

Super 30 Questions – Income Tax

Chapter 2 – Residence and Scope of Total Income

Question 1

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2024-25, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

Particulars	₹
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company, received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai, managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Solution

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

Particulars	Resident and Ordinarily Resident	Resident But Not Ordinarily Resident	Non-Resident
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000

Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000	-	-
Interest on debentures in an Indian company, received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai, managed from London	26,000	26,000	26,000
Income from property situated in Nepal received there (Computed)	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding (Not Taxable)	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt u/s 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction u/s 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000

Chapter 3 – Income from Salaries

Question 2

From the following details, find out the salary chargeable to tax for the A.Y. 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2023 in the scale of ₹ 20,000 – ₹ 1,000 – ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

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

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

Solution

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

Particulars	₹
Basic Salary $\{(\text{₹ } 20,000 \times 9) + (\text{₹ } 21,000 \times 3)\}$	2,43,000
Dearness Allowance $(10\% \times \text{₹ } 2,43,000)$	24,300
Bonus	21,000
Employer's Contribution to RPF in excess of 12% $\{(15\% - 12\%) \times (\text{₹ } 2,43,000 + \text{₹ } 24,300)\}$	8,019
Use of Laptop (Note 1)	Exempt
Reimbursement of Medical Bill (Note 2)	25,000
Reimbursement of Salary of Housekeeper $(\text{₹ } 1,000 \times 12)$	12,000
Gift Voucher on Marriage Anniversary (Note 3)	10,000
Conveyance Allowance (Note 4)	Exempt
Premium paid for Personal Accident Policy (Note 5)	Exempt
Telephone Allowance $(\text{₹ } 500 \times 12)$	6,000
Rent Free Accommodation (Note 6)	35,561
Gross Salary	3,84,880
Less: Standard Deduction u/s 16	50,000
Taxable Salary	3,34,880

Notes:

1. Facility of use of laptop is not a taxable perquisite.
2. Since it is not mentioned that the treatment is done in Government Hospital, or Employer owned Hospital, Government Recognised Hospital, it shall be taxable.
3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case,

the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.
6. Calculation of Taxable Value of Rent Free Accommodation:

Particulars	₹
Basic Salary	2,43,000
Dearness Allowance (in Terms)	24,300
Bonus	21,000
Allowances (Taxable)	6,000
Commission (All Types)	-
Monetary Income (Other than Perquisites)	-
	2,94,300
Per Month	24,525
From 1st April to 31st August (15% × ₹24,525 × 5)	18,394
Rent Paid by Employer (₹10,000 × 5)	50,000
Lower of Above (A)	18,394
From 1st September to 31st March (10% × ₹24,525 × 7)	17,168
Rent Paid by Employer (₹10,000 × 7)	70,000
Lower of the above (B)	17,168
Total (A) + (B)	35,561

Question 3

Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

1. A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2023.
2. A personal loan of ₹ 5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest on 1.4.2023 was 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2020. The motor cycle was finally sold to him on 1.8.2023 for ₹ 30,000.
4. Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2024-25 assuming Mr. X has not opted for the provisions of section 115BAC.

Solution

Computation of Income from Salary of Mr. X for A.Y. 2024-25

Particulars		₹
Basic Salary (₹ 25,000 × 12)		3,00,000
Entertainment Allowance (₹ 1,000 × 12)		12,000
Commission (₹ 1,000 × 12)		12,000
Rent Free Accommodation (Note 1)	39,150	
Add: Value of Furniture (10% × ₹ 2,40,000 × 8/12)	16,000	55,150
Interest on Personal Loan {₹ 5,00,000 × (12.75% – 6.75%) × 9/12}		22,500
Use of Motor Cycle (10% × ₹ 60,000 × 4/12)		2,000
Transfer of Motor Cycle (Note 2)		12,000
Gross Salary		4,15,650
Less: Deductions u/s 16		
Standard Deduction	50,000	
Professional Tax	2,000	52,000
Income from Salary		3,63,650

Notes:

1. Rent Free Accommodation

Particulars	₹
Basic Salary	3,00,000
Dearness Allowance (in Terms)	-
Bonus	-
Allowances (Taxable)	12,000
Commission (All Types)	12,000
Monetary Income (Other than Perquisites)	-
	3,24,000
Per month	27,000
From 1st April to 31st August (15% × ₹27,000 × 5)	20,250
From 1st September to 31st March (10% × ₹27,000 × 7)	18,900
Total	39,150

2. Transfer of Motor Cycle

Particulars	₹
Cost	60,000
Less: Depreciation @ 10% (01-05-2020 - 30-04-2021)	6,000
	54,000
Less: Depreciation @ 10% (01-05-2021 - 30-04-2022)	6,000
	48,000
Less: Depreciation @ 10% (01-05-2022 - 30-04-2023)	6,000
WDV	42,000
Less: Consideration	30,000
Taxable Perquisite	12,000

Question 4

Mr. Tushar Kapoor, Finance Manager of KLM Ltd., Mumbai, furnishes the following particulars for the financial year 2023-24:

1. Salary ₹ 46,000 per month
2. Value of medical facility in a hospital by the company ₹ 7,000
3. Rent free accommodation owned by the company
4. Housing loan of ₹ 6,00,000 given on 01-04-2023 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SB) as on 01-04-2023 in respect of housing loan is 10%.
5. Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Tushar Kapoor ₹ 4,750.
6. A wooden table and 4 chairs were provided to Mr. Tushar Kapoor at his residence (dining table). This was purchased on 01-05-2020 for ₹ 60,000 and sold to Mr. Tushar Kapoor on 01-08-2023 for ₹ 30,000.
7. Personal purchases through credit card provided by the company amounting to ₹ 10,000 was paid by the company. No part of the amount was recovered from Mr. Tushar Kapoor.
8. An ambassador car which was purchased by the company on 16-07-2020 for ₹ 2,50,000 was sold to the assessee on 14-07-2023 for ₹ 80,000.

Compute the income from salary of Mr. Tushar Kapoor for the Assessment Year 2024-25.

Solution

Computation of Income from Salaries of Mr. Tushar Kapoor for A.Y. 2024-25

Particulars	₹
Basic Salary (₹ 46,000 × 12)	5,52,000
Medical Facility provided in company's hospital	Exempt
Interest benefit on Housing Loan {₹ 6,00,000 × (10% – 6%)}	24,000
Gift in Kind (value < ₹ 5,000)	Exempt
Wooden Table provided (Use of Asset) (₹ 60,000 × 10% × 4/12)	2,000
Transfer of Wooden Table and Chair (Note 1)	12,000
Credit Card Facility	10,000
Transfer of Car (Note 2)	80,000
Rent Free Accommodation (Note 3)	66,700
Gross Salary	7,46,700
Less: Deduction u/s 16 (Standard Deduction)	50,000
Net Taxable Salary	6,96,700

Notes:

1. Transfer of Wooden Table

Particulars	₹
Cost	60,000
Less: Depreciation @ 10% (01-05-2020 - 30-04-2021)	6,000
	54,000
Less: Depreciation @ 10% (01-05-2021 - 30-04-2022)	6,000
	48,000
Less: Depreciation @ 10% (01-05-2022 - 30-04-2023)	6,000
WDV	42,000
Less: Consideration	30,000

Taxable Perquisite	12,000
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2. Transfer of Car

Particulars	₹
Cost	2,50,000
Less: Depreciation @ 20% (16-07-2020 - 15-07-2021)	50,000
	2,00,000
Less: Depreciation @ 20% (16-07-2021 - 15-07-2022)	40,000
	1,60,000
Less: Consideration	80,000
Taxable Perquisite	80,000

3. Rent Free Accommodation

Particulars	₹
Basic Salary	5,52,000
Dearness Allowance (in Terms)	-
Bonus	-
Allowances (Taxable)	-
Commission (All Types)	-
Monetary Income (Other than Perquisites)	-
	5,52,000
Per Month ($₹5,52,000 \div 12$)	46,000
From 1st April to 31st August ($15\% \times ₹46,000 \times 5$)	34,500
From 1st September to 31st March ($10\% \times ₹46,000 \times 7$)	32,200
Total Value of Rent Free Accommodation	66,700

Chapter 4 – Income from House Property

Question 5

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2015-2016. The property consists of eight identical units and is situated at Cochin.

