Case Based MCQs – Direct Tax – May/ September 2024/January 2025

Question 1

Mr. Shashikant, aged 45 years, is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 29th May, 2023.

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Shashikant	29th May, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Shashikant	19th December, 2023

He stayed in India in the last 4 previous years preceding the P.Y. 2023-24 for 400 days and for a period of 750 days in the last 7 previous years preceding to P.Y. 2023-24. He received salary of ₹7,20,000 in his NRE account maintained with State Bank of India, Chennai Branch.

He also furnished details of other income earned by him during the previous year 2023-24:

S. No.	Particulars	Amount (₹)
1.	Dividend declared in the month of April, 2023 by X limited, a Singapore company. The same was received by him in Singapore	1,00,000
2.	Agriculture income from land in Pakistan received in India	2,50,000
3.	Rent received from house property in Chennai	3,60,000

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is Mr. Shashikant's residential status for the P.Y 2023-24?
   a. Resident and ordinarily resident
   b. Resident but not ordinarily resident
   c. Non-resident
   d. Deemed resident
2. What would be the total income of Mr. Shashikant for A.Y. 2024-25 assuming that he opts out of the default tax regime u/s 115BAC(1A)?
   a. ₹7,10,000
   b. ₹12,72,000
   c. ₹5,02,000
   d. ₹6,02,000
3. Assume for the purpose of answering this question that Mr. Shashikant has transferred his house property in Chennai to his minor married daughter on 1st April, 2023 and his wife is a housewife and does not have any income. The minor married daughter receives the rent from house property. In such case, his total income as per normal provisions of the Act would be -
   a. ₹5,00,500
   b. ₹6,00,500
   c. ₹5,02,000
   d. ₹6,02,000

4. Mr. Shashikant would like to minimize his tax liability and consulted you to compute the amount of same for the P.Y. 2023-24. Accordingly, his tax liability (rounded off) would be -
    a. ₹13,420
    b. ₹10,500
    c. ₹0
    d. ₹34,220

Solution

1. (c)
   If an Indian citizen leaves India during the relevant previous year for the purpose of employment, or as a member of crew in an Indian ship, he needs to have stayed for at least 182 days in the previous year to be called a Resident. For this purpose, the number of days for which he was on the ship needs to be deducted from the total number of days in a year.
   In the present case, the dates mentioned in the continuous discharge certificate are 29th May, 2023, and 19th December, 2023. Therefore, number of days = 3 + 30 + 31 + 31 + 30 + 31 + 30 + 19 = 205. Therefore, he stayed in India for 366 days – 205 days = 161 days. Since his period of stay is less than 182 days, he would be a Non-Resident for the P.Y. 2023-24.
2. (c)
   For non-residents, only the income which has accrued or arisen, or deemed to have accrued or arisen in India, or has been received or deemed to have been received in India is taxable.
   In the present case, the total income is calculated as follows:

Computation of Total Income

Particulars		**₹**
Dividend declared in the month of April, 2023 by X limited, a Singapore company. The same was received by him in Singapore. (Since the same has neither accrued, arisen, or received in India, it won't be taxable.)		-
Agriculture income from land in Pakistan received in India		2,50,000
Rent received from house property in Chennai	3,60,000	
Less: Deduction u/s 24(a) (30% × ₹3,60,000)	1,08,000	2,52,000
Total Taxable Income		5,02,000

3. (a)
   If the house property is transferred to minor married daughter, the transferor is not treated as deemed owner u/s 27. Instead, clubbing provisions are attracted. Since the wife has no income, the income of the minor married daughter from the transferred property will be clubbed in the hands of Mr. Shashikant only. However, exemption u/s 10(32) shall be available of ₹1,500. Therefore, the total taxable income would be:

Computation of Total Income

Particulars		**₹**
Dividend declared in the month of April, 2023 by X limited, a Singapore company. The same was received by him in Singapore. (Since the same has neither accrued, arisen, or received in India, it won't be taxable.)		-
Agriculture income from land in Pakistan received in India		2,50,000
Rent received from house property in Chennai (clubbed in the hands of Mr. Shashikant)	3,60,000	
Less: Deduction u/s 24(a) (30% × ₹3,60,000)	1,08,000	
	2,52,000	

Less: Exemption u/s 10(32)	1,500	2,50,500
Total Taxable Income		5,00,500

4. (b)

Total income is ₹5,02,000. In the third question, it is specifically written that assumption is to be made for solving that particular question only, so transfer to minor married daughter shall not be considered while answering any other question.

Computation of Tax Liability as per Normal Provisions

Particulars	**₹**
First ₹2,50,000	-
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500
From ₹5,00,000 to ₹5,02,000 (20% × ₹2,000)	400
	12,900
Add: Health and Education Cess @ 4%	516
Tax Liability	13,416
Tax Liability (Rounded Off)	13,420

Computation of Tax Liability as per Section 115BAC

Particulars	**₹**
First ₹3,00,000	-
From ₹3,00,000 to ₹5,02,000 (5% × ₹2,02,000)	10,100
	10,100
Less: Rebate u/s 87A (Not available to Non-Resident)	-
	10,100
Add: Health and Education Cess @ 4%	404
Tax Liability	10,504
Tax Liability (Rounded Off)	10,500

Therefore, tax liability is less in the new tax regime, and hence, Mr. Shashikant would opt for this. Therefore, the tax liability is ₹10,500.

Question 2

Mr. Suraj (aged 48 years) furnishes the following particulars for the previous year 2023-24 in respect of an industrial undertaking established in "Special Economic Zone" in March 2017. It began manufacturing in April 2017.

Particulars	**₹**
Total sales	85,00,000
Export sales [proceeds received in India]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2023-24 include freight and insurance of ₹5 lakhs for delivery of goods outside India. He received rent of ₹25,000 per month for a commercial property let out to Mr. Sudhir, a salaried individual. He earned interest on savings bank A/c of ₹12,500 and interest on Post Office savings A/c of ₹5,500 during the P.Y. 2023-24.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Compute the amount of export turnover and total turnover for purpose of computing deduction under section 10AA for A.Y. 2024-25.
    a. ₹45,00,000 and ₹85,00,000, respectively
    b. ₹40,00,000 and ₹80,00,000, respectively
    c. ₹45,00,000 and ₹80,00,000, respectively
    d. ₹40,00,000 and ₹85,00,000, respectively
2. Compute the amount of deduction available under section 10AA to Mr. Suraj under section 10AA for A.Y. 2024-25.
    a. ₹10,00,000
    b. ₹4,70,588
    c. ₹5,62,500
    d. ₹5,00,000
3. Assume for the purpose of this question only that Mr. Suraj established SEZ Unit and began manufacturing in April, 2019. Compute the amount of deduction available under section 10AA for A.Y. 2024-25.
    a. ₹10,00,000
    b. ₹9,41,176
    c. ₹11,25,000
    d. ₹5,00,000
4. Compute the total income of Mr. Suraj for the previous year 2023-24, assuming that he opts out of the default tax regime u/s 115BAC(1A).
    a. ₹12,14,500
    b. ₹17,18,000
    c. ₹17,14,500
    d. ₹17,28,000

Solution

1. (b)
   Freight is not considered as a part of turnover. Therefore, the freight of ₹5,00,000 shall be deducted from the export turnover of ₹45,00,000. Obviously, the total turnover would also get reduced by ₹5,00,000. Hence, the export turnover would be ₹40,00,000, and the total turnover would be ₹80,00,000.
2. (d)
   The operations started in the P.Y. 2017-18. Therefore, this is the 7^{th} year of operation. So, 50% of Export Profits shall be allowed as deduction u/s 10AA.
   $$Export\ Profits = Profits \times \frac{Export\ Turnover}{Total\ Turnover}$$
   $$Export\ Profit = ₹20,00,000 \times \frac{40,00,000}{80,00,000} = ₹10,00,000$$
   Deduction u/s 10AA = 50% × Export Profit = 50% × ₹10,00,000 = ₹5,00,000.
3. (a)
   If the operations started in the P.Y. 2019-20, this would be the 5^{th} year of operation, and hence 100% of Export Profits would be allowed as deduction u/s 10AA. Therefore, deduction allowed = ₹10,00,000.
4. (c)

Computation of Total Income

Particulars	**₹**
Income from House Property	

Rent Received (GAV) (₹25,000 × 12)		3,00,000
Less: Deduction u/s 24(a) (30% × ₹3,00,000)		90,000
Income from House Property (A)		2,10,000
Profits and Gains from Business or Profession		
Profit from SEZ undertaking		20,00,000
Less: Deduction u/s 10AA		5,00,000
Profits and Gains from Business or Profession (B)		15,00,000
Income from Other Sources		
Interest from Savings Bank A/c		12,500
Interest on Post Office savings A/c	5,500	
Less: Exempt u/s 10(15)	3,500	2,000
Income from Other Sources (C)		14,500
Gross Total Income (A) + (B) + (C)		17,24,500
Less: Deductions under Chapter VI-A		
Section 80TTA: Deduction in respect of interest from savings bank account restricted to		10,000
Total Income		17,14,500

Question 3

Mr. Kishan is engaged in the following activities on agricultural land situated in India, total area of land is 5 acres.

Activity A: He grows saplings or seedlings in a nursery spreading over on one acre land, the sale proceeds of which is ₹5,00,000. Cost of plantation is ₹1,40,000. Basic operations are not performed for growing saplings or seedlings.

Activity B: He grows cotton on 3 acres land. 40% of cotton produce is sold for ₹4,00,000, the cost of cultivation of which is ₹2,25,000. The cost of cultivation of balance 60% cotton is ₹3,37,500 and the market value of the same is ₹6,00,000, which is used for the purpose of manufacturing yarn. After incurring manufacturing expenses of ₹1,00,000, yarn is sold for ₹8,50,000

Activity C: Land measuring 1 acres is let out to Mr. Ramesh on monthly rental of ₹15,000 which is used by Mr. Ramesh as follows:

- 50% of land is used for agricultural purpose
- 50% of land is used for non-agricultural purpose.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What amount of income arising from activity A would constitute agricultural income in the hands of Mr. Kishan?
    a. ₹5,00,000
    b. Nil
    c. ₹3,60,000
    d. ₹1,40,000
2. What amount of income from activity B with respect to sale of cotton would constitute agricultural income or/and business income in the hands of Mr. Kishan?
    a. ₹1,75,000 as agricultural income

b. ₹1,75,000 as business income
c. ₹1,75,000 as agricultural income and ₹2,62,500 as business income
d. ₹4,00,000 as agricultural income

3. What amount of the income from activity B with respect to sale of yarn constitute agricultural income or/and business income in the hands of Mr. Kishan?
    a. ₹1,50,000 as agricultural income
    b. ₹2,62,500 as agricultural income and ₹1,50,000 as business income
    c. ₹3,37,500 as agricultural income and ₹1,50,000 as business income
    d. ₹4,12,500 as business income
4. What amount of income arising from activity C constitute agricultural income or otherwise in the hands of Mr. Kishan?
    a. Whole amount of ₹1,80,000 would be agricultural income
    b. Whole amount of ₹1,80,000 would be business income.
    c. ₹90,000 would be agricultural income and ₹63,000 is chargeable to tax as income from house property
    d. ₹90,000 would be agricultural income and ₹90,000 is chargeable to tax under the head "Income from Other Sources"
5. Compute the gross total income of Mr. Kishan for the P.Y. 2023-24, assuming he has no other source of income.
    a. ₹2,40,000
    b. ₹3,30,000
    c. ₹5,02,500
    d. ₹2,13,000

Solution

1. (c)
    Any income from saplings or seedlings grown in a nursery shall be treated as agricultural income even if the basic operations are not carried out on land. Therefore, the entire income of ₹5,00,000 – ₹1,40,000 = ₹3,60,000 shall be treated as agricultural income.
2. (a)
    With respect to sale of cotton, the agricultural income would be ₹4,00,000 – ₹2,25,000 = ₹1,75,000.
    Note: The question hasn't asked the agricultural income of all the transactions. It has only asked the agricultural income with respect to sale of cotton.
3. (b)

Computation of Business Income and Agricultural Income of Mr. Kishan

Particulars		**₹**
Agricultural Income		
Market Value of Cotton (60%)		6,00,000
Less: Cost of Cultivation		3,37,500
Agricultural Income		2,62,500
Business Income		
Sale Proceeds of Yarn		8,50,000
Less: Market Value of Cotton	6,00,000	
Cost of Manufacturing	1,00,000	7,00,000
Business Income		1,50,000

4. (d)

Total income from Activity C would be ₹15,000 × 12 = ₹1,80,000. Since 50% of it is used for agricultural purposes, 50% × ₹1,80,000 = ₹90,000 would be treated as agricultural income, and the balance ₹90,000 would be treated as income from other sources. Since there is no house property, no income shall be chargeable to tax as income from house property.

5. (a)

Computation of Gross Total Income

Particulars	₹
Profits and Gains from Business or Profession	
Business Income from Sale of Yarn	1,50,000
Profits and Gains from Business or Profession (A)	1,50,000
Income from Other Sources	
Rental Income from Land	90,000
Income from Other Sources (B)	90,000
Gross Total Income	2,40,000

Question 4

Mr. Rajesh Sharma, aged 54 years, an Indian citizen, is working as Assistant Manager in ABC India Ltd. He is getting basic salary of ₹58,000 per month. He used to travel frequently out of India for his office work. He left India from Delhi Airport on 5th October, 2023 and returned to India on 2nd April, 2024. For previous year 2023-24, following information are relevant:

1. Dearness Allowance - 10% of Basic Pay (considered for retirement purposes)
2. Bonus - ₹98,000
3. Medical allowance paid during P.Y. 2023-24 amounting to ₹60,000
4. He was also reimbursed medical bill of his mother amounting to ₹15,000.
5. He was also transferred a laptop by company for ₹15,000 on 31st December, 2023. The laptop was acquired by company on 1st October, 2020 for ₹1,00,000. Company was charging depreciation at 31.666% assuming useful life of laptop as 3 years.
6. He was also reimbursed salary of house servant of ₹4,000 per month.
7. Professional Tax paid by employer amounting to ₹2,400.
8. 400 equity shares allotted by ABC India Ltd. at the rate of ₹250 per share against fair market value of share of ₹350 on the date of exercise of option.
9. Short-term capital gain on sale of shares of listed company on which STT is paid amounting to ₹94,000.
10. Mr. Rajesh wishes to opt out of the default tax regime u/s 115BAC(1A).

