Deduction u/s 80C | 1,50,000 | |
| ii. | Deduction u/s 80D | 25,000 | |
| iii. | Deduction u/s 80TTA | 10,000 | 1,85,000 |
| | Total Income | | 6,00,700 |

Computation of tax liability of Mr. Mukesh for A.Y. 2024-25 (As per original return)

| Particulars | Amount |
|--|---------------|
| Tax on total income [20% of 1,00,700 (i.e., 6,00,700 – 5,00,000) + 12,500] | 32,640 |
| Add: HEC @ 4% | 1306 |
| Tax payable on total income | 33,946 |
| Tax payable on total income (rounded off) | 33,950 |
| Less: Tax deducted at source u/s 192 | 33,950 |
| Tax Payable | Nil |

Need for filing revised return – Analysis

Since Mr. Mukesh's birthday falls on 1.4.2024, he would be treated as having completed 60 years of age in the P.Y. 2023-24, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of up-to 50,000 u/s 80TTB (instead of 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of 3,00,000 in the P.Y. 2023-24 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to insure the health of his mother and medical expenses incurred on his father who is not covered under any Mediclaim policy.

Accordingly, having discovered such omissions in the original return, he has to file his revised return of income u/s 139(5) on or before 31.12.2024 to avail these benefits which he has not availed while filing his original return of income.

The computation of total income and tax liability (refund due) as per revised return are worked out here under:

Computation of Total Income of Mr. Mukesh for the A.Y. 2024-25 under Optional Tax Regime [As per the Revised Return]

| | Particulars | Amount | Amount |
|------|---|---------------|-----------------|
| i. | Salaries (Computed) | | 7,30,000 |
| ii. | Income from Other Sources | | |
| | Interest on savings bank account | 12,700 | |
| | Interest on fixed deposits | 43,000 | 55,700 |
| | Gross Total Income | | 7,85,700 |
| | Less: Deductions under Chapter VI –A | | |
| i. | Deduction u/s 80C | 1,50,000 | |
| ii. | Deduction u/s 80D | | |
| | Medical insurance premium for self and spouse | 38,000 | |
| | Preventive health check-up for self (allowable even if paid in cash) | 1,500 | |
| | Fully allowed as it is within overall limit of 50,000 for family | 39,500 | |
| | Medical insurance premium for mother | 33,000 | |
| | Medical expenditure for father not covered under any policy | 25,000 | |
| | Preventive health check-up for parents (4,000, restricted to 3,500, being 5,000 -1,500 claimed for self and spouse) | 3,500 | |
| | | <u>61,500</u> | |
| | Restricted to maximum of 50,000 for parents | 50,000 | |
| | | 89,500 | |
| iii. | Deduction u/s 80TTB | | |
| | Interest on saving bank account | 12,700 | |
| | Interest on fixed deposits | 43,000 | |
| | | 55,700 | |
| | Restricted to maximum of 50,000 | 50,000 | 2,89,500 |
| | Total Income | | 4,96,200 |

Computation of tax liability of Mr. Mukesh for A.Y. 2024-25 [As per the Revised Return]

| Particulars | Amount |
|--|---------------|
| Tax on total income [5% of 1,96,200 (i.e., 4,96,200 – 3,00,000 basic exemption limit)] | 9,810 |
| Less: Rebate u/s 87A (Since his total income does not exceed 5 lakh) – 12,500 or tax on total income, whichever is lower | 9,810 |
| Tax payable on total income | Nil |
| Less: Tax deducted at source u/s 192 | 33,950 |
| Refund due | 33,950 |

Therefore, Mr. Mukesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31.12.2024 to claim the enhanced deductions which he had not claimed in the original return

and get refund of the entire income-tax of 33,950 deducted at source by his employer.

Concept Problem 24 Solution

Mr. X may furnish an updated return of his income for A.Y. 2022-23 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2025.

Accordingly, Mr. X can furnish updated return for A.Y. 2022-23 as on 31.3.2024 and on 28.2.2025. However, he cannot furnish such return as on 31.5.2025, since such date falls after 31.3.2025.

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 2023 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2024.
- @ 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., 31.3.2024 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2025.

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

- 31.3.2024 – INR 71,250 [25% of 2,85,000, being tax of INR 2,50,000 plus interest of INR 35,000]
- 28.2.2025 of INR 1,42,500 [50% of 2,85,000, being tax of INR 2,50,000 plus interest of INR 35,000]

CHAPTER 17

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1 Solution

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

| Particulars | Amount | |
|---|-------------------|-----------------|
| First 3,00,000 | Nil | Nil |
| Next 3,00,001 – 6,00,000 | @ 5% of 3,00,000 | 15,000 |
| Next 6,00,001 – 9,00,000 | @ 10% of 3,00,000 | 30,000 |
| Next 9,00,001 – 12,00,000 | @ 15% of 3,00,000 | 45,000 |
| Next 12,00,001 – 15,00,000 | @ 20% of 3,00,000 | 60,000 |
| Balance i.e., 16,00,000 minus 15,00,000 | @ 30% of 1,00,000 | 30,000 |
| | | 1,80,000 |
| Add: Health and Education cess @ 4% | | 7,200 |
| Tax Liability | | 1,87,200 |

Concept Problem 2 Solution

a) Computation of Tax liability of Mr. X (aged 45 years)

| Particulars | Amount | |
|---|-------------------|-----------------|
| First 2,50,000 | Nil | Nil |
| 2,50,001 – 5,00,000 | @ 5% of 2,50,000 | 12,500 |
| 5,00,001 – 10,00,000 | @ 20% of 5,00,000 | 1,00,000 |
| Balance i.e., 16,00,000 minus 10,00,000 | @ 30% of 6,00,000 | 1,80,000 |
| | | 2,92,500 |
| Add: Health and Education cess@4% | | 11,700 |
| Tax Liability | | 3,04,200 |

b) Computation of Tax liability of Mr. X (aged 63 years)

| Particulars | Amount | |
|----------------------|-------------------|----------|
| First 3,00,000 | Nil | Nil |
| 3,00,001 – 5,00,000 | @ 5% of 2,00,000 | 10,000 |
| 5,00,001 – 10,00,000 | @ 20% of 5,00,000 | 1,00,000 |

| Particulars | Amount | |
|---|-------------------|-----------------|
| Balance i.e., 16,00,000 minus 10,00,000 | @ 30% of 6,00,000 | 1,80,000 |
| | | 2,90,000 |
| Add: Health and Education cess @ 4% | | 11,600 |
| Tax Liability | | 3,01,600 |

c) Computation of Tax liability of Mr. X (aged 82 years)

| Particulars | Amount | |
|---|-------------------|-----------------|
| First 5,00,000 | Nil | Nil |
| Next 5,00,001 – 10,00,000 | @ 20% of 5,00,000 | 1,00,000 |
| Balance i.e., 16,00,000 minus 10,00,000 | @ 30% of 6,00,000 | 1,80,000 |
| | | 2,80,000 |
| Add: Health and Education cess @ 4% | | 11,200 |
| Tax Liability | | 2,91,200 |

Concept Problem 3 Solution

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

| Total income | Amount |
|--|------------------|
| A. Income-tax (including surcharge) computed on total income of INR 51,00,000 | |
| First 2,50,000 @ nil | 0 |
| 2,50,000 – 5,00,000 @ 5% | 12,500 |
| 5,00,001 – 10,00,000 @ 20% | 1,00,000 |
| 10,00,001 – 51,00,000 @ 30% | 12,30,000 |
| Tax before surcharge and cess | 13,42,500 |
| Add: Surcharge @ 10% | 1,34,250 |
| Total (Tax + Sur) | 14,76,750 |
| B. Income-tax computed on total income of 50 lakhs (12,500 + 1,00,000 + 12,00,000) | 13,12,500 |
| C. Total Income Less 50 lakhs | 1,00,000 |
| D. Income-tax computed on total income of 50 lakhs plus the excess of total income over 50 lakhs (B +C) | 14,12,500 |
| E. Tax liability: lower of (A) and (D) | 14,12,500 |
| Add: Health and education cess @ 4% | 56,500 |
| Tax liability (including cess) | 14,69,000 |
| F. Marginal Relief (A – D) | 64,250 |

Concept Problem 4 Solution

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

| Total income | Amount |
|---|------------------|
| A. Income-tax (including surcharge) computed on total income of INR 1,01,00,000 | |
| First 3,00,000 @ nil | 0 |
| 3,00,000 – 6,00,000 @ 5% | 15,000 |
| 6,00,001 – 9,00,000 @ 10% | 30,000 |
| 9,00,001 – 12,00,000 @ 15% | 45,000 |
| 12,00,001 – 15,00,000 @ 20% | 60,000 |
| 15,00,001 – 1,01,00,000 @ 30% | <u>25,80,000</u> |
| Total | 27,30,000 |
| Add: Surcharge @ 15% | <u>4,09,500</u> |
| Tax liability without marginal relief | 31,39,500 |
| B. Income-tax computed on total income of 1 crore (1,50,000 + 25,50,000) | 27,00,000 |
| Add: Surcharge @ 10% | 2,70,000 |
| | 29,70,000 |
| C. Total Income Less 1 crore | 1,00,000 |
| D. Income-tax computed on total income of 1 crore plus the excess of total income over 1 crore (B + C) | 30,70,000 |
| E. Tax liability: lower of (A) and (D) | 30,70,000 |
| Add: Health and education cess @ 4% | 1,22,800 |
| Tax liability (including cess) | 31,92,800 |
| F. Marginal Relief (A – D) | 69, 500 |

Concept Problem 5 Solution

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

| Total income | Amount |
|--|------------------|
| A. Income-tax (including surcharge) computed on total income of INR 2,01,00,000 | |
| First 2,50,000 @ nil | 0 |
| 2,50,000 – 5,00,000 @ 5% | 12,500 |
| 5,00,001 – 10,00,000 @ 20% | 1,00,000 |
| 10,00,001 – 2,01,00,000@30% | 57,30,000 |
| Total | 58,42,500 |
| Add: Surcharge @ 25% | 14,60,625 |
| Tax liability without marginal relief | 73,03,125 |
| B. Income-tax computed on total income of 2 crore (12,500 plus 1,00,000 plus 57,00,000) | 58,12,500 |

| | |
|---|-------------------------|
| Add: Surcharge @ 15% | <u>8,71,875</u> |
| | 66,84,375 |
| C. Total Income Less 2 crore | 1,00,000 |
| D. Income-tax computed on total income of 2 crore plus the excess of total income over 2 crore (B + C) | 67,84,375 |
| E. Tax liability: lower of (A) and (D) | 67,84,375 |
| Add: Health and education cess @ 4% | 2,71,375 |
| Tax liability (including cess) | <u>70,55,750</u> |
| F. Marginal Relief (A – D) | 5,18,750 |

Concept Problem 6 Solution

Computation of tax liability of Mr. D under default tax regime for the A.Y. 2024-25

| A. Income-tax (including surcharge) computed on total income of INR 5,01,00,000 | |
|--|--------------------|
| First 3,00,000 @ nil | 0 |
| 3,00,000 – 6,00,000 @ 5% | 15,000 |
| 6,00,001 – 9,00,000 @ 10% | 30,000 |
| 9,00,001 – 12,00,000 @ 15% | 45,000 |
| 12,00,001 – 15,00,000 @ 20% | 60,000 |
| 15,00,001 – 5,01,00,000 @ 30% | 1,45,80,000 |
| Total | 1,47,30,000 |
| Add: Surcharge @ 25% | 36,82,500 |
| | 1,84,12,500 |
| Add: Health and education cess @4% | 7,36,500 |
| Tax liability | 1,91,49,000 |

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2024-25

| Total income | Amount |
|--|--------------------|
| A. Income-tax (including surcharge) computed on total income of INR 5,01,00,000 | |
| First 3,00,000 @ nil | 0 |
| 3,00,000 – 5,00,000 @ 5% | 10,000 |
| 5,00,001 – 10,00,000 @ 20% | 1,00,000 |
| 10,00,001 – 5,01,00,000 @ 30% | <u>1,47,30,000</u> |
| Total | 1,48,40,000 |
| Add: Surcharge @ 37% | <u>54,90,800</u> |
| Tax liability without marginal relief | 2,03,30,800 |
| B. Income-tax computed on total income of 5 crore (10,000 plus 1,00,000 plus 1,47,00,000) | |
| | 1,48,10,000 |

| Total income | Amount |
|---|--------------------|
| Add: Surcharge @ 25% | 37,02,500 |
| | 1,85,12,500 |
| C. Total Income Less 5 crore | 1,00,000 |
| D. Income-tax computed on total income of 5 crore plus the excess of total income over 5 crore (B + C) | 1,86,12,500 |
| E. Tax liability: lower of (A) and (D) | 1,86,12,500 |
| Add: Health and education cess @ 4% | 7,44,500 |
| Tax liability (including cess) | 1,93,57,000 |
| F. Marginal Relief (A – D) | 17,18,300 |

Concept Problem 7 Solution

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

| Particulars | Amount |
|---|------------|
| Tax on total income of INR 6,50,000 | |
| Tax @ 10% of 50,000 + 15,000 | 20,000 |
| Less: Rebate u/s 87A (Lower of tax payable or 25,000) | 20,000 |
| Tax Liability | Nil |

Concept Problem 8 Solution

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

| Particulars | Amount | |
|---|---------------|------------|
| Step 1: Total Income of 7,15,000 - 7,00,000 | 15,000 | (A) |
| Step 2: Tax on total income of 7,15,000 | | |
| Tax @ 10% of 1,15,000 + 15,000 | 26,500 | (B) |
| Step 3: Since B > A, rebate u/s 87A would be B - A [26,500 - 15,000] | 11,500 | |
| | 15,000 | |
| Add: HEC @ 4% | 600 | |
| Tax Liability | 15,600 | |

Concept Problem 9 Solution

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

| Particulars | Amount |
|---|------------|
| Tax on total income of INR 4,15,000 | |
| Tax @ 5% of 1,65,000 | 8,250 |
| Less: Rebate u/s 87A (Lower of tax payable or 12,500) | 8,250 |
| Tax Liability | Nil |

Concept Problem 15 Solution

Computation of tax liability of Mr. Kashyap for the A.Y.2024-25 under default tax regime

| Total income | Amount |
|---|-------------------------|
| A. Tax payable including surcharge on total income of 51,75,000 | |
| First 3,00,000 @ nil | 0 |
| 3,00,000 – 6,00,000 @ 5% | 15,000 |
| 6,00,001 – 9,00,000 @ 10% | 30,000 |
| 9,00,001 – 12,00,000 @ 15% | 45,000 |
| 12,00,001 – 15,00,000 @ 20% | 60,000 |
| 15,00,001 – 51,75,000 @ 30% | <u>11,02,500</u> |
| Total | 12,52,500 |
| Add: Surcharge @ 10% | <u>1,25,250</u> |
| Tax liability without marginal relief | 13,77,750 |
| B. Income-tax computed on total income of 50 lakhs (1,50,000 + 10,50,000) | 12,00,000 |
| Add: Surcharge@10% | 2,70,000 |
| | 29,70,000 |
| C. Total Income Less 50 lakhs | 1,75,000 |
| D. Income-tax computed on total income of 50 lakhs plus the excess of total income over 50 lakhs (B + C) | 13,75,000 |
| E. Tax liability: lower of (A) and (D) | 13,75,000 |
| Add: Health and education cess @ 4% | <u>55,000</u> |
| Tax liability (including cess) | <u>14,30,000</u> |
| F. Marginal Relief (A – D) | 2,750 |

Concept Problem 16 Solution

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 under default tax regime:

| Particulars | Amount |
|---|--------------------|
| Tax on total income of 6,50,00,000 | |
| Tax @ 20% of 55,00,000 | 11,00,000 |
| Tax @ 15% of 65,00,000 | 9,75,000 |
| Tax on other income of ₹ 5,30,00,000 | |
| 3,00,000 – 6,00,000 @ 5% | 15,000 |
| 6,00,000 – 9,00,000 @ 10% | 30,000 |
| 9,00,000 – 12,00,000 @ 15% | 45,000 |
| 12,00,000 – 15,00,000 @ 20% | 60,000 |
| 15,00,000 – 5,30,00,000 @ 30% | 1,54,50,000 |
| | 1,76,75,000 |

| Particulars | | Amount |
|------------------------------------|-----------|--------------------|
| Add: Surcharge @ 15% on 20,75,000 | 3,11,250 | |
| @ 25% on 1,56,00,000 | 39,00,000 | 42,11,250 |
| | | 2,18,86,250 |
| Add: Health and education cess @4% | | 8,75,450 |
| Tax Liability | | 2,27,61,700 |