During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

Particulars	₹
Repairs	40,000
Insurance Premium (paid)	15,000
Interest payable on loan taken for construction of house	3,00,00

One of the let-out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2023-24.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2024-25 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

If Arun and Bimal pay tax under the default tax regime under section 115BAC

Computation of Total Income

Particulars	Arun	Bimal
Income from House Property (W.N. 1)	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	4,15,850	3,05,850

W. N. 1 - Computation of Income from House Property for A.Y. 2024-25

Particulars	SOP (25%)	LOP (75%)
(i) Municipal Value	-	6,75,000
(ii) Fair Rent	-	-
(iii) Higher of (i) and (ii)	-	6,75,000
(iv) Standard Rent	-	-
(v) Expected Rent [Lower of (iii) and (iv)]	-	6,75,000
(vi) Actual Rent Received/Receivable (Note 2)	-	8,16,000
GAV (Note 3)	-	8,16,000
Less: Municipal Taxes	-	1,35,000
NAV	-	6,81,000
Less: Deductions u/s 24		

30% of NAV	-	2,04,300
Interest on Loan (Note 1)	-	2,25,000
Income from House Property	-	2,51,700
Net Income from House Property		2,51,700
Share of Arun (1/2)		1,25,850
Share of Bimal (1/2)		1,25,850

Notes:

1. Interest on Loan:

Total Interest on Loan = ₹ 3,00,000

Attributed to Self Occupied Property (25%) = 25% × ₹ 3,00,000 = ₹ 75,000

Attributed to Let-Out Property (75%) = 75% × ₹ 3,00,000 = ₹ 2,25,000

2. Actual Rent

Particulars		₹
Rent Received		
5 units × ₹ 12,000 p.m. × 12 months	7,20,000	
1 unit × ₹ 12,000 p.m. × 8 months	96,000	8,16,000
Add: Rent Receivable		-
		8,16,000
Less: Unrealised Rent		-
Actual Rent		8,16,000

3. Vacancy

Particulars		₹
Expected Rent		6,75,000
Actual Rent (Note 2)		8,16,000
Vacancy Rent (1 unit × ₹ 12,000 p.m. × 4 months)		48,000
AR + VR		8,64,000
GAV (Since AR + VR > ER, GAV = AR)		8,16,000

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

Computation of Total Income

Particulars	Arun	Bimal
Income from House Property		
Self-Occupied Property		
NAV	-	-
Less: Deduction u/s 24(a): 30% of NAV	-	-
Deduction u/s 24(b): Interest on Loan (W. N. 1)	37,500	37,500
Income from Self-Occupied House Property	(37,500)	(37,500)
Income from Let-Out Property (Same as Default Scheme)	1,25,850	1,25,850
Total Income from House Property	88,350	88,350
Other Income	2,90,000	1,80,000

Total Income

3,78,350 | 2,68,350

Notes:

1. Interest on Loan:

Total Interest on Loan = ₹ 3,00,000

Attributed to SOP (25%) = ₹ 75,000

Attributed to LOP (75%) = ₹ 2,25,000

Self-Occupied Interest attributable to Arun ($₹ 75,000 \div 2$) = ₹ 37,500

Self-Occupied Interest attributable to Bimal ($₹ 75,000 \div 2$) = ₹ 37,500

Question 6

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2024. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2024-25.

Solution

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

Particulars	₹
(i) Municipal Value	2,50,000
(ii) Fair Rent	2,00,000
(iii) Higher of (i) and (ii)	2,50,000
(iv) Standard Rent	2,10,000
(v) Expected Rent [Lower of (iii) and (iv)]	2,10,000
(vi) Actual Rent Received/Receivable (W.N. 1)	1,80,000
GAV (W.N. 1)	1,80,000
Less: Municipal Taxes	20,000
NAV	1,60,000
Less: Deductions u/s 24	
30% of NAV	48,000
Interest on Loan	65,000
Income from House Property	47,000
Net Income from House Property	47,000

W.N. 1 - Calculation of GAV

Particulars	₹
Expected Rent	2,10,000
Actual Rent	1,80,000
Vacancy Rent	40,000
AR + VR	2,20,000
GAV (Since AR + VR > ER, GAV = AR)	1,80,000

Chapter 5 – Profits and Gains from Business or Profession

Question 7

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2024 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	3,00,000
Opening balance of machinery as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations. Compute the income arising from the above activities for the A.Y. 2024-25.

Solution

Computation of Income of Mr. Tenzingh for A.Y. 2024-25

Particulars	₹
Sale value of cured coffee	22,00,000
Less: Expenses for growing coffee	3,10,000
Expenses for curing coffee	3,00,000
Running and Maintenance of Car (80% × ₹ 50,000)	40,000
Depreciation on Car (80% × 15% × ₹ 3,00,000)	36,000
Depreciation on Machinery (15% × ₹ 15,00,000)	2,25,000
Total Profits	12,89,000

Business Income (25% × ₹ 12,89,000)	3,22,250
Agricultural Income (75% × ₹ 12,89,000)	9,66,750

Notes:

1. Since car is used only 80% for business, only 80% of depreciation and running and maintenance expenses shall be allowed.
2. Where the assessee is engaged in the business of growing and curing coffee, 25% of his total income is considered to be Business Income and 75% is considered to be Agricultural Income.

Question 8

Mr. Prakash is in the business of operating goods vehicles. As on 1st April, 2023, he had the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2023-24
A	8,500	02-04-2022	Yes
B	13,000	15-05-2022	Yes
C	12,000	04-08-2022	No (as under repairs)

During P.Y. 2023-24, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11,000	30-04-2023	10-05-2023
E	15,000	15-05-2023	18-05-2023

Compute his income under section 44AE of the Income Tax Act, 1961 for A.Y. 2024-25.

Solution

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

Calculation of Presumptive Income u/s 44AE

Type of Carriage	Date of Purchase	No. of Months the vehicle is owned by Mr. Prakash	Rate per Ton	Ton	Amount
(1)	(2)	(3)	(4)	(5)	(6) = (3) × (4) × (5)
Heavy Goods Vehicle					
B	15-05-2022	12	1,000	13	1,56,000
E	15-05-2023	11	1,000	15	1,65,000
Light Goods Vehicle			Rate per Month		
A	02-04-2022	12	7,500	-	90,000
C	04-08-2022	12	7,500	-	90,000
D	30-04-2023	12	7,500	-	90,000
Total					5,91,000

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Prakash.

Question 9

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2024:

Trading and Profit and Loss Account for the year ended 31-03-2024

Particulars	₹	Particulars	₹
To Opening Stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing Stock	1,86,100
To Gross Profit	3,03,600		
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross Profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on Loan	15,000		
To Depreciation	1,05,000		
To Printing & Stationery	23,200		
To Postage & Telegram	1,640		
To Loss on Sale of Shares (Short Term)	8,100		
To Other General Expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:
Opening stock ₹ 9,000
Closing stock ₹ 18,000
- Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
- The whole amount of printing and stationery was paid in cash by way of one time payment to Mr. Ramesh.
- The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
The opening balance of plant and machinery (i.e., the written down value as on 31.3.2023 minus depreciation for P.Y. 2022-23) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2023 for ₹ 70,000. Two old plants were sold on 1.10.2023 for ₹ 50,000.
- Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2024.
- Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Solution

Computation of Business Income of Mr. Sivam for A.Y. 2024-25

Particulars	₹
Net Profit as per Profit & Loss A/c	50,000
Add: Inadmissible Deductions	

Depreciation (Considered Separately)	1,05,000	
Loss on Sale of Shares (Short Term)	8,100	
Undervaluation of Closing Stock	18,000	
Unreasonable Salary to Relative	2,000	
Cash Payment in Excess of ₹ 10,000 (Note 1)	23,200	
GST Liability included in Rent and Rates (Note 2)	-	
Donation to Public Charitable Trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted		
Undervaluation of Opening Stock	9,000	
Income from UTI (Chargeable under IFOS)	2,400	11,400
Business Income Before Depreciation		1,96,900
Less: Depreciation (Note 3)		66,000
Business Income		1,30,900

Notes:

1. As per Section 40A(3), if any payment is made to a person in a single day in a mode other than A/c Payee Cheque/A/c Payee DD/any mode of Electronic Clearing System, in excess of ₹ 10,000, the entire payment is disallowed.
2. Since GST Liability has been paid before the due date of return filing, it shall be allowed.
3. Calculation of Depreciation

Particulars	₹
Opening WDV	4,20,000
Add: Cost of New Plant and Machinery	70,000
	4,90,000
Less: Sale Proceeds and Assets Sold	50,000
WDV For Depreciation	4,40,000
Depreciation @ 15%	66,000

Question 10

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024:

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchases of Raw Materials	2,16,99,000	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative Charges	3,26,000	By Gross Profit	10,60,000
To SGST Penalty	5,000	By Dividend from Domestic Companies	15,000
To GST Paid	1,10,000	By Income from Agriculture (Net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On Machinery Term Loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2023-24:

- Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2023. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2024 was ₹ 20,000 and the balance was paid in November 2024.
- Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant and Machinery (Depreciation rate @ 15%)	₹
WDV as on 31.03.2023 minus Depreciation for P.Y. 2022-23	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2024-25 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Solution

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

Particulars	₹
Income from House Property	
Net Annual Value	-
Less: Deduction u/s 24(b) (Note 1)	-
Income from House Property (A)	-
Profits and Gains from Business or Profession	
Net Profit as per Profit & Loss A/c	5,00,000
Add: Inadmissible Deductions	
SGST Penalty (Note 2)	5,000
GST Paid (Note 3)	-
Depreciation (Considered Separately)	2,00,000
Unreasonable Commission to Relative	10,000
Cash Payment in excess of ₹ 10,000 (Note 4)	-
Bank Term Loan Interest (Note 5)	40,000
	2,55,000
	7,55,000
Less: Items to be Deducted	
Dividend from Domestic Companies (Charged as IFOS)	15,000
Agricultural Income (Exempt)	1,80,000
Salary to Staff (Note 6)	48,000
Depreciation (Note 7)	2,23,500
	4,66,500
Profits and Gains from Business or Profession (B)	2,88,500
Income from Other Sources	
Dividend from Domestic Companies	15,000
Income from Other Sources (C)	15,000
Gross Total Income (A) + (B) + (C)	3,03,500
Less: Principal Repayment of Housing Loan u/s 80C (Note 8)	-
Total Income	3,03,500

Notes:

- Interest on loan on Self-Occupied Property is not available under the default tax regime.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.
Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 2,98,500.
- Assuming that GST was deposited in the Government A/c before the due date of filing of return of income, it'll be allowed.
- In case of payment to transporter, the limit of cash payment is ₹ 35,000. Since, the payment made was below ₹ 35,000, it'll be fully allowed.
- Since the interest on term loan was paid after the due date of return filing, it is disallowed.
- In the absence of any information, it is assumed that salary was omitted to be recorded in the books of the assessee by mistake, and that the assessee has offered satisfactory explanation to the Assessing Officer regarding the same. Therefore, it shall be allowed as deduction.
- Calculation of Depreciation

Particulars	₹
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Opening WDV		11,90,000
Add: Cost of New Plant and Machinery (More than 180 Days)	2,00,000	
Cost of New Plant and Machinery (Less than 180 Days)	2,00,000	4,00,000
WDV For Depreciation		<u>15,90,000</u>
7.5% (Being 50%) on ₹ 2,00,000		15,000
15% on Balance (₹ 15,90,000 – ₹ 2,00,000)		2,08,500
Total Depreciation		<u>2,23,500</u>

8. Deduction u/s 80C is not allowable under the default tax regime.

Question 11

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2023. He incurred capital expenditure of ₹ 50 lakh during the period January, 2023 to 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 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y. 2024-25, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y. 2024-25 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y. 2024- 25. Also, assume that payments for capital expenditure were made by net banking.

Solution

Computation of Profits and Gains from Business or Profession

Particulars	New Hotel	Existing Hotel
Profit before deduction u/s 35AD	25,00,000	1,20,00,000
Less: Deductions u/s 35AD		
Capital Expenditure incurred prior commencement	50,00,000	
Capital Expenditure incurred during P.Y. 2022-23 (except Land)	50,00,000	
Profits from Specified Business	(75,00,000)	1,20,00,000
Net Profit from Specified Business after Set Off		45,00,000

Chapter 6 – Capital Gains

Question 12

Ms. Neelima had purchased 500 equity shares in A Ltd. at a cost of ₹ 30 per share (brokerage 1%) in February 1995. She got 50 bonus shares in September 1999. She again got 550 bonus shares by virtue of her holding on March 2005. Fair market value of the shares of A Ltd. on April, 2001 is ₹ 45. In January, 2024, she transferred all her shares @ ₹ 280 per share (brokerage 2%). The FMV of shares as on 31-01-2018 is ₹ 150 per share. Compute the capital gains taxable in the hands of Ms. Neelima assuming:

1. A Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
2. A Ltd. is a listed company and the shares are sold in a recognised stock exchange and securities transaction tax was paid at the time of purchase and sale.

Solution

Computation of Capital Gains of Ms. Neelima for A.Y. 2024-25

Case 1 - Assuming the Shares are Unlisted

Particulars	Original Shares	1 st Bonus Shares	2 nd Bonus Shares
Number	500	50	550
Full Value of Consideration	1,40,000	14,000	1,54,000
Less: Expenses on Transfer @ 2%	2,800	280	3,080
Net Sale Consideration	1,37,200	13,720	1,50,920
Less: Indexed Cost of Acquisition	78,300	7,830	-
Long Term Capital Gains	58,900	5,890	1,50,920
Total Long Term Capital Gains Rounded Off			2,15,710 2,15,710

Computation of Capital Gains of Ms. Neelima for A.Y. 2024-25

Case 2 - Assuming the Shares are Listed

Particulars	Original Shares	1 st Bonus Shares	2 nd Bonus Shares
Number	500	50	550
Full Value of Consideration	1,40,000	14,000	1,54,000
Less: Expenses on Transfer @ 2%	2,800	280	3,080
Net Sale Consideration (A)	1,37,200	13,720	1,50,920
Less: Cost of Acquisition			
FMV as on 31-01-2018	75,000	7,500	82,500
Full Value of Consideration	1,40,000	14,000	1,54,000
Whichever is Lower	75,000	7,500	82,500
Actual Cost of Acquisition	22,500	2,250	-
Whichever is Higher (B)	75,000	7,500	82,500
Long Term Capital Gains (A) – (B)	62,200	6,220	68,420
Total Long Term Capital Gains			1,36,840

Question 13

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. He has also received dividend of ₹ 10 per share on 01.05.2023.

He has sold all the shares on 01.10.2023 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2024-25 if Mr. Mithun pays tax under default tax regime, assuming that he is having no income other than given above. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Solution**Computation of Total Income of Mr. Mithun for A.Y. 2024-25**

Particulars	₹
Capital Gains	
Original Shares	
Full Value of Consideration (100 × ₹ 4,000)	4,00,000
Less: Expenses on Transfer (1% × ₹ 4,00,000)	4,000
Net Consideration	3,96,000
Less: Cost of Acquisition	
FMV as on 31-01-2018 (100 × ₹ 2,000)	2,00,000
Full Value of Consideration	4,00,000
Whichever is Lower	2,00,000
Actual Cost (100 × ₹ 1,000)	1,00,000
Whichever is Higher	2,00,000
Long Term Capital Gains (A)	1,96,000
Bonus Shares	
Full Value of Consideration (100 × ₹ 4,000)	4,00,000
Less: Expenses on Transfer (1% × ₹ 4,00,000)	4,000
Net Sale Consideration	3,96,000
Less: Cost of Acquisition	-
Short Term Capital Gains (B)	3,96,000
Income from Other Sources	
Dividend Income (200 × ₹ 10)	2,000
Income from Other Sources (C)	2,000
Total Taxable Income (A) + (B) + (C)	5,94,000

Computation of Tax Liability of Mr. Mithun for A.Y. 2024-25

Particulars	₹
Tax on dividend (since it is lower than the basic exemption limit)	-
Tax on STCG u/s 111A [15% of (₹ 3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)]	14,700
Tax on LTCG u/s 112A [10% of (₹ 1,96,000 - ₹ 1,00,000)]	9,600
	24,300
Less: Rebate u/s 87A (Since total income does not exceed ₹ 7,00,000)	
Lower of:	

Tax Liability (Rebate u/s 87A is not allowed from LTCG taxable u/s 112A)	14,700	
₹ 25,000	25,000	14,700
		9,600
Add: Health and Education Cess @ 4%		384
Tax Liability		9,984
Tax Liability (Rounded Off)		9,980

CA NISHANT KUMAR

Question 14

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

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

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

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

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

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2023-24 - 348.

Solution

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

Particulars	₹
Full Value of Consideration (Note 1)	8,10,00,000
Less: Expenses on Transfer (1% × ₹ 8,10,00,000)	8,10,000
Net Sale Consideration	8,01,90,000
Less: Indexed Cost of Acquisition	
Cost of Vacant Land $\{[\text{₹ } 80,00,000 + (10\% \times \text{₹ } 80,00,000)] \times \frac{348}{117}$	2,61,74,359
Construction Cost of Residential Building $(\text{₹ } 1,00,00,000 \times \frac{348}{129})$	2,69,76,744
Long Term Capital Gains (Note 2)	2,70,38,897
Less: Exemption u/s 54 (Note 3)	1,30,00,000
Exemption u/s 54EC (Note 4)	50,00,000
Long term capital gains chargeable to tax	90,38,897

Notes:

1. Actual sale consideration ₹ 810 lakhs. Value adopted by Stamp Valuation Authority ₹ 890 lakhs. Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value

exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration.

2. Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.
3. Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.
4. Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2024), of longterm capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.7.2024 (i.e., within six months after the date of transfer).
5. Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

Question 15

Mr. Rakesh purchased a house property on 14th April, 1999 for ₹ 1,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 2002 and received an advance of ₹ 25,000. However, since Mr. B did not remit the balance amount, Mr. Rakesh forfeited the advance. Later on, he gifted the house property to his friend Mr. A on 15th June, 2006.

Following renovations were carried out by Mr. Rakesh and Mr. A to the house property:

Particulars	₹
By Mr. Rakesh during F.Y. 2000-01	10,000
By Mr. Rakesh during F.Y. 2003-04	50,000
By Mr. A during F.Y. 2013-14	1,90,000

The fair market value of the property as on 01-04-2001 is ₹ 1,50,000 & SDV as on 01-04-2001 is ₹ 1,40,000.

Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 2023 and received an advance of ₹ 80,000. The said amount was forfeited by Mr. A, since Mr. C could not fulfil the terms of the agreement. Finally, the house was sold by Mr. A to Mr. Sanjay on 2nd January, 2024 for a consideration of ₹ 25,00,000. Compute the capital gains chargeable to tax in the hands of Mr. A for the assessment year 2024-25. (CII for F.Y. 2001-02 = 100; F.Y. 2002-03 = 105; F.Y. 2003-04 = 109; F.Y. 2006-07 = 122; F.Y. 2013-14 = 220; F.Y. 2021-22 = 317; F.Y. 2023-24 = 348)

Solution

Computation of Capital Gain for Mr. A for P.Y. 2023-24 A.Y. 2024-25

Particulars		₹
FVOC		25,00,000
Less: Transfer Expenses		-
Net Consideration		25,00,000
Less: Indexed COA (₹ 1,40,000 × 348/100)	4,87,200	
Indexed COI		
Mr. Rakesh (₹ 50,000 × 348/109)	1,59,633	
Mr. A (₹ 1,90,000 × 348/220)	3,00,545	9,47,378
Long Term Capital Gains		15,52,622

Notes:

- Improvement done by Mr. Rakesh in P.Y. 2000-01 shall not be considered as improvement done before 01-04-2001 are ignored.
- FMV as on 01-04-2001 is restricted to SDV as on 01-04-2001 if SDV is available as on 01-04-2001. In this question, SDV as on 01-04-2001 is ₹ 1,40,000 and FMV is ₹ 1,50,000, so we have considered ₹ 1,40,000.
- As per Section 51, Advance Money Forfeited by Assessee (Present Owner) before 01-04-2014 shall be reduced from Cost of Acquisition. In this case, advance money forfeited by Mr. Rakesh (Previous Owner) shall not be reduced.
- Advance money forfeited on or after 01-04-2014 shall be taxable under IFOS u/s 56(2)(ix). So, advance money forfeited by Mr. A shall be taxable under IFOS in P.Y. 2022-23 in the hands of Mr. A.

Question 16

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2023 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of capital assets of unit 1 on 1.4.2023 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2023 is as under:

Liabilities	Total	Assets	Unit 1	Unit 2	Total
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

1. Revaluation reserve is created by revising upward the value of the building of unit 1.
2. No individual value of any asset is considered in the transfer deed.
3. Other assets of unit 1 include patents acquired on 01-07-2021 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2024-25.

Solution

Computation of Capital Gains of Mr. A for A.Y. 2024-25

Particulars	₹
FVOC (Higher of FMV of Capital Assets of Unit 1 on 01-04-2022 or FMV of Monetary Consideration Received)	30,00,000
Less: Transfer Expenses	28,000
	29,72,000
Less: COA (Net Worth) (Note 1)	12,50,625
LTCG	17,21,375

Note 1 - Calculation of Net Worth

Particulars	₹
Assets:	
Building (₹ 12,00,000 – ₹ 3,00,000)	9,00,000
Machinery	3,00,000
Debtors	1,00,000
Other Assets (Excluding Patents)	1,00,000
Patents (Note 2)	28,125
	14,28,125
Less: Liabilities	
Bank Loan (70% × ₹ 2,00,000)	1,40,000
Trade Creditors (25% × ₹ 1,50,000)	37,500
Net Worth	12,50,625

Note 2 - Patents

Particulars	₹
Cost	50,000
Less: Depreciation for P.Y. 2021-22 (25%)	12,500
	37,500
Less: Depreciation for P.Y. 2022-23 (25%)	9,375
WDV	28,125

Note 3 – Since the unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Chapter 7 – Income from Other Sources

Question 17

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B:

1. Cash gift of ₹ 75,000 on his anniversary, 15th April, 2023.
2. Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2023.
3. A plot of land at Faridabad on 1st July, 2023, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2023.

Further, on 1st November, 2023, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2023 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2024, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head “Income from other sources” and “Capital Gains” for A.Y. 2024-25.

Solution

Computation of Income from Other Sources of Mr. A for A.Y. 2024-25

Particulars	₹
Cash Gift from Friend (Note 1)	75,000
Bullion received from Friend (Note 2)	60,000
Plot of Land at Faridabad (Note 3)	5,00,000
Shares purchased from C (Note 4)	-
Possession of Property (Office Building) (Note 5)	3,00,000
Income from Other Sources	9,35,000

Computation of Capital Gains of Mr. A for A.Y. 2024-25

Particulars	₹
Full Value of Consideration	7,00,000
Less: Cost of Acquisition (Note 6)	5,00,000
Short Term Capital Gains	2,00,000

Notes:

1. Monetary gifts received from friends are taxable, if the aggregate value of such gifts exceed ₹ 50,000. Therefore, in this case, cash gift of ₹ 75,000 is taxable.
2. Any property received by a friend without consideration is taxable, if the aggregate fair market value of the property exceeds ₹ 50,000. Bullion is covered in the definition of property. Therefore, in this case, bullion worth ₹ 60,000 is taxable.
3. Any immovable property received by a friend without consideration is taxable, if the stamp duty value of such property exceeds ₹ 50,000. Therefore, in this case, plot of land worth ₹ 5,00,000 is taxable.

4. Shares are covered in the definition of property. However, property received without consideration or for inadequate consideration is taxable only if it is received as a capital asset, and not if it is received as raw materials, consumable stores, stock in trade, etc. In the present case, since Mr. A is a dealer in shares, these shares represent his stock-in-trade. Therefore, receipt of such shares is not taxable.
5. Usually, stamp duty value as on the date of registration is to be considered. However, if the date of agreement and date of registration are different, then stamp duty value on the date of agreement can be considered provided whole or part of the consideration is received in any specified mode. In the present case, stamp duty value on the date of agreement was ₹ 23,00,000, while the consideration agreed was ₹ 20,00,000. Since the stamp duty value exceeds 110% of the sale consideration, and the difference between stamp duty value and sale consideration exceeds ₹ 50,000, the difference between the stamp duty value and sale consideration is taxable.
6. When an immovable property is acquired at a price less than the stamp duty value, but the difference has been taxed under the head Income from Other Sources, the cost of acquisition of this property is taken to be the stamp duty value which was considered for taxing it under the head Income from Other Sources. The period of holding of this asset is counted from the date the property became the asset of the assessee. Therefore, short term capital gains shall arise.

Question 18

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2024, 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. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2022.

Would your answer be different if Hari was a share broker instead of a property dealer?

Solution

Case 1 – Tax Implications if Mr. Hari is a Property Dealer

In the Hands of Mr. Hari (the seller)

In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration.