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is Mr. Rajesh Sharma's residential status for the A.Y. 2024-25?
    a. Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident from the given information
    b. Non-Resident
    c. Resident but not ordinarily resident
    d. Resident and ordinarily resident
2. What are his taxable perquisites for A.Y. 2024-25?
    a. ₹55,000
    b. ₹90,400

c. ₹1,05,400
d. ₹1,03,000

3. What is the income chargeable under the head “Salaries” in the hands of Mr. Rajesh Sharma for A.Y. 2024-25?
    a. ₹9,76,600
    b. ₹9,86,600
    c. ₹9,71,600
    d. ₹9,61,600
4. The total tax liability of Mr. Rajesh Sharma for A.Y. 2024-25 is:
    a. ₹1,26,800
    b. ₹1,40,710
    c. ₹1,12,130
    d. ₹1,39,960
5. Assume for the purpose of this question only, that Mr. Rajesh was found owner of ₹5 lakh worth jewellery acquired in F.Y. 2023-24, of which he could not provide any satisfactory explanation about source of income. What would be the tax liability (without considering surcharge and Health and education cess, if any) of Mr. Rajesh Sharma towards such unexplained expenditure:
    a. ₹1,00,000
    b. ₹1,50,000
    c. ₹3,00,000
    d. ₹3,90,000

Solution

1. (a)
   If a person, being an Indian citizen, leaves India during the relevant previous year for the purpose of employment, he needs to have stayed India for at least 182 days to be a resident. In the present case, Mr. Rajesh left India on 5th October, 2023, and returned in the next previous year. For the P.Y. 2023-24, his period of stay in India was 30 + 31 + 30 + 31 + 31 + 30 + 5 = 188 days. Therefore, he is a resident in India for the P.Y. 2023-24. However, since no information is given regarding his stay in India during the 10 previous years preceding the relevant previous year, it is not possible to determine whether he is an ordinarily resident, or a not ordinarily resident.
2. (c)

Calculation of Taxable Perquisites

Particulars		₹
Reimbursement of medical bill		15,000
Laptop (Note)		
Cost as on 01-10-2020	1,00,000	
Less: Depreciation from 01-10-2020 to 30-09-2021 (50% × ₹1,00,000)	50,000	
	50,000	
Less: Depreciation from 01-10-2021 to 30-09-2022 (50% × ₹50,000)	25,000	
	25,000	
Less: Depreciation from 01-10-2022 to 30-09-2023 (50% × ₹25,000)	12,500	
	12,500	
Less: Amount at which it was transferred	15,000	-
Salary of House Servant (₹4,000 × 12)		48,000
Issue of Sweat Equity Shares [(₹350 – ₹250) × 400]		40,000

Professional Tax	2,400
Taxable Perquisites	1,05,400

Note: Since the laptop has been transferred at a cost higher than the WDV, the taxable value of this perquisite will be NIL.

3. (a)

Computation of Income from Salaries of Mr. Rajesh Sharma

Particulars		**₹**
Basic Salary (₹58,000 × 12)		6,96,000
Dearness Allowance (10% × ₹6,96,000)		69,600
Bonus		98,000
Medical Allowance		60,000
Reimbursement of Medical Bill of Mother		15,000
Transfer of Laptop (See Part 2 for explanation)		-
Salary of House Servant (₹4,000 × 12)		48,000
Professional Tax		2,400
Issue of Sweat Equity Shares [(₹350 – ₹250) × 400]		40,000
Gross Salary		10,29,000
Less: Standard Deduction	50,000	
Professional Tax	2,400	52,400
Income from Salaries		9,76,600

4. (a)

Computation of Total Income

Particulars	**₹**
Income from Salaries (As Computed in Part 3)	9,76,600
Short Term Capital Gains on sale of equity shares	94,000
Total Income	10,70,600

Computation of Tax Liability

Particulars		**₹**
15% on Short Term Capital Gains u/s 111A (15% × ₹94,000)		14,100
Tax at normal slab rates on ₹9,76,600		
First ₹2,50,000	-	
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500	
From ₹5,00,000 to ₹9,76,600 (20% × ₹4,76,600)	95,320	1,07,820
		1,21,920
Add: Health and Education Cess @ 4%		4,877
Tax Liability		1,26,797
Tax Liability (Rounded Off)		1,26,800

5. (c)

As per Section 69, if a person has made investments in a previous year, but hasn't recorded them in their account books and cannot explain where the money for the investments came from, or the explanation is not satisfactory to the tax authority, then the value of the investments will be treated as taxable income of that person for the previous year.

As per Section 115BBE, to prevent illegal money from being hidden, the government charges a high tax rate of 60% on any unexplained income, investments, or expenses that are deemed taxable under different sections (including section 69) of the tax laws. Additionally, a surcharge of 25% and a cess of 4% are added to this tax rate, resulting in an effective tax rate of 78%.

In this question, we are asked to calculate only the tax liability ignoring the surcharge and cess. Therefore, tax = 60% × ₹5,00,000 = ₹3,00,000.

Question 5

Mr. Hardik (age 45 years) is appointed as senior executive officer in Sky India Limited, Mumbai on 01.02.2023 in the scale of ₹35,000-3,500-65,000. He is paid dearness allowance @ 40% of basic pay forming part of retirement benefits.

He is given rent free unfurnished accommodation on 01.5.2023 which he occupied only from 01.10.2023. The company pays lease rent of ₹5,000 p.m.

He has been provided a car of above 1.6 liters capacity which is used by him for private purposes only. The actual cost of the car is ₹8,00,000. The monthly expenditure of car is ₹5,000, which is fully met by the employer. Car is owned by his employer.

He pays lumpsum premium of ₹1,20,000 towards health insurance for self and his wife (age 43 years) for 48 months on 01.10.2023 by account payee cheque. He also contributes ₹1,50,000 towards PPF.

Mr. Hardik is interested to opt for concessional tax regime available under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the value of rent-free accommodation chargeable to tax in the hands of Mr. Hardik?
    a. ₹44,835
    b. ₹44,100
    c. ₹45,570
    d. ₹30,000
2. What amount of health insurance premium paid during the previous year 2023-24 by Mr. Hardik can be claimed as deduction while computing total income, if he does not opt to pay tax under section 115BAC?
    a. ₹30,000
    b. ₹15,000
    c. ₹24,000
    d. ₹25,000
3. What would be perquisite value of car chargeable to tax in the hands of Mr. Hardik?
    a. ₹28,800
    b. ₹21,600
    c. ₹60,000
    d. ₹1,40,000
4. Would you advise Mr. Hardik to opt out of the default tax regime u/s 115BAC(1A)?
    a. No, Mr. Hardik should go for section 115BAC, since in such case his tax liability would be ₹22,760, being lower than the tax liability under normal provisions of the Act
    b. No, Mr. Hardik should go for concessional tax regime, since in such case his tax liability would be ₹17,560 being lower than the tax liability under normal provisions of the Act.
    c. Yes, Mr. Hardik should opt out, since as per normal provisions of the Act, his tax liability would be ₹32,510, being lower than the tax liability under section 115BAC

d. No, Mr. Hardik should not opt out of the default tax regime u/s 115BAC(1A), since as per normal provisions of the Act, his tax liability would be ₹22,110, being higher than the tax liability under section 115BAC, which would be ₹18,510.

Solution

1. (d)
Value of rent free unfurnished accommodation would be the rent paid by the employer, i.e., ₹5,000 p.m. Since the accommodation was occupied by Mr. Hardik from 01-10-2023, the perquisite is provided for 6 months only. Therefore, the value of rent free unfurnished accommodation would be ₹5,000 × 6 = ₹30,000.
2. (c)
The lumpsum amount of ₹1,20,000 will be divided by the number of years during which the policy is valid. 48 months from 01-10-2023 will end on 30-09-2027. This covers the Financial Years 2023-24, 2024-25, 2025-26, 2026-27, and 2027-28. Therefore, the entire amount of ₹1,20,000 will be divided by 5 years, and hence, the value for each year comes out to be ₹1,20,000 ÷ 5 = ₹24,000. Since this is within the permissible limit of ₹25,000, the entire amount of ₹24,000 shall be allowed as deduction u/s 80D.
3. (d)
When a motor car is given by the employer to the employee which is owned by the employer, for private purposes of the employee, the value of perquisite = Maintenance Charges + Chauffer's Salary + 10% of Cost – Amount recovered from employee. Therefore, perquisite value of car would be = (₹5,000 × 12) + 0 + (10% × ₹8,00,000) – 0 = ₹1,40,000.
4. (d)

Computation of Total Income as per Normal Provisions

Particulars		₹
Basic Salary [(₹35,000 × 10) + {(₹35,000 + ₹3,500) × 2}]		4,27,000
Dearness Allowance (40% × ₹4,27,000)		1,70,800
Rent Free Unfurnished Accommodation (₹5,000 × 6)		30,000
Perquisite Value of Car (As computed in Part 3)		1,40,000
Gross Salary		7,67,800
Less: Standard Deduction		50,000
Taxable Salary (Gross Total Income)		7,17,800
Less: Deductions under Chapter VI-A		
Section 80C: Contribution to PPF	1,50,000	
Section 80D: Health Insurance Premium	24,000	1,74,000
Total Taxable Income		5,43,800

Computation of Tax Liability as per Normal Provisions

Particulars		₹
First ₹2,50,000	-	
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500	
From ₹5,00,000 to ₹5,43,800 (20% × ₹43,800)	8,760	21,260
Add: Health and Education Cess @ 4%		850
Tax Liability		22,110

Computation of Total Income as per Section 115BAC

Particulars	₹

Total Taxable Income as per Normal Provisions	5,43,800
Add: Deductions under Chapter VI-A	1,74,000
Total Taxable Income as per Section 115BAC	7,17,800

Computation of Tax Liability under the Default Tax Regime

Particulars			₹
Step 1	Total Income of ₹7,17,800 – ₹7,00,000 (A)		17,800
Step 2	Tax on Total Income		
	First ₹3,00,000	NIL	-
	Next ₹3,00,001 to ₹6,00,000	5% of ₹3,00,000	15,000
	Next ₹6,00,001 to ₹7,17,800	10% of ₹1,17,800	11,780
	Total (B)		26,780
Step 3	Since B > A, rebate u/s 87A would be B – A [₹26,780 – ₹17,800]		8,980
	Tax on ₹7,17,800		26,780
	Less: Rebate u/s 87A		8,980
			17,800
	Add: Health and Education Cess @ 4%		712
	Tax Liability		18,512
	Tax Liability (Rounded Off)		18,510

Since tax liability is coming out to be less under the default scheme, Mr. Hardik should not opt out of the default tax regime.

Question 6

Ananya Gupta, a citizen of India, lives with her family in New York since the year 2001. She visited India from 21st March, 2023 to 28th September, 2023 to take care of her ailing mother. In the last four years, she has been visiting India for 100 days every year to be with her mother. She owns an apartment at New York, which is used as her residence. The expected rent of the house is $32,000 p.a. The value of one USD ($) may be taken as ₹75. Municipal taxes paid in New York in January, 2023 are $2,000.

She took ownership and possession of her house in New Delhi on 25th March, 2023, for self-occupation, while she is in India. The municipal valuation is ₹4,20,000 p.a. and the fair rent is ₹4,50,000 p.a. She paid property tax of ₹22,000 to Delhi Municipal Corporation on 21st March, 2024. She had taken a loan of ₹16 lakhs @ 10% p.a. from IDBI Bank on 1st April, 2019 for constructing this house and the construction got completed on 20th March, 2023. No amount has been paid towards principal repayment so far. The house is vacant for the rest of the year i.e., from October 2023 to March 2024.

She had a house property in Mumbai, which was sold on 28th March, 2023. In respect of this house, she received arrears of rent of ₹3,00,000 on 4th February, 2024. This amount has not been charged to tax earlier.

She does not have any income under any other source in India during previous year in 2023-24.

Ananya Gupta wants to opt out of the default tax regime u/s 115BAC(1A) for A.Y. 2024-25.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the residential status of Ananya Gupta for A.Y. 2024-25?
   a. Resident and ordinarily resident
   b. Resident but not ordinarily resident
   c. Deemed resident but not ordinarily resident in India
   d. Non-resident
2. Ms. Ananya Gupta can claim benefit of “Nil” Annual Value under section 23(2) in respect of –
   a. Her Delhi house
   b. Her New York house, since it is more beneficial; her Delhi house will be deemed to be let out and expected rent would be the annual value.
   c. Her Delhi house alone; her New York house will be deemed to be let out and expected rent would be the annual value.
   d. Both her Delhi house and New York house, since benefit of Nil Annual value u/s 23(2) is available in respect of two house properties.
3. What is the income chargeable under the head “Income from house property” of Ananya Gupta for A.Y. 2024-25?
   a. ₹15,65,000
   b. ₹3,09,600
   c. ₹1,00,000
   d. ₹10,000
4. Assuming that, for the purpose of this question alone, Ananya Gupta has let out her flat in New York during the six months (April to September) when she is in India, for a sum of $ 6,000 p.m. Such rent was received in a bank account in New York and then remitted to India through approved banking channels. What would be the income from house property chargeable to tax in her hands in India for A.Y. 2024-25?
   a. ₹10,000
   b. ₹17,85,000
   c. ₹17,95,000
   d. ₹18,85,000

Solution

1. (d)
   We’ll first need to calculate the income from Indian sources of Ananya Gupta to determine her residential status.

Computation of Income of Ananya Gupta

Particulars		₹
NAV		-
Less: Deductions u/s 24		
30% of NAV	-	
Interest on Loan (See Note)	2,00,000	2,00,000
Income from Self Occupied Property		(2,00,000)
Arrears of rent received	3,00,000	
Less: Deduction u/s 24 @ 30%	90,000	2,10,000
Income from House Property		10,000

Note - Computation of Interest

Particulars	₹
F.Y. 2019-20 (10% × ₹16,00,000)	1,60,000
F.Y. 2020-21 (10% × ₹16,00,000)	1,60,000
F.Y. 2021-22 (10% × ₹16,00,000)	1,60,000
Pre-Construction Period Interest	4,80,000
This will be allowed in 5 equal instalments.	
Amount allowed in P.Y. 2023-24 (₹4,80,000 ÷ 5)	96,000
Interest for P.Y. 2023-24 (10% × ₹16,00,000)	1,60,000
Total Interest for the period	2,56,000
Restricted to	2,00,000

Since her income from Indian sources does not exceed ₹15 lakhs, she would be resident only if she stays for at least 182 days in India in P.Y. 2023-24. Her duration of stay in P.Y. 2023-24 = 30 + 31 + 30 + 31 + 31 + 28 = 181 days. Therefore, she is a Non-Resident.

2. (a)
   For non-residents, only the income which is accrued/arisen/received or deemed to accrue/arise/received in India is chargeable to tax. Therefore, only the income from Delhi house will be taxable. Hence, she can claim NIL NAV only for her Delhi house.
3. (d)
   See computation done in part 1.
4. (a)
   Since the income from New York property is received in the bank of New York only, it has no connection with India. It is irrelevant that the income received in New York has been remitted to India later on.