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

| Particulars | | Amount |
|---|-------------|--------------------|
| Tax on total income of 6,50,00,000 | | |
| Tax @ 20% of 55,00,000 | | 11,00,000 |
| Tax @ 15% of 65,00,000 | | 9,75,000 |
| Tax on other income of ₹ 5,30,00,000 | | |
| 2,50,000 – 5,00,000 @ 5% | 12,500 | |
| 5,00,000 – 10,00,000 @ 20% | 1,00,000 | |
| 10,00,000 – 5,30,00,000 @ 30% | 1,56,00,000 | 1,57,12,500 |
| | | 1,17,87,500 |
| Add: Surcharge @ 15% on 20,75,000 | 3,11,250 | |
| @ 37% on 1,57,12,500 | 58,13,625 | 61,24,875 |
| | | 2,39,12,375 |
| Add: Health and education cess @4% | | 9,56,495 |
| Tax Liability | | 2,48,68,870 |

Concept Problem 17 Solution

Computation of tax liability of Mr. Sharma for the A.Y.2024-25 under default tax regime:

| Particulars | | Amount |
|---|-----------|------------------|
| Tax on total income of 2,30,00,000 | | |
| Tax @ 20% of 52,00,000 | | 10,40,000 |
| Tax @ 15% of 64,00,000 | | 9,60,000 |
| Tax on other income of 1,14,00,000 | | |
| 3,00,000 – 6,00,000 @ 5% | 15,000 | |
| 6,00,000 – 9,00,000 @ 10% | 30,000 | |
| 9,00,000 – 12,00,000 @ 15% | 45,000 | |
| 12,00,000 – 15,00,000 @ 20% | 60,000 | |
| 15,00,000 – 1,14,00,000 @ 30% | 29,70,000 | 31,20,000 |
| | | 51,20,000 |
| Add: Surcharge @ 15% | | 7,68,000 |
| | | 58,88,000 |

| Particulars | | Amount |
|-------------------------------------|--|------------------|
| Add: Health and education cess @ 4% | | 235,520 |
| Tax Liability | | 61,23,520 |

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

| Particulars | | Amount |
|---|-----------|------------------|
| Tax on total income of 2,30,00,000 | | |
| Tax @ 20% of 52,00,000 | | 10,40,000 |
| Tax @ 15% of 64,00,000 | | 9,60,000 |
| Tax on other income of 1,14,00,000 | | |
| 3,00,000 – 5,00,000 @ 5% | 10,000 | |
| 5,00,000 – 10,00,000 @ 20% | 1,00,000 | |
| 10,00,000 – 1,14,00,000 @ 30% | 31,20,000 | 32,30,000 |
| | | 52,30,000 |
| Add: Surcharge @ 15% | | 7,84,500 |
| | | 60,14,500 |
| Add: Health and education cess @ 4% | | 2,40,580 |
| Tax Liability | | 62,55,080 |

Concept Problem 18 Solution

Computation of total income and tax liability of Mr. A for A.Y. 2024-25 under default tax regime under section 115BAC

| Particulars | | Amount |
|--|------------------|-----------------|
| Salaries | | |
| Basic Salary [50,000 x 12] | 6,00,000 | |
| Transport allowance [15,000 x 12] | 1,80,000 | |
| HRA received [20,000 x 12] | 2,40,000 | |
| Gross salary | 10,20,000 | |
| Less: Standard deduction u/s 16(ia) | (50,000) | |
| | | 9,70,000 |
| Income from house property | | |
| Interest on housing loan | | - |
| Gross Total Income | | 9,70,000 |
| Less: Deductions under Chapter VI- A | | |
| Section 80C - Contribution in PPF | | - |
| Section 80CCD - | | - |
| Section 80D - Mediciam Contribution to pension insurance premium for self | | - |

| Particulars | | Amount |
|---|--------|-----------------|
| and parents | | |
| Total Income | | 9,70,000 |
| Tax liability | | |
| Tax @ 5% on 3,00,000 [6,00,000 - 3,00,000] | 15,000 | |
| Tax @ 10% on 3,00,000 [9,00,000 - 6,00,000] | 30,000 | |
| Tax @ 15% on 70,000 [9,70,000 – 9,00,000] | 10,500 | 55,500 |
| Add: Health & Education cess @ 4% | | 2,220 |
| Total Tax Liability | | 57,720 |

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

| Particulars | | Amount |
|--|----------|-----------------|
| Salaries | | |
| Basic Salary [50,000 x 12] | | 6,00,000 |
| Transport allowance [15,000 x 12] | | 1,80,000 |
| HRA received | 2,40,000 | |
| Less: Least of the following exempt u/s 10(13A) | 2,40,000 | - |
| HRA Received | 2,40,000 | |
| Actual rent paid – 10% of salary 2,40,000 [3,00,000 – 60,000] | | |
| 50% of salary 3,00,000 | | |
| Gross salary | | 7,80,000 |
| Less: Standard deduction u/s 16(ia) | | (50,000) |
| | | 7,30,000 |
| Income from house property | | |
| [Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to 2,00,000, in case of self-occupied property, which would represent loss from house property] | | (2,00,000) |
| Gross Total Income | | 5,30,000 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C - Contribution to PPF | | 1,50,000 |
| Section 80CCD(1B) - Own contribution to pension scheme | | 50,000 |
| Section 80D - Mediciclaim insurance premium | | |
| For self and spouse, restricted to | 25,000 | |
| For father, who is a senior citizen, restricted to | 50,000 | 75,000 |
| Total Income | | 2,55,000 |
| Tax liability | | |
| Tax @ 5% on 5,000 [2,55,000 - 2,50,000] | | 250 |

| Particulars | Amount |
|----------------------------|--------|
| Less: Rebate u/s 87A | 250 |
| Total Tax Liability | - |

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by INR 7,15,000. His total income under the regular provisions of the Act is less than INR 5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Concept Problem 19 Solution

Computation of tax liability of Kadam under both the options

| Particulars | Option I- HRA | Option II- RFA |
|---|------------------|-------------------|
| Basic Salary (40,000 x 12 Months) | 4,80,000 | 4,80,000 |
| Perquisite value of rent-free accommodation (15% of 4,80,000) | N.A. | 72,000 |
| House rent Allowance (7,000 x 12 Months) 84,000 | 60,000 | |
| Less: Exempt u/s 10(13A) – least of the following - 24,000 | | |
| - 50% of Basic Salary 2,40,000 | | |
| - Actual HRA received 84,000 | | |
| - Rent paid less 10% of salary 24,000 | | |
| Gross Salary | 5,40,000 | 5,52,000 |
| Less: Standard deduction u/s 16(ia) | 50,000 | 50,000 |
| Net Salary | 4,90,000 | 5,02,000 |
| Less: Deduction under Chapter VI-A | - | - |
| Total Income | 4,90,000 | 5,02,000 |
| Tax on total income | 12,000 | 12,900 |
| Less: Rebate under section 87A - Lower of 12,500 or income-tax of 12,000, since total income does not exceed 5,00,000 | 12,000 | Nil |
| | Nil | 12,900 |
| Add: Health and Education cess@4% | Nil | 516 |
| Tax liability | Nil | 13,416 |
| Tax liability (Rounded off) | Nil | 13,420 |

Cash Flow Statement

| Particulars | Option I- HRA | Option II- RFA |
|----------------|------------------|-------------------|
| Inflow: Salary | 5,64,000 | 4,80,000 |

| Particulars | Option I- HRA | Option II- RFA |
|--------------------------|------------------|-------------------|
| Less: Outflow: Rent paid | (72,000) | - |
| Tax on total income | Nil | (13,420) |
| Net Flow | 4,92,000 | 4,66,580 |

Since the net cash inflow under option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kadam to avail Option I, i.e., House Rent Allowance.

Concept Problem 20 Solution

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

| Total income | Amount |
|---|------------------|
| A. Income-tax (including surcharge) computed on total income of INR 51,75,000 | |
| First 2,50,000 @ nil | 0 |
| 2,50,000 – 5,00,000 @ 5% | 12,500 |
| 5,00,001 – 10,00,000 @ 20% | 1,00,000 |
| 10,00,001 – 51,75,000 @ 30% | 12,52,500 |
| Total | 13,65,000 |
| Add: Surcharge @ 10% | 1,36,500 |
| Tax liability without marginal relief | 15,01,500 |
| B. Income-tax computed on total income of 50 lakhs (12,500 plus 1,00,000 plus 12,00,000) | 13,12,500 |
| C. Total Income Less 50 lakhs | 1,75,000 |
| D. Income-tax computed on total income of 50 lakhs plus the excess of total income over 50 lakhs (B + C) | 14,87,500 |
| E. Tax liability: lower of (A) and (D) | 14,87,500 |
| Add: Health and education cess @ 4% | 59,500 |
| Tax liability (including cess) | 15,47,000 |
| F. Marginal Relief (A – D) | 14,000 |

Concept Problem 21 Solution

Computation of tax liability of Mr. Gupta for the A.Y.2024-25 under default tax regime

| Total income | Amount |
|--|--------|
| A. Tax payable including surcharge on total income of 1,02,00,000 | |
| First 3,00,000 @ nil | 0 |
| 3,00,000 – 6,00,000 @ 5% | 15,000 |
| 6,00,001 – 9,00,000 @ 10% | 30,000 |
| 9,00,001 – 12,00,000 @ 15% | 45,000 |
| 12,00,001 – 15,00,000 @ 20% | 60,000 |

| | |
|---|------------------|
| 15,00,001 – 1,02,00,000 @ 30% | <u>26,10,000</u> |
| Total | <u>27,60,000</u> |
| Add: Surcharge @ 15% | <u>4,14,000</u> |
| Tax liability without marginal relief | 31,74,000 |
| B. Income-tax computed on total income of 1 crore (1,50,000 + 25,50,000) | |
| | 27,00,000 |
| Add: Surcharge @ 10% | 2,70,000 |
| | 29,70,000 |
| C. Total Income Less 1 crore | 2,00,000 |
| D. Income-tax computed on total income of 1 crore plus the excess of total income over 1 crore (B + C) | 31,70,000 |
| E. Tax liability: lower of (A) and (D) | 31,70,000 |
| Add: Health and education cess @ 4% | <u>1,26,800</u> |
| Tax liability (including cess) | 32,96,800 |
| F. Marginal Relief (A – D) | 4,000 |

Concept Problem 22 Solution

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 under default tax regime

| Total income | Amount | |
|--|-----------|--------------------|
| Tax on total income of 4,50,00,000 | | |
| Tax @ 20% of 55,00,000 | | 11,00,000 |
| Tax @ 15% of 65,00,000 | | 9,75,000 |
| A. Tax payable including surcharge on total income of 3,30,00,000 | | |
| First 3,00,000 @ nil | 0 | |
| 3,00,000 – 6,00,000 @ 5% | 15,000 | |
| 6,00,001 – 9,00,000 @ 10% | 30,000 | |
| 9,00,001 – 12,00,000 @ 15% | 45,000 | |
| 12,00,001 – 15,00,000 @ 20% | 60,000 | |
| 15,00,001 – 1,02,00,000 @ 30% | 94,50,000 | 96,00,000 |
| Total | | 1,16,75,000 |
| Add: Surcharge @ 15% on 20,75,000 | 3,11,250 | |
| @ 25% on 96,00,000 | 24,00,000 | 27,11,250 |
| | | 1,43,86,250 |
| Add: Health and education cess @ 4% | | 5,75,450 |
| Tax Liability | | 1,49,61,700 |

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

| Total income | Amount | Amount |
|--|-----------|--------------------|
| Tax on total income of 4,50,00,000 | | |
| Tax @ 20% of 55,00,000 | | 11,00,000 |
| Tax @ 15% of 65,00,000 | | 9,75,000 |
| B. Tax payable including surcharge on total income of 3,30,00,000 | | |
| 2,50,000 – 5,00,000 @ 5% | 12,500 | |
| 5,00,000 – 10,00,000 @ 20% | 1,00,000 | |
| 10,00,000 – 3,30,00,000 @ 30% | 96,00,000 | 97,12,500 |
| Total | | 1,17,87,500 |
| Add: Surcharge @ 15% on 20,75,000 | 3,11,250 | |
| @ 25% on 97,12,500 | 24,28,125 | 27,39,375 |
| | | 1,45,26,875 |
| Add: Health and education cess @4% | | 5,81,075 |
| Tax Liability | | 1,51,07,950 |

Concept Problem 23 Solution

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

| Particulars | Amount | Amount |
|---|-----------|------------------|
| Tax on total income of 2,30,00,000 | | |
| Tax @ 20% of 52,00,000 | | 10,40,000 |
| Tax @ 15% of 64,00,000 | | 9,60,000 |
| Tax on other income of 1,14,00,000 | | |
| 3,00,000 – 5,00,000 @ 5% | 10,000 | |
| 5,00,000 – 10,00,000 @ 20% | 1,00,000 | |
| 10,00,000 – 1,14,00,000 @ 30% | 31,20,000 | 32,30,000 |
| | | 52,30,000 |
| Add: Surcharge @ 15% | | 7,84,500 |
| | | 60,14,500 |
| Add: Health and education cess @ 4% | | 2,40,580 |
| Tax Liability | | 62,55,080 |

Concept Problem 24 Solution

- I.** 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 Charlie, 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 19.09.2023 | 172 days |
| 27.03.2024 to 31.03.2025 | 5 days |
| Total | 177 days |

Four preceding previous years

| | |
|--------------------------------------|----------------|
| P.Y. 2022-23 [1.4.2022 to 31.3.2023] | 16 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 | 16 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 16 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 Miss Charlie for the A.Y. 2024-25

| Particulars | Amount | Amount |
|---|-----------------|---------------|
| Income from house property | | |
| Show room located in Mumbai remained on rent from 01.05.2023 to 31.03.2024 @ INR 25,000/- p.m. Gross Annual Value [25,000 x 11] (See Note 1 below) | 2,75,000 | |
| Less: Municipal taxes | Nil | |
| Net Annual Value (NAV) | 2,75,000 | |
| Less: Deduction under section 24 | | |
| 30% of NAV | 82,500 | |
| Interest on loan | 97,500 | 95,000 |
| Income from other sources | | |
| INR 50,000 received from parents of husband would be exempt since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax. | Nil | |
| INR 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from relative is not chargeable to tax. | Nil | |
| Gift received from two friends of husband 1,51,000 and 21,000 aggregating to INR 1,72,000 is taxable under section 56(2)(x) since the aggregate of INR 1,72,000 exceeds INR 50,000. (See Note 2 below) | 1,72,000 | 1,72,000 |

| Particulars | Amount | Amount |
|---------------------|--------|-----------------|
| Total income | | 2,67,000 |

Computation of tax payable by Miss Charlie for the A.Y. 2024-25 under normal provisions of the Act

| Particulars | Amount |
|--|------------|
| Tax on total income of INR 2,67,000 | 850 |
| Add: Health and education cess @ 4% | 34 |
| Total tax payable | 884 |
| Total tax payable (Rounded off) | 880 |

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e., Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceeds INR 50,000 during the year, the entire amount received (i.e., the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of INR 1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2024-25, rebate under section 87A would not be available to her, even though her total income is not exceeding INR 5 lacs.

II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds Rs. 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds INR 15,00,000 (INR 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y. 2023-24 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds INR 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2023-24.