In the Hands of Mr. Rajesh (the buyer)

Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2 – Tax Implications if Mr. Hari is a Share Broker

In the Hands of Mr. Hari (the seller)

In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between

the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains. It may be noted that under section 50C the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

In the Hands of Mr. Rajesh (the buyer)

There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case). Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Chapter 8 – Clubbing of Income

Question 19

During the previous year 2023-24, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2023 to 31-3-2024 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on April 1, 2023. During the previous year 2023-24, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
- Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Computation of Total Income of Mr. A, Mrs. A, and Minor Son for A.Y. 2024-25

Particulars	Mr. A	Mrs. A	Minor Son
Income from Salaries			
Salary Income of Mr. A (₹ 10,000 × 12)	1,20,000		
Salary Income of Mrs. A (₹ 20,000 × 12)		2,40,000	
Less: Standard Deduction	50,000	50,000	
Income from Salaries (A)	70,000	1,90,000	
Income from House Property			
Received by Mrs. A, clubbed with Mr. A (Note 1)	52,000		
Income from House Property (B)	52,000		
Profits and Gains from Business or Profession			
Income of Minor Son through application of skill (Note 2)			20,000
Profits and Gains from Business or Profession (C)			20,000
Income from Other Sources			
Interest from Fixed Deposit (9% × ₹ 5,00,000) (Note 3)	45,000		
Commission to Mrs. A (Note 4)	25,000		
Income from Other Sources (D)	70,000		
Income Before Including Minor Son's Income (A) + (B) + (C) + (D)	1,92,000	1,90,000	
Income of Minor Son from Interest on Investment (Note 5)	18,500		
Total Income	2,10,500	1,90,000	20,000

Notes:

1. According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

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

2. In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child. Therefore, the income of ₹ 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

3. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

4. As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

5. As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

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

Question 20

Mr. Madhav made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2022, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. 'compounded annually'. The balance in this account as on 1st April 2023 was ₹ 2,75,000 and the bank credited a sum of ₹ 27,500 as interest on 31st March 2024.

Madhav's father gifted equity shares worth ₹ 50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10th April 2013) in July 2013 which were purchased by him on 8th December 2006 for ₹ 80,000. Manan received a dividend of ₹ 4,000 on these shares in October 2023. He sold these shares on 1st November 2023 for ₹ 5,00,000 and deposited ₹ 3,00,000 in a company at 15% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2006-07	122
2013-14	220
2023-24	348

Mr. Madhav has a taxable income of ₹ 3,50,000 from his profession during the financial year 2023-24.

Compute his Gross Total Income for the A.Y. 2024-25.

Solution

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

Particulars		₹
Income from Profession		3,50,000
Income of Manan (Minor Son)		
Capital Gains		
Full Value of Consideration	5,00,000	
Less: Indexed Cost of Acquisition (₹ 80,000 × 348 ÷ 122)	2,28,197	
Long Term Capital Gains (A)	2,71,803	
Income from Other Sources		
Dividend Received by Manan	4,000	
Interest on Company Deposit Received by Manan (15% × ₹ 3,00,000 × 5 ÷ 12)	18,750	
Income from Other Sources (B)	22,750	
Total Income of Manan (A) + (B)	2,94,553	
Less: Exemption u/s 10(32)	1,500	2,93,053
Gross Total Income		6,43,053

Notes:

- As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav.
- Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.

3. Shares received by Master Manan from Mr. Madhav's father would not be taxable under the head "Income from Other Sources" as they have been received from a Relative (lineal descendent). Therefore, cost to Mr. Madhav's father (previous owner) shall be taken for the purposes of indexation. Also, the period of holding of the previous owner (i.e., Madhav's father) shall also be considered.

Chapter 9 – Set Off and Carry Forward of Losses

Question 21

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2023-24:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

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

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2024-25, and the amount of loss that can or cannot be carried forward.

Solution

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

Particulars	₹
Income from Salaries	
Income from Salaries	18,000
Income from Salaries (A)	18,000
Income from House Property	
Net Annual Value	70,000
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000
Income from House Property (B)	49,000
Profits and Gains from Business or Profession	
Income from Business	80,000
Less: Current Year Depreciation	8,000
	72,000
Less: Unabsorbed Depreciation	9,000
Income from Speculative Business	12,000
Less: B/f loss of ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000 (Balance loss of ₹ 4,000 (i.e., ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)	12,000
Profits and Gains from Business or Profession (C)	63,000
Capital Gains	
Long-term capital gain on sale of land	15,800
Less: Brought forward short-term capital loss	7,800
Capital Gains (D)	8,000

Gross Total Income (A) + (B) + (C) + (D) | 1,38,000

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

1. Loss on gambling can neither be set-off nor be carried forward.
2. As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
3. Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2025-26. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Chapter 10 – Deductions from Gross Total Income

Question 22

Mr. Shyam, a private sector employee, furnishes you the following information for the previous year 2023-24. Compute his total income if he decides to shift out of the default tax regime u/s 115BAC(1A).

Particulars	₹
1. Basic Salary	4,00,000
2. Dearness Allowance	2,00,000
3. Servant Allowance	15,000
4. He has made the following payments in the previous year:	
a. Contribution towards Pension Fund of LIC	1,10,000
b. Life insurance premium (Policy taken on 01-04-2015 – capital sum assured ₹ 2,50,000)	30,000
c. Contribution to Pension Scheme of the Central Government (12% of Basic and DA). The employer also made an equal contribution.	72,000
d. Medical insurance premium paid by cheque on life of dependent father (being a senior citizen) ₹ 47,000 and ₹ 25,000 on himself. Further, ₹ 5,000 paid in cash for preventive health checkup of his father.	
e. Medical treatment of his dependent mother (resident individual of age 63 years) suffering from prescribed disease and disability (sum received from insurer ₹ 10,000 and sum reimbursed by employer ₹ 20,000)	1,50,000
f. Payment to Public Provident Fund	75,000

Solution

Computation of Total Income of Mr. Shyam

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	2,00,000
Servant Allowance	15,000
Employer's Contribution to Pension Scheme of Central Government (Note 1)	72,000
Gross Salary	6,87,000
Less: Standard Deduction u/s 16	50,000
Salary Income	6,37,000
Less: Deductions under Chapter VI-A	
Deduction u/s 80CCD(1B)	
Employee's Contribution to Pension Scheme of Central Government (Note 2)	50,000
Deductions u/s 80C	
Life Insurance Premium (10% × ₹ 2,50,000) (Note 3)	25,000
Payment to Public Provident Fund	75,000
Deduction u/s 80C (A)	1,00,000
Deduction u/s 80CCC	
Contribution to Pension Fund of LIC (B)	1,10,000
Deduction u/s 80CCD(1)	
Contribution to Pension Scheme of Central Government (₹ 72,000 – ₹ 50,000) (Note 2) (C)	22,000
Total Deductions u/s 80C, 80CCC, 80CCD(1) (A) + (B) + (C)	2,32,000
As per Section 80CCE, it is restricted to	1,50,000
Deduction u/s 80CCD(2)	

Employer's Contribution to Pension Scheme of Central Government [10% of (₹ 4,00,000 + ₹ 2,00,000)] (Note 4)		60,000
Deduction u/s 80D		
Medical Insurance Premium paid for himself	25,000	
Medical Insurance Premium paid for father	47,000	
Payment for Preventive Health Checkup of father (Note 5)	3,000	75,000
Deduction u/s 80DD		
Flat deduction for Dependent Disabled (Mother) (Note 6)		75,000
Deduction u/s 80DDB		
Deduction for dependent mother suffering from prescribed disease (₹ 1,00,000 – ₹ 30,000) (Note 7)		70,000
Total Income		1,57,000

Notes:

- Contribution by employer to Pension Scheme of Central Government is added to the salary income of the employee.
- As per Section 80CCD(1), employee is allowed a deduction for contribution to pension scheme of the central government to the extent of 10% of his salary. Here, salary includes Basic Salary + DA (forming part of retirement benefits). Since it is given that employer's contribution to the pension scheme is 12% of Basic + DA, it implies that DA forms part of retirement benefits. Therefore, maximum deduction allowed u/s 80CCD(1) = 10% × (₹ 4,00,000 + ₹ 2,00,000) = ₹ 60,000. As per Section 80CCD(1B), a further deduction of ₹ 50,000 is allowed to the employee. Section 80CCD(1) comes under the ambit of Section 80CCE, and hence maximum deduction allowable u/s 80CCD(1) is subject to the overall limit of ₹ 1,50,000 under sections 80C, 80CCC, and 80CCD(1). However, Section 80CCD(1B) doesn't come under the ambit of Section 80CCE. Therefore, it would be beneficial for the assessee to first claim the deduction upto ₹ 50,000 u/s 80CCD(1B), and then claim the remaining deduction of ₹ 72,000 – ₹ 50,000 = ₹ 22,000 u/s 80CCD(1), since ₹ 22,000 does not exceed 10% of the salary.
- Since the policy is issued after 01-04-2013, maximum deduction allowed will be 10% of actual capital sum assured.
- Deduction in respect of employer's contribution to pension scheme of Central Government is allowed u/s 80CCD(2), and it is subject to the maximum limit of 10% of salary. Here, salary means basic salary + dearness allowance (forming part of retirement benefits).
- Under Section 80D, premium paid for the health insurance of self is allowed subject to the maximum limit of ₹ 25,000. Further, premium paid for the medical insurance of parents is allowed as deduction upto a maximum of ₹ 25,000. However, if the parent is a senior citizen, this limit is increased to ₹ 50,000. Also, any payment made for the preventive health checkup is allowed as deduction u/s 80D. However, this is subject to the maximum limit of ₹ 25,000/₹ 50,000. In the present case, father of the assessee is a senior citizen and hence the limit will be ₹ 50,000. After adjusting ₹ 47,000 towards premium for medical insurance, only ₹ 3,000 can be adjusted towards preventive health checkup.
- Since the assessee has incurred expenditure on medical treatment of dependent mother suffering from disability, a fixed deduction of ₹ 75,000 irrespective of the amount paid shall be allowed u/s 80DD.
- Deduction shall be allowed for expenditure incurred on medical treatment of dependent mother (being a senior citizen) to the extent of lower of the following:
 - Sum actually paid, i.e., ₹ 1,50,000
 - ₹ 1,00,00.