Question 7

Ram Builders & Developers is the sole proprietorship concern of Mr. Ram. The main business of the concern is construction, development, and sale of residential and commercial units. Ram Builders & Developers developed a project named Luxuria Heaven, which has both residential and commercial units with its own funds. It obtained certificate of completion for the said project with effect from 31/03/2023. Ram sold the majority of its residential units and commercial units in the F.Y. 2023-24. However, around 30 residential units and 15 commercial units were held by him as stock in trade as on 31.3.2024. During this period, there was a slump in the real estate sector. In order to earn some income from these units, Ram incidentally let out some of the units held as stock-in-trade. The details of units constructed, sold and held as stock-in-trade are given hereunder:

Particulars	Total Units Constructed	Units Sold	Units Held as Stock in Trade as on 31-03-2024 [(2) – (3)]	Units Let Out During P.Y. 2023-24 out of (4)	Units vacant during the whole of P.Y. 2023-24 [(4) – (5)]	Actual rent per unit per month [in respect of let out units mentioned in (5)]
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Residential units	100	70	30	10	20	10,000 p.m.
Commercial units	40	25	15	5	10	18,000 p.m.
	140	95	45	15	30	

Out of the residential units sold, 5 residential units were sold to his friend, Mr. Gaurav, who is also a real estate developer, on 15.2.2024, for ₹20 lakhs each. The stamp duty value on the date of sale was ₹23 lakhs each. However, the agreement of sale was entered into on 1.11.2023, on which date the stamp duty value was ₹22 lakhs. Mr. Ram received ₹1 lakh by way of account payee bank draft on 1.11.2023 from Mr. Gaurav.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. While computing the total income of Mr. Ram, the income from residential and commercial units let out during the P.Y. 2023-24 will be taxed under head:
   a. Income from house property
   b. Profits and gains of business or profession
   c. Income from let out residential units will be taxed under the head "Income from house property" and income from let out commercial units will be taxed under the head "Profits and gains of business or profession"
   d. Income from other source
2. What would be the tax treatment of vacant residential and commercial units held as stock in trade as on 31.3.2024?
   a. The vacant residential units would be deemed to be let out and expected rent would be deemed as the annual value chargeable to tax under the head "Income from house property" for A.Y. 2024-25.
   b. The vacant units, both residential and commercial, would be deemed to be let out and expected rent would be deemed as the annual value chargeable to tax under the head "Income from house property" for A.Y. 2024-25.
   c. The annual value of both vacant residential and commercial units would be Nil for A.Y. 2024-25. Hence, no income is chargeable for such units under the head "Income from house property" for A.Y. 2024-25.
   d. Vacant units held as stock-in-trade can never be deemed as let out at any point of time
3. What would be the full value of consideration in respect of sale of units to Mr. Gaurav for the purpose of computing profits and gains from transfer of units?
   a. ₹1,00,00,000
   b. ₹1,15,00,000
   c. ₹1,10,00,000
   d. ₹99,00,000
4. Assume that ₹1 lakh was paid in cash by Mr. Gaurav to Mr. Ram on 1.11.2023 instead of by way of account payee bank draft, what would be the income chargeable under section 56(2)(x) in the hands of Mr. Gaurav?
   a. ₹15 lakh
   b. ₹10 lakh
   c. Nil, since the stamp duty value is within the permissible deviation limit
   d. Nil, since section 56(2)(x) is not applicable in this case

Solution

1. (a)
   In case of house property held as stock in trade by builders, the income from sale of house properties is taxable under the head PGBP, while the income from letting out of house properties is taxable under the head Income from House Property.

Therefore, in the present case, the income shall be taxable under the head "Income from House Property".

2. (c)

   Where the House Property is held as Stock-in-Trade and not let out during the Previous Year, then NAV shall be treated as NIL for the period of 2 years from the end of F.Y. in which construction is completed.

   In the present case, the construction got completed on 31-03-2023, i.e., in P.Y. 2022-23. Therefore, for the P.Y. 2023-24, and the P.Y. 2024-25, the NAV of the unsold units shall be treated as NIL.

3. (a)

   As per Section 43CA, if the property held as stock in trade is sold for a consideration, and the Stamp Duty Value of that property exceeds 110% of the consideration, then the SDV is taken to be the full value of consideration. In case where the date of registration is different from the date of agreement, the SDV of the date of agreement can be taken provided some amount is received by the seller by way of A/c Payee Cheque, or by use of electronic clearance system through a bank account.

   In the present case, Mr. Ram received ₹1,00,000 on the date of agreement, and therefore, the SDV as on the date of agreement shall be considered. The stamp duty value on the date of agreement is ₹22,00,000, and the actual sale consideration is ₹20,00,000 per unit. Since the SDV does not exceed 110% of the consideration, the actual consideration, i.e., ₹20,00,000 will only be the full value of consideration. Hence, the full value of consideration = ₹20,00,000 × 5 = ₹1,00,00,000.

4. (d)

   Since the property is acquired by Mr. Gaurav as stock in trade, section 56(2)(x) won't be applicable.

Question 8

For the assessment year 2024-25, Mr. Sonu submits the following information:

Particulars	Building at Chennai (₹)	Building at Kochi (₹)
Municipal Valuation	35,000	80,000
Standard Rent	36,000	70,000
Fair Rent	31,000	82,000
Rent Received	38,000	68,000
Municipal taxes paid by tenant Mr. Ramu for building at Chennai and paid by Mr. Sonu for Building at Kochi.	3,000	4,000
Repairs paid by tenant Mr. Ramu for Chennai building and Mr. Sonu paid for Kochi building	500	18,000
Land revenue paid	2,000	16,000
Insurance premium paid	500	2,000
Interest on loan borrowed for payment of municipal tax of house property	200	400
Nature of occupation	Let out for residence	Let out for business
Date of completion of construction	01-04-1997	01-07-2009

Mr. Sonu is constructing one more building in Mumbai during the previous year 2023-24. Mr. Raju, a film director, took on rent the building under construction in Mumbai at ₹5,000 per month for his film shooting. The construction of the said building would be completed by April 2024. Mr. Sonu is a real estate developer and letting out properties is not the business of Mr. Sonu. Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Which of the building's income is chargeable to tax under the head "Income from house property" in the hands of Mr. Sonu?
    a. Building at Chennai only
    b. Building at Kochi only
    c. Both buildings at Chennai and Kochi
    d. All the three buildings at Chennai, Kochi and Mumbai
2. Which of the following payments/expenditure is allowable as deduction while computing income under the head "Income from house property" incurred in respect of the building at Chennai and Kochi?
    a. Municipal taxes paid by Mr. Sonu and Mr. Ramu
    b. Municipal tax, land revenue, insurance premium, interest on loan borrowed for payment of Municipal tax paid by Mr. Sonu
    c. Only municipal tax paid by Mr. Sonu
    d. Both Municipal tax and repairs paid by Mr. Sonu
3. Under which head of income, the amount received from Mr. Raju would be chargeable to tax?
    a. Income from house property
    b. Profits and gains from business or profession
    c. Income from other sources
    d. Income from house property or Income from other sources, at the option of Mr. Sonu
4. What is the amount chargeable to tax under the head "Income from house property" in the hands of Mr. Sonu for the P.Y. 2023-24?
    a. ₹72,800
    b. ₹81,200
    c. ₹1,14,800
    d. ₹70,700

Solution

1. (c)
   When a building is let out, the income is charged under the head "Income from House Property" irrespective of the purpose for which the building has been let out. Therefore, income from both the buildings at Chennai and Kochi will be chargeable to tax under the head "Income from House Property".
   As far as the building at Mumbai is concerned, it is not a house property as it is still under construction, and therefore, income from letting it out won't be taxed under the head "Income from House Property".
2. (c)
   The deduction of municipal taxes paid by the owner is allowed as deduction from the Gross Annual Value. No other deduction is allowed, because for everything else, the standard deduction of 30% is allowed u/s 24(a).
3. (c)
   The income from letting out the under-construction building will be taxable under the head "Income from Other Sources" because it cannot be taxed in any of the other four heads.
4. (a)

Computation of Income from House Property

Particulars		Chennai	Kochi
(i)	Municipal Value	35,000	80,000
(ii)	Fair Rent	31,000	82,000
(iii)	Higher of (i) and (ii)	35,000	82,000
(iv)	Standard Rent	36,000	70,000
(v)	Expected Rent [Lower of (iii) and (iv)]	35,000	70,000
(vi)	Actual Rent Received/Receivable	38,000	68,000
	GAV [Higher of (v) and (vi)]	38,000	70,000
	Less: Municipal Taxes	-	4,000
	NAV	38,000	66,000
	Less: Deductions u/s 24		
	30% of NAV	11,400	19,800
	Interest on Loan	-	-
	Income from House Property	26,600	46,200

Total Income from House Property = ₹26,600 + ₹46,200 = ₹72,800

Question 9

Mr. Ganesha (a salaried person) has three houses. One in Thane (Maharashtra), second in Jaipur (Rajasthan) and third in Ratlam (Madhya Pradesh). Details of the flats/houses are as follows:

- **Thane flat:** 3 BHK flat purchased in April, 2003 for ₹90 lakhs. Afterwards, interior work done in 2006 of ₹15 lakhs. Mr. Ganesha took loan of ₹65 lakhs for purchase of this flat in 2001 and settled full loan in 2019.
- **Jaipur house:** Purchased in July, 2019 of ₹62 lakhs and interior work done in September, 2020 of ₹15 lakhs. Loan taken for purchase of this house of ₹15 lakhs in June, 2019. As per interest certificate, he paid ₹12,00,500 and ₹43,500 towards principal and interest, respectively, during the P.Y. 2023-24.
- **Ratlam House:** Purchased in December 2020 for ₹70 lakhs (stamp duty value of ₹65 lakhs). For acquiring this house, he took loan of ₹40 lakhs from Canara Bank. Loan was sanctioned on 1.8.2020. He pays EMI of ₹38,100 per month. As per interest certificate, for the previous year 2023-24, he paid ₹60,900 and ₹3,96,300 towards principal and interest, respectively.

Particulars	Thane House	Jaipur House (Apr-23 to Dec-23)	Ratlam House
Municipal Taxes paid by Mr. Ganesha	18,574	8,090	6,909
Municipal value (per month)	30,500	6,800	7,200
Fair Rent (per month)	33,000	7,000	7,500
Standard Rent (per month)	32,000	8,000	7,300

Other details are as follows:-

- He has sold Jaipur house on 1st January, 2024 for ₹105 lakhs and invested ₹15 lakh in RECL bonds issued by the Central Government on 10th August 2024.
- Mr. Ganesha is working in WinDoor Exports Pvt Ltd, Mumbai and self-occupied Thane flat. He earned salary of ₹22,50,350 for the previous year 2023-24.
- He has no other income from any source for the P.Y. 2023-24.
- He has given Ratlam house on rent for F.Y. 2023-24 to Mr. Pratap on a monthly rent of ₹8,500.

- He has given Jaipur house on rent for the period of April, 2023 to June, 2023 to Mrs. Madhura Mahto on monthly rent of ₹7,100 and vacant for remaining period from July, 2023 to December, 2023.

Mr. Ganesha would like to opt out of the default tax regime u/s 115BAC(1A).

Cost inflation index (CII) for the Financial Year (F.Y.) 2019-20 is 289; 2020-21: 301; F.Y. 2023-24: 348.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be Net Annual Value of each house for the previous year 2023-24?
   a. Thane – Nil; Jaipur – ₹13,210; Ratlam – ₹95,091
   b. Thane – Nil; Jaipur – ₹54,910; Ratlam – ₹95,091
   c. Thane – Nil; Jaipur – ₹21,300; Ratlam – ₹1,02,000
   d. Thane – Nil; Jaipur – ₹13,210; Ratlam – ₹80,691
2. What would be income/loss under the head "Income from house property" in the hands of Mr. Ganesha?
   a. Loss of ₹1,67,689
   b. Loss of ₹2,86,236
   c. Loss of ₹3,20,489
   d. Loss of ₹3,63,989
3. How much amount will be carried forward as loss from house property for the subsequent assessment year 2025-26?
   a. ₹3,63,989
   b. ₹1,63,989
   c. ₹2,00,000
   d. ₹1,50,000
4. What would the amount of capital gains chargeable to tax in the hands of Mr. Ganesha during the previous year 2023-24?
   a. Short-term capital gains of ₹13,00,000
   b. Long-term capital gains of ₹18,98,962
   c. Long-term capital gain of ₹13,00,037
   d. Long-term capital gain of Nil, since he is eligible for deduction u/s 54EC in respect of amount invested in RECL bonds issued by Central Government
5. What would be the gross total income of Mr. Ganesha for the A.Y. 2024-25?
   a. ₹22,99,810
   b. ₹20,99,810
   c. ₹33,00,386
   d. ₹38,99,312

Solution

1. (a)

Computation of NAV of Ganesh for A.Y. 2024-25

	Particulars	Thane	Jaipur	Ratlam
(i)	Municipal Value	-	61,200	86,400
(ii)	Fair Rent	-	63,000	90,000
(iii)	Higher of (i) and (ii)	-	63,000	90,000
(iv)	Standard Rent	-	72,000	87,600

(v)	Expected Rent [Lower of (iii) and (iv)]		-	63,000	87,600
(vi)	Actual Rent Received/Receivable		-	21,300	1,02,000
	GAV [Higher of (v) and (vi)]		-	21,300	1,02,000
	Less: Municipal Taxes		-	8,090	6,909
	NAV		-	13,210	95,091

W.N. 1 - Calculation of GAV of Jaipur House

Particulars	₹
Expected Rent	63,000
Actual Rent (₹7,100 × 3)	21,300
Vacancy Rent (₹7,100 × 6)	42,600
AR + VR	63,900
GAV (Since AR + VR = ER, GAV = AR)	21,300

2. (d)

Computation of Income from House Property of Ganesh for A.Y. 2024-25

	Particulars	Thane	Jaipur	Ratlam
	NAV	-	13,210	95,091
	Less: Deductions u/s 24			
	30% of NAV	-	3,963	28,527
	Interest on Loan	-	43,500	3,96,300
	Income from House Property	-	(34,253)	(3,29,736)

Total loss = ₹34,253 + ₹3,29,736 = ₹3,63,989

3. (b)

Loss from house property to the extent of ₹2,00,000 can be set off against the salary income. The remaining loss of ₹1,63,989 will be carried forward.