Concept Problem 25 Solution

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2024-25 under default tax regime

| S. No. | Particulars | Amount | Amount | Amount |
|-----------|---|--------|---------------|---------------|
| I | Income from Salary | | | |
| | Basic Salary (INR 7,500 x 12) | | 90,000 | |
| | Less: Standard deduction under section 16(ia) | | 50,000 | 40,000 |
| II | Income from house property | | | |
| | Gross Annual Value (GAV) | | 27,000 | |
| | Less: Municipal taxes paid | | 2,000 | |
| | Net Annual Value (NAV) | | 25,000 | |

| S. No. | Particulars | Amount | Amount | Amount |
|------------|--|----------|----------|-----------------|
| | Less: Deduction u/s 24 @ 30% of INR 25,000 | | 7,500 | 17,500 |
| III | Income from profession | | | |
| | Net profit as per Income and Expenditure account | | 4,40,400 | |
| | Less: Items of income to be treated separately | | | |
| | i) Rent received (taxable under the head “Income from house property”) | 27,000 | | |
| | ii) Dividend from units of UTI (taxable under the head “Income from other sources”) | 10,500 | | |
| | iii) Winning from game show on T.V. (net of TDS) – taxable under the head “Income from other sources” | 35,000 | | |
| | iv) Income tax refund | 5,450 | 77,950 | |
| | | | 3,62,450 | |
| | Less: Allowable expenditure | | | |
| | Depreciation on Clinic equipments | | | |
| | on INR 5,00,000 @ 15% | 75,000 | | |
| | on INR 2,00,000 @ 7.5% (On equipments acquired during the year in December 2023 she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for less than 180 days during the year) | 15,000 | 90,000 | |
| | | | 2,72,450 | |
| | Add: Items of expenditure not allowable while computing business income | | | |
| | i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime) | 1,50,000 | | |
| | ii) Rent for her residential accommodation included in Income and Expenditure A/c | 30,000 | | |
| | iii) Municipal tax paid relating to residential house at Surat included in administrative expenses | 2,000 | 1,82,000 | 4,54,450 |
| IV | Income from other sources | | | |
| | i) Interest on income-tax refund | | 450 | |
| | ii) Dividend from UTI | | 10,500 | |
| | iii) Winnings from the game show on T.V. (35,000 + 15,000) | | 50,000 | 60,950 |
| | Gross Total Income | | | 5,72,900 |
| | Less: Deductions under Chapter VI A: | | | |
| | Section 80C - [Not allowed under default tax regime] | | | - |
| | Section 80D - [Not allowed under default tax regime] | | | - |
| | Section 80E - [Not allowed under default tax regime] | | | - |
| | Total income | | | 5,72,900 |

Computation of total income of Dr. Niranjana for A.Y. 2024-25 under normal provisions of the Act

| S. No. | Particulars | Amount | Amount |
|--------|--|----------|-----------------|
| | Gross Total Income as per default tax regime | | 5,72,900 |
| | <i>Less:</i> Items of expenditure allowable while computing business income under normal provisions of the Act | | |
| | 100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act. | | 1,50,000 |
| | Gross Total Income as per normal provisions of the Act | | 4,22,900 |
| | <i>Less: Deductions under Chapter VI-A:</i> | | |
| | a) Section 80C – Tuition fee paid to university for full time education of her daughter | 1,00,000 | |
| | b) Section 80D – Medical insurance premium (fully allowed since she is a senior citizen) | 28,000 | |
| | c) Section 80E - Interest on loan taken for higher education is deductible | 55,000 | 1,83,000 |
| | Total income | | 2,39,900 |

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head “Income from other sources”.
- Winnings from game show on T.V. should be grossed up for the chargeability under the head “Income from other sources” (35,000 + 15,000). Thereafter, while computing tax liability, TDS of 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per section 115BB.
- Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Concept Problem 26 Solution
Computation of total income and tax payable of Ms. Purvi for the A.Y. 2024-25 under default tax regime under section 115BAC

| Particulars | Amount | Amount |
|---|--------|------------------|
| Income from house property (See Working Note 1) | | 57,820 |
| Profit and gains of business or profession (See Working Note 2) | | 9,20,200 |
| Income from other sources (See Working Note 3) | | 33,924 |
| Gross Total Income | | 10,11,944 |
| <i>Less:</i> Deductions under Chapter VI-A (See Working Note 4) | | - |
| Total Income | | 10,11,944 |
| Total Income [Rounded off] | | 10,11,940 |
| Tax on total income | | |
| Upto 3,00,000 | Nil | |

| Particulars | Amount | Amount |
|---|---------|----------------|
| 3,00,001 - 6,00,000 @ 5% | 15,000 | |
| 6,00,001 - 9,00,000 @ 10% | 30,000 | |
| 9,00,001 - 10,11,940 @ 15% | 16,791 | |
| Tax before education cess | | 61,791 |
| Add: Health and education cess @ 4% | | 2,472 |
| Total tax liability | | 64,263 |
| Less: Advance tax paid | | 70,000 |
| Less: Tax deducted at source on dividend income from Indian Company u/s 194 | (1,052) | |
| Less: Tax deducted at source on income from UTI u/s 194K | (760) | 1,812 |
| Tax Payable/ (Refundable) | | (7,549) |
| Tax Payable (rounded off) | | (7,550) |

Computation of tax payable under normal provisions of the Act

| Particulars | Amount | Amount |
|---|----------|------------------|
| Gross Total Income | | 10,11,944 |
| [Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC] | | |
| Less: Deductions under Chapter VI-A | | 10,000 |
| Total Income | | 10,01,944 |
| Total Income (rounded off) | | 10,01,940 |
| Tax on total income | | |
| Upto INR 2,50,000 | Nil | |
| INR 2,50,001 – INR 5,00,000 @ 5% | 12,500 | |
| INR 5,00,000 - INR 10,00,000 @ 20% | 1,00,000 | |
| INR 10,00,000 – INR 10,01,940 @ 30% | 582 | 1,13,082 |
| Add: Health and Education cess @ 4% | | 4,523 |
| Total tax liability | | 1,17,605 |
| Less: Advance tax paid | | 70,000 |
| Less: Tax deducted at source on dividend income from Indian Companies u/s 194 | 1,052 | |
| Less: Tax deducted at source on income from UTI u/s 194K | 760 | 1,812 |
| Tax Payable | | 45,793 |
| Tax Payable (rounded off) | | 45,790 |

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:
1. Income from House Property

| Particulars | Amount |
|---|---------------|
| Gross Annual Value under section 23(1) | 85,600 |
| Less: Municipal taxes paid | 3,000 |
| Net Annual Value (NAV) | 82,600 |
| Less: Deduction under section 24 @ 30% of NAV | 24,780 |
| Income from House Property | 57,820 |

Note- 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.

2. Income under the head “Profits & Gains of Business or Profession”

| Particulars | Amount | Amount |
|---|--------|------------------|
| Net profit as per Income and Expenditure account | | 9,28,224 |
| Add: Expenses debited but not allowable | | |
| Salary paid to computer specialist in cash in excess of INR 10,000 disallowed under section 40A(3) | 30,000 | |
| Amount paid for purchase of car (capital expense) is not allowable u/s 37(1) | 80,000 | |
| Municipal Taxes paid in respect of residential flat let out | 3,000 | 1,13,000 |
| | | 10,41,224 |
| Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)] | | 10,500 |
| | | 10,51,724 |
| Less: Income credited but not taxable under this head: | | |
| Dividend on shares of Indian companies (taxable under the head “Income from other sources”) | 10,524 | |
| Income from UTI (taxable under the head “Income from other sources”) | 7,600 | |
| Honorarium for valuation of answer papers | 15,800 | |
| Rent received from letting out of residential flat | 85,600 | 1,19,524 |
| | | 9,32,200 |
| Less: Depreciation on motor car @ 15% (See Note (i) below) | | 12,000 |
| | | 9,20,200 |

Notes:

- i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and hence, only 50% of depreciation would be allowable.

- ii) Incentive to articled assistants for passing Inter examination in their first attempt is deductible u/s 37(1).
- iii) Repairs and maintenance paid in advance for the period 1.4.2024 to 30.9.2024 i.e., for 6 months amounting to INR 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- iv) INR 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further

adjustment is required.

3. Income from other sources

| Particulars | Amount |
|---|---------------|
| Dividend on shares of Indian companies | 10,524 |
| Income from UTI | 7,600 |
| Honorarium for valuation of answer papers | 15,800 |
| | 33,924 |

4. Deduction under Chapter VI-A:

| Particulars | Amount |
|--|---------------|
| Deduction under section 80C (Investment in NSC) | 10,000 |
| Deduction under section 80D (See Notes (i) & (ii) below) | Nil |
| Total deduction under Chapter VI-A | 10,000 |

Notes:

- Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of “family” under section 80D.
- Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Concept Problem 27 Solution

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

| Particulars | Amount |
|--|------------------|
| Profits and gains of business or profession (Working Note 1) | 11,21,500 |
| Income from Other Sources (Note 2) | 54,500 |
| Gross Total Income | 11,76,000 |
| Less: Deduction under section 80C (Investment in NSC) | 15,000 |
| Total Income | 11,61,000 |

Working Notes:

Computation of profits and gains of business or profession

| Particulars | Amount | Amount |
|---|--------|------------------|
| Net profit as per profit and loss account | | 11,20,000 |
| Add: Expenses debited to profit and loss account but not allowable as deduction | | |
| Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)] | 2,500 | |
| Motor car expenses attributable to personal use not allowable ($78,000 \times \frac{1}{4}$) | 19,500 | |
| Depreciation debited in the books of account | 55,000 | |
| Drawings (not allowable since it is personal in nature) [See Note (iii)] | 10,000 | |

| Particulars | | Amount | Amount |
|-------------|---|--------|------------------|
| | Investment in NSC [See Note (iii)] | 15,000 | 1,02,000 |
| | | | 12,22,000 |
| Add: | Under statement of closing stock | | 12,000 |
| | | | 12,34,000 |
| Less: | Under statement of opening stock | | 8,000 |
| Less: | Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction @ 100%. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required. | | - |
| | | | 12,26,000 |
| Less: | Incomes credited to profit and loss account but not taxable as business income | | |
| | Income from UTI [taxable under the head Income from other sources] | 22,000 | |
| | Interest on debentures [taxable under head Income from other sources] | 17,500 | |
| | Winnings from races (taxable under head “Income from other sources”) | 15,000 | 54,500 |
| | | | 11,71,500 |
| Less: | Depreciation allowable under the Income-tax Rules, 1962 | | 50,000 |
| | | | 11,21,500 |

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding INR 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of INR 35,000 is applicable (i.e., payment of upto INR 35,000 can be made in cash without attracting disallowance under section 40A(3))
- Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is INR 50,000. It has been assumed that, in the said figure of INR 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car

Computation of “Income from other sources”

| Particulars | Amount |
|------------------------|---------------|
| Dividend from UTI | 22,000 |
| Interest on debentures | 17,500 |
| Winnings from races | 15,000 |
| | 54,500 |

Concept Problem 28 Solution

Computation of total income of Balamurugan for the year ended 31.03.2024

| Particulars | Amount | Amount |
|---|------------|-----------------|
| Salaries | 2,70,000 | |
| Less: Loss from house property (Cannot be set off against income under any other head) | Nil | |
| Net Salary (after set off of loss from house property) | | 2,70,000 |
| Profits and gains of business or profession | | |
| Speculation business income | 1,00,000 | |
| Less: Business loss set-off of 1,35,000 set-off to the extent of 1,00,000 | (1,00,000) | Nil |
| Balance current year business loss of 35,000 to be set-off against long-term capital gain | | |
| Capital Gains | | |
| Long term capital gain | 70,000 | |
| Less: Business current year business loss set-off | (35,000) | |
| Long term capital gain after set off of business loss | | 35,000 |
| Income from other sources | | |
| Lottery winnings (Gross) | | 5,00,000 |
| Total Income | | 8,05,000 |

Computation of tax liability for AY 2024-25

| Particulars | Amount |
|---|-----------------|
| On total income of 2,70,000 (excluding lottery winning and LTCG) | Nil |
| On LTCG of 5,000 @ 20% (balance unexhausted basic exemption limit of 30,000 can be adjusted against LTCG taxable u/s 112) | 1,000 |
| On lottery winnings of INR 5,00,000 @ 30% | 1,50,000 |
| | 1,51,000 |
| Add: Health and education cess @ 4% | 6,040 |
| Total tax liability | 1,57,040 |

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of 6,040 (1,57,040 – 1,50,000) is less than 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2024. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of 1,040 (1,57,040 – 1,50,000) is less than 10,000, advance tax liability is not attracted.

Concept Problem 29 Solution

Computation of total income of Mr. Rajiv for the assessment year 2024-25

| Particulars | | Amount | Amount | Amount |
|---|--------|-----------|-----------|------------------|
| Income from house property | | | | |
| Self-occupied | | | | |
| Annual value | | Nil | | |
| Less: Deduction under section 24(b) Interest on housing loan 50% of INR 88,000 = 44,000 but limited to | | 30,000 | | |
| Loss from self-occupied property | | | (30,000) | |
| Let out property | | | | |
| Annual value (Rent receivable has been taken as the annual value in the absence of other information) | | 60,000 | | |
| Less: Deductions under section 24 | | | | |
| 30% of Net Annual Value | 18,000 | | | |
| Interest on housing loan (50% of INR 88,000) | 44,000 | 62,000 | (2,000) | |
| Loss from house property | | | | (32,000) |
| Profits and gains of business or profession | | | | |
| Fees from professional services | | | 59,38,000 | |
| Less: Expenses allowable as deduction | | | | |
| Staff salary, bonus and stipend | | 21,50,000 | | |
| Other administrative expenses | | 11,48,000 | | |
| Office rent | | 30,000 | | |
| Motor car maintenance (10,000 x 4/5) | | 8,000 | | |
| Car loan interest – not allowable (since the same has not been paid and the Assessee follows cash system of accounting) | | Nil | 33,36,000 | |
| | | | 26,02,000 | |
| Less: Depreciation | | | | |
| Motor car INR 4,25,000 x 7.5% x 4/5 | | 25,500 | | |
| Books being annual publications @ 40% | | 8,000 | | |
| Furniture and fittings @ 10% of INR 60,000 | | 6,000 | | |
| Plant and machinery @ 15% of INR 80,000 | | 12,000 | | |
| Computer @ 40% of INR 50,000 | | 20,000 | | |
| Computer (New) INR 30,000 @ 40% x 1/2 thereon | | 6,000 | 77,500 | 25,24,500 |
| Gross Total income | | | | 24,92,500 |
| Less: Deduction under Chapter VI-A | | | | |
| Deduction under section 80C | | | | |
| - Housing loan principal repayment | | 1,00,000 | | |
| - PPF subscription | | 20,000 | | |
| - Life insurance premium | | 24,000 | | |

| Particulars | Amount | Amount | Amount |
|---|--------|----------|------------------|
| - Total amount of INR 1,44,000 is allowed as deduction since it is within the limit of INR 1,50,000 | | 1,44,000 | |
| Deduction under section 80D | | | |
| - Medical insurance premium paid INR 18,000 | | 18,000 | 1,62,000 |
| Total income | | | 23,30,500 |

Concept Problem 30 Solution

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2024-25

| Particulars | Amount | Amount | Amount |
|---|---------------|--------|-----------------|
| Salary Income | | | |
| Salary including dearness allowance | | | 4,35,000 |
| Bonus | | | 15,000 |
| Value of perquisites: | | | |
| a) Salary of servant | 12,000 | | |
| b) Free gas, electricity and water | 11,000 | | 23,000 |
| | | | 4,73,000 |
| Less: Standard deduction u/s 16(ia) | | | 50,000 |
| | | | 4,23,000 |
| Income from house property | | | |
| Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (INR 3,500 × 12) | 42,000 | | |
| Less: Municipal taxes paid | 4,300 | | |
| Net Annual Value (NAV) | 37,700 | | |
| Less: Deductions under section 24 | | | |
| 30% of NAV | 11,310 | | |
| Interest on loan from LIC @ 15% of INR 1,60,000 [See Note 2] | 24,000 | 35,310 | 2,390 |
| Income from speculative business | | | |
| Income from share speculation business | 2,700 | | |
| Less: Loss of 4,200 from cotton speculation business set-off to the extent of 2,700 | 2,700 | | Nil |
| Balance loss of 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income. | | | |
| Income from Other Sources | | | |
| Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) | 3,800 | | |
| Interest income earned from advancing money gifted to wife has to be clubbed with the income of the Assessee as per section 64(1) | 5,700 | | |

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds INR 50,000) | 1,20,000 | 1,29,500 |
| Gross Total Income | | 5,54,890 |
| Less: Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)] | | - |
| Total Income | | 5,54,890 |

| Particulars | Amount |
|---|------------|
| Tax on total income [5% of 2,54,890 (5,54,890 - 3,00,000)] | 12,745 |
| Less: Rebate u/s 87A, since total income does not exceed 7,00,000 | 12,745 |
| Tax liability | Nil |

Computation of total income and tax liability of Siddhant for the A.Y. 2024-25 under normal provisions of the Act

| Particulars | Amount |
|---|-----------------|
| Gross total income (as per default scheme) | 5,54,890 |
| Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant | 1,500 |
| Gross total income (under the normal provisions of the Act) | 5,53,390 |
| Less: Deductions under Chapter VI-A | |
| Under section 80C [Contribution to PPF] | 50,000 |
| Total Income | 5,03,390 |

| Particulars | Amount |
|---|---------------|
| Tax on total income [5% of INR 2,50,000 + 20% of INR 3,390] | 13,178 |
| Add: Health and education cess @4% | 527 |
| Tax liability | 13,705 |
| Tax liability (rounded off) | 13,710 |

Since his total income as per the normal provisions of the Act exceeds INR 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2024-25.

