

CA INTERMEDIATE JAN 2025

QUESTION BANK

INCOME TAX

**FULL COVERAGE OF ICAI,
ICSI, ICAI, MODULE ,
PYQ , RTP AND MTPS**

COMPILED BY:

CA Vivek Gaba

FCA, B.com, CCTP



Income Tax

Relevant For-

CAInter - January 2025 / May 2025

CS Executive - December 2024

CMAInter - December 2024

Compilation by: -

CA Vivek Gaba

(FCA, B.Com, CCTP)

Book Dedicated to ALL My Students & Parents

About Book-

- ✓ Cover All Past Year Questions of CA,CS,CMA and RTP and MTPs.
- ✓ Colourful Question Bank.
- ✓ Covers all amendments as per latest notification
- ✓ Covers Multiple Choice Questions
- ✓ Questions are bifurcated chapter-wise.
- ✓