4. (c)

Calculation of Capital Gains

Particulars		₹
Full Value of Consideration		1,05,00,000
Less: Expenses on Transfer		-
Net Consideration		1,05,00,000
Less: Indexed Cost of Acquisition (₹62,00,000 × 348 ÷ 289)	74,65,744	
Indexed Cost of Improvement (₹15,00,000 × 348 ÷ 301)	17,34,219	91,99,963
		13,00,037
Less: Exemption u/s 54EC (Not Available since investment is done after 6 months)		-
Taxable Long Term Capital Gains		13,00,037

5. (c)

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

Particulars	₹
Income from Salaries	
Income from Salaries	22,50,350
Less: Standard Deduction	50,000
	22,00,350
Less: Set off of House Property Loss	2,00,000
Income from Salaries (A)	20,00,350

Income from House Property	
Income from House Property (From Part 2)	(3,63,989)
Less: Set off from Salaries	2,00,000
	(1,63,989)
Less: Carried Forward	1,63,989
Income from House Property (B)	(0)
Capital Gains	
Long Term Capital Gains (From Part 4)	13,00,037
Capital Gains (C)	13,00,037
Gross Total Income (A) + (B) + (C)	33,00,386

Question 10

"LUX Enterprise" a proprietorship firm of Mr. Lucifer Mornigstar, a resident individual, in Maharashtra engaged in business of printing and publishing. The following details pertain to the assets of the business:

Particulars	Date of Purchase	Date of Put to Use	Amount
Office building superstructure constructed on leased land	30-09-2023	30-12-2023	1,85,00,000
BMW M4 convertible car	23-08-2021	25-08-2021	94,80,000
Machineries used in printing and publishing process	25-09-2023	15-10-2023	9,12,500

Notes:

1. Car is also used for personal purposes; disallowance for personal use may be taken at 20%.
2. Written down value of Plant & Machinery (Depreciable @15%) as on 1.4.2023 is ₹1,45,00,000.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions, assuming all the aforementioned assets are purchased through account payee cheque:

1. What would be the amount of depreciation allowable on plant and machinery (@15%) for the previous year 2023-24 assuming he opts out of the default tax regime u/s 115BAC(1A)?
   a. ₹24,25,938
   b. ₹23,34,688
   c. ₹24,94,375
   d. ₹24,03,125
2. What would be the WDV of plant and machinery (Depreciable @ 15%) as on 1.4.2024?
   a. ₹1,29,86,562
   b. ₹1,29,18,125
   c. ₹1,30,77,812
   d. ₹1,30,09,375
3. What would the WDV of Office building superstructure constructed on leased land as on 1.4.2024?
   a. ₹1,85,00,000
   b. ₹1,66,50,000
   c. ₹1,75,75,000

d. ₹1,57,25,000

4. What would be the amount of depreciation allowable on BMW M4 convertible car for the previous year 2023-24?
   a. ₹13,93,560
   b. ₹10,27,395
   c. ₹8,80,957
   d. ₹13,14,156

Solution

1. (b)

Calculation of Depreciation on Plant and Machinery

Particulars	₹
Normal Depreciation on New Machinery (50% × 15% × ₹9,12,500)	68,438
Additional Depreciation on New Machinery (50% × 20% × ₹9,12,500)	91,250
Depreciation on Opening WDV (15% × ₹1,45,00,000)	21,75,000
Total Depreciation	23,34,688

2. (c)

Computation of WDV of Plant and Machinery

Particulars	₹
Opening WDV	1,45,00,000
Add: Purchases During the Year	9,12,500
	1,54,12,500
Less: Sales During the Year	-
WDV for Depreciation	1,54,12,500
Less: Depreciation (From Part 1)	23,34,688
Closing WDV	1,30,77,812

3. (c)

Computation of WDV of the Office Building

Particulars	₹
Opening WDV	-
Add: Purchases During the Year	1,85,00,000
	1,85,00,000
Less: Sales During the Year	-
WDV for Depreciation	1,85,00,000
Less: Depreciation (50% × 10% × ₹1,85,00,000)	9,25,000
Closing WDV	1,75,75,000

4. (c)

Computation of Depreciation on Car

Particulars	₹
WDV as on 01-04-2021	-
Add: Purchases During the Year	94,80,000
	94,80,000
Less: Sales During the Year	-
WDV for Depreciation	94,80,000
Less: Depreciation (15% × 80% × ₹94,80,000)	11,37,600
WDV as on 31-03-2022	83,42,400
Less: Depreciation for P.Y. 2022-23 (15% × 80% × ₹83,42,400)	10,01,088

WDV as on 31-03-2023	73,41,312
Less: Depreciation for P.Y. 2023-24 (15% × 80% × ₹73,41,312)	8,80,957
WDV as on 31-03-2024	64,60,355

Question 11

Mr. X has set up a manufacturing unit in Chittor, Andhra Pradesh on 1st April 2022.

During the previous year 2022-23 and 2023-24, Mr. X has purchased following assets:

Date of Put to Use	Asset	Amount (₹)
7 Jun 2022	Plant & Machinery "X"	14,75,340
25 Jul 2022	Office Furniture	7,65,400
14 Jan 2023	Plant & machinery "Y"	5,00,000
15 May 2023	Plant & machinery "Z"	8,00,000

He has paid professional fees of ₹35,000 each to Mr. A, Mr. B and Mr. C on 10th September 2023 credited in the books on the same day, to discuss some legal matter related to business.

The net profit computed in accordance with "Chapter IV-D - Computation of business income" of the Income-tax Act, 1961 for the previous year 2022-23 is ₹1.2 crore.

Mr. X has 2,000 equity shares of MNO Pvt. Ltd. On 21st October 2023, MNO Pvt. Ltd has bought back 50% shares from its shareholders amounting to ₹13,50,000 which were issued for ₹5,70,000 which includes ₹1,15,000 towards premium.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the amount of depreciation in respect of Plant & Machinery "Y" allowable as deduction while computing income under the head "Profit & Gains from business or profession" for the previous year 2023-24?
   a. ₹61,875
   b. ₹1,11,875
   c. ₹69,375
   d. ₹63,750
2. What shall be the total amount of depreciation for the previous year 2023-24 allowable as deduction while computing profits and gains from business or profession?
   a. ₹3,77,481
   b. ₹3,71,856
   c. ₹5,54,607
   d. ₹6,04,607
3. Mr. X wanted to know from you, whether tax is required to be deducted on professional fees paid to Mr. A, Mr. B and Mr. C. If tax has to be deducted, then what would be the rate and amount of tax to be deducted at source?
   a. Yes, TDS amounting to ₹7,875 @7.5% on ₹1,05,000 is to be deducted
   b. Yes, TDS amounting to ₹1,575 @1.5% on ₹1,05,000 is to be deducted
   c. No, tax is to be deducted, since amount does not exceed the threshold limit
   d. Yes, TDS amounting to ₹10,500 @10% on ₹1,05,000 is to be deducted
4. What shall be the amount of tax payable by MNO Private Limited on buy-back of its shares?
   a. ₹2,08,500
   b. ₹1,81,710

c. ₹3,14,496
d. ₹1,62,240

Solution

1. (b)

Computation of Depreciation on Plant and Machinery Y

Particulars		**₹**
For P.Y. 2022-23		
Cost		5,00,000
Less: Normal Depreciation (50% × 15% × ₹5,00,000)	37,500	
Additional Depreciation (50% × 20% × ₹5,00,000)	50,000	87,500
WDV as on 31-03-2023		4,12,500
Less: Normal Depreciation (15% × ₹4,12,500)	61,875	
Additional Depreciation (50% × 20% × ₹5,00,000)	50,000	1,11,875
WDV as on 31-03-2024		3,00,625

2. (d)

1 - Computation of Total Depreciation

Particulars	**Plant and Machinery**	**Furniture**
For P.Y. 2022-23		
Normal Depreciation (15% × ₹14,75,340)	2,21,301	
Normal Depreciation (50% × 15% × ₹5,00,000)	37,500	
Normal Depreciation (10% × ₹7,65,400)		76,540
Additional Depreciation (20% × ₹14,75,340)	2,95,068	
Additional Depreciation (50% × 20% × ₹5,00,000)	50,000	
Total Depreciation for P.Y. 2022-23	6,03,869	76,540
For P.Y. 2023-24		
Normal Depreciation (15% × ₹21,71,471)	3,25,721	
Normal Depreciation (10% × ₹6,88,860)		68,886
Additional Depreciation (20% × ₹8,00,000)	1,60,000	
Additional Depreciation (50% × 20% × ₹5,00,000)	50,000	
Total Depreciation for P.Y. 2023-24	5,35,721	68,886

Total Depreciation = ₹5,35,721 + ₹68,886 = ₹6,04,607

2 - Computation of WDV for Depreciation

Particulars	**Plant and Machinery**	**Furniture**
Opening WDV as on 01-04-2022	-	-
Add: Purchases During the Year		
Plant and Machinery "X"	14,75,340	
Plant and Machinery "Y"	5,00,000	
Office Furniture		7,65,400
	19,75,340	7,65,400
Less: Sale Proceeds	-	-
WDV for Depreciation	19,75,340	7,65,400
Less: Depreciation (From 1)	6,03,869	76,540
WDV as on 01-04-2023	13,71,471	6,88,860
Add: Purchases During the Year		
Plant and Machinery "Z"	8,00,000	
WDV for Depreciation	21,71,471	6,88,860
Less: Depreciation (From 1)	5,35,721	68,886

WDV as on 01-04-2024	16,35,750	6,19,974

3. (d)

As per Section 194J, tax is to be deducted at source @ 10% on professional fees paid, if the amount of professional fees exceeds ₹30,000. However, if the payer is an Individual/HUF, he is required to deduct tax at source only if his turnover from business in the preceding previous year exceeds ₹1 crore, or the gross receipts from profession in the preceding previous year exceeds ₹50 lakhs.

In the present case, since the net profit exceeds ₹1 crore in the P.Y. 2022-23, it is obvious that turnover would be more than this. Therefore, section 194J is applicable in this case. Also, since the payment exceeds ₹30,000, tax is required to be deducted @ 10%. Therefore, for each payment of ₹35,000, tax is required to be deducted @ 10%, i.e., ₹3,500. Thus, the total tax deducted would be ₹3,500 × 3 = ₹10,500.

4. (b)

In case of buyback of shares (whether listed or unlisted) by domestic companies, additional income-tax @ 20% (plus surcharge @12% and cess @ 4%) is leviable in the hands of the company. Consequently, the income arising to the shareholders in respect of such buyback of shares by the domestic company would be exempt under section 10(34A), since the domestic company is liable to pay additional income-tax on the buy back of shares.

Computation of Tax to be Paid by MNO Pvt. Ltd.

Particulars	**₹**
Amount paid at the time of buy back	13,50,000
Less: Amount received at the time of issue	5,70,000
Income	7,80,000
Tax @ 20%	1,56,000
Add: Surcharge @ 12%	18,720
	1,74,720
Add: Health and Education Cess @ 4%	6,989
Tax	1,81,709

Question 12

ABC & Co. is a partnership firm engaged in the business of sale of footwear. The partnership firm consists of three partners – A, B & C. A & B are working partners and C is a sleeping partner. The firm is liable to tax audit under section 44AB of the Act. It has a book profit of ₹11,50,000.

Following payments were made to partners as authorised by the partnership deed:

- Remuneration to A & B - ₹32,000 p.m. to each partner
- Remuneration to C - ₹10,000 p.m.
- Interest on capital @ 19.5% to A & B - ₹18,500 p.a. to each partner
- Interest on capital @ 17% to C - ₹10,540 p.a.

The firm has following brought forward losses of past years:

A.Y.	Business Loss	Unabsorbed Depreciation	Long-Term Capital Loss
2021-22	26,000	17,600	5,300
2022-23	78,000	29,860	-
2023-24	1,05,670	54,180	13,470

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What amount of interest is allowable as deduction in the hands of firm while computing profits and gains from business or profession?
   a. ₹29,040
   b. ₹22,770
   c. ₹47,540
   d. ₹30,210
2. What amount of remuneration is not allowable as deduction in the hands of firm while computing profits and gains from business or profession?
   a. ₹1,20,000
   b. Nil
   c. ₹1,08,000
   d. ₹78,000
3. What is the due date of filing of return of income for Mr. A and Mr. C for the A.Y. 2024-25?
   a. 31st July 2024 for Mr. C and 30th September 2024 for Mr. A
   b. 31st July 2024 for Mr. C and 31st October 2024 for Mr. A
   c. 31st October 2024 for both Mr. A and Mr. C
   d. 31st October 2024 for Mr. C and 31st July 2024 for Mr. A
4. What would be the income under the head "Profits and gains from business or profession" in the hands of ABC & Co. for the A.Y. 2024-25?
   a. ₹70,690
   b. ₹1,72,330
   c. ₹51,920
   d. ₹1,53,560

Solution

1. (d)
   Interest on capital is allowed to the extent of 12% of the capital. Interest on capital is allowed even to sleeping partner.

Computation of Allowable Interest on Capital

Particulars	₹
Interest on Capital to A @ 19.5%	18,500
Interest on Capital to B @ 19.5%	18,500
Total Interest @ 19.5%	37,000
Capital of A and B (₹37,000 ÷ 19.5%) (A)	1,89,744
Interest on Capital to C @ 17%	10,540
Capital of C (₹10,540 ÷ 17%) (B)	62,000
Total Capital (A) + (B)	2,51,744
Interest on Capital Allowed (12% × ₹2,51,744)	30,209

2. (a)
   Remuneration to Partners is allowed to the firm as follows:
   On first ₹3,00,000 of the book profits: Higher of ₹1,50,000 or 90% of Book Profit
   On the remaining book profits: 60%

Remuneration is allowed only to the working partners.

Computation of Remuneration Not Allowable

Particulars	**₹**
Remuneration Paid to A and B (Working Partners) (₹32,000 × 2 × 12)	7,68,000
Remuneration Paid to C (Sleeping Partner) (₹10,000 × 12)	1,20,000
Total Remuneration Paid	8,88,000
Remuneration Allowable to Working Partners:	
On first ₹3,00,000 of Book Profits (90% × ₹3,00,000)	2,70,000
On Remaining Book Profits {60% × (₹11,50,000 – ₹3,00,000)}	5,10,000
	7,80,000
Since the remuneration paid to working partners is within the allowable limit, the entire remuneration of ₹7,68,000 shall be allowed.	
Since remuneration paid to sleeping partners is not allowed, the amount disallowed will be	1,20,000

3. (c)

When a person is a partner in a partnership firm that is subject to tax audit u/s 44AB, the due date of return filing of the partners is also 31st October. Therefore, the due date of return filing of both the partners A and C will be 31st October.

4. (b)

Computation of PGBP Income of the Firm

Particulars	**₹**
Book Profit	11,50,000
Less: Allowable Remuneration	7,68,000
	3,82,000
Less: Brought Forward Losses (₹26,000 + ₹78,000 + ₹1,05,670)	2,09,670
Profits and Gains from Business or Profession	1,72,330

Notes:

1. Book profit is computed after deduction of allowable interest on capital, so we don't need to subtract the interest on capital from the book profit.
2. All the other expenses u/s 30 to 38 are deemed to be allowed while arriving at book profits. Therefore, the unabsorbed depreciations are deemed to be allowed while arriving at book profits. Therefore, we don't need to deduct the unabsorbed depreciation again.

Question 13

Mr. Sarthak (aged 37 years) a share broker, sold a building to his friend Anay, who is a dealer in automobile spare parts, for ₹120 lakh on 10.11.2023, when the stamp duty value was ₹150 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was ₹140 lakh. Mr. Sarthak had received a down payment of ₹15 lakh by a crossed cheque from Anay on the date of agreement. Mr. Sarthak purchased the building for ₹95 lakh on 10.5.2018. Further, Mr. Sarthak also sold an agricultural land (situated in a village which has a population of 5,800) for ₹60 lakhs to Mr. Vivek on 01.03.2024, which he acquired on 15.06.2015 for ₹45 lakhs. Stamp duty value of agricultural land as on 1.3.2024 is ₹65 lakhs.