Notes:

- 1) It is assumed that the entire loan of INR 1,60,000 is outstanding as on 31.3.2024;
- 2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Concept Problem 31 Solution

Computation of Total Income of Mr. Ramdin for A.Y.2024-25 under normal provisions of the Act:

| Particulars | Amount | Amount |
|--|--------|-----------------|
| Income from Salaries | | |
| Basic Salary (INR 15,000 x 12) | | 1,80,000 |
| Dearness Allowance (INR 12,000 x 12) | | 1,44,000 |
| Commission on Turnover (0.5% of INR 50 lacs) | | 25,000 |
| Bonus | | 50,000 |
| Gratuity (Note 1) | | 30,000 |
| Employer's contribution to recognized provident fund | | |
| Actual contribution [20% of INR 1,80,000] | 36,000 | |
| Less: Exempt (Note 2) | 33,240 | 2,760 |
| Interest credited in recognized provident fund account @ 15% p.a. | 15,000 | |
| Less: Exempt upto 9.5% p.a. | 9,500 | 5,500 |
| Gift of gold ring worth INR 10,000 on 25 th wedding anniversary by employer (See Note 3) | | 10,000 |
| Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of INR 85,000 | | 8,500 |
| | | 4,55,760 |
| Less: Standard deduction u/s 16(ia) | | 50,000 |
| | | 4,05,760 |
| Profits and Gains of Business or Profession | | |
| Lease of 2 trucks on contract basis against fixed charges of INR 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. INR 7,500 p.m. for each of the two trucks (INR 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account. | | 1,80,000 |
| Income from Other Sources | | |
| Interest on bank FDRs | 5,860 | |
| Interest from debentures (6786 x 100/90) | 7,540 | 13,400 |
| Gross total Income | | 5,99,160 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C | | |
| - Premium on life insurance policy | 15,370 | |
| - Investment in NSC | 30,000 | |
| - FDR of SBI for 5 years | 50,000 | |
| - Employee's contribution to recognized provident fund | 30,000 | 1,25,370 |
| Section 80D - Mediciam Insurance | | |
| | | 22,500 |
| Section 80G (Note 4) | | |
| | | 10,600 |
| Total Income | | 4,40,690 |

| Particulars | Amount | Amount |
|---|--------|------------|
| Tax on total income | | |
| Income-tax [5% of 1,90,690 (i.e., 4,40,690 – 2,50,000)] | | 9,535 |
| Less: Rebate u/s 87A | | 9,535 |
| Tax Liability | | Nil |
| Less: Tax deducted at source (INR 7,540 - INR 6,786) | | 754 |
| Net Tax refundable | | 754 |
| Tax refundable (rounded off) | | 750 |

Notes:

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

$$= 12\% \text{ of } (1,80,000 + (50\% \text{ of } 1,44,000) + 25,000)$$

$$= 12\% \text{ of } 2,77,000 = 33,240$$
- An alternate view possible is that only the sum in excess of INR 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2001 that such gifts upto INR 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 INR 5,000. In such a case the Income from Salaries would be INR 4,00,760.
- Deduction under section 80G is computed as under:**

| Particulars | Amount |
|---|---------------|
| Donation to PM National Relief Fund (100%) | 5,100 |
| Donation to institution approved u/s 80G (50% of INR 11,000) (amount contributed INR 11,000 or 10% of Adjusted Gross Total Income i.e., INR 45,129, whichever is lower) | 5,500 |
| Total deduction | 10,600 |

$$\begin{aligned} \text{Adjusted Gross Total Income} &= \text{Gross Total Income} - \text{Deductions under section 80C and 80D} \\ &= 5,99,160 - 1,47,870 = 4,51,290. \end{aligned}$$

Concept Problem 32 Solution

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

| Particulars | Amount | Amount |
|--|----------|----------|
| Income from Salaries | | |
| Basic salary (INR 25,000 x 9 months) | | 2,25,000 |
| House rent allowance | | |
| Actual amount received (INR 6,000 x 9 months) | 54,000 | |
| Less: Exemption under section 10(13A) (Note 1) | 36,000 | 18,000 |
| Gratuity | | |
| Actual amount received | 3,50,000 | |
| Less: Exemption under section 10(10)(iii) (Note 2) | 3,50,000 | - |

| Particulars | Amount | Amount |
|---|----------|-----------------|
| Leave encashment | | |
| Actual amount received | 3,15,000 | |
| Less: Exemption under section 10(10AA) (Note 3) | 2,45,000 | 70,000 |
| Gross Salary | | 3,13,000 |
| Less: Standard deduction under section 16(ia) | | 50,000 |
| | | 2,63,000 |
| Profits and gains of business or profession | | |
| Business loss of INR 80,000 to be carried forward as the same cannot be set off against salary income | | Nil |
| Gross Total income | | 2,63,000 |
| Less: Deduction under section 80C | | |
| Deposit in public provident fund | | 1,00,000 |
| Total income | | 1,63,000 |
| Tax on total income (Nil, since it is lower than the basic exemption limit of 2,50,000) | | NIL |

Notes:

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

| Particulars | Amount |
|--|----------|
| a) HRA actually received (INR 6,000 x 9) | 54,000 |
| b) Rent paid in excess of months 10 % of salary (INR 6,500 – INR 2,500) x 9 months | 36,000 |
| c) 50% of salary | 1,12,500 |

- Gratuity of INR 3,50,000 is exempt under section 10(10), being the minimum of the following amounts:

| Particulars | Amount |
|---|-----------|
| a) Actual amount received | 3,50,000 |
| b) Half month salary for each year of completed services $25,000 \times \frac{15}{26} \times 26$ years] | 3,75,000 |
| c) Statutory limit | 20,00,000 |

- Leave encashment is exempt upto the least of the following:

| Particulars | Amount |
|---|-----------|
| a) Actual amount received | 3,15,000 |
| b) 10 months average salary (INR 24,500 x 10) | 2,45,000 |
| c) Cash equivalent of un availed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below) | 3,18,500 |
| d) Statutory limit | 25,00,000 |

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

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

Concept Problem 33 Solution

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y. 2024-25:

| S. No. | Particulars | Mrs. Rosy | Mrs. Mary |
|--------------|--|-----------------|-----------------|
| (I) | Salaries | | |
| | Pension received from State Government INR 60,000 | | |
| | Less: Standard deduction under section 16(ia) INR 50,000 | - | 10,000 |
| | Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India | - | - |
| | | - | 10,000 |
| (II) | Income from house property | | |
| | Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) | 60,000 | 30,000 |
| | Less: Deduction under section 24(a) @ 30% | 18,000 | 9,000 |
| | | 42,000 | 21,000 |
| (III) | Capital gains | | |
| | Long-term capital gain on sale of land at Mumbai | 1,00,000 | 1,00,000 |
| | Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid | 20,000 | 2,50,000 |
| | | 1,20,000 | 3,50,000 |
| (A) | Gross Total Income [(I)+(II)+(III)] | 1,62,000 | 3,81,000 |
| | Less: Deductions under Chapter VIA | | |
| 1. | Deduction under section 80C | | |
| | i) LIC Premium paid | - | 10,000 |
| | ii) Premium paid to Canadian Life Insurance Corporation | 40,000 | |
| | iii) Investment in PPF | - | 20,000 |
| | | 40,000 | 30,000 |
| 2. | Deduction under section 80D – Mediclaim premium paid (assuming that the same is paid by cheque) | | 25,000 |

| S. No. | Particulars | Mrs. Rosy | Mrs. Mary |
|--|---|-----------------|-----------------|
| | | 40,000 | 55,000 |
| (B) | Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112 | 40,000 | 31,000 |
| (C) | Total income (A-B) | 1,22,000 | 3,50,000 |
| Tax liability of Mrs. Rosy for A.Y. 2024-25 | | | |
| | Tax on long-term capital gains @ 20% of 1,00,000 | 20,000 | |
| | Tax on short-term capital gains @ 15% of 20,000 | 3,000 | |
| | Tax on balance income of INR 2000 | NIL | |
| | | 23,000 | |
| Tax liability of Mrs. Mary for A.Y. 2024-25 | | | |
| | Tax on STCG @15% of 1,00,000 [i.e., 2,50,000 less 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below] | | 15,000 |
| | Less: Rebate under section 87A would be lower of INR 12,500 or tax liability, since total income does not exceed INR 5,00,000 | | 12,500 |
| | | | 2,500 |
| | Add: Health and education cess @ 4% | 920 | 100 |
| | Total tax payable | 23,920 | 2,600 |

Notes:

1. Long-term capital gain is chargeable to tax @ 20% as per section 112.
2. Short-term capital gain on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
3. In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust their unexhausted basic exemption limit against long-term capital gains u/s 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
4. Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of INR 2,50,000 against long-term capital gains of INR 1,00,000 and the balance limit of INR 1,50,000 (i.e., INR 2,50,000 – INR 1,00,000) against short-term capital gains.
5. Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed Rs. 5,00,000, since she is non-resident for the A.Y. 2024-25.

Concept Problem 34 Solution

Computation of total income and tax liability of Mr. X for A.Y. 2024-25 (under default tax regime under section 115BAC)

| Particulars | Amount | Amount |
|--|--------|--------|
| Profits and gains of business or profession | | |

| Particulars | Amount | Amount |
|--|-------------|--------------------|
| Profit from unit in SEZ | | 40,00,000 |
| Profit from operation of warehousing facility | 1,05,00,000 | |
| Less: Deduction under section 32 On building @ 10% of 65 lakhs ⁴ (normal depreciation u/s 32 is allowable) | 6,50,000 | |
| | | 98,50,000 |
| Total Income | | 1,38,50,000 |
| Computation of tax liability as per section 115BAC | | |
| Tax on INR 1,38,50,000 | | 38,55,000 |
| Add: Surcharge @ 15% | | 5,78,250 |
| | | 44,33,250 |
| Add: Health and Education cess @ 4% | | 1,77,330 |
| Total tax liability | | 46,10,580 |

Notes:

- Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

Computation of total income and tax liability of Mr. X for A.Y.2024-25 (under the regular provisions of the Income-tax Act, 1961)

| Particulars | Amount | Amount |
|--|-------------|------------------|
| Profits and gains of business or profession | | |
| Profit from unit in SEZ | 40,00,000 | |
| Less: Deduction under section 10AA [See Note (1) below] | 32,00,000 | |
| Business income of SEZ unit chargeable to tax | | 8,00,000 |
| Profit from operation of warehousing facility | 1,05,00,000 | |
| Less: Deduction under section 35AD [See Note (2) below] | 65,00,000 | |
| Business income of warehousing facility chargeable to tax | | 40,00,000 |
| Total Income | | 48,00,000 |
| Computation of tax liability (under the normal/ regular provisions) | | |
| Tax on INR 48,00,000 | | 12,52,500 |
| Add: Health and Education cess @ 4% | | 50,100 |
| Total tax liability | | 13,02,600 |

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

| Particulars | Amount | Amount |
|---|--------|------------------|
| Total Income (as computed above) | | 48,00,000 |
| Add: Deduction under section 10AA | | 32,00,000 |

| Particulars | Amount | Amount |
|---|-----------|--------------------|
| | | 80,00,000 |
| Add: Deduction under section 35AD | 65,00,000 | |
| Less: Depreciation under section 32 on building @ 10% of INR 65 lakhs | 6,50,000 | 58,50,000 |
| Adjusted Total Income | | 1,38,50,000 |
| Alternate Minimum Tax @ 18.5% | | 25,62,250 |
| Add: Surcharge @ 15% (since adjusted total income > INR 1 crore) | | 3,84,338 |
| | | 29,46,588 |
| Add: Health and Education cess @ 4% | | 1,17,863 |
| | | 30,64,451 |
| Tax liability under section 115JC (rounded off) | | 30,64,450 |

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

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime u/s 115BAC for A.Y. 2024-25. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

| | Amount |
|---|------------------|
| Tax liability under section 115JC | 30,64,450 |
| Less: Tax liability under the regular provisions of the Income- tax Act, 1961 | 13,02,600 |
| | 17,61,850 |

Notes:

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

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

Total turnover of the Unit in SEZ

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

INR 1,00,00,000

2) Deduction @ 100% of the capital expenditure is available under section 35AD for A.Y. 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

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

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

In this case, since the capital expenditure of INR 65 lakhs (i.e., 75 lakhs – 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2022-23 and capitalized in the books of account on 1.4.2023, being the date when the warehouse became operational, INR 65,00,000, being 100% of INR 65 lakhs would

qualify for deduction under section 35AD.

2. ICAI RTPs, MTPs AND PAST YEAR QUESTIONS

Concept Problem 35 Solution

Computation of total income of Ms. Radhika for A.Y. 2024-25 under optional tax regime:

| Particulars | Amount | Amount |
|---|----------|------------------|
| Income from house property | | |
| Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property] | 2,85,000 | |
| Less: 30% of arrears of rent | 85,500 | 1,99,500 |
| Profits and gains of business or profession | | |
| Interest on capital @ 12%, being the maximum allowable interest [INR 4,50,000/15% x 12%] assuming interest @ 12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm | 3,60,000 | |
| Share of profit from TVA & Co., a firm [Exempt] | - | |
| Amount received under Keyman Insurance Policy | 4,35,000 | 7,95,000 |
| Income from other sources | | |
| Winning from a TV Game show (Gross) [INR 77,000 x 100/ (100-30)] | 1,10,000 | |
| Gift received from father's brother would be exempt, since father's brother falls within the definition of relative | - | |
| Gift received from her close friend would be taxable, since it exceeds INR 50,000 | 80,000 | |
| Rent received for a vacant plot of land [3,03,300/90 x 100] | 3,37,000 | |
| Amount forfeited on cancellation of agreement for transfer of vacant plot | 3,10,000 | |
| Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India] | 5,20,000 | |
| Interest credited in PPF account [Exempt] | - | 13,57,000 |
| Gross Total Income | | 23,51,500 |
| Less: Deductions under Chapter VI-A | | |
| Section 80C | | |
| PPF subscription in the name of minor daughter | 1,25,000 | |
| Section 80G | | |
| Donation of INR 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of INR 2,000 | - | |
| Total Income | | 22,26,500 |

Computation of tax liability of Ms. Radhika for A.Y. 2024-25:

| Particulars | Amount | Amount |
|---|--------|--------|
| Tax on winnings of INR 1,10,000 from TV game show @ 30% | | 33,000 |

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Tax on balance income of INR 21,16,500 | | |
| Upto INR 2,50,000 | Nil | |
| INR 2,50,001 – INR 5,00,000 @ 5% | 12,500 | |
| INR 5,00,001 - INR 10,00,000 @ 20% | 1,00,000 | |
| INR 10,00,001 - INR 21,16,500 @ 30% | 3,34,950 | 4,47,450 |
| | | 4,80,450 |
| Add: Health and Education cess @ 4% | | 19,218 |
| Tax liability | | 4,99,668 |
| Less: TDS | | |
| Under section 194-I | 33,700 | |
| Under section 194B | 33,000 | 66,700 |
| Tax payable | | 4,32,968 |
| Tax payable (rounded off) | | 4,32,970 |