This amount shall be reduced by the amount received from the insurer and employer.

Therefore, the deduction of ₹ 1,00,000 shall be allowed (being lower), and it shall be reduced by ₹ 10,000 (being sum received from insurer) and also by ₹ 20,000 (being sum received from employer). Therefore, deduction allowed = ₹ 1,00,000 – ₹ 10,000 – ₹ 20,000 = ₹ 70,000.

8. Since it is given that employer's contribution to the pension scheme is 12% of Basic + DA, it implies that DA forms part of retirement benefits.

Question 23

Mr. Raghu, Marketing Manager of KL Ltd. based at Mumbai, furnishes you the following information for the previous year:

Basic Salary	₹ 1,00,000 per month
Dearness Allowance	₹ 50,000 per month
Bonus	2 Months basic salary
Contribution of employer to recognised provident fund	15% of basic salary plus dearness allowance

Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company).

Particulars	₹
Recognised Provident Fund contribution made by Raghu	1,60,000
Health insurance premium for his family	30,000
Health insurance premium in respect of parents (senior citizens)	68,000
Medical expenses of dependent brother with 'severe disability' (covered by Section 2(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999)	60,000
Interest on loan taken for education of his son studying B. Com. (full time) in a recognised college	24,000
Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B. Sc. (Physics) (full time) in a recognised university	20,000

Compute the total income of Mr. Raghu if he decides to shift out of the default tax regime u/s 115BAC(1A).

Solution**Computation of Total Income of Mr. Raghu**

Particulars	₹
Basic Salary (₹ 1,00,000 × 12)	12,00,000
Dearness Allowance (₹ 50,000 × 12)	6,00,000
Bonus (2 × ₹ 1,00,000)	2,00,000
Employer's Contribution to Recognised Provident Fund (in excess of 12%) [3% × (₹ 12,00,000 + ₹ 6,00,000)] (Note 1)	54,000
Rent Free Unfurnished Accommodation [15% × (₹ 12,00,000 + ₹ 6,00,000 + ₹ 2,00,000)] (Note 2)	3,00,000
Gross Salary	23,54,000
Less: Deduction u/s 16	50,000
Taxable Salary	23,04,000
Less: Deductions under Chapter VI-A	
Contribution to Recognised Provident Fund u/s 80C (₹ 1,60,000, restricted to ₹ 1,50,000)	1,50,000
Health Insurance Premium for his family u/s 80D (₹ 30,000, restricted to ₹ 25,000)	25,000
Health Insurance Premium for his senior citizen parents u/s 80D (₹ 68,000, restricted to ₹ 50,000)	50,000
Medical Expenses for dependent brother with severe disability u/s 80DD (Note 3)	1,25,000
Interest on Loan for education of son studying B. Com. u/s 80E	24,000

Interest on Loan for education of student for whom Mr. Raghu is the legal guardian studying B. Sc. u/s 80E	20,000	3,94,000
Total Income		19,10,000

Notes:

1. Employer's Contribution to Recognised Provident Fund in excess of 12% of salary (Basic Salary + DA) is taxable. Therefore, taxable amount = ₹ 18,00,000 × 3% = ₹ 54,000.
DA forms part of retirement benefits being it is given that employer contributes @ 15% of basic salary plus DA.
2. Since population of Mumbai exceeds 25,00,000, therefore, value of Rent-Free Accommodation = 15% of (Basic Salary + DA + Bonus) = 15% × (₹ 12,00,000 + ₹ 6,00,000 + ₹ 2,00,000) = ₹ 3,00,000.
3. As per Section 80DD, if any medical expenses are incurred for a dependent person with disability, a flat deduction of ₹ 75,000 is allowed. If the disability is a severe disability, a flat deduction of ₹ 1,25,000 is allowed.

Question 24

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

1. Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.
2. Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
3. Donation to a public charitable institution ₹ 50,000 by way of cheque.
4. LIC Pension Fund – ₹ 60,000.
5. Donation to National Children's Fund - ₹ 25,000 by way of cheque
6. Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque
7. Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
8. Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2024-25 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Computation of Total Income of Mr. Shiva for A.Y. 2023-24

Particulars	₹
Gross Total Income	7,75,000
Less: Deductions under Chapter VI-A	
Life Insurance Premium paid for Major Daughter (Section 80C) (10% × ₹ 1,80,000, since policy is issued after 01-04-2013)	18,000
Deposit in PPF (Section 80C)	1,00,000
	1,18,000
LIC Pension Fund (Section 80CCC)	60,000
	1,78,000
As per Section 80CCE, it is restricted to	1,50,000
Medical Insurance Premium for Self and Spouse (Section 80D)	26,000
Restricted to	25,000
Deduction u/s 80G (Note 1)	87,500
Total Income	5,12,500

Note 1 - Computation of Deduction u/s 80G

	Particulars of Donation	Amount Donated (₹)	% of Deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
	Total			87,500

Note: Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case.

₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to ₹ 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Question 25

Mr. A has commenced the business of manufacture of computers on 1.4.2023. He employed 350 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)	75	01-04-2023	Regular	24,000
(ii)	125	01-05-2023	Regular	26,000
(iii)	50	01-08-2023	Casual	24,500
(iv)	100	01-09-2023	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024-25, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2023?

Solution

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2023-24 and he has employed "additional employees" during the P.Y. 2023-24.

If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Note: Number of Additional Employees

Particulars	No. of Workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2023, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y. 2023-24.	100	275
No. of "Additional Employees"		75

Notes:

1. Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y. 2023-24, since they are employed for less than 240 days in that year. Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y. 2023-24 is deemed to be the additional employee cost.
2. As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a

minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2023, since they have been employed for more than 150 days in the previous year 2023-24.

Additional employee cost = ₹ 2,16,00,000 + (₹ 24,000 × 7 × 100) = ₹ 3,84,00,000

Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

Chapter 11 – TDS, TCS, Advance Tax

Question 26

Ashwin a resident Individual carrying on business, furnishes you the following information:

Turnover during financial year	₹
2022-23	1,20,00,000
2023-24	98,00,000

State whether tax deduction at source provisions are attracted for the under-mentioned expenses incurred during the financial year 2023-24:

Particulars	₹
Commission paid to Babloo	22,500
Payment to Vijay for repair of office building	23,000
Payment of fees for technical services, to Vivek	35,000

All payments are made to residents.

If tax has to be deducted at source, state the amount of tax to be deducted at source.

Solution

Since the turnover of Ashwin for financial year 2022-23, i.e., ₹ 120 lakhs, has exceeded the monetary limit of ₹ 100 lakhs therefore, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

1. Commission paid to Babloo: Tax is to be deducted under section 194H @ 5% as the commission exceeds ₹ 15,000. Amount of Tax deducted at source = 5% of ₹ 22,500 = ₹ 1,125.
2. Payment of ₹ 23,000 to Vijay for repair of office building: TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.
3. Payment of fees for technical services, to Vivek: Tax is to be deducted under section 194-J @ 2% as the fees for technical services exceeds ₹ 30,000. Amount of Tax deducted at source = 2% of ₹ 35,000 = ₹ 700.

Question 27

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Turnover during financial year	₹
2022-23	1,05,00,000
2023-24	1,25,00,000

State whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2023-24:

Particulars	₹
Interest paid to UCO Bank	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each)	24,000
Shop rent paid (one payee)	2,50,000
Commission paid to Balu	17,000

Solution

As the turnover of Ashwin for financial year 2022-23 i.e., ₹ 105 lakhs, has exceeded ₹ 100 lakhs, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

1. Interest paid to UCO Bank: TDS u/s 194A is not attracted in respect of interest paid to a banking company.
2. Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each: TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.
3. Shop rent paid to one payee: Tax is to be deducted u/s 194-I @ 10% as the rental payment exceeds ₹ 2,40,000.
4. Commission paid to Balu: Tax is to be deducted u/s 194H @ 5% as the commission exceeds ₹ 15,000.