CII for F.Y. 2015-16; 254; F.Y. 2018-19: 280; F.Y. 2023-24: 348.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the amount of tax to be deducted by Mr. Anay and Mr. Vivek, if any, on consideration paid or payable for transfer of building and agricultural land?
    a. ₹1,20,000 by Mr. Anay and Nil by Mr. Vivek
    b. ₹1,50,000 by Mr. Anay and Nil by Mr. Vivek
    c. ₹1,50,000 by Mr. Anay and ₹65,000 by Mr. Vivek
    d. ₹1,20,000 by Mr. Anay and ₹60,000 by Mr. Vivek
2. What amount of capital gains is chargeable to tax in the hands of Mr. Sarthak in respect of transfer of building?
    a. Long-term capital gains of ₹31,92,857
    b. Long-term capital gains of ₹27,69,643
    c. Long-term capital gains of ₹7,69,643
    d. Short-term capital gains of ₹55,00,000
3. Assuming that Mr. Sarthak has other income exceeding basic exemption limit, the tax liability (excluding surcharge and health and education cess) on transfer of building and agricultural land, would be
    a. ₹5,53,930
    b. ₹1,53,930
    c. ₹6,38,571
    d. ₹16,50,000
4. What amount of income is chargeable to tax in the hands of Mr. Anay in respect of transfer of building?
    a. ₹20 lakh
    b. ₹30 lakhs
    c. ₹15 lakhs
    d. Nil

Solution

1. (b)
   As per Section 194IA, when an immovable property (other than agricultural land) is purchased, the payer is supposed to deduct tax at source @ 1% on the consideration or the SDV whichever is higher. The provisions of this section are applicable only if both the consideration as well as the SDV is greater than ₹50 lakhs.
   In the present case, since the consideration as well as the SDV is more than ₹50 lakhs, the provisions of Section 194IA are applicable. SDV on the date of agreement shall not be considered as the down payment has been made by crossed cheque and not account payee cheque. Therefore, SDV on the date of registration shall be considered.
   Since SDV on the date of registration is greater than the consideration, tax will be deducted on the SDV on the date of registration.
   Therefore, tax will be deducted by Mr. Anay @ 1% of ₹1,50,00,000 = ₹1,50,000.
   No tax is required to be deducted by Mr. Vivek, since he has purchased an agricultural land.
2. (a)

Computation of Capital Gains

Particulars	₹
Full Value of Consideration (Note)	1,50,00,000
Less: Expenses on Transfer	-

Net Consideration	1,50,00,000
Less: Indexed Cost of Acquisition (₹95,00,000 × 348 ÷ 280)	1,18,07,143
Long Term Capital Gain	31,92,857

Note: Since the SDV exceeds 110% of the consideration, SDV shall be taken to be the full value of consideration. The SDV on the date of agreement shall not be considered as the amount of down payment has been paid by crossed cheque and not account payee cheque.

3. (c)

   Rural Agricultural Land is not a capital asset. An agricultural land which is situated in an area with population upto 10,000 is said to be a rural agricultural land. Therefore, the land situated in the village with population of 5,800 is a rural agricultural land. Therefore, capital gains won't arise on the sale of this land.

   Long term capital gains are taxed @ 20%. Therefore, the tax on transfer of building would be 20% × ₹31,92,857 = ₹6,38,571.

4. (b)

   Section 56(2)(x) would be applicable in this case. Since SDV exceeds 110% of the consideration, and the difference between the SDV and the consideration exceeds ₹50,000, the difference between SDV and consideration shall be taxable under the head "Income from Other Sources". Therefore, ₹30,00,000 (being ₹1,50,00,000 – ₹1,20,00,000) shall be taxable in the hands of Mr. Anay under the head "Income from Other Sources".

Question 14

Mr. Narendra Sharma, aged 54 years, an Indian citizen, carrying on retail business in Dubai. He frequently visits India for business purpose. Details of his visits in India are as follows:

1. Came to India on 03.12.2018 and left India on 26.04.2019
2. Again came to India on 09.09.2021 and left India on 10.01.2022
3. Again came to India on 27.12.2022 and left India on 20.02.2023

Afterwards he decided to shift permanently in India and closed his business in Dubai. So, he came to India on 27.11.2023 and joined Indian Company "Cosmos Heritage India Limited" at registered office in Mumbai from 01.12.2023. From December 2023, he has taken a flat on rent for ₹60,000 per month from Mr. Sarthak, an Indian resident, and Mr. Sarthak has provided his PAN No. to Mr. Narendra Sharma.

Following details of his salary income earned in India:

- Basic Salary – ₹2,75,675 per month
- COLA (Cost of Living Allowance) (forms part of retirement benefits) – ₹1,20,200 per month
- HRA – ₹1,37,838 per month
- Other Allowances – ₹1,56,000 per month

For the period from April 2023 to November 2023, his business income arising in Dubai is ₹26,00,000 and his turnover for the P.Y. 2022-23 was ₹95,00,000. He is not liable to pay any tax in Dubai. Such business was controlled from Dubai.

He is active in equity share trading after coming to India. Following are the details of his portfolio:

S. No	Sale/ Purchase	Company	Date of Purchase/ Sale	Qty	Price per Share (₹)	Brokerage
1	Purchase	First Smile Ltd	10.12.2023	250	203	1.50%
2	Purchase	Rainbow Ltd	10.12.2023	50	503	1.50%

3	Purchase	Mega Service Ltd	12.12.2023	150	82	1.50%
4	Sale	First Smile Ltd	18.12.2023	100	325	1.80%
5	Purchase	Mega Service Ltd	15.12.2023	110	110	1.50%
6	Sale	Mega Service Ltd	26.12.2023	150	100	1.80%
7	Purchase	Rainbow Ltd	28.12.2023	200	385	1.50%
8	Purchase	Rainbow Ltd	03.01.2024	100	465	1.50%
9	Sale	First Smile Ltd	23.03.2024	150	250	1.80%
10	Sale	Mega Service Ltd	26.03.2024	110	110	1.80%

Rainbow Limited declared an interim dividend of 200% on 28.02.2024 (face value of each share is ₹10). The record date was 31.1.2024.

He opts out of the default tax regime u/s 115BAC(1A).

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the residential status of Mr. Narendra for the previous year 2023-24?
    a. Resident
    b. Resident and ordinary resident
    c. Non-resident
    d. Deemed resident
2. Which of the following statements is correct, in respect of dividend paid by Rainbow Ltd. to Mr. Narendra?
    a. Dividend from Rainbow Ltd is exempt in the hands of Mr. Narendra. Hence, no tax is required to be deducted at source.
    b. Dividend from Rainbow Ltd is taxable in the hands of Mr. Narendra but, since the dividend is less than ₹10,000, no tax is required to be deducted at source.
    c. Dividend from Rainbow Ltd is taxable in the hands of Mr. Narendra. Tax of ₹525 is required to be deducted at source.
    d. Dividend from Rainbow Ltd is taxable in the hands of Mr. Narendra. Tax of ₹700 is required to be deducted at source.
3. What shall be the TDS liability of Mr. Narendra for rent paid to Mr. Sarthak?
    a. There is no TDS liability of Mr. Narendra, since he is a salaried individual.
    b. Mr. Narendra is liable to deduct TDS u/s 194-I of ₹6,000 for each month.
    c. Mr. Narendra is liable to deduct TDS u/s 194-IB of ₹3,000 for each month
    d. Mr. Narendra is liable to deduct TDS u/s 194-IB of ₹12,000 in the month of March 2024.
4. What would be income chargeable to tax under the head "Income from Salaries" in the hands of Mr. Narendra for the A.Y. 2024-25:
    a. ₹26,27,202
    b. ₹26,77,202
    c. ₹27,08,852
    d. ₹26,58,852
5. What is the amount of short-term capital gain chargeable to tax in the hands of Mr. Narendra on sale of shares for the P.Y. 2023-24:
    a. ₹20,202.20
    b. ₹21,950
    c. ₹19,474,25
    d. ₹19,074.95

Solution

1. (d)

An individual, being an Indian citizen, having total income, other than the income from foreign sources, exceeding ₹15 lakhs during the previous year would be deemed to be resident but not ordinarily resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

His salary in India is calculated as follows:

Computation of Income from Indian Sources

Particulars			**₹**
Basic Salary (₹2,75,675 × 4)			11,02,700
Cost of Living Allowance (₹1,20,200 × 4)			4,80,800
HRA (₹1,37,838 × 4)		5,51,352	
Less: Exempt: Least of the following:			
Actual HRA Received	5,51,352		
Rent Paid – 10% of Salary [(₹60,000 × 4) – {10% × (₹11,02,700 + ₹4,80,800)}]	81,650		
50% of Salary {50% × (₹11,02,700 + ₹4,80,800)}	7,91,750	81,650	4,69,702
Other Allowances (₹1,56,000 × 4)			6,24,000
Gross Salary			26,77,202
Less: Standard Deduction			50,000
Taxable Salary			26,27,202

Since his income from Indian sources exceeds ₹15,00,000, and he is not liable to pay tax at Dubai, he shall be a deemed resident in India.

2. (d)

Dividend income is taxable in the hands of the shareholder under the head "Income from Other Sources". Tax @ 10% is deducted at source u/s 194 if the dividend payable exceeds ₹5,000 to an Individual/HUF.

In the present case, the dividend declared is 200% on the face value of ₹10. Therefore, dividend per share would be 200% × ₹10 = ₹20. Total dividend = ₹20 × (50 + 200 + 100) = ₹7,000.

Therefore, tax @ 10% would be deducted on ₹7,000. TDS = 10% × ₹7,000 = ₹700.

3. (d)

As per Section 194IB, when an Individual pays rent exceeding ₹50,000 per month, then tax is to be deducted at source @ 5% on the entire amount at the time of credit/payment of rent for the last month of the year.

In the present case, since the rent paid is ₹60,000, i.e., more than ₹50,000, tax would have to be deducted at source @ 5% on the entire amount in the month of March, 2023.

Therefore, TDS = 5% × (₹60,000 × 4) = ₹12,000.

4. (a)

Refer Part 1.

5. (d)

Calculation of Capital Gains

Particulars	**₹**
First Smile Ltd.	
On 100 Shares	
Full Value of Consideration (100 × ₹325)	32,500.00
Less: Expenses on Transfer (1.8% × ₹32,500)	585.00
Net Consideration	31,915.00
Less: Cost of Acquisition [100 × {₹203 + (1.5% × ₹203)}]	20,604.50
Short Term Capital Gain (A)	11,310.50

On 150 Shares	
Full Value of Consideration (150 × ₹250)	37,500.00
Less: Expenses on Transfer (1.8% × ₹37,500)	675.00
Net Consideration	36,825.00
Less: Cost of Acquisition [150 × {₹203 + (1.5% × ₹203)}]	30,906.75
Short Term Capital Gain (B)	5,918.25
Mega Service Ltd.	
On 150 Shares	
Full Value of Consideration (150 × ₹100)	15,000.00
Less: Expenses on Transfer (1.8% × ₹15,000)	270.00
Net Consideration	14,730.00
Less: Cost of Acquisition [150 × {₹82 + (1.5% × ₹82)}]	12,484.50
Short Term Capital Gain (C)	2,245.50
On 110 Shares	
Full Value of Consideration (110 × ₹110)	12,100.00
Less: Expenses on Transfer (1.8% × ₹12,100)	217.80
Net Consideration	11,882.20
Less: Cost of Acquisition [110 × {₹110 + (1.5% × ₹110)}]	12,281.50
Short Term Capital Gain (D)	(399.30)
Short Term Capital Gains (A) + (B) + (C) + (D)	19,074.95

Question 15

Mr. Akshaya Biyani celebrated his 26th birthday on 15th May 2023 and arranged a grand party at Radisson Blu hotel. On this occasion, he invited his friends, blood relatives and distant relatives to attend the party. The ceremony was very grand, the feast was also very spectacular. All the arrangements and decorations were absolutely wonderful. At the end of party, Mr. Akshaya was awarded by gifts and flower's bouquet as infra:

Gifts received from	Type of Gift	Remarks
Mother	One 22K Gold Chain	She purchased on the same day for ₹37,822
Father	One 22K Gold Bracelet	He purchased on the same day for ₹56,075
Wife	4 Gold Rings	She purchased these rings on 15.5.2022 for ₹35,500 each. Fair market value on 15th May 2023 is ₹37,429 each.
Sister	Painting	This painting is made by her. Fair market value is ₹45,000.
Cousin brother (Father's brother's son)	One Gold chain	He purchased it on the same day for ₹18,200.
Closest cousins (mother's sister's sons/daughters)	I-20 Car	Value of ₹4,10,000
Friends and other distant relatives	Cash	₹1,51,000

Mr. Akshaya desires to set up a new manufacturing unit with his friend in partnership on 1.12.2023. For making investment in the firm, he sold following jewellery which he has received on his 26th birthday celebration as gifts:

- Mother's gifted Gold Chain for ₹42,150
- Father's gifted Gold Bracelet for ₹60,180
- Cousin brother's gifted Gold Chain for ₹20,600

His wife gave him ₹1 lakh as a gift so that he could invest sufficient money in the unit. On 1st December 2023, he invested ₹6,00,000 (including the amount received on sale of above gifts and amount received from his wife) and his friend invested ₹4,00,000 in the firm.

On 1st February 2024, his wife again gave him ₹1 lakh as a gift to invest such money in the firm and apart from that he invested ₹50,000 more from his individual savings. On this day, his friend also invested ₹1,00,000 in the firm.

Since the firm is a manufacturing unit and at initial stage, the firm requires sufficient fund so Mr. Akshaya sold his wife's gifted Gold Rings for ₹40,250 each as on 31st March 2024 and he deployed the funds as partner's capital in the firm on 1st April, 2024.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the amount of capital gain taxable in the hands of Mr. Akshaya for P.Y. 2023-24?
    a. Short term capital gains ₹10,833
    b. Short term capital gains ₹29,833
    c. Short term capital gains ₹22,117
    d. No, capital gains is taxable in his hands, since he received the capital assets as gift.
2. What is the gift amount not considered as income under section 56(2)(x) for P.Y. 2023-24?
    a. ₹8,98,613
    b. ₹3,06,813
    c. ₹9,16,813
    d. ₹7,16,813
3. What is the gift amount taxable in the hands of Mr. Akshaya for P.Y. 2023-24?
    a. ₹1,51,000
    b. ₹1,69,200
    c. ₹5,79,200
    d. ₹5,61,000
4. Is any amount taxable in the hands of Akshaya's wife in respect of the sale of jewellery by Mr. Akshaya, if yes, what shall be the taxable amount in her hands for P.Y. 2023-24?
    a. No
    b. Yes; ₹15,284
    c. Yes; ₹19,000
    d. Yes; ₹11,284

Solution

1. (a)

Computation of Capital Gains

Particulars	₹
Sale Proceeds of Mother's Gold Chain	42,150

Less: Cost of Acquisition	37,822
Short Term Capital Gains (A)	4,328
Sale Proceeds of Father's Gold Bracelet	60,180
Less: Cost of Acquisition	56,075
Short Term Capital Gains (B)	4,105
Sale Proceeds of Cousin Brother's Gold Chain	20,600
Less: Cost of Acquisition	18,200
Short Term Capital Gains (C)	2,400
Short Term Capital Gains (A) + (B) + (C)	10,833

2. (c)

Computation of Gift Amounts Not Considered as Income

Particulars	**₹**
Mother's Gold Chain (Mother is a relative)	37,822
Father's Gold Bracelet (Father is a relative)	56,075
Wife's Gold Rings (₹37,429 × 4) (Wife is a relative)	1,49,716
Sister's Painting (Sister is a relative)	45,000
Cousin Brother's Gold Chain (Amount does not exceed ₹50,000)	18,200
I-20 Car by cousins (Car is not covered in the definition of movable property)	4,10,000
Wife's investment in firm on 01-12-2023 (Wife is a relative)	1,00,000
Wife's investment in firm on 01-02-2024 (Wife is a relative)	1,00,000
Total	9,16,813

3. (a)
   The gift amount taxable in the hands of Mr. Akshaya in the P.Y. 2023-24 is ₹1,51,000 cash received from friends and other distant relatives.
4. (c)
   When a person gifts an asset to his/her spouse, any income generated from that gift is clubbed in the hands of the transferor.
   In the present case, Mr. Akshaya's wife gifted her husband the gold rings, which she purchased for ₹35,500 each, i.e., ₹35,500 × 4 = ₹1,42,000. Mr. Akshaya sold these rings for ₹40,250 each, i.e., ₹40,250 × 4 = ₹1,61,000. Therefore, the income of ₹1,61,000 – ₹1,42,000 = ₹19,000 shall be clubbed in the hands of Mr. Akshaya's wife.