Concept Problem 36 Solution

Computation of Total Income and tax payable by Mr. Raj for the A.Y.2024-25:

| Particulars | Amount | Amount |
|--|---------------|-----------------|
| Income from Salaries | | |
| Basic Salary (INR 25,000 x 12) | | 3,00,000 |
| Dearness Allowance (INR 3,00,000 x 50%) | | 1,50,000 |
| Employer's contribution to recognized provident fund: | | |
| Actual contribution [20% of INR 3,00,000] | 60,000 | |
| Less: Exempt [12% of INR 3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)] | <u>45,000</u> | 15,000 |
| Interest credited in recognized provident fund account @ 15% p.a. | 15,000 | |
| Less: Exempt up to 9.5% p.a. | <u>9,500</u> | 5,500 |
| Gross Salary | | 4,70,500 |
| Less: Standard deduction u/s 16(ia) | | <u>50,000</u> |
| Net Salary | | 4,20,500 |
| Income from house property | | |
| 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 | <u>22,500</u> | 52,500 |
| Capital gain on sale of guest house: | | |
| As the sale was made in the year 2022, the capital gain does not relate to assessment year 2024-25 | | Nil |
| Capital Gain on jewellery [Long term, since the capital assets are | | |

| Particulars | Amount | Amount |
|--|-----------------|-----------------|
| held for more than 36 months] | | |
| Full value of consideration | 3,40,000 | |
| Less: Indexed cost of acquisition [INR 1,13,000 x 348/117] | <u>3,36,103</u> | 3,897 |
| Income from Other Sources | | |
| Interest from savings bank account | <u>10,000</u> | |
| Interest on debentures | <u>12,040</u> | 22,040 |
| Gross total Income | | 5,15,356 |
| 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 [INR 5,000 x 12] 60,000 | <u>1,05,370</u> | |
| Section 80CCD(1B) | | |
| Contribution to Atal Pension Yojana, a notified pension scheme | <u>14,352</u> | |
| Section 80D - Medici claim Insurance for major dependent daughter | <u>22,500</u> | |
| Section 80G – Donation to PM National Relief Fund [100%] | <u>11,000</u> | |
| Section 80TTA – Interest on savings bank account (allowed in full upto INR 10,000) | <u>10,000</u> | 1,63,222 |
| Total Income | | |
| Total Income (rounded off) | | |

Concept Problem 37 Solution

Computation of total income of Mr. Mathur for AY 2024-25 under default tax regime:

| Particulars | Amount | Amount |
|---|------------|----------|
| Salaries | | 4,70,000 |
| Profits and gains from business or profession | | |
| Profit from speculation business Y | 40,000 | |
| Less: Loss of INR 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit | (40,000) | |
| Loss of INR 40,000 from speculation business X to be carried forward to A.Y. 2025-26 for set-off against profits from speculation business. | | |
| Income from trading and manufacturing business @ 8% | 3,50,000 | |
| Less: Brought forward business loss of A.Y. 2018-19 set- off since a period of eight assessment years has not expired. | | |
| Balance loss of INR 2,00,000 to be carried forward to A.Y. 2025-26 | (3,50,000) | Nil |
| Capital Gains | | |

| Particulars | Amount | Amount |
|--|-----------------|-----------------|
| Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2023-24 since enhanced compensation is taxable on receipt basis] | 3,00,000 | |
| Long term capital gain on sale of vacant site | 2,10,000 | |
| Less: Short term capital loss on sale of jewellery | (1,50,000) | |
| | 3,60,000 | |
| Less: Loss from house property can be set-off to the extent of INR 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @ 20%, it would be beneficial to set-off the loss from house property against LTCG]. | (2,00,000) | 1,60,000 |
| Balance loss of INR 60,000 to be carried forward to A.Y. 2025-26 | | |
| Income from Other Sources | | |
| Interest on PPF deposit | 95,000 | |
| Less: Exempt under section 10(11) | (95,000) | Nil |
| Gross Total Income | | 6,30,000 |
| Less: Deductions under chapter VI-A | | |
| Deductions under section 80C - Investment in tax saver deposit on 31.3.2024 | 60,000 | |
| Deductions under section 80 G | | |
| Donation to recognized and approved charitable trust [Donation of 1,10,000 to be first restricted to 41,000, being 10 % of adjusted total income of 4,10,000 i.e. [6,30,000 - 1,60,000 - 60,000]. Thereafter, deductions would be computed at 50 % of 41,000 | 20,500 | 80,500 |
| Total Income | | 5,49,500 |

Concept Problem 38 Solution

Computation of Taxable Income of Mr. Jagdish for the A.Y.2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|--|----------|----------|
| Salaries | | |
| Basic salary = 51,000 x12 | 6,12,000 | |
| Dearness Allowance (DA) = 10,000 x12 | 1,20,000 | |
| House Rent Allowance (HRA) = 4,000 x12 | 48,000 | |
| Less: Least of the following exempt u/s 10 (13A) | 10,800 | 37,200 |
| a) HRA actually received = 4,000 x 12 = 48,000 | | |
| b) Rent Paid (-) 10% of salary [84,000 (i.e., 7,000 x 12) (-) 73,200 (10% of 7,32,000 (Basic salary + DA)) = 10,800 | | |
| c) 50% of salary [50% of 7,32,000 (Basic Salary + DA)] = 3,66,000 | | |
| Gross Salary | 7,69,200 | |
| Less: Standard deduction u/s 16(ia) | 50,000 | 7,19,200 |

| Particulars | Amount | Amount |
|--|----------------|------------------|
| Income from house property | | |
| Gross Annual Value [46,000 x 9] | 4,14,000 | |
| Less: Municipal tax paid during the P.Y. 2023-24 | 27,000 | |
| Net Annual Value | 387,000 | |
| Less: Deduction u/s 24 [30% of Net Annual Value] | 1,16,100 | 2,70,900 |
| Profits and gains of business or profession | | |
| Profits from share business | 1,70,000 | |
| Less: Securities transaction tax paid deductible u/s 36 (1) (xv) | 30,000 | 1,40,000 |
| Capital Gains | | |
| Full value of consideration | 2,00,000 | |
| Less: Cost of Acquisition of bonus shares allotted on or after 1.4.2001 | Nil | |
| LTCG (since bonus shares are held for a period of more than 24 hours) | | 2,00,000 |
| Income from Other Sources | | |
| Dividend received from domestic company | 13,00,000 | |
| Interest from saving bank account deposits with IDBI Bank | 15,000 | |
| Lottery winnings [21,000 x 100/70] | 30,000 | 13,45,000 |
| Gross Total Income | | 26,85,100 |
| Less: Deduction under Chapter VI-A | | |
| Section 80C | | |
| Deposits in PPF INR 2,00,000 | | |
| Restricted to INR 1,50,000, being the maximum allowable deduction | 1,50,000 | |
| Section 80D | | |
| Medical insurance premium for wife and dependent son INR 31,000, restricted to | 25,000 | |
| Section 80TTA | | |
| Interest on saving bank account deposit | 10,000 | 1,85,000 |
| Total Income | | 25,00,100 |

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

| Particulars | Amount | Amount |
|--|--------|--------|
| Tax on total income of INR 25,00,100 | | |
| Tax on long-term capital gains of INR 2,00,000 @ 20% u/s 112 | 40,000 | |
| Tax on lottery income of INR 30,000 @ 30% u/s 115BB | 9,000 | |
| Tax on other income of 22,70,100 [25,00,100 - 2,00,000 - 30,000] | | |
| Upto 2,50,000 | Nil | |
| 2,50,001 – 5,00,000 [i.e., 2,50,000 @ 5%] | 12,500 | |

| | | |
|---|----------|-----------------|
| 5,00,001 – 10,00,000 [i.e., 5,00,000 @ 20%] | 1,00,000 | |
| 10,00,001 – 22,70,100 [i.e., 12,70,100 @ 30%] | 3,81,030 | |
| | | 5,42,530 |
| Add: Health and education cess @ 4% | | 21,701 |
| Tax liability | | 5,64,231 |
| Less: Tax deducted at source | | |
| TDS on lottery income | | 9000 |
| TDS on dividend | | 1,30,000 |
| Tax payable | | 4,25,231 |
| Tax payable (rounded off) | | 4,25,230 |

Concept Problem 39 Solution

Computation of total income of Ms. Geeta for the A.Y.2024-25 under Optional Tax regime:

| Particulars | Amount | Amount | Amount |
|---|----------|-------------------|------------|
| Income from salary (computed) | | | 41,20,000 |
| Income from house property | | | |
| (i) House property at Delhi (Let out) | | | |
| Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value) | 5,00,000 | | |
| Less: Deduction u/s 24 | | | |
| (a) 30% of Annual Value [30% of 5 lakhs] | 1,50,000 | | |
| (b) Interest on loan for purchase of property | 7,50,000 | | |
| Interest on loan for repairs [1,50,000/2] | 75,000 | (9,75,000) | (4,75,000) |
| (ii) House property at Jaipur (Let out) | | | |
| Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value) | 3,20,000 | | |
| Less: Deduction u/s 24 | | | |
| 30% of Annual Value = 30% of INR 3,20,000 | 96,000 | 2,24,000 | |
| (iii) House property at Mumbai (Self-occupied) | | | |
| Annual value of self-occupied property | Nil | | |
| Less: Deduction u/s 24(b) | | | |
| Interest on loan for purchase and repairs (to be restricted to INR 30,000, since loan for purchase was taken prior to 1.4.1999) | 30,000 | (30,000) | |
| Loss from house property [(i) + (ii) + (iii)] | | (2,81,000) | |
| As per section 71(3A), loss from house property to be set-off against salary income to the extent of | | | (2,00,000) |
| | | | 39,20,000 |
| Profits and gains of business or profession | | | |

| Particulars | Amount | Amount | Amount |
|--|----------|------------|------------------|
| Speculation profit (assumed as business income) | | 2,30,000 | |
| Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm | | 50,000 | |
| | | 2,80,000 | |
| Set-off of loss from textile business to the extent of | | (2,80,000) | Nil |
| Note – Share of loss of INR 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source. | | | |
| Income from Other Sources | | | |
| Interest on fixed deposit | 73000 | | |
| Less: set off balance loss of textile business to the extent of | (73,000) | Nil | |
| Lottery income (assumed as gross income) | 75,000 | | 75,000 |
| Capital Gains | | | |
| Long-term capital gains on sale of equity shares computed in accordance with section 112A | | 8,95,000 | |
| Less: Set-off of brought forward short-term capital loss u/s 74 | | | |
| B/f short-term capital loss on sale of gold | 2,75,000 | | |
| B/f short-term capital loss u/s 111A | 25,000 | (3,00,000) | |
| Less: Set-off of balance loss of textile business [7,50,000 – 2,80,000 – 73000] | | (3,97,000) | |
| | | | 1,98,000 |
| Gross Total Income | | | 41,93,000 |
| Less: Deduction under chapter VI-A | | | |
| Under section 80 C | | | |
| Life Insurance Premium paid | | | |
| Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her | | 15,000 | |
| Repayment of housing loan | | | |
| 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend | | - | |
| 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property | | 50,000 | |
| 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties | | - | 65,000 |
| Total Income | | | 41,28,000 |

Loss to be carried forward to A.Y. 2025-26:

| Particulars | Amount |
|---|--------|
| Loss from house property (INR 2,81,000 - INR 2,00,000) | 81,000 |
| As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of INR 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. Such loss can be carried forward for a maximum of eight assessment years. | |

Concept Problem 40 Solution

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y.2023-24, he would be a non-resident for that year.

Computation of Total Income of Mr. Jagdish, a non-resident, for the A.Y. 2024-25 under Optional Tax regime:

| | Particulars | Amount | Amount |
|-----|---|----------|----------|
| (i) | Income from house property | | NIL |
| | Income from house property at Bangkok [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident] | | |
| | Income from house property in Pune (taxable in India since it accrues and arises in India) | | |
| | Gross Annual Value of Pune flat (INR 27,500 x 12) | 3,30,000 | |
| | Less: Municipal taxes (Deduction is not allowable, since no amount has been paid during the previous year 2023-24) | Nil | |
| | Net Annual Value (NAV) | 3,30,000 | |
| | Less: Deductions u/s 24 | | |
| | a) 30% of NAV | 99,000 | |
| | b) Interest due on housing loan (allowable even if not paid) | (84,000) | |
| | | 1,47,000 | |
| | Arrears of rent received in respect of Jaipur house (taxable u/s 25A, even if he is not the owner of the house property in the P.Y.2023-24) | 96,000 | |
| | Less: Deduction @ 30% | 28,800 | 2,14,200 |
| | Profits and gains of business or profession | | |
| | Profit from business in Thailand (not taxable in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India; and it is also not stated to be received in India) | | Nil |
| | Income from Other Sources | | |
| | Interest on bonds of a Japanese company [Only 22,500, being 50% of INR 45,000 is taxable in India, since it is stated to be received in India] | 22,500 | |
| | Income from Apple Orchid in Nepal [Contract fee directly credited to bank account in India is taxable in India, since it is received in India] | 5,00,000 | 5,22,500 |

| Particulars | Amount | Amount |
|--|--------|-----------------|
| Profits and gains of business or profession | | 7,36,700 |

Note: Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor in the Kathmandu branch of UBI in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by the contractor directly in UBI's Pune branch, the income is received in India and hence, would be taxable in the hands of Mr. Jagdish. The above solution has been worked out accordingly.

However, due to the use of the word "in the Kathmandu branch", a view is taken that such receipt is actually received in Kathmandu and subsequently it is remitted to Indian branch, the amount of INR 5 lakh would not be taxable in India and hence, the total income would be INR 2,36,700.

Concept Problem 41 Solution

Computation of Total Income and Tax Liability for AY 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount | Amount |
|--|-----------|------------------|-----------------|
| Income from house property | | | |
| Gross annual value (Rs. 42,000 x 12) | | 5,04,000 | |
| Less: Municipal taxes paid by Mr. Raj | | 5,500 | |
| Net Annual Value | | 4,98,500 | |
| Less: Deductions under section 24 | | | |
| a) 30% of Net Annual Value | | 1,49,500 | |
| b) Interest on house borrowing (Rs. 15,00,000 x 10%) | | 1,50,000 | |
| | | | 1,98,950 |
| Profits and gains of business or profession | | | |
| Income from profession | | | |
| Fees from professional services | | 51,36,000 | |
| Less: Expenses allowable as deduction | | | |
| - Staff salary, bonus and stipend | 25,13,500 | | |
| - Other general and administrative expenses | 13,00,000 | | |
| - Office rent | 45,000 | | |
| - Motor car maintenance (Rs. 15,000 x 2/3) | 10,000 | | |
| - Car loan interest – not allowable (since the same has not been paid during the year) [Refer Note 1] | | 38,68,500 | |
| | | 12,67,500 | |
| Less: Depreciation u/s 32 | | | |
| - Motor car Rs. 8,00,000 x 30% x 50% x 2/3, being put to use for less than 180 days [Motor car eligible for higher depreciation @ 30% since it is acquired during the period between 23.08.2020 to 31.03.2021 and for his professional purposes] | 80,000 | | |
| - Books being annual publications [Rs 20,000 x 40%] | 8,000 | | |
| - Computer [refer note 2] | Nil | 88,000 | |
| | | 11,79,500 | |

| Particulars | Amount | Amount | Amount |
|---|-----------------|----------|------------------|
| Income from share speculation business | 1,00,000 | | |
| Less: Loss from commodity speculation business set off against income from share speculation business. | 1,00,000 | NIL | 11,79,500 |
| Balance loss of Rs. 50,000 from commodity speculation business to be carried forward to A.Y. 2025-26 | | | |
| Income from Other Sources | | | |
| Cash Gift of Rs. 1,20,000 i.e., Rs. 30,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gift exceeds Rs.50,000 during the previous year 2023-24. | | 1,20,000 | |
| - Interest on Saving bank account | | 15,000 | 1,35,000 |
| Gross Total Income | | | 15,13,450 |
| Less: Deductions under Chapter VI-A | | | |
| - Section 80C | | | |
| - Life insurance premium | 25,000 | | |
| - PPF subscription | 1,40,000 | | |
| | 1,65,000 | | |
| Restricted to Rs. 1,50,000 | | 1,50,000 | |
| Section 80G | | | |
| Contribution to Prime Minister's Drought Relief Fund (50% of Rs. 1,10,000) by way of bank draft | | 55,000 | |
| Section 80GGC | | | |
| Donation to registered political party made by way of cheque | | 3,00,000 | |
| Section 80TTA | | | |
| Interest on saving bank account upto Rs. 10,000 | | 10,000 | 5,15,000 |
| Total Income | | | 9,98,450 |
| Tax liability | | | |
| @ 5% on Rs. 2,50,000 [Rs. 2,50,000 to Rs. 5,00,000] | | 12,500 | |
| @ 20% on Rs. 4,98,450 [Rs. 5,00,000 to Rs. 9,98,450] | | 99,690 | |
| | | | 1,12,190 |
| Add: Health and education cess @ 4% | | | 4,488 |
| Tax liability | | | 1,16,678 |
| Tax liability (Rounded off) | | | 1,16,680 |

Notes:

- (1) It is assumed that the interest on car loan has also not been paid on or before the due date under section 139(1), hence disallowance under section 43B is attracted, if he is following mercantile basis of accounting. If it is assumed that the payment has been made on or before due date under section 139(1), disallowance under

this section would not be attracted and the same [i.e., Rs.1,00,000 x 10% x 3/12 x 2/3 i.e., Rs.1,667] would be allowed as deduction. If it is assumed that he is following cash basis of accounting, it would, in any case, not be allowed.