Chapter 12 – Provision of Return Filing and Self Assessment

Question 28

Mr. Mukesh born on 1.4.1964 furnished his original return for Assessment Year 2024-25 on 30.07.2024. He has shown salary income of ₹ 7.30 lakhs (computed) and interest from his savings bank of ₹ 12,700 and from his fixed deposits of ₹ 43,000. He also claimed deduction under section 80C of ₹ 1.50 lakhs. He had claimed deduction u/s 80D of ₹ 25,000. He also claimed deduction u/s 80TTA of ₹ 10,000. His employer had deducted TDS of ₹ 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of ₹ 38,000 by account payee cheque for self and wife. He paid ₹ 1,500 in cash for his health check-up and ₹ 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of ₹ 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy.

He seeks your advice about possibility of revising his return and if possible file his revised return. Analyse the above narrated facts as per applicable provisions of the Income-tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the Assessment Year 2024-25. Assume that he has opted to shift out of the default tax regime u/s 115BAC(1A).

Solution

Computation of total income of Mr. Mukesh for A.Y. 2024-2025 [As per the original return filed by him]

Particulars	₹
Income from Salaries (Computed) (A)	7,30,000
Income from Other Sources	
Interest on Savings Bank Account	12,700
Interest on Fixed Deposits	43,000
Income from Other Sources (B)	55,700
Gross Total Income (A) + (B)	7,85,700
Less: Deductions under Chapter VI-A	
Deduction u/s 80C	1,50,000
Deduction u/s 80D	25,000
Deduction u/s 80TTA	10,000
Total Income	6,00,700

Computation of tax liability of Mr. Mukesh for A.Y. 2024-25 (As per original return)

Particulars	₹
Tax on total income [20% of ₹ 1,00,700 (i.e., ₹ 6,00,700 – ₹ 5,00,000) + ₹ 12,500]	32,640
Add: HEC@4%	1,306
Tax payable on total income	33,946
Tax payable on total income (rounded off)	33,950
Less: Tax deducted at source u/s 192	33,950
Tax Payable	-

Need for filing revised return - Analysis

Since Mr. Mukesh's birthday falls on 1.4.2024, he would be treated as having completed 60 years of age in the P.Y. 2023-24, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of upto ₹ 50,000 u/s 80TTB (instead of ₹ 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of ₹ 3,00,000 in the P.Y. 2023-24 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to insure the health of his mother and medical expenses incurred on his father who is not covered under any Medclaim policy. Accordingly, having discovered such omissions in the original return, he has to file his revised return of income u/s 139(5) on or before 31.12.2024 to avail these benefits which he has not availed while filing his original return of income. The computation of total income and tax liability (refund due) as per the revised return are worked out hereunder:

Computation of Total Income of Mr. Mukesh for the A.Y. 2024-25 [As per the Revised Return]

Particulars			₹
Income from Salaries (Computed) (A)			7,30,000
Income from Other Sources			
Interest on savings bank account			12,700
Interest on fixed deposits			43,000
Income from Other Sources (B)			55,700
Gross Total Income (A) + (B)			7,85,700
Less: Deductions under Chapter VI-A			
Deduction u/s 80C		1,50,000	
Deduction u/s 80D			
Medical insurance premium for self and spouse	38,000		
Preventive health check-up for self (allowable even if paid in cash)	1,500		
Fully allowed as it is within the overall limit of ₹ 50,000 for family	39,500		
Medical insurance premium for mother	33,000		
Medical expenditure for father not covered under any policy	25,000		
Preventive health check-up for parents (₹ 4,000, restricted to ₹ 3,500, being ₹ 5,000 – ₹ 1,500 claimed for self and spouse)	3,500		
	61,500		
Restricted to maximum of ₹ 50,000 for parents	50,000	89,500	
Deduction u/s 80TTB			
Interest on savings bank account	12,700		
Interest on fixed deposits	43,000		
	55,700		
Restricted to maximum of ₹ 50,000		50,000	2,89,500
Total Income			4,96,200

Computation of tax liability of Mr. Mukesh for A.Y. 2024-25 [As per the Revised Return]

Particulars	₹
Tax on total income [5% of ₹ 1,96,200 (i.e., ₹ 4,96,200 – ₹ 3,00,000 basic exemption limit)]	9,810
Less: Rebate u/s 87A (Since his total income does not exceed ₹ 5 lakh) – ₹ 12,500 or tax on total income, whichever is lower	9,810
Tax payable on total income	-
Less: Tax deducted at source u/s 192	33,950
Refund due	33,950

Therefore, Mr. Mukesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31.12.2024 to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income-tax of ₹ 33,950 deducted at source by his employer.

CA NISHANT KUMAR

Chapter 13 – Income Tax Liability

Question 29

Mr. Anmol (aged 67 years), a manufacturer, reported a profit of ₹ 3,95,11,290 for the previous year 2023-24 after debiting/crediting the following items:

Debits:

1. ₹ 15,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
2. ₹ 35,500 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
3. Interest paid ₹ 1,75,000 on loan taken for purchase of E-vehicle on 15-07-2023 from a bank. The E-vehicle was purchased for the personal use of his wife.
4. He has purchased timber under a forest lease of ₹ 25,00,000 for the purpose of business.

Credits:

1. Income of ₹ 3,50,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2018-19. Amount due from the debtor (which was written off as bad) was ₹ 4,00,000, out of which tax officer had only allowed ₹ 2,50,000 as deduction in computing the total income for assessment year 2019-20.
3. He sold some goods to his brother for ₹ 6,00,000. The fair market value of such goods was ₹ 9,00,000.

Other Information:

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Anmol purchased a new car of ₹ 14,00,000 on 1st August, 2023 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
3. Mr. Anmol had sold a house on 25th March, 2023 and deposited the long term capital gains of ₹ 20,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 11th March, 2024, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 55,00,000 on sale of this property. On 25th March, 2024, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
4. Mr. Anmol also made the following payments during the previous year 2023-24
 - a. Lump-sum premium of ₹ 1,20,000 paid on 30th March, 2024 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e., from 30th March, 2024 to 29th March, 2029.
 - b. ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Anmol for the assessment year 2024-25 assuming he has opted out of the default tax regime u/s 115BAC(1A).

Solution

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

Particulars		₹
Profits and Gains from Business or Profession		
Net Profit as per Profit & Loss A/c		3,95,11,290
Add:		
Donation to Gurudwara (Note 1)		15,000
Contribution to approved university for Scientific research (Note 2)		-
Interest on loan for purchase of vehicle (Note 3)		1,75,000
Sale of goods to brother at less than FMV (Note 4)		-
		<u>3,97,01,290</u>
Less:		
Royalty on Patents (taxable under "Income from Other Sources")	3,50,000	
Bad Debts Recovered (Note 5)	1,50,000	
Depreciation on Car (15% × ₹ 14,00,000)	2,10,000	7,10,000
Profits and Gains from Business or Profession (A)		<u>3,89,91,290</u>
Capital Gains		
Long Term Capital Gain on Sale of House		55,00,000
Less: Exemption u/s 54 (Note 6)		55,00,000
Capital Gains (B)		-
Income from Other Sources		
Royalty on Patents		3,50,000
Income from Other Sources (C)		<u>3,50,000</u>
Gross Total Income (A) + (B) + (C)		3,93,41,290
Less: Deductions under Chapter VI-A		
Mediclaime premium for self and spouse (Section 80D) (Note 7)	20,000	
Payment for preventive health checkup, restricted to ₹ 5,000 (Section 80D)	5,000	
		<u>25,000</u>
Interest on Loan for electric vehicle restricted to ₹ 1,50,000 (Section 80EEB)	1,50,000	
Donation to Gurudwara (Section 80G) (Note 8)	-	
Royalty on Patents (Section 80RRB) (Maximum ₹ 3,00,000)	3,00,000	4,75,000
Total Income		<u>3,88,66,290</u>

Computation of Tax Payable by Mr. Anmol for A.Y. 2024-25

Particulars		₹
Upto ₹ 3,00,000		-
₹ 3,00,001 to ₹ 5,00,000 (5% × ₹ 2,00,000)	10,000	
₹ 5,00,001 to ₹ 10,00,000 (20% × ₹ 5,00,000)	1,00,000	
₹ 10,00,001 to ₹ 3,88,66,290 (30% × ₹ 3,78,66,290)	1,13,59,887	1,14,69,887
Add: Surcharge @ 25% (Since total income exceeds ₹ 2 crore but not ₹ 5 crore)		28,67,472
		<u>1,43,37,359</u>
Add: Health and Education Cess @ 4%		5,73,494
Total Tax Liability		<u>1,49,10,853</u>
Less:		
TCS u/s 206C(1) @ 2.5% on ₹ 25 lakh i.e., timber	62,500	
TCS u/s 206C(1F) @ 1% of ₹ 14 lakh i.e., sale of motor car where consideration exceeds ₹ 10 lakh	14,000	