Question 16

Mr. Rajesh gifted ₹15 lakhs to his wife, Raavi, on her birthday on 23rd February, 2023. Raavi lent ₹6,00,000 out of the gifted amount to Karuna on 1st April, 2023 for six months on which she received interest of ₹30,000. The said sum of ₹30,000 was invested in shares of a listed company on 18th October, 2023, which were sold for ₹66,000 on 25th March, 2024. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2023, as capital by Raavi in her new business. She suffered loss of ₹22,000 in the business in Financial Year 2023-24. Raavi is working with a Private company as sales executive at a salary of ₹62,000 p.m. She paid ₹3,500 p.m. towards tuition fees for her daughter Riya studying in St. Thomas School, Mumbai.

Rajesh is working with an MNC on a monthly salary of ₹64,000. He has gifted ₹1,25,000 to Riya on her 13th Birthday. This amount is deposited as 2 years term deposits with SBI bank in her name. On which interest of ₹11,500 is earned during the previous year 2023-24. Both Mr. Rajesh and Mrs. Raavi pay tax under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. In whose hands, the interest income received from Karuna and interest on fixed deposits in the name of Riya would be included?
    a. both interest income to be included in the hands of Mr. Rajesh
    b. both interest income to be included in the hands of Mrs. Raavi
    c. interest income from Karuna to be included in the hands of Mrs. Raavi and interest on two years term deposits to be included in the hands of Mr. Rajesh.
    d. interest income from Karuna to be included in the hands of Mr. Rajesh and interest on two years term deposits to be included in the hands of Mrs. Raavi.
2. In whose hand's loss from business and capital gains would be included in Assessment Year 2024-25? Assume that capital invested in the business was entirely out of the funds gifted by her husband.
    a. Both loss from business and capital gains would be included in the hands of Mr. Rajesh
    b. Both loss from business and capital gains would be included in the hands of Mrs. Raavi
    c. Loss from business included in the hands of Mr. Rajesh and capital gains included in the hands of Mrs. Raavi
    d. Loss from business included in the hands of Mrs. Raavi and capital gains included in the hands of Mr. Rajesh
3. What would be the total income of Mrs. Raavi for the previous year 2023-24?
    a. ₹6,88,000
    b. ₹7,80,000
    c. ₹7,41,500
    d. ₹7,90,000
4. What would be total income of Mr. Rajesh for the previous year 2023-24?
    a. ₹7,26,000
    b. ₹8,09,500
    c. ₹8,08,000
    d. ₹7,98,000

Solution

1. (d)
   When a person transfers some asset to his spouse without consideration, any income earned from such asset is clubbed in the hands of the transferor.
   In the present case, Mr. Rajesh transferred ₹15,00,000 to his spouse, Mrs. Raavi, and she lent ₹6,00,000 out of the gifted amount to Karuna. Therefore, any interest received from Karuna will be clubbed in the hands of Mr. Rajesh.
   The income of minor child is clubbed in the hands of that parent whose total income before such clubbing is greater. As seen from the computation below, the income earned by Riya will be clubbed in the hands of Mrs. Raavi.

Computation of Total Income of Mr. Rajesh and Mrs. Raavi

Particulars	Rajesh	Raavi
Income from Salaries		
Rajesh's Salary (₹64,000 × 12)	7,68,000	

Raavi's Salary (₹62,000 × 12)		7,44,000
	7,68,000	7,44,000
Less: Standard Deduction	50,000	50,000
Income from Salaries (A)	7,18,000	6,94,000
Profits and Gains from Business or Profession		
Income from Business of Mrs. Raavi, clubbed in the hands of Mr. Rajesh (as the business was started from the amount gifted by Mr. Rajesh)	(22,000)	
Less: Set off against Income from other sources	22,000	
Profits and Gains from Business or Profession (B)	-	-
Capital Gains		
Full Value of Consideration from sale of shares		66,000
Less: Cost of Acquisition		30,000
Capital Gains (C) (This won't be clubbed in the hands of Mr. Rajesh, as second-generation income is not clubbed.)		36,000
Income from Other Sources		
Interest Received from Karuna (clubbed in the hands of Mr. Rajesh)	30,000	
Less: Set off of business loss	22,000	
Income from Other Sources (D)	8,000	
Total Income before clubbing of minor child's income	7,26,000	7,30,000
Add: Interest earned by Riya (to be clubbed in the hands of Mrs. Raavi as her income exceeds that of Mr. Rajesh) (Exemption u/s 10(32) is not available u/s 115BAC)		11,500
Gross Total Income	7,26,000	7,41,500
Less: Deduction under Chapter VI-A (Not available u/s 115BAC)	-	-
Total Income	7,26,000	7,41,500

2. (c)
   Refer Part 1
3. (c)
   Refer Part 1
4. (a)
   Refer Part 1

Question 17

Miss Hetal transferred to her husband, Mr. Hemant, a residential property worth ₹45 lakhs located in Nagpur without any consideration. The expected rent of such property is ₹5 lakhs. Municipal tax of ₹5,000 is paid by Miss Hetal for this property during the previous year 2023-24. Miss Hetal has three residential properties in Mumbai. The expected rent from the 3 properties situated in Mumbai is ₹10 lakhs, ₹11 lakhs, and ₹12 lakhs respectively. She purchased the properties out of her own funds. Municipal taxes due are ₹15,000, ₹20,000, and ₹25,000. The same have, however, not been paid this year in respect of the three properties. The expected rent is less than the standard rent in the case of all the aforementioned properties. Miss Hetal does not have any income from any other source.

Miss Hetal's father, aged 58 years, had capital gains of ₹5 crores from the sale of house property. He reinvested the proceeds from sale in another residential house of ₹4.98 crores and the remaining sale proceeds were deposited in his savings bank account. He has paid ₹1,50,000 towards LIC premium. He has no other source of income.

Miss Hetal's grandfather is aged 81 years and has interest income on fixed deposits of ₹6 lakhs. He has no other income for the P.Y. 2023- 24. He has to fly to the USA for his treatment of cancer on 31st July, 2024 and his return of income is not filed before his flying to USA.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the amount of income liable to be taxed in the hands of Miss Hetal under the head "Income from House Property" for A.Y. 2024-25?
    a. ₹7,00,000
    b. ₹10,46,500
    c. ₹10,50,000
    d. ₹13,76,500
2. What would be tax liability of Miss Hetal for the assessment year 2024-25? Compute in a manner so that her tax liability is minimum.
    a. ₹66,300
    b. ₹88,400
    c. ₹69,650
    d. ₹1,31,510
3. Is Hetal's father required to furnish his return of income in India for the A.Y. 2024-25?
    a. No, he is not required, since his income does not exceed basic exemption limit
    b. Yes, he is required to furnish return of income on or before 31st July, 2024
    c. Yes, he is required to furnish return of income on or before 30th September, 2024
    d. Yes, he is required to furnish return of income on or before 31st October, 2024
4. Is Miss Hetal's grandfather required to pay advance tax during the previous year 2023-24?
    a. No, he is not required to pay advance tax, since he is a senior citizen
    b. Yes, he is required to pay advance tax, since his tax liability exceeds ₹10,000
    c. No, he is not required to pay advance tax, since he is a senior citizen and he is not having any income under the head "Profits and gains from business or profession"
    d. Yes, he is required to pay advance tax, since his total income exceeds basic exemption limit of ₹5,00,000

Solution

1. (b)
   Miss Hetal is the deemed owner of the property transferred to her husband. Any income from such house property will be taxed in the hands of Miss Hetal. Thus, Miss Hetal has 4 house properties, and all of them are self-occupied. Two of them shall be considered to be self-occupied at the option of Miss Hetal, and the remaining two shall be treated as deemed let out properties. Obviously, the properties whose expected rent is more will be considered to be self-occupied properties. Therefore, the properties whose expected rent is 11 lakhs and 12 lakhs shall be considered as self-occupied properties, and the income from these properties will be NIL.
   The income from house properties of the remaining two properties is computed as under:

Computation of Income from House Properties

Particulars	Nagpur	Mumbai
Gross Annual Value (Expected Rent)	5,00,000	10,00,000
Less: Municipal Taxes Paid	5,000	-
Net Annual Value	4,95,000	10,00,000
Less: Standard Deduction @ 30%	1,48,500	3,00,000
Income from House Property	3,46,500	7,00,000

Therefore, income from house property = ₹3,46,500 + ₹7,00,000 = ₹10,46,500.

2. (c)

Computation of Tax Liability as per Normal Provisions

Particulars	₹
First ₹2,50,000	-
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500
From ₹5,00,000 to ₹10,00,000 (20% × ₹5,00,000)	1,00,000
From ₹10,00,000 to ₹10,46,500 (30% × ₹46,500)	13,950
Total	1,26,450
Add: Health and Education Cess @ 4%	5,058
Total Tax Liability	1,31,508
Total Tax Liability (Rounded Off)	1,31,510

Computation of Tax Liability as per Section 115BAC

Particulars	₹
First ₹3,00,000	-
From ₹3,00,000 to ₹6,00,000 (5% × ₹3,00,000)	15,000
From ₹6,00,000 to ₹9,00,000 (10% × ₹3,00,000)	30,000
From ₹9,00,000 to ₹10,46,500 (15% × ₹1,46,500)	21,975
Total	66,975
Add: Health and Education Cess @ 4%	2,679
Total Tax Liability	69,654
Total Tax Liability (Rounded Off)	69,650

3. (b)

Computation of Total Income of Miss Hetal's Father

Particulars	₹
Capital Gains	5,00,00,000
Less: Exemption u/s 54	4,98,00,000
Long Term Capital Gains	2,00,000
Gross Total Income	2,00,000
Less: Deductions under Chapter VI-A (Not available against Long Term Capital Gains)	-
Total Taxable Income	2,00,000

Even though the total taxable income of Miss Hetal's father is below the basic exemption limit of ₹2,50,000, he would still be required to file the return of income as his total income before exemption u/s 54 exceeds the basic exemption limit. The due date for filing the return of income would be 31st July, 2024.

4. (c)

As per Section 208, a person is obligated to pay advance tax only if the advance tax payable is ₹10,000 or more.

Resident senior citizens who are 60 years or older and have only passive income like rent or interest, and no income from business or profession, may find it difficult to comply with this requirement. To make it easier for them, the government has given an exemption to senior citizens from paying advance tax. Instead, they can pay their tax liability (excluding TDS) by self-assessment tax at the end of the financial year.

In the present case, since Miss Hetal's grandfather does not have any income from business or profession, he is not required to pay advance tax.

Question 18

Ms. Chanchal, aged 45, provides the following data of her gross receipts for the financial year 2022-23 and 2023-24. She is engaged in agency business along with providing services as tarot card reader.

She is generally engaged in cash payments and cash receipts.

F.Y.	Receipts from Business (₹)	Receipts from Profession (₹)	Total Gross Receipts
2022-23	1,05,00,000	47,00,000	1,52,00,000
2023-24	98,00,000	49,00,000	1,47,00,000

She paid an amount of ₹12,00,000 to a contractor for polishing her old furniture in her self-occupied residential house property on 12.04.2023. Further on 05.06.2023, she has taken services from renowned interior designer for the same residential house property for which she paid ₹2,50,000.

On 28.05.2023, she sold one commercial property for ₹50,00,000. The stamp duty value on the date of registration is ₹58,00,000. The value adopted for stamp duty was ₹54,00,000 on the date of agreement (part payment by account payee cheque was received on the date of agreement). It was purchased for ₹40,00,000 on 28.06.2021. (Cost Inflation Index for F.Y. 2023-24: 348, F.Y. 2022-23: 331).

The brought forward long-term capital loss from unlisted shares of F.Y. 2022-23 is ₹5,50,000.

During the year, Ms. Chanchal incurred a loss of ₹70,00,000 while trading in the agricultural commodity derivatives (no CTT paid).

Ms. Chanchal wants to opt out of the default tax regime u/s 115BAC(1A) for A.Y. 2023-24.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Is Ms. Chanchal liable to tax audit under the Income-tax Act, 1961 for the P.Y. 2023-24?
    a. Yes, as the total gross receipts exceeds ₹1,00,00,000
    b. No, as the gross receipts from business or profession are below the specified threshold limits.
    c. Yes, as the gross receipts from business exceeds ₹50,00,000
    d. Yes, as the gross receipts from profession exceeds ₹25,00,000
2. With respect to payment made to contractor and to the interior designer during the P.Y. 2023-24, Ms. Chanchal consulted various persons and they have the following views:
    1. She is required to deduct tax at source under section 194C and 194J, since her turnover from business for the previous year 2022-23 exceeds ₹1,00,00,000
    2. She is required to deduct tax at source under section 194M on both the payments
    3. She is not required to deduct tax at source neither under section 194C nor under section 194J, since such amounts are paid for personal purposes
    4. She is not required to deduct tax at source under section 194M, since payment to each individual does not exceed ₹50,00,000

    Which views are correct?

a. (3) and (4) views are correct
b. (1) view is correct
c. (2) view is correct
d. (1) and (4) views are correct

3. What is the amount and nature of Capital gain chargeable to tax in the hands of Ms. Chanchal?
   a. ₹14,00,000 and Short-term capital gain
   b. ₹10,00,000 and Short-term capital gain
   c. ₹14,01,329 and Long-term capital gain
   d. ₹6,01,329 and Long-term capital gain
4. What is the amount of losses which can be carried forward to A.Y. 2025-26, assuming that business income is ₹45,00,000 and income from profession is ₹25,00,000 for the P.Y. 2023-24?
   a. ₹5,50,000 under section 74
   b. ₹70,00,000 under section 73
   c. No loss is required to be carried forward, since brought forward loss and current year loss are set-off against current year's income
   d. ₹5,50,000 under section 74 and ₹70,00,000 under section 73

Solution

1. (b)
   A person is required to get his books of accounts audited only if his turnover from the business exceeds ₹1 crore, or gross receipts from profession exceeds ₹50 lakhs.
   Therefore, in the present case, books of accounts are not required to be audited.
2. (a)
   View (1) is incorrect because the payments are made for personal purposes, and hence liability to deduct tax at source won't arise u/s 194C and 194J.
   View (2) is incorrect because the liability to deduct tax at source arises u/s 194M if the payment exceeds ₹50,00,000.
3. (b)

Computation of Capital Gains

Particulars	₹
Full Value of Consideration (Since part payment was made on the date of agreement, SDV of the date of agreement shall be considered. Since the SDV on the date of agreement doesn't exceed 110% of the consideration, the consideration will only be the FVOC.)	50,00,000
Less: Cost of Acquisition	40,00,000
Short Term Capital Gains (Since the property was transferred within 24 months from the date of purchase)	10,00,000

4. (a)
   Income from Business = ₹45,00,000; Income from Profession = ₹25,00,000. Total income under the head PGBP = ₹70,00,000. Loss from trading in commodity derivatives can be set off against this business income as it is not considered to be a speculative activity. Therefore, the loss of ₹70,00,000 can be set off against this income.
   The brought forward long-term capital loss on sale of shares cannot be set off against short term capital gains, and hence will be carried forward. Therefore, the amount to be carried forward = ₹5,50,000.