- (2) As per second proviso to section 43(1), in computing actual cost, the expenditure for acquisition of asset, for which payment is made to a person in a day exceeds Rs.10,000 has to be ignored, if such payment is made otherwise than by way of A/c payee cheque/ bank draft, ECS or other specified modes of payment. In this case, since computer is purchased by way of crossed cheque, it will not form part of actual cost and no depreciation would be allowed on this cost.

Concept Problem 42 Solution

Computation of Total Income of Mr. Manohar for the A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|---|---------|------------------|
| Profits and gains from business or profession | | |
| Net income as per Income and Expenditure Account | | 49,25,500 |
| Add: Expenses debited but not allowable | | |
| - Excess salary of INR 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)] | - | |
| -Motor car expenses attributable to personal use not allowable (INR 88,000 x 25%) | 22,000 | |
| -Depreciation as per books of account | 87,500 | |
| - Medical expenses of INR 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only] | 15,000 | |
| - Medical expenditure of INR 55,000 incurred for his father, not allowable, since it is personal in nature] | .55,000 | |
| - Purchase of computer (not allowable since it is capital in nature) | 90,000 | |
| -Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 31.10.2024) [For the P.Y.2023-24, the gross receipts i.e., fees of Mr. Manohar from consultancy services is exceeding INR 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 31.10.2024] | | |
| Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y. 2023-24, since his gross receipts from profession during the P.Y.2022-23 exceeded the monetary limit of INR 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission. | 12,600 | 2,82,100 |
| | | 52,07,600 |
| Less: Income credited but not taxable or taxable under any other head | | |
| - Share of profit from HUF (Exempt) | 55,000 | |
| - Interest on bank fixed deposit | 25,000 | |
| - Interest on income tax refund | 26,000 | |

| | | |
|---|--------|------------------|
| | | 1,06,000 |
| | | 51,01,600 |
| Less: Depreciation allowable under the Income- tax Act, 1961 [See Working Notes] | | 76,175 |
| | | 50,25,425 |
| Income from other sources | | |
| - Interest on bank fixed deposits | 25,000 | |
| - Interest on income- tax refund | 26,000 | |
| - Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2) (x), as the fair market value of such coins exceeds 50,000) | 85,000 | 1,36,000 |
| Gross Total Income | | 51,61,425 |
| Less: Deductions under chapter VI-A | | |
| Section 80 D Medical expenses for father (Deduction allowable to the extent of INR 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy) | | 50,000 |
| Total Income | | 51,11,425 |
| Total Income (Rounded off) | | 51,11,425 |

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

| Particulars | Amount | Amount |
|---|-----------|------------------|
| Tax on total income of INR 51,11,430 | | |
| Upto INR 2,50,000 | Nil | |
| INR 2,50,001 – INR 5,00,000 @ 5% | 12,500 | |
| INR 5,00,001 – INR 10,00,000 @ 20% | 1,00,000 | |
| Above INR 10,00,001 i.e. 41,11,430 @ 30% | 12,33,429 | 13,45,929 |
| Add: Surcharge @ 10% [Since his total income exceed INR 50,00,000] | | 1,34,593 |
| Less: Marginal Relief: | | 14,80,522 |
| Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of INR 50 lakhs] | 1,68,022 | |
| Amount of income in excess of INR 50,00,000 | 1,11,430 | 56,592 |
| | | 14,23,930 |
| Add: Health & Education cess @ 4% | | 56,957 |
| Tax liability | | 14,80,887 |
| Tax liability (rounded off) | | 14,80,890 |

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

| Particulars | Amount |
|-------------|--------|
|-------------|--------|

| | |
|--|---------------|
| On Motor Car [INR 3,50,000 x 15% x 75%] | 39,375 |
| On Furniture and fittings [INR 80,000 x 10%] | 8,000 |
| On Computer INR 72,000 x 40% [Actual cost of the computer is 72,000 (i.e., 90,000 – 18,000). INR 18,000 paid otherwise than by way of account payee cheque/bank draft, ECS or other specified method is not includible in actual cost. | 28,800 |
| | 76,175 |

Concept Problem 47 Solution

Computation of total income of Mr. Dheeraj for A.Y. 2024-25 under Optional Tax regime:

| S No | Particulars | Amount | Amount | Amount |
|-------------|--|-----------|----------|-----------|
| 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 | 95,7000 | | |
| | b. Interest on housing loan [1,80,000/2] | 90,000 | 1,85,700 | |
| | | | 1,33,300 | |
| | Self-occupied portion [Ground Floor] | | | |
| | Annual Value | | Nil | |
| | [No deduction is allowable in respect of municipal taxes paid] | | | |
| | Less: Interest on housing loan | | 90,000 | |
| | | | (90,000) | |
| | Income from house property [1,33,300 – 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 13 lakhs, since stamp duty value of 14 lakhs does not exceed actual consideration by more than 10%] | 13,00,000 | | |
| | Less: Indexed Cost of acquisition [4,00,000 x 348/100] (Loss of 92,000 shall be carried forward to AY 2024-25) | 13,92,000 | (92,000) | - |

| | | | | |
|-------------|--|--------|----------|------------------|
| | Cost of acquisition | | | |
| | Higher of – a. Actual cost 2.80 lakhs + 0.12 lakhs = 2.92 lakhs and b. Fair market value (FMV) as on 1.4.2001 = 4.8 lakhs but cannot exceed stamp duty value of 4 lakhs | | | |
| III. | Income from Other Sources | | | |
| | Interest on savings bank deposits | | 30,000 | |
| | Interest on fixed deposits | | 45,000 | 75,000 |
| | Gross Total Income | | | 46,18,300 |
| | Less: Deduction u/s 10AA | | | 13,50,000 |
| | [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 4 th year of operations] [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 | | | 21,71,100 |

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

| Particulars | Amount | Amount |
|--|----------|-----------------|
| 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 11,71,100] | 3,51,330 | |
| | | 4,63,830 |
| Add: Health and education cess @ 4% | | 18,553 |
| Total Tax Liability | | 4,82,383 |

| Particulars | Amount | Amount |
|------------------------------------|--------|-----------------|
| Tax Liability (rounded off) | | 4,82,380 |

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

| Particulars | Amount |
|--|------------------|
| Computation of adjusted total income | |
| Total income as per the normal provisions of the Act | 21,71,100 |
| Add: Deduction u/s 10AA | 13,50,000 |
| Deduction u/s 80JJAA | 9,43,200 |
| Adjusted total income | 44,64,300 |
| AMT @ 18.5% | 8,25,896 |
| Add: HEC @ 4% | 33,036 |
| AMT Liability | 8,58,932 |
| AMT Liability (rounded off) | 8,58,930 |

Since the regular income tax payable is less than the AMT, the adjusted total income of **44,64,300** would be deemed to be the total income and tax would be payable @ 18.5% plus HEC @ 4%. The total tax liability would be **8,58, 390**. In this case, AMT credit can be carried forward.

Mr. Dheeraj also can opt to pay tax as per the provisions of section 115BAC is 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 the section 115BAC would be as follows:

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

| Particulars | Amount | Amount |
|--|----------|------------------|
| Gross Total Income as per regular provisions of the Income-tax Act | | 46,18,300 |
| 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 | | 47,08,300 |
| Less: Deduction under section 80JJAA | | |
| 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)] | 9,43,200 | |
| No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA | | |
| | | 9,43,200 |
| Total Income | | 37,65,100 |

Computation of tax liability as per section 115BAC.

| Particulars | Amount | Amount |
|---|--------|--------|
| Tax on total income of 37,65,100 | | |

| Particulars | Amount | Amount |
|--|----------|-----------------|
| Upto 3,00,000 | Nil | |
| 3,00,001 – 6,00,000 [@ 5% of 3 lakhs] | 15,000 | |
| 6,00,001 – 9,00,000 [@ 10% of 3 lakhs] | 30,000 | |
| 9,00,001 – 12,00,000 [@ 15% of 3 lakhs] | 45,000 | |
| 12,00,001 – 15,00,000 [@ 20% of 3 lakhs] | 60,000 | |
| 15,00,001 – 37,65,100 [@ 30% of 22,65,100] | 6,79,530 | |
| | | 8,29,530 |
| Add: Health and education cess @ 4% | | 33,181 |
| Total tax liability | | 8,62,711 |
| Tax liability (rounded off) | | 8,62,710 |

Since tax liability as per section 115BAC is higher than the tax liability of **8,58,930** 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 to **opt out of default tax regime u/s 115BAC**.

In such case, his tax liability, therefore, would be **8,58,930**. Moreover, Mr. Dheeraj would also be eligible to claim carry forward of AMT credit.

Concept Problem 48 Solution

Computation of Total Income of Mr. Raghav for AY 2024-25 under Optional Tax regime

| Particulars | Amount | Amount |
|--|----------|------------|
| Salary | | Nil |
| [Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s Pvt Ltd., they have a substantial interest in the company without any professional qualifications commensurate with his salary, the salary of 3,75,000 received by him would be included in the hands of Mrs. Raghav] | | |
| 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 [60,000 x2] | 7,20,000 | |
| Less: Municipal taxes | - | |
| Net Annual Value | 7,20,000 | |
| Less: Deductions from Net Annual Value u/s 24 | | |
| a. 30% of Net Annual Value | 2,16,000 | |
| b. Interest on loan | 5,00,000 | 4,000 |
| House in Delhi [Since Mr. Raghav receives direct or indirect benefits from income arising to his sister's daughter, Ms. Vamika, from the | | |

| Particulars | Amount | Amount |
|---|-----------|------------------|
| transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's] | | |
| Gross Annual Value | 5,50,000 | |
| Less: Municipal taxes | - | |
| Net Annual Value | 5,50,000 | |
| Less: Deductions from Net Annual Value u/s 24 | | |
| a. 30% of Net Annual Value | 1,65,000 | |
| b. Interest on loan | - | 3,85,000 |
| | | 1,89,000 |
| Profit and gain from business or profession | | |
| Share of profit from Firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed | - | |
| Income from other sources | | |
| Dividend on preference shares | 13,00,000 | |
| Interest on debentures | 7,50,000 | |
| Interest from saving bank account | 2,00,000 | |
| Cash gift [Taxable, since sum of money exceeding 50,000 is received from his niece, who is not a relative as per section 56(2)(x)] | 75,000 | 23,25,000 |
| Gross Total Income | | 25,14,000 |
| 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 | | 13,54,000 |

Concept Problem 49 Solution

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y. 2023-24 and her income other than from foreign sources does not exceed 15,00,000. She is non-resident for A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises to her in India.

Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for A.Y. 2024-25 under Optional tax regime:

| Particulars | Amount |
|-----------------|--------|
| Salaries | |

| Particulars | Amount | |
|---|---------------|-----------------|
| Pension received from Russian Government [Not taxable, since it neither accrues in India nor is it received in India] | Nil | |
| Income from House Property | | |
| Annual value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues, or arises from a property situated in India] | 90,000 | |
| Less: Deduction u/s 24 (a) @ 30% | <u>27,000</u> | 63,000 |
| Capital Gains | | |
| Long- term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India] | 3,00,000 | |
| Short –term capital Gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies] | 60,000 | 360,000 |
| Gross Total Income | | 4,23,000 |
| Less: Deduction under Chapter VI-A | | |
| Deduction under section 80C | | |
| - Life insurance premium of 75,000 [Premium paid to Russian, Life Insurance corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as chapter VI-A deductions are not allowable against income chargeable to tax u/s 112 and 111A, respectively] | | 63,000 |
| Total Income | | 3,60,000 |
| Computation of Total Income | | |
| Long term capital gains taxable @ 20% u/s 112 [3,00,000 x 20%] | | 60,000 |
| Short term capital gains taxable @ 15% u/s 111A [60,000 x 15%] | | <u>9,000</u> |
| | | 69,000 |
| Add: Health and education cess @ 4% | | <u>2,760</u> |
| Tax Liability | | 71,760 |

Note: The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short –term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed 5 lakhs.

Concept Problem 50 Solution

Computation of total income of Mr. Rishabh for A.Y. 2024-25 under 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 | 1,53,125 | | |

| | | | | |
|-------------|--|------------------|------------------|------------------|
| | allowable as deduction under section 36(1)(iii). Accordingly, interest of 1,53,215 [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] | | | |
| | 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 40(A)(2) since the purchase is from a related party, i.e., his brother and a price higher than the fair market value] | 5,00,000 | 6,53,125 | |
| | | | 88,98,125 | |
| | Less: Items of income to be treated separately under the respective head of income | | | |
| | Income – Tax refund including interest on refund of 4550 | 15,500 | | |
| | Dividend from Indian Companies | 15,00,000 | | |
| | Short term capital gains on transfer of listed equity shares | <u>10,00,000</u> | <u>25,15,550</u> | |
| | | | 63,82,575 | |
| | Less: Depreciation on interest on loan capitalized to plant and machinery 153,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized | | | |
| | Normal depreciation | 11,484 | | |
| | Additional depreciation @ 20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2023-24, it is eligible for 50% of the rate of depreciation] | <u>15,313</u> | <u>26,797</u> | |
| | | | | 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 | | <u>15,00,000</u> | <u>15,04,550</u> |
| | Gross Total Income | | | 88,60,328 |
| | Less: Deductions under Chapter VI-A | | | |
| | Deduction under section 80C 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] | | 40,000 | |

| | | | |
|---|--|---------------|-------------------------|
| Deduction under section 80D 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.] | | <u>25,000</u> | <u>65,000</u> |
| Total Income | | | <u>87,95,328</u> |
| Total Income (Rounded off) | | | <u>87,95,330</u> |

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

| Particulars | Amount | Amount |
|--|------------------|-------------------------|
| Tax on Total Income of 87,95,330 | | |
| Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [10,00,000 x 15%] | | 1,50,000 |
| 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 | |
| 10,00,001 – 77,95,330 [@ 30% of 67,95,330] | <u>20,38,599</u> | <u>21,51,099</u> |
| | | <u>23,01,099</u> |
| Add: Surcharge @ 10%, since total income exceeds 50,00,000 but does not exceed 1 crore | | <u>2,30,110</u> |
| | | <u>25,31,209</u> |
| Add: Health and education cess @4% | | <u>1,01,248</u> |
| Total Tax Liability | | <u>26,32,457</u> |
| Less: TDS u/s 194N @ 2% on 50 lakhs, being the cash withdrawals exceeding 1 crore | 1,00,000 | |
| Less: Advance tax paid | <u>17,50,000</u> | <u>18,50,000</u> |
| Tax Payable | | <u>7,82,457</u> |
| Tax Payable (Rounded off) | | <u>7,82,460</u> |

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

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

Computation of tax liability as per section 115BAC

| Particulars | Amount | Amount |
|---|------------------|------------------|
| 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 3,00,000 | Nil | |
| 3,00,001 – 6,00,000 [@ 5% of 3 lakhs] | 15,000 | |
| 6,00,001 – 9,00,000 [@ 10% of 3 lakhs] | 30,000 | |
| 9,00,001 – 12,00,000 [@ 15% of 3 lakhs] | 45,000 | |
| 12,00,001 – 15,00,000 [@ 20% of 3 lakhs] | 60,000 | |
| 15,00,001 – 85,25,640 [@ 30% of 70,25,640] | <u>21,07,692</u> | <u>22,57,692</u> |
| | | 24,07,692 |
| Add: Surcharge @10%, since total income exceeds 50,00,000 but does not exceed 1 crore | | <u>2,40,769</u> |
| | | 26,48,461 |
| Add: Health and education cess @ 4% | | <u>1,05,938</u> |
| Total Tax Liability | | 27,54,400 |
| 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 | | 9,04,400 |

Since tax liability as per section 115BAC, is higher than the tax computed as per normal provisions of the Income Tax Act, 1961, it is beneficial for Mr. Rishabh to opt out of default tax regime u/s 115BAC. In such case, the tax payable by him would be 7,82,460 as per the regular provisions of the Act.