TDS u/s 194-IA @ 1% of ₹ 1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	1,00,000	1,76,500
Tax Payable		1,47,34,353
Tax Payable (Rounded Off)		1,47,34,350

Notes:

1. Donation to Gurudwara in cash is not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income.
2. Contribution to a university approved and notified u/s 35(1)(ii) for scientific research is eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required.
3. Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income.
4. The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 3 lakh.
5. Actual bad debt = ₹ 4,00,000, out of which, officer allowed deduction of only ₹ 2,50,000. This means that tax was paid on the balance, i.e., ₹ 4,00,000 – ₹ 2,50,000 = ₹ 1,50,000. Therefore, when the bad debts of ₹ 3,00,000 are recovered, the amount taxable = ₹ 3,00,000 – ₹ 1,50,000 = ₹ 1,50,000.
6. Capital gain of ₹ 20 lakhs in capital gain account scheme is not taxable in P.Y. 2023-24, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 80 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹ 55 lakhs being long-term capital gain on sale of house property during the P.Y. 2023-24.
7. In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [₹ 1,20,000/6 years, being relevant previous years in which the insurance is in force]
8. Donation of ₹ 15,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash.

Question 30

Mr. Kamal, having business of manufacturing of consumer items and other products, gives the following Trading and Profit & Loss Account for the year ended 31.03.2024:

Trading and Profit & Loss A/c			
Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross Profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross Profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Miscellaneous expenses	7,88,475		
Net profit of the year	50,85,000		
	66,66,000		66,66,000

Following is the further information relating to the financial year 2023-24:

- Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- Bonus to staff includes an amount of ₹ 7,500 relating to P.Y. 2022-23, paid in the month of December 2023.
- Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- Miscellaneous expenses include:
 - amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - amount of ₹ 1,00,000 paid to Political Party by cheque.
- Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- Mr. Kamal had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2023 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- Interest on loans includes an amount of ₹ 80,000 paid to Mr. X, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Kamal for the A.Y. 2024-25 in a most beneficial manner.

Solution

Computation of total income of Mr. Kamal under default tax regime under section 115BAC for the A.Y. 2024-25

Particulars	₹
Profits and Gains from Business or Profession	

Net Profit as per Profit & Loss A/c		50,85,000
Add:		
Depreciation		1,07,250
Bonus to Staff (Note 1)		-
Advertisement in the souvenir of political party (Note 2)		2,500
Penalty for non-fulfilment of delivery conditions (Note 3)		-
Payment to political party (Note 4)		1,00,000
Penalty for delayed filing of returns of GST (Note 5)		5,300
Interest for delayed deposit of GST (Note 5)		-
30% of Interest paid on loan (without deduction of tax at source) (30% × ₹80,000)		24,000
		<u>53,24,050</u>
Less:		
Income Tax Refund (Only interest portion is taxable under the head "Income from Other Sources")	30,000	
Warehousing Charges (Considered separately as "Income from Specified Business")	22,50,000	
Depreciation as per Income Tax rules	65,000	23,45,000
Income from Business (other than specified business)		<u>29,79,050</u>
Income from Specified Business (Warehousing Charges)	22,50,000	
Less: Deduction u/s 35AD (100% × ₹20,00,000) (Notes 6 and 7) (Not allowed under default tax regime)	-	
Depreciation u/s 32 (10% × ₹20,00,000) (Note 7)	2,00,000	20,50,000
Profits and Gains from Business or Profession (A)		<u>50,29,050</u>
Income from Other Sources		
Interest on Income Tax refund		4,570
Income from Other Sources (B)		<u>4,570</u>
Gross Total Income (A) + (B)		50,33,620
Less: Deduction under Chapter VI-A (Note 7)		
Contribution to Political Party (Section 80GGC) (Note 7)		-
Total Income		<u>50,33,620</u>

Computation of tax liability of Mr. Kamal under default tax regime under section 115BAC for the A.Y. 2024-25

Particulars		₹
On First ₹3,00,000	-	
From ₹3,00,001 to ₹6,00,000 (5% × ₹3,00,000)	15,000	
From ₹6,00,001 to ₹9,00,000 (10% × ₹3,00,000)	30,000	
From ₹9,00,001 to ₹12,00,000 (15% × ₹3,00,000)	45,000	
From ₹12,00,001 to ₹15,00,000 (20% × ₹3,00,000)	60,000	
From ₹15,00,001 to ₹50,33,620 (30% × ₹35,33,620)	10,60,086	12,10,086
Add: Surcharge @ 10% (Since total income exceeds ₹50 lakhs but not ₹1 crore)		1,21,009
		<u>13,31,095</u>
Restricted to:		
Tax on ₹50,00,000 + (NTI – ₹50,00,000)		12,33,620
₹12,00,000 + (₹50,33,620 – ₹50,00,000)		
Lower of the above		12,33,620
Add: Health and Education Cess @ 4%		49,345
Tax Liability		<u>12,82,965</u>

Tax Liability (Rounded Off)	12,82,960
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Computation of Total Income of Mr. Kamal under regular provisions of the Act for A.Y. 2024-25

Particulars		₹
Total Income as per default scheme		50,33,620
Add: Depreciation u/s 32 for Warehouse (10% × ₹20,00,000)		2,00,000
		52,33,620
Less: Deduction u/s 35AD	20,00,000	
Deduction u/s 80GGC	1,00,000	21,00,000
Total Income under regular provisions of the Act		31,33,620

Computation of Tax Liability of Mr. Kamal under regular provisions of the Act for A.Y. 2024-25

Particulars		₹
Upto ₹2,50,000	-	
₹2,50,001 to ₹5,00,000 (5% × ₹2,50,000)	12,500	
₹5,00,001 to ₹10,00,000 (20% × ₹5,00,000)	1,00,000	
₹10,00,001 to ₹31,33,620 (30% × ₹21,33,620)	6,40,086	7,52,586
Add: Health and Education Cess @ 4%		30,103
Tax Liability		7,82,689
Tax Liability (Rounded Off)		7,82,690

Computation of Adjusted Total Income and Alternate Minimum Tax for A.Y. 2024-25

Particulars		₹
Total Income		31,33,620
Add: Deduction u/s 35AD		20,00,000
		51,33,620
Less: Depreciation allowable u/s 32 (10% × ₹20,00,000)		2,00,000
Adjusted Total Income		49,33,620
Alternate Minimum Tax @ 18.5% (18.5% × ₹49,33,620)		9,12,720
Add: Health and Education Cess @ 4%		36,509
Total Tax Liability		9,49,228
Total Tax Liability (Rounded Off)		9,49,230

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus cess @ 4%. Therefore, liability as per section 115JC is ₹9,49,230.

Since the tax liability of Mr. Kamal under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of default tax regime u/s 115BAC for A.Y. 2024-25. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT Credit to be Carried Forward u/s 115JEE

Particulars		₹
Tax Liability u/s 115JC		9,49,230
Less: Tax Liability under normal provisions of the Act		7,82,690
Credit to be carried forward		1,66,540

Notes:

1. Bonus for the previous year 2022-23 paid after the due date for filing return for that year would have been disallowed under section 43B for the P.Y. 2022-23. However, when the same has been paid in December 2023, it should be allowed as deduction in the P.Y. 2023-24 (A.Y. 2024-25). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
2. The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
3. The penalty of ₹15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
4. Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
5. The interest of ₹12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹5,300 for delay in filing of returns is not allowable since it is for breach of law.
6. Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.
7. Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable. Also, deductions under chapter VI-A are not allowable under section 115BAC.
8. Tax Liability on ₹50,00,000 u/s 115BAC

Particulars	₹
On First ₹3,00,000	-
From ₹3,00,001 to ₹6,00,000 (5% × ₹3,00,000)	15,000
From ₹6,00,001 to ₹9,00,000 (10% × ₹3,00,000)	30,000
From ₹9,00,001 to ₹12,00,000 (15% × ₹3,00,000)	45,000
From ₹12,00,001 to ₹15,00,000 (20% × ₹3,00,000)	60,000
From ₹15,00,001 to ₹50,00,000 (30% × ₹35,00,000)	10,50,000
Tax on ₹50,00,000	12,00,000

9. An individual exercising option u/s 115BAC is not liable to alternate minimum tax u/s 115JC.