Question 19

Mr. Abhishek Seth, aged 42 years, is working as a CEO of Soil Limited. He provides you the following information for preparation and filing of his income-tax return for the year ended 31st March 2024:

- Salary, allowances and perquisites from Soil Limited - ₹1,35,00,000
- Dividend from ABC Ltd. which was declared in February, 2023 and received in April, 2023 - ₹4,55,000
- Dividend from PRQ Ltd. declared and received in July, 2023 - ₹5,90,000 (Gross)
- Interest income on saving bank account in SBI – ₹24,530
- Long term capital gains on transfer of residential house in Mumbai on 15th December, 2023 - ₹1,73,540
- Short term capital gain on transfer of listed equity shares (STT paid both at the time of transfer and acquisition) of Ind Ltd. - ₹73,00,000

He also furnished the following details of investment/payments made by him during the P.Y. 2023-24:

1. Three-year post office time deposit - ₹25,000
2. Contribution to PPF - ₹35,000
3. Tuition fees of three children in Bharti Sr. Sec. School in Delhi - ₹20,000 per annum per children
4. Subscription to NHAI redeemable bonds after 5 years on 16th March, 2023 - ₹2,00,000.

Further, his son Mr. Dhaval, aged 15 years, has also earned the following income:

1. Income from a quiz competition - ₹25,000
2. Interest on bank fixed deposit - ₹9,500

Assuming that the tax has been deducted on time, wherever applicable. Mr. Abhishek wants to opt out of the default tax regime u/s 115BAC(1A).

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the quantum of income of Mr. Dhaval which is to be clubbed with the income of Mr. Abhishek, if any, assuming that income of Mr. Abhishek is greater than the income of his spouse?
    a. ₹34,500
    b. ₹8,000
    c. ₹33,000
    d. ₹9,500
2. What is the gross total income of Mr. Abhishek for A.Y. 2024-25?
    a. ₹2,13,72,530
    b. ₹2,14,22,530
    c. ₹2,13,64,530
    d. ₹2,15,46,070
3. What is the amount of deduction allowable under section 80C to Mr. Abhishek?
    a. ₹1,00,000
    b. ₹1,20,000
    c. ₹95,000
    d. ₹75,000
4. What shall be the tax liability of Mr. Abhishek for A.Y. 2024-25?
    a. ₹62,67,350
    b. ₹61,04,100

c. ₹59,60,050
d. ₹61,45,610

Solution

1. (b)
Income from Quiz Competition won't be clubbed as it is earned by application of skill by Mr. Dhaval. Interest income from bank fixed deposit of ₹9,500 shall be clubbed. Exemption u/s 10(32) of ₹1,500 shall also be available, and hence ₹9,500 – ₹1,500 = ₹8,000 shall be clubbed.
2. (a)

Computation of Gross Total Income of Mr. Abhishek

Particulars		**₹**
Income from Salaries		
Salary, Allowances and Perquisites		1,35,00,000
Less: Standard Deduction		50,000
Income from Salaries (A)		1,34,50,000
Capital Gains		
Short Term Capital Gains on transfer of listed equity shares		73,00,000
Long Term Capital Gains on transfer of residential house in Mumbai	1,73,540	
Less: Exemption u/s 54EC	1,73,540	-
Capital Gains (B)		73,00,000
Income from Other Sources		
Dividend from ABC Ltd. (Declared in P.Y. 2022-23, so not taxable)		-
Dividend from PRQ Ltd.		5,90,000
Interest on Savings Bank Account		24,530
Interest on Bank Deposit earned by Mr. Dhaval, clubbed (See Part 1)		8,000
Income from Other Sources (C)		6,22,530
Gross Total Income (A) + (B) + (C)		2,13,72,530

3. (d)

Computation of Deduction Available u/s 80C

Particulars	**₹**
Three-year post office time deposit (Not available u/s 80C)	-
Contribution to PPF	35,000
Tuition fees of two children (₹20,000 × 2)	40,000
Total Deduction u/s 80C	75,000

4. (b)

Computation of Total Income

Particulars		**₹**
Gross Total Income (Part 2)		2,13,72,530
Less: Deductions under Chapter VI-A		
Under Section 80C (See Part 3)	75,000	
Under Section 80TTA	10,000	85,000
Total Income		2,12,87,530

Computation of Tax Liability

Particulars		₹
On Short Term Capital Gains @ 15% (15% × ₹73,00,000)		10,95,000
On Balance Income of ₹1,39,87,530		
On First ₹2,50,000	-	
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500	
From ₹5,00,000 to ₹10,00,000 (20% × ₹5,00,000)	1,00,000	
From ₹10,00,000 to ₹1,39,97,530 (30% × ₹1,29,87,530)	38,96,259	40,08,759
		51,03,759
Add: Surcharge @ 15%		7,65,564
		58,69,323
Add: Health and Education Cess @ 4%		2,34,773
Tax Liability		61,04,096
Tax Liability (Rounded Off)		61,04,100

Question 20

M/s Abhinav & sons, a sole proprietorship is engaged in the business of manufacturing pharmaceutical products and it had started its business on 20th June 2019. Tax head of M/s Abhinav & sons furnishes you the following particulars for the year ended 31 March 2024:

- Income under the head PGBP - ₹5,75,22,750
- Interest on fixed deposits (Gross) - ₹12,50,000 [The same was received on 30th April, 2023 after deduction of tax at source]
- Donation to PM Cares Fund - ₹2,50,000
- Turnover during the previous year 2023-24 - ₹15,50,00,000

M/s Abhinav & sons wants to opt out of the default tax regime u/s 115BAC(1A). It has employed total 150 employees during the P.Y. 2022-23 with an annual increment of 10% in their monthly emoluments. Details of the same are as under:

Date of Joining	No. of Employees	Employee Category	Monthly Emoluments Per Employee (₹)	Participate in Recognised Provident Fund
01-05-2022	50	Regular	26,500	Yes
01-06-2022	65	Casual	23,000	No
01-07-2022	35	Regular	22,500	Yes

Casual employees do not participate in the recognised provident fund. It has employed further 50 employees during the P.Y. 2023-24. Details of the same are as under:

Date of Joining	No. of Employees	Employee Category	Monthly Emoluments Per Employee (₹)	Participate in Recognised Provident Fund
01-04-2023	20	Regular	21,000	Yes
01-08-2023	30	Regular	26,000	Yes

Emoluments to all the employees are being paid by way of account payee cheque only. No employees have left the job during P.Y. 2022-23 as well as during P.Y. 2023-24.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the due date of filing of return of income of M/s Abhinav & sons for A.Y. 2024-25?
    a. 31st July, 2024
    b. 30th November, 2024

c. 30th September, 2024
d. 31st October, 2024

2. What shall be the amount of deduction available to M/s Abhinav & sons under section 80JJAA for A.Y. 2024-25?
   a. ₹36,38,250
   b. ₹15,12,000
   c. ₹46,30,500
   d. ₹33,84,000
3. What would be the total income of M/s Abhinav & sons for the A.Y. 2024-25?
   a. ₹5,70,10,750
   b. ₹5,48,84,500
   c. ₹5,57,60,750
   d. ₹5,52,64,250
4. What would be the tax payable of M/s Abhinav & sons for the A.Y. 2024-25?
   a. ₹2,47,47,810
   b. ₹1,94,68,310
   c. ₹2,31,92,680
   d. ₹2,30,67,680

Solution

1. (d)
   Since the turnover exceeds ₹1 crore, M/s Abhinav and Sons are required to get their books of accounts audited u/s 44AB. Therefore, the due date of filing the return of income is 31st October.
2. (a)
   Section 80JJAA allows eligible assessee, to whom section 44AB applies and whose gross total income includes business profits and gains, to claim a deduction of 30% on the additional cost of employing new employees for a period of 3 assessment years.

Computation of Deduction Available u/s 80JJAA

Particulars	₹
50 Regular employees joined on 01-05-2022 (Note 1)	-
65 Casual employees joined on 01-06-2022 (Note 2)	-
35 Regular employees joined on 1-07-2022 (₹22,500 × 35 × 9)	70,87,500
20 Regular employees joined on 01-04-2023 (₹21,000 × 20 × 12)	50,40,000
30 Regular employees joined on 01-08-2023 (Note 1)	-
Additional Employee Cost	1,21,27,500
Deduction u/s 80JJAA @ 30%	36,38,250

Notes:
1. Since their monthly emoluments exceed ₹25,000, deduction u/s 80JJAA won't be available.
2. Since these are casual employees, deduction u/s 80JJAA won't be available.

3. (b)

Computation of Total Income

Particulars		₹
Profits and Gains from Business or Profession		5,75,22,750
Income from Other Sources (Interest on Fixed Deposit)		12,50,000
Gross Total Income		5,87,72,750
Less: Deductions under Chapter VI-A		
Under Section 80G: PM Cares Fund	2,50,000	

Under Section 80JJAA (See Part 2)	36,38,250	38,88,250
Total Income		5,48,84,500

4. (d)

Computation of Tax Payable

Particulars	**₹**
On First ₹2,50,000	-
From ₹2,50,000 to ₹5,00,000 (5% × ₹2,50,000)	12,500
From ₹5,00,000 to ₹10,00,000 (20% × ₹5,00,000)	1,00,000
From ₹10,00,000 to ₹5,48,84,500 (30% × ₹5,38,84,500)	1,61,65,350
	1,62,77,850
Add: Surcharge @ 37%	60,22,805
	2,23,00,655
Add: Health and Education Cess @ 4%	8,92,026
Tax Liability	2,31,92,681
Less: TDS (10% × ₹12,50,000)	1,25,000
Tax Payable	2,30,67,681
Tax Payable (Rounded Off)	2,30,67,680

Question 21

Mr. Kamal, an Indian citizen, aged 61 years, has set-up his business in Canada and is residing in Canada since 2010. He owns a house property in Canada, half of which is used by him for his residence and half is given on rent (converted into INR is ₹12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2020 for ₹42,00,000. The stamp duty value of the flat was ₹35,00,000. He has taken a loan from Canara Bank in India of ₹34,00,000 for purchase of this flat. The interest on such loan for the F.Y. 2023-24 was ₹3,14,000 and principal repayment was ₹80,000. Mr. Kamal has given this flat on monthly rent of ₹32,500 since April, 2023. The annual property tax of Delhi flat is ₹40,000 which is paid by Mr. Kamal, whenever he comes to India to meet his parents. Mr. Kamal visited India for 124 days during the previous year 2023-24. Before that he visited India in total for 366 days during the period 1.4.2019 to 31.3.2023.

He had a house in Ranchi which was sold in May 2020. In respect of this house, he received arrears of rent of ₹2,96,000 in February 2024 (not taxed earlier).

He also derived some other incomes during the F.Y. 2023-24 which are as follows:

1. Profit from business in Canada ₹2,75,000
2. Interest on bonds of a Canadian Co. ₹6,20,000 out of which 50% was received in India.
3. Income from Apple Orchid in Nepal given on contract and the yearly contract fee of ₹5,00,000 for F.Y. 2023-24, was received by Kamal in Nepal.

Mr. Kamal has sold 10,000 listed shares @ ₹480 per share of A Ltd., an Indian company, on 15.9.2023, which he acquired on 05-04-2017 @₹100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.

On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹300 per share
Average price - ₹290 per share
Lowest price - ₹280 per share

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the residential status of Mr. Kamal for the A.Y. 2024-25?
   a. Resident and ordinarily resident in India
   b. Resident but not ordinarily resident in India
   c. Non-resident
   d. Deemed resident
2. What would be the amount of income taxable under the head "Income from house property" in the hands of Mr. Kamal for the A.Y. 2024-25?
   a. ₹2,52,200
   b. ₹1,38,200
   c. ₹9,78,200
   d. ₹10,92,200
3. What amount of capital gain would arise in the hands of Mr. Kamal on transfer of shares of A Ltd.?
   a. ₹18,00,000
   b. ₹19,00,000
   c. ₹20,00,000
   d. ₹38,00,000
4. What would be the total income of Mr. Kamal for the A.Y. 2024-25, if he wishes to opt out of the default tax regime u/s 115BAC(1A)?
   a. ₹22,82,200
   b. ₹22,68,200
   c. ₹22,48,200
   d. ₹21,68,200
5. What would be the tax liability (computed in the manner so as to minimize his tax liability) of Mr. Kamal for the A.Y. 2024-25?
   a. ₹1,82,950
   b. ₹1,87,110
   c. ₹1,80,350
   d. ₹1,84,510

Solution

1. (b)
   Since Mr. Kaman is an Indian Citizen who visits India during the previous year 2023-24, his residential status would depend upon his earnings from Indian sources.

Computation of Total Income from Indian Sources

Particulars		**₹**
Income from House Property		
Gross Annual Value of Let Out Property (₹32,500 × 12)		3,90,000
Less: Municipal Taxes		40,000
Net Annual Value		3,50,000
Less: Standard Deduction (30% × ₹3,50,000)	1,05,000	
Interest on Loan	3,14,000	4,19,000
Income from Let Out Property (A)		(69,000)
Arrears of Rent Received		2,96,000

Less: Standard Deduction (30% × ₹2,96,000)		88,800
Income Chargeable to Tax (B)		2,07,200
Income from House Property (C) = (A) + (B)		1,38,200
Capital Gains		
Full Value of Consideration (10,000 × ₹480)		48,00,000
Less: Cost of Acquisition:		
FMV as on 31-01-2018 (Highest Price) (10,000 × ₹300)	30,00,000	
Full Value of Consideration	48,00,000	
Whichever is Lower	30,00,000	
Actual Cost of Acquisition (10,000 × ₹100)	10,00,000	
Whichever is Higher		30,00,000
Long Term Capital Gains (D)		18,00,000
Gross Total Income (C) + (D)		19,38,200
Less: Deductions under Chapter VI-A		
Principal Repayment of Home Loan (80C)		80,000
Total Income		18,58,200

Since his total income from Indian sources exceeds ₹15,00,000, he would be said to be a resident if he stays in India for 182 days or more during the previous year; or he stays in India for 120 days or more in the previous year AND stays in India for 365 days or more during the 4 years immediately preceding the relevant previous year.