Concept Problem 51 Solution

Computation of total income of Mr. Shivansh for A.Y. 2024-25 under Optional Tax regime:

| | Particulars | Amount | Amount | Amount |
|-----------|---|----------|-----------|--------|
| I. | Income from business or profession | | | |
| | Net profit | | 15,74,500 | |
| | Add: Items debited but not allowable/item not credited but taxable while computing business income | | | |
| | - Employer's contribution to NPS in excess of 10% of salary – Employer's contribution to the extent of 10% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., 24,000 [60,000 being 20% of 3,00,000 less 36,000 being 10% of 3,60,000 (3,00,000 +20% of 3,00,000)] has to be added back. | 24,000 | | |
| | - VRS expenditure – 1/5 th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole | 1,92,000 | | |

| | Particulars | Amount | Amount | Amount |
|------------|---|-----------------|------------------|-----------|
| | amount of expenditure is debited to Profit & Loss A/c, 4/5 th has to be added back [2,40,000 x 4/5] | | | |
| | - Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, 1,65,000 [12,00,000 x 15% x 11/12] has to be added back, since the same forms part of interest on loan debited to profit and loss account. | 1,65,000 | | |
| | - Sale proceeds of asset acquired for conducting scientific research taxable as business income under section 41(3) in the year of sale to the extent of lower of 6,00,000 (being the deduction allowed u/s 35) and 8,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (8,00,000 + 6,00,000) over the capital expenditure incurred of 6,00,000 | 6,00,000 | | |
| | - Undervaluation of stock [(5,58,000 - 4,50,000) x 10/90] Note: Alternatively, undervaluation of closing stock i.e., 62,000 can be added back and undervaluation of opening stock i.e., 50,000 can be reduced from net profits | 12,000 | | |
| | - Depreciation as per books of A/c | <u>6,17,000</u> | | |
| | | | <u>16,10,000</u> | |
| | | | 31,84,500 | |
| | Less: Depreciation as per Income –tax Rules | 4,50,000 | | |
| | Depreciation on Motor Car purchased for supply of finished goods [3,00,000 x 15%] | <u>45,000</u> | <u>4,95,000</u> | |
| | | | 26,89,500 | |
| | Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income | | | |
| | - Profit on sale of asset of scientific research [Taxable under the head “Capital Gains”] | 2,00,000 | | |
| | - Winning from lottery [Taxable under the head “Income from other sources”] | <u>31,500</u> | <u>2,31,500</u> | |
| | | | | 24,58,000 |
| II. | Capital Gain | | | |
| | Short term capital gains | | | |
| | Sale of asset acquired for conducting scientific research | | | |
| | Sales consideration | 8,00,000 | | |
| | Less: Cost of acquisition | <u>6,00,000</u> | | |

| | Particulars | Amount | Amount | Amount |
|-------------|--|-----------------|-----------------|------------------|
| | Short – term capital gain | | 2,00,000 | |
| | Long – term capital gains | | | |
| | Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5) | | | |
| | Compensation received | 12,00,000 | | |
| | Less: Indexed cost of acquisition [2,00,000 x 348/117] | <u>5,94,872</u> | | |
| | Long term capital gains [since such plot is held for more than 24 months] | 6,05,128 | | |
| | Less: Exemption u/s 54D | | | |
| | - Acquisition of industrial plot within 3 years | 6,00,000 | 5,128 | 2,05,128 |
| III. | Income from other Sources | | | |
| | Winning from lottery [31,500 x 100/70] | | <u>45,000</u> | |
| | Interest on enhanced compensation | 54,000 | | |
| | Less: 50 % of enhanced compensation | <u>27,000</u> | <u>27,000</u> | 72,000 |
| | | | | |
| | Gross Total Income | | | 27,35,128 |
| | Less: Deduction under Chapter VI-A | | | |
| | Deduction under section 80EEB | | | |
| | Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of | | | 1,50,000 |
| | Total Income | | | 25,85,128 |
| | Total Income (rounded off) | | | 25,85,130 |

Computation of Tax liability of Mr. Shivansh for A.Y. 2024-25:

| Particulars | Amount | Amount |
|---|-----------------|-----------------|
| Tax on long term capital gains @ 20% of 5,128 | | 1,026 |
| Tax on winning from lottery @ 30% of 45,000 | | 13,500 |
| Tax on total income (excluding LTCG and winning from lottery) of 25,35,000 | | |
| Upto 3,00,000 [since Mr. Shivansh, a senior citizen, he is eligible for higher exemption limit] | Nil | |
| 3,00,001 – 5,00,000 [@ 5% of 2 lakhs] | 10,000 | |
| 5,00,001 – 10,00,000 [@ 20% of 5 lakhs] | 1,00,000 | |
| 10,00,001 – 25,35,000 [@ 30% of 15,35,000] | <u>4,60,500</u> | 5,70,500 |
| | | 5,85,026 |
| Add: Health and education cess @ 4% | | 23,401 |
| Tax Liability | | 6,08,427 |
| Tax Liability (Rounded off) | | 6,08,430 |

Concept Problem 52 Solution
Computation of Total Income of Mr. Sonu for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|--|---------------|------------|
| Income from house property | | |
| <u>House 1 [Self-occupied]</u> | | |
| Net annual value | | |
| Less: Interest on loan [upto 2,00,000] | 2,00,000 | (2,00,000) |
| <u>House 2 [Let out]</u> | | |
| 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 |
| <u>House in Delhi</u> [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 | 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 |
| | | 3,75,000 |
| Profits and gains from business or profession | | |
| 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. Balance short term capital loss of 1,000 to be carry forward to A.Y. 2025-26 | <u>15,000</u> | |
| Income from other sources | | |
| Dividend on preference shares [Taxable in the hands of Mr. Sonu as per | 10,00,000 | |

| Particulars | Amount | Amount |
|--|---------------|------------------|
| section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares] | | |
| 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] | <u>46,000</u> | <u>13,55,000</u> |
| 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] | 1000 |
| 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 |

Concept Problem 53 Solution

Computation of total income of Mr. Kamal for the A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount |
|--|---------------|
| Profit and gains form business or profession | |
| Net profit as per profit and loss account | 50,85,000 |
| Less: Income tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head “Income from Other Sources” | <u>30,000</u> |
| | 50,55,000 |
| Add: Expenses either not allowable or to be considered separately but charged in the profit and loss account | |
| - Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 2) | 2,500 |
| - Payment made to political party by cheque (See Note 4) | 1,00,000 |
| - Penalty levied by the goods or services tax department for delayed filling of returns not allowable as being paid for infraction of law (See Note 5) | 5,300 |
| - Depreciation as per books | 1,07,250 |

| Particulars | Amount |
|---|------------------|
| Profit and gains form business or profession | |
| - 30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia) | 24,000 |
| | 52,94,050 |
| Less: Depreciation allowable as per Income tax Act, 1961 | 65,000 |
| | 52,29,050 |
| Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately | 22,50,000 |
| Income from business (other than specified business) | 29,79,050 |
| Computation of income/ loss from specified business | |
| Income from specified business | 22,50,000 |
| Less: Deductions under section 35AD @ 100% of 20 Lakhs | <u>20,00,000</u> |
| Income from specified business | 2,50,000 |
| Profit and gains form business or profession | 32,29,050 |
| Income from Other Sources | |
| Interest on income tax refund | 4,570 |
| Gross total Income | 32,33,620 |
| Less: Deductions under section 80GGC | |
| Contribution to political party (See Note 4) | 1,00,000 |
| Total Income | 31,33,620 |

Notes:

- i) Bonus for the previous year 2022-23 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y.2022-23. However, when the same has been paid in December 2023, it should be allowed as deduction in the P.Y.2023-24 (A.Y.2024-25). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- ii) The amount of 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- iii) The penalty of 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- iv) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- v) The interest of 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- vi) Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

Computation of tax liability of Mr. Kamal for A.Y. 2024-25 under the regular provisions of the act

| Particulars | Amount | Amount |
|--|-----------------|------------------------|
| Tax on total income of 31,33,620 | | |
| 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 – 31,33,620 [@ 30% of 21,33,620] | <u>6,40,086</u> | 7,52,586 |
| Add: Health and education cess @ 4% | | <u>30,103</u> |
| Total Tax liability | | <u>7,82,689</u> |
| Total tax liability (rounded off) | | 7,82,690 |

Computation of adjusted total income and AMT of Mr. Kamal for A.Y. 2024-25:

| Particulars | Amount | Amount |
|--|------------|-------------------------|
| Total Income (computed above as per regular provisions of income tax) | | 31,33,620 |
| Add: Deduction under section 35AD | 20,00,000 | |
| Less: Depreciation under section 32 on building [20 lakhs x 10%] | (2,00,000) | <u>18,00,000</u> |
| Adjusted Total Income | | <u>49,33,620</u> |
| Alternative Minimum Tax @ 18.5% | | 9,12,720 |
| Add: Health and education cess @4% | | 36,509 |
| Total tax liability | | <u>9,49,229</u> |
| Total tax liability (rounded off) | | 9,49,230 |

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus cess @ 4%. Therefore, liability as per section 115JC is 9,49,230.

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

| Particulars | Amount | Amount |
|---|-------------------|-------------------------|
| Gross Total income as per regular provisions of Income tax Act | | 32,33,620 |
| Add: Deduction under section 35AD | 20,00,000 | |
| Less: Depreciation on building [20 lakhs x 10%] | <u>(2,00,000)</u> | <u>18,00,000</u> |
| Gross Total Income / Total Income as per section 115BAC | | <u>50,33,620</u> |
| [No deduction under Chapter VI-A allowable] | | |

Computation of tax liability as per section 115BAC

| Particulars | Amount | Amount |
|---|--------|--------|
| Tax on total income of 50,33,620 | | |
| Upto 3,00,000 | Nil | |

| Particulars | Amount | Amount |
|---|------------------|-------------------------|
| 3,00,001 – 6,00,000 [@ 5% of 3 lakhs] | 15,000 | |
| 6,00,001 – 9,00,000 [@ 10% of 3 lakhs] | 30,000 | |
| 9,00,001 – 12,00,000 [@ 15% of 3 lakhs] | 45,000 | |
| 12,00,001 – 15,00,000 [@ 20% of 3 lakhs] | 60,000 | |
| 15,00,001 – 50,33,620 [@ 30% of 35,33,620] | <u>10,60,086</u> | |
| | | 12,10,086 |
| Add: Surcharge @ 10% [since, the total income exceeds 50 lakhs but does not exceed 1 crore] | | 12,10,09 |
| | | 13,31,095 |
| Less: Marginal relief (See computation below) | | 97,475 |
| | | 12,33,620 |
| Add: Health and education cess @ 4% | | 49,345 |
| Total tax liability | | <u>12,82,964</u> |
| Total tax liability (rounded off) | | <u>12,82,960</u> |

Computation of marginal relief

| | Particulars | Amount |
|----|--|------------------|
| A. | Tax payable including surcharge on total income of 50,33,620 u/s 115BAC | 13,31,095 |
| B. | Tax payable on total income of 50 lakhs as per section 115BAC | <u>12,00,000</u> |
| C. | Excess tax payable (A-B) | 1,31,095 |
| D. | Marginal relief (1,31,095 – 33,620, being the amount of income in excess of 50 lakhs) | 97,475 |

Notes:

- Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- An individual exercising option u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Since the tax liability of Mr. Kamal under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt out of default tax regime u/s 115BAC for A.Y. 2024-25. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

| Particulars | Amount |
|--|-----------------|
| Tax Liability under section 115JC | 9,49,230 |
| Less: Tax Liability under the regular provisions of the Income Tax Act, 1961 | 7,82,690 |
| | 1,66,540 |

Concept Problem 54 Solution

Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2024-25 under Option Tax regime:

| Particulars | Amount | Amount |
|---|-----------|------------------|
| Profits and gains from business or profession | | |
| <u>Profit from SEZ undertaking</u> | | 30,00,000 |
| Capital Gains | | |
| Long term capital gain of vacant land [since land held for a period of more than 24 months, it is long – term capital asset] | | |
| <u>As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration</u> | 19,00,000 | |
| Less: Indexed cost of acquisition [5,00,000/100*348] being higher of | 17,40,000 | 1,60,000 |
| - Actual cost (3,40,000 + 15,000) | 3,55,000 | |
| - Lower of FMV of 6,00,000 and stamp duty Value of 5,00,000 as on 1.4.2001 | 5,00,000 | |
| Income from Other Sources | | |
| Income from crossword puzzles | 10,000 | |
| Interest on fixed deposit | 15,000 | 25,000 |
| | | 31,85,000 |
| Gross Total Income | | |
| Less: Deductions under Chapter VI-A | | |
| Under Section 80C – Tuition fees of two children | | 24,000 |
| Less: Deduction under section 10AA | | 12,00,000 |
| (30,00,000 x 120 lakhs/300 lakhs) x 100% , being 3 rd year of operation | | |
| Total Income | | 19,45,000 |
| Computation of Tax payable on total Income under regular provisions of the Income Tax Act | | |
| Tax on LTCG @ 20% of 1,60,000 | | 32,000 |
| Tax on income from crossword puzzles @ 30% of 10,000 | | 3,000 |
| Tax on remaining amount of 17,75,000 [2,32,500 (30% of 7,75,000) + 1,12,500] | | 3,45,000 |
| | | 3,80,000 |
| Add :Health and education cess @4% | | 15,200 |
| Tax payable under the regular provisions of the Act | | 3,95,200 |

Computation of Adjusted Total Income and Alternate Minimum Tax (AMT) payable

| Particulars | Amount |
|---|-----------|
| Total Income computed under the regular provisions of the Act | 19,45,000 |
| Add: Deduction u/s 10AA | 12,00,000 |

| | |
|--|------------------|
| Adjusted Total Income | 31,45,000 |
| Since Adjusted Total Income exceeds 20 lakhs, the provisions of Alternate Minimum Tax (AMT) are attracted in this case | |
| Alternate Minimum Tax @ 18.5% | 5,81,825 |
| Add: Health and Education cess @ 4% | 23,273 |
| AMT | 6,05,098 |
| Since the regular income tax payable is less than the AMT payable, the adjusted total income of 31,45,000 shall be deemed as the total income and tax is leviable @ 18.5% thereof plus excess @ 4%. Therefore, his tax liability would be 6,05,100. (round off) However, he would be entitled to AMT credit of 1,87,230 (6,05,100 – 4,17,870) | |

Concept Problem 55 Solution

Computation of Total Income of Mrs. Nisha for AY 2024-25 under Optional Tax regime:

| | Particulars | Amount | Amount | Amount |
|-----------|--|----------|----------|--------|
| I. | <u>Income from business or profession</u> | | | |
| | Net Profit as per profit and loss account | | 5,61,000 | |
| | Add: Items not credited but taxable while computing business income | | | |
| | - Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2023-24 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income] | 50,000 | | |
| | - Interest on capital from partnership firm [2,00,000/15% x 12%] [since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest @ 12% p.a. would be allowed as deduction in the hands of firm under section 40 (b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner] | 1,60,000 | | |
| | | | 2,10,000 | |
| | | | 7,71,000 | |
| | Less: Items not debited but allowable while computing business income | | | |
| | - Job charges without deduction of tax. [90,000 - 30% of 90,000] [Mrs. Nisha's turnover for the P.Y. 2022-23 exceeds 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of 90,000. Since Mrs. Nisha has not deducted tax at source on 90,000, 30% would be disallowed under section 40(a)(ia). Remaining job charges paid would be allowable as deduction while computing business income. | 63,000 | | |
| | - Payment to creditor in cash [payment to creditor in cash is not allowable as business expenditure, since such amount | - | | |

| | Particulars | Amount | Amount | Amount |
|-------------|--|----------|-----------|-----------------|
| | exceeds 10,000 and paid in cash due to section 40A(3)] | | | |
| | | | 63,000 | |
| | | | 7,08,000 | |
| | Less : Depreciation as per Income –tax rules | | | |
| | Opening WDV of machinery 4,75,000 | | | |
| | Add: Purchase of machinery for 7,25,000 during the P.Y. 2023-24 by A/c payee cheque. Subsidy of 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost (7,25,000 – 1,45,000) 5,80,000 | | | |
| | | | 10,55,000 | |
| | Less: Sale proceeds 75,0000 | | | |
| | WDV as on 31.3.2024 before depreciation for P.Y. 2023-24 9,80,000 | | | |
| | Depreciation @ 15% on 9,80,000 | 1,47,000 | | |
| | Additional depreciation @ 20% on 5,80,000 (As new machinery is used in manufacturing business and out to use for more than 180 days in the P.Y. 2023-24, depreciation and additional depreciation will be allowed in full) | 1,16,000 | 2,63,000 | |
| | | | 4,45,000 | |
| | Less: Loss from eligible transaction carried out in respect of trading in derivatives in a in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70. | | 1,17,500 | |
| | | | | 3,27,500 |
| II. | Capital Gains | | | |
| | Long term capital gain on sale of gold bracelet since it is held for more than 36 months | 5,00,000 | | |
| | Sales consideration | | | |
| | Less: Cost of acquisition (40,000 x 348/113) | 1,23,186 | | |
| | Less: Cost of improvement (50,000 x 348/129) | 1,34,884 | | |
| | Long term capital gain on sale of gold bracelet | | 2,58,070 | |
| | Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70. | | 75,000 | |
| | | | | 1,83,070 |
| III. | Income From Other Sources | | | |
| | Fair market value of gold coin received from cousin [Taxable u/s 56(2) (x) , since cousin is not a relative and the fair market value exceeds 50,000] | | 55,000 | |
| | Pre- mature withdrawal from post office time deposit [Amount including interest received from pre- mature withdrawal from | | 60,000 | 1,15,000 |

| Particulars | Amount | Amount | Amount |
|---|--------|----------|-----------------|
| post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha] | | | |
| Gross Total Income | | | 6,25,570 |
| Less: Deductions under Chapter VI-A | | | |
| <u>Deduction under section 80C</u> Stamp duty and registration fee of 1,55,000 for the purpose of transfer of house property, restricted to | | 1,50,000 | |
| <u>Deduction under section 80DD</u> Sum deposit with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction 1,25,000 in case of severe disability irrespective of amount deposited with LIC] | | 1,25,000 | 2,75,000 |
| Total Income | | | 3,50,570 |

Computation of tax liability of Mrs. Nisha for A.Y. 2024-25

| Particulars | Amount |
|---|--------------|
| Tax on long term capital gains @ 20% on 1,00,570 [1,83,070 – 82,500, being unexhausted basic exemption limit (2,50,000 – 1,67,500)] | 20,114 |
| Tax on other income of 1,67,500 [3,50,570 – 1,83,070, being LTCG], being lower than the basic exemption limit | Nil |
| | 20,114 |
| Less: Rebate u/s 87A [Tax payable or 12,500, whichever is less] | 12,500 |
| | 7,614 |
| Add: Health & education cess @4% | 305 |
| Tax Liability | 7,919 |
| Tax liability (rounded off) | 7,920 |

Note - The last two lines in the first para of the question reads as follows –

“The net profit as per the profit and loss account as on 31.3.2023 is 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2023-24”

Items (i) to (xiii) are listed there under.

On a plain reading of the above sentences, it appears that none of the expenditures/receipts in (i) into (xiii) were considered while making the profit and loss account. The above solution has been prepared accordingly.

Concept Problem 56 Solution
Computation of gross total income of Mr. Suresh for the A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount |
|---|-----------|------------------|
| <u>Profits and gains of business or profession</u> | | |
| Business income before depreciation | | 11,00,000 |
| Depreciated value of the block on April 1, 2023 | 10,00,000 | |

| Particulars | Amount | Amount |
|--|------------------|------------------|
| Add: "Actual cost" of Plant C acquired on March 10, 2024 | 22,00,000 | |
| Less: Sale Consideration of Plant B | 19,00,000 | |
| Written down value on March 31, 2024 | 13,00,000 | |
| Normal depreciation (not available as Plant C is not put to use during the P.Y. 2023-24) | Nil | |
| Additional depreciation (not available as Plant C is not put to use during the P.Y. 2023-24) | Nil | - |
| Capital Gains | | |
| Long term capital gain on transfer of unlisted equity shares [Since shares were held for more than 24 months] | | |
| Sale consideration | 23,50,000 | |
| Less: Indexed Cost of Acquisition [2,00,000 x 348/254] | 2,74,016 | |
| | 20,75,984 | |
| Less: Exemption under section 54EC [Deduction under section 54EC is allowable only in respect of long-term capital gain on transfer of land and building] | Nil | |
| Exemption under section 54F [20,75,984 x 19,00,000/23,50,000] | 16,78,455 | 3,97,529 |
| Gross Total Income | | 14,97,529 |

Concept Problem 58 Solution

Computation of total income and tax payable by Dr. Rohan for A.Y. 2024-25 as per Regular provisions of the Act

| | Particulars | Amount | Amount | Amount |
|------------|---|-----------|-----------|----------|
| I. | <u>Income from House Property</u> | | | |
| | Annual value [Assuming residential property self-occupied] | | Nil | |
| | Less: Deduction under section 24(b) Interest on loan for repairs to property, 40,000, restricted to | | 30,000 | |
| | Loss from self-occupied property [can be set-off against Profits and gains of business or profession or Income from other sources] | | | (30,000) |
| II. | <u>Profits and gains from business and profession</u> | | | |
| | Gross Receipts | | | |
| | Fees from visits to other hospitals [5,85,000/90%] | 6,50,000 | | |
| | Fees for March 2023 received in April 2023 [Fees for March 2023 is chargeable to tax during P.Y. 2023-24, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000] | 85,000 | | |
| | Fees received during the year | 10,25,000 | | |
| | Gifts received from relatives of patients [taxable as business income] | 45,000 | 18,05,000 | |

| | Particulars | Amount | Amount | Amount |
|-------|---|-----------------|-----------------|----------|
| | Less: Permissible deductions | | | |
| | Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds 10,000] [3,50,000 – 60,000] | 2,90,000 | | |
| | Taxes and insurance | 26,000 | | |
| | Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose] | 1,10,000 | | |
| | Interest on loan for repair to property [to the extent relating to business] = 65,000 – 40,000, relating to residential property | 25,000 | | |
| | Nursing home expenses | 3,75,000 | | |
| | Professional fees paid for consulting services | <u>1,20,000</u> | <u>9,46,000</u> | |
| | | | 8,59,000 | |
| | Less: Depreciation under section 32 | | | |
| | Nursing home equipment's [2,20,000 x 15%] Note: Nursing home equipment would be eligible for depreciation @ 15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @ 40%. If 40% rate is applied, depreciation would be 88,000. | 33,000 | | |
| | Medical books [35,000 x 40%] | 14,000 | | |
| | Laptop [40,000 x 40%] | 16,000 | | |
| | Television [48,000 x 15%, since the television is put to use for 180 days during the P.Y. 2023-24] Note - Television would be eligible for depreciation @ 15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @ 40%. If 40% rate is applied, depreciation for TV would be 19,200. Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation @ 10%. If 10% rate is applied, depreciation for TV would be 4,800. | 7,200 | 70,200 | |
| | | | | 7,88,800 |
| III., | Income from Other Sources | | | |
| | Dividend from shares [18,900/90%] | | 21,000 | |
| | Honorarium for painting services in Jai Hind Art School [22,500/90%] | | 25,000 | |
| | Honorarium (Alternative without TDS) - 22,500 Note - In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of 22,500. Since the threshold limit for deducting tax at source under section 194J is 30,000, there is no | | | |

| | Particulars | Amount | Amount | Amount |
|--|---|--------|--------|-----------------|
| | requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of 22,500. | | | |
| | Interest on income-tax refund | | 1,500 | |
| | Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan] | | 10,000 | 57,500 |
| | Gross Total Income | | | 8,16,300 |
| | Less: Deduction under Chapter VI-A | | | |
| | Deduction under section 80C Deposits in PPF | | 55,000 | |
| | Deduction under section 80D Medical expenses to the extent of 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy) | | 50,000 | |
| | Deduction under section 80G Donation towards PM CARES Fund | | 10,000 | 1,15,000 |
| | Total Income | | | 7,01,300 |
| | Tax Payable | | | |
| | Upto 5,00,000 [since Dr. Rohan is aged 80 years or above] | | Nil | |
| | 5,00,001 to 7,01,300 [2,01,300 @ 20%] | | 40,260 | 40,260 |
| | Add: HEC @ 4% | | | <u>1,610</u> |
| | Tax liability | | | 41,870 |
| | Less: TDS on fees from visits to other hospitals | | 65,000 | |
| | TDS on dividend from shares | | 2,100 | |
| | TDS on honorarium for painting services in Jai Hind art School | | 2,500 | 69,600 |
| | Tax Refundable | | | 27,730 |

Computation of total income and tax payable by Dr. Rohan for A.Y. 2024-25 if he opts for section 44ADA

| | Particulars | Amount |
|-----|--|-----------------|
| I | Income from house property | |
| | Loss from self-occupied property | (30,000) |
| II | Income from business or profession | |
| | Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed] | 9,02,500 |
| III | Income from Other Sources | 57,500 |
| | Gross Total Income | 9,30,000 |
| | Less: Deduction under Chapter VI-A | 1,15,000 |
| | Total Income | 8,15,000 |

| Particulars | Amount |
|---|---------------|
| Tax Payable | |
| Upto 5,00,000 | Nil |
| 5,00,001 to 8,15,000 [3,15,000 @ 20%] | <u>63,000</u> |
| | 63,000 |
| Less: HEC @ 4% | 2,520 |
| Tax liability | 65,520 |
| Less: TDS | 69,600 |
| Tax Refundable | 4,080 |
| Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions. | |

Concept Problem 59 Solution
Computation of total income of Mr. Samar for A.Y. 2024-25 under Optional Tax regime:

| Particulars | Amount | Amount | Amount |
|---|--------|-----------|--------|
| Income from business or profession | | | |
| Excess of income over expenditure | | 39,43,000 | |
| Add: Items debited but not allowable while computing business income | | | |
| - Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income] | 20,000 | | |
| - Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of “relative” ¹ for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar’s sister-in-law] | Nil | | |
| - Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income] | 80,000 | | |
| - Commission to Ms. Anjaleen without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded 50 lakhs during F.Y. 2022-23. Since commission has been paid without deduction of tax at source, hence 30% | 7,500 | | |

| Particulars | Amount | Amount | Amount |
|--|--------|-----------|-----------|
| of 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y. 2024-25] | | | |
| - Depreciation as per books of account | 90,000 | | |
| - Purchase of Furniture [not allowable, since it is a capital expenditure] | 48,000 | 2,45,500 | |
| | | 41,88,500 | |
| <i>Add:</i> Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employee's contribution to EPF for February 2024 is deposited after the due date under the relevant Act, no deduction would be available] | | 10,000 | |
| | | 41,98,500 | |
| <i>Less:</i> Depreciation as per Income-tax Rules | | | |
| - On Professional Books [90,000 x 40%] | 36,000 | | |
| - On Computers [35,000 x 40%] | 14,000 | | |
| - On Furniture [19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, 18,000 and 11,000 paid on 31.8.2023 in cash would not be included in the actual cost of furniture] | 1,900 | | |
| - On Car [3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., 3,35,000] | 50,250 | 1,02,150 | |
| | | 40,96,350 | |
| <i>Less: Items of income credited but not taxable or taxable under any other head of income</i> | | | |
| - Interest on Public Provident Fund [Exempt] | 60,000 | | |
| - Interest on savings bank account [Taxable under the head "Income from other sources"] | 20,000 | | |
| - Interest on National Savings Certificates VIII Issue (3 rd Year) [Taxable under the head "Income from other sources"] | 21,000 | 1,01,000 | |
| | | | 39,95,350 |
| II. Income from Other Sources | | | |
| Interest on savings bank account | | 20,000 | |
| Interest on National Savings Certificates VIII Issue (3 rd Year) | | 21,000 | 41,000 |

| Particulars | Amount | Amount | Amount |
|---|----------|----------|------------------|
| Gross Total Income | | | 40,36,350 |
| Less: Deduction under Chapter VI-A | | | |
| <u>Deduction under section 80C</u> | | | |
| Contribution to PPF | 1,00,000 | | |
| Interest on NSC (3 rd Year) (Reinvested) | 21,000 | 1,21,000 | |
| <u>Deduction under section 80D</u> | | 50,000 | |
| Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of 50,000] | | | |
| <u>Deduction under section 80TTA</u> Interest on savings bank account to the extent of 10,000 | | 10,000 | 1,81,000 |
| Total Income | | | 38,55,350 |

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

| Particulars | Amount | Amount |
|--|----------|------------------|
| Tax on total income of 38,55,350 | | |
| Upto 2,50,000 | Nil | |
| 2,50,001 - 5,00,000 [@ 5% of 2.50 lakhs] | 12,500 | |
| 5,00,001 - 10,00,000 [@ 20% of 5 lakhs] | 1,00,000 | |
| 10,00,001 - 38,55,350 [@ 30% of 28,55,350] | 8,56,605 | |
| | | 9,69,105 |
| Add: Health and education cess @ 4% | | 38,764 |
| Tax liability | | 10,07,869 |
| Tax liability (rounded off) | | 10,07,870 |

Concept Problem 60 Solution

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

| Particulars | Amount | Amount | Amount |
|---|----------|-----------|--------|
| 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 & loss account] | 1,53,125 | | |

| Particulars | | Amount | Amount | Amount |
|---------------------------------------|---|-----------|-----------|------------------|
| | ii) Purchase of goods at a price higher than FMV [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 & at a price higher than fair market value] | 5,00,000 | 6,53,125 | |
| | | | 88,98,125 | |
| | Less: Items of income to be treated separately under the respective head of income | | | |
| | i) Income-tax refund including interest on refund of 4,550 | 15,550 | | |
| | ii) Dividend from Indian companies | 15,00,000 | | |
| | iii) Short term capital gains on transfer of listed equity shares | 10,00,000 | 25,15,550 | |
| | | | 63,82,575 | |
| | Less: Depreciation on interest on loan capitalized to plant and machinery 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized | | | |
| | Normal depreciation @ 15% x 50% on such interest | 11,484 | | |
| | Additional depreciation @ 20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2023-24, it is eligible for 50% of the rate of depreciation] | 15,313 | 26,797 | |
| | | | | 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 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] | | 40,000 | |
| | - Deduction under section 80D Health insurance premium for self, spouse and | | 25,000 | 65,000 |

| Particulars | | Amount | Amount | Amount |
|-------------|---|--------|--------|------------------|
| | 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 regular provisions of the Act

| Particulars | Amount | Amount |
|--|-----------|------------------|
| Tax on total income of 87,95,330 | | |
| Tax on short term capital gains on transfer of listed equity shares @ 15% u/s 111A [10,00,000 x 15%] | 1,50,000 | |
| 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 | |
| | | 23,01,099 |
| Add: Surcharge @10%, since total income exceeds 50,00,000 but does not exceed 1 crore | | 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 | Amount | Amount |
|---|----------|------------------|
| 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 capitalized | 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 | Amount | Amount |
|--|---------------|------------------|
| 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 3,00,000 | Nil | |
| 3,00,001 – 6,00,000 [@ 5% of 3 lakhs] | 15,000 | |
| 6,00,001 – 9,00,000 [@ 10% of 3 lakhs] | 30,000 | |
| 9,00,001 – 12,00,000 [@ 15% of 3 lakhs] | 45,000 | |
| 12,00,001 – 15,00,000 [@ 20% of 3 lakhs] | 60,000 | |
| 15,00,001 – 85,25,640 [@ 30% of 70,25,640] | 21,07,692 | 22,57,692 |
| | | 24,07,692 |
| Add: Surcharge @ 10%, since total income exceeds 50,00,000 but does not exceed 1 crore | | 2,40,769 |
| | | 26,48,461 |
| Add: Health and education cess@4% | | 1,05,938 |
| Total tax liability | | 27,54,400 |
| 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 | | 9,04,400 |

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 to opt out of default tax regime u/s 115BAC. In such case, the tax payable by him would be 7,82,460 as per the regular provisions of the Act.