In the present case, Mr. Kamal stayed in India for 124 days in the previous year, which exceeds 120 days, AND he stayed for 366 days during the 4 years immediately preceding the P.Y. 2023-24. Therefore, he is a resident. When a person who is a citizen of India, or a person of Indian origin, having total income, other than the income from foreign sources, exceeding ₹15 lakh during the previous year, has been in India for a period or periods amounting in all to 120 days or more but less than 182 days in the relevant previous year, he is said to be a resident but not ordinarily resident.

Therefore, option (b) is the answer.

2. Refer Part 1 above. Option (b) is the answer.
3. Refer Part 1 above. Option (a) is the answer.
4. Total income is as under:

Computation of Total Income

Particulars		₹
Income from House Property		
Gross Annual Value of Let Out Property (₹32,500 × 12)		3,90,000
Less: Municipal Taxes		40,000
Net Annual Value		3,50,000
Less: Standard Deduction (30% × ₹3,50,000)	1,05,000	
Interest on Loan	3,14,000	4,19,000
Income from Let Out Property (A)		(69,000)
Arrears of Rent Received		2,96,000
Less: Standard Deduction (30% × ₹2,96,000)		88,800
Income Chargeable to Tax (B)		2,07,200
Income from House Property (C) = (A) + (B)		1,38,200

Capital Gains		
Full Value of Consideration (10,000 × ₹480)		48,00,000
Less: Cost of Acquisition:		
FMV as on 31-01-2018 (Highest Price) (10,000 × ₹300)	30,00,000	
Full Value of Consideration	48,00,000	
Whichever is Lower	30,00,000	
Actual Cost of Acquisition (10,000 × ₹100)	10,00,000	
Whichever is Higher		30,00,000
Long Term Capital Gains (D)		18,00,000
Income from Other Sources		
Interest on Bonds of a Canadian Co. (50% Received in India)		3,10,000
Income from Other Sources (E)		3,10,000
Gross Total Income (C) + (D) + (E)		22,48,200
Less: Deductions under Chapter VI-A		
Principal Repayment of Home Loan (80C)		80,000
Total Income		21,68,200

Therefore, option (d) is the answer.

5. Tax Liability as per Normal Provisions:

Computation of Tax Liability under Normal Provisions

Particulars		₹
On Capital Gains {10% × ₹17,00,000 (being the excess of ₹1,00,000)}		1,70,000
On Balance Income of ₹3,68,200 (₹21,68,200 – ₹18,00,000)		
First ₹3,00,000	-	
From ₹3,00,000 to ₹3,68,000 (5% × ₹68,000)	3,410	3,410
		1,73,410
Add: Health and Education Cess @ 4%		6,936
Tax Liability		1,80,346
Tax Liability (Rounded Off)		1,80,350

Computation of Income u/s 115BAC

Particulars	₹
Total Income	21,68,200
Add: Deductions under Chapter VI-A	80,000
Total Income for Section 115 BAC	22,48,200

Computation of Tax Liability under the provisions of Section 115BAC

Particulars		₹
On Capital Gains {10% × ₹17,00,000 (being the excess of ₹1,00,000)}		1,70,000
On Balance Income of ₹4,48,200 (₹22,48,200 – ₹18,00,000)		
First ₹3,00,000	-	
From ₹3,00,000 to ₹4,48,200 (5% × ₹1,48,200)	7,410	7,410
		1,77,410
Add: Health and Education Cess @ 4%		7,096
Tax Liability		1,84,506
Tax Liability (Rounded Off)		1,84,510

Clearly, old scheme is better, and the minimum tax liability is ₹1,80,350. Therefore, option (c) is the answer.

Question 22

Mr. Kamal, aged 45 years, commenced operations of the business of a new three-star hotel in Delhi on 1.4.2023. He incurred capital expenditure of ₹50 lakhs on land in March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the P.Y. 2023-24, he incurred capital expenditure of ₹2 crores (out of which ₹50 lakhs was for acquisition of land and ₹1.50 crore was for acquisition of building) exclusively for the above business. The payments in respect of the above expenditure were made by account payee cheque. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y. 2024-25 is ₹85 lakhs.

He has employed 220 new employees during the P.Y. 2023-24, the details of whom are as follows:

	No. of Employees	Date of Employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	40	01-06-2023	Regular	24,000
(ii)	80	01-07-2023	Regular	24,500
(iii)	50	01-07-2023	Casual	25,500
(iv)	30	01-09-2023	Regular	25,000
(v)	20	01-12-2023	Casual	24,000

All regular employees participate in recognized provident fund and their emoluments are paid by account payee cheque. His gross revenue from the hotel is ₹11 crores. Mr. Kamal has opted out of the default tax regime under section 115BAC.

Mr. Kamal also has another existing business of running a four-star hotel in Ahmedabad, which commenced operations twenty years back, the profits from which are ₹140 lakhs for the A.Y. 2024-25

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Assuming that Mr. Kamal has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. - Deductions in respect of certain incomes", what would be the quantum of deduction under section 35AD, which he is eligible to claim as deduction for A.Y. 2024-25?
    a. ₹250 lakhs
    b. ₹200 lakhs
    c. ₹100 lakhs
    d. ₹150 lakhs
2. What would be the income chargeable/loss under the head "Profits and gains of business or profession" for the A.Y. 2024-25 in the hands of Mr. Kamal?
    a. ₹75 lakhs
    b. ₹140 lakhs
    c. ₹25 lakhs
    d. (₹10 lakhs)
3. Would Mr. Kamal be eligible for deduction under section 80JJAA in the A.Y. 2024-25? If so, what is the quantum of deduction?
    a. No, he would not be eligible for deduction u/s 80JJAA
    b. Yes; ₹75,00,000

c. Yes; ₹81,72,000
d. Yes; ₹99,72,000

Solution

1. (d)
   To determine the quantum of deduction under section 35AD that Mr. Kamal is eligible to claim for the A.Y. 2024-25, we need to consider the specified conditions and the nature of expenditures eligible under this section. Section 35AD provides a deduction for the whole of any expenditure of a capital nature incurred, wholly and exclusively, for the purposes of certain specified businesses.
   In Mr. Kamal's case, the relevant expenditures for the newly started three-star hotel in Delhi include:
   - Capital expenditure incurred during P.Y. 2023-24 amounting to ₹2 crores.
     - ₹50 lakhs for acquisition of land (not eligible for deduction under section 35AD).
     - ₹1.50 crores for acquisition of building (eligible for deduction under section 35AD).

   The land cost is typically not eligible for deduction under section 35AD, but expenditures related to the construction or acquisition of a new building for the business can be considered. Therefore, the eligible expenditure under section 35AD in this case would be the ₹1.50 crores spent on the acquisition of the building. Hence, the deduction he can claim under section 35AD for A.Y. 2024-25 is ₹150 lakhs.
   So, the correct answer is option (d): ₹150 lakhs
2. (a)
   Profits from the new three-star hotel before deduction under section 35AD: ₹85 lakhs.
   Deduction under section 35AD for the new hotel: ₹150 lakhs.
   The unutilized deduction of ₹65 lakhs (₹150 lakhs – ₹85 lakhs) represents a loss that can be set off against other business income of the specified business.
   Profits from the existing four-star hotel in Ahmedabad are ₹140 lakhs.
   After setting off the loss from the three-star hotel:
   Net taxable profit from both hotels combined = ₹140 lakhs (profit from the four-star hotel) – ₹65 lakhs (loss from the three-star hotel) = ₹75 lakhs.
   Thus, the income chargeable under the head “Profits and gains of business or profession” for the A.Y. 2024-25 is option (a): ₹75 lakhs.
3. (b)
   Since Mr. Kamal’s gross revenue is ₹11 crore, i.e., more than ₹10 crore, he is subject to tax audit u/s 44AB for A.Y. 2024-25. Therefore, he is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2024-25 and he has employed “additional employees” during the P.Y. 2023-24.
   Number of Additional Employees:

Particulars	**No. of Workmen**	
Total number of employees employed during the year		220
Less: Casual employees employed on 1.7.2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y. 2023-24.	30	

Casual employees employed on 1.12.2023 who do not participate in recognized provident fund	20	100
No. of "Additional Employees"		120

Additional Employee Cost = (₹24,000 × 10 × 40) + (₹24,500 × 9 × 80) = ₹2,72,40,000

Deduction under section 80JJAA = 30% of ₹2,72,40,000 = ₹81,72,000.

Since Mr. Kamal doesn't have any income, it's safe to assume that his gross total income constitutes only the business income. Therefore, the Gross total income is ₹75 lakhs.

The deduction u/s 80JJAA is restricted to the gross total income, i.e., ₹75,00,000, as the deductions from Gross Total Income cannot exceed the Gross Total Income, therefore, total deduction u/s 80JJAA would be ₹75,00,000 only.

Therefore, option (b) is the correct answer.

Question 23

Mr. Arvind, an Indian citizen, wants to file his return of income for the previous year 2023-24. He required assistance for which he has approached you. He has shared the following details relevant to the P.Y. 2023-24.

Mr. Arvind owned a house property in Bangalore and the same was rented out for ₹65,000 p.m. to Mr. Arjun, a salaried employee. He claims that this was the only income which he earned during the P.Y. 2023-24. However, when you had sought for his bank statement, you observed the following information additionally.

There is a credit for ₹23,975 towards income-tax refund which includes ₹5,775 towards interest on income-tax refund. On 15th August, 2023, the bank statement showed a credit of ₹55,000 which he claimed to have received as a gift from his grandchildren on his 60th birthday. On further assessment you were able to understand that Mr. Arvind and his wife had travelled to Mauritius during the P.Y. 2023-24 to spend some time with their son, who is staying in Mauritius. On scrutiny of their passport and relevant documents you conclude that they had left India on 27th September, 2023 and retuned on 31st March, 2024. During the 4 years preceding previous year 2023-24, both had stayed in India for 320 days. Prior to that, they had been staying only in India.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the residential status of Mr. Arvind for the P.Y. 2023-24?
    a. Resident and ordinarily resident
    b. Resident but not ordinarily resident
    c. Non-resident
    d. Deemed resident but not ordinarily resident
2. Is there any requirement to deduct tax at source under section 194-IB on such rent by Mr. Arjun? If yes, what would be the amount of TDS to be deducted?
    a. No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arjun is a salaried employee
    b. Yes, Mr. Arjun is required to deduct tax at source of ₹39,000 under section 194-IB
    c. Yes, Mr. Arjun is required to deduct tax at source of ₹78,000 under section 194-IB
    d. No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arvind is a non-resident

3. Which of the following statements is correct with respect to advance tax liability of Mr. Arvind for P.Y. 2023-24?
    a. Advance tax liability shall not arise to Mr. Arvind since he is a non-resident
    b. Advance tax liability shall not arise, since Mr. Arvind is a resident senior citizen and he has no income chargeable under the head "Profits and gains of business or profession
    c. Advance tax liability shall arise, since he is a non-resident
    d. Advance tax liability shall arise, since his tax liability is not less than ₹10,000

Solution

1. (c)
   To determine the residential status of Mr. Arvind for the P.Y. 2023-24, we need to review the rules specified under the Income Tax Act, 1961, concerning the residential status of an individual. The residential status determines how a person's income is taxed in India. The conditions for determining the residential status are:
   - Resident: An individual is considered a resident in India if they meet any one of the following conditions:
     - Stay in India for 182 days or more during the relevant previous year, or
     - Stay in India for 365 days or more during the 4 years preceding the previous year and at least 60 days in the previous year.
   - Resident but not Ordinarily Resident (RNOR): A resident individual will be treated as RNOR if they meet any one of the following conditions:
     - They have been a non-resident in India in 9 out of the 10 previous years preceding the relevant previous year, or
     - They have been in India for 729 days or less during the 7 years preceding the relevant previous year.
   - Non-resident: An individual who does not meet the criteria for residency.

   Considering the details provided:

   - Mr. Arvind and his wife were in India until 27th September 2023 and returned on 31st March 2024. For the P.Y. 2023-24, the duration they were in India is calculated from 1st April 2023 to 27th September 2023, and then from 31st March 2024, which sums to 181 days.
   - Over the past 4 years (P.Y. 2019-20 to P.Y. 2022-23), they stayed in India for 320 days.

   Given this information:

   - Mr. Arvind does not meet the first condition for residency as he did not stay in India for 182 days or more during P.Y. 2023-24.
   - Mr. Arvind stayed for more than 60 days in the previous year, but he didn’t stay for 365 days in the preceding four previous years.

   Thus, given that Mr. Arvind did not fulfill the residency requirement of staying in India for at least 182 days during the P.Y. 2023-24, or of staying for at least 60 days in the previous year AND for at least 365 days in the preceding four previous years. Therefore, for the P.Y. 2023-24, he is considered a Non-Resident. Therefore, option (c) is the answer.

2. (d)
   Under section 194-IB of the Income Tax Act, an individual paying rent to a resident landlord is required to deduct tax at source if the monthly rent exceeds ₹50,000. The section mandates

TDS deduction at the rate of 5% on the rent paid by individuals or HUFs who are not subject to tax audit under section 44AB.

Since Mr. Arvind is a non-resident, the provisions of Section 194-IB, which apply to payments made to resident landlords, do not apply here.

Given this, the correct answer is option (d): No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arvind is a non-resident.

3. (d)

To determine the correct statement regarding the advance tax liability of Mr. Arvind for P.Y. 2023-24, we must consider his residential status, income types, and any exemptions applicable under the Income Tax Act.

Given that Mr. Arvind is classified as a non-resident for the P.Y. 2023-24, here are the considerations:

- Advance Tax Requirement: In general, advance tax is payable if the tax liability for the year exceeds ₹10,000. This applies to both residents and non-residents.
- Income Source: Mr. Arvind's primary source of income is from renting out property. Rent income from property situated in India is taxable in India, regardless of the taxpayer's residency status.
- Exemption for Senior Citizens: Typically, resident senior citizens who do not have income from business or profession are exempt from paying advance tax. However, this exemption does not apply to non-residents.

Given these points, the statements can be evaluated as:

a. Advance tax liability shall not arise to Mr. Arvind since he is a non-resident: This statement is incorrect because being a non-resident does not exempt one from advance tax if the tax liability exceeds ₹10,000.

b. Advance tax liability shall not arise, since Mr. Arvind is a resident senior citizen and he has no income chargeable under the head "Profits and gains of business or profession": This statement is incorrect as it falsely claims Mr. Arvind is a resident. He is a non-resident.

c. Advance tax liability shall arise, since he is a non-resident: The non-resident status itself is not a criterion for the arising of advance tax liability. It's the income amount and tax liability that determine this.

d. Advance tax liability shall arise, since his tax liability is not less than ₹10,000: This is correct if his tax liability on rental income (or other incomes, including interest on the income tax refund) exceeds ₹10,000, which is likely given the monthly rent of ₹65,000.

Thus, the correct answer is option (d): Advance tax liability shall arise, since his tax liability is not less than ₹10,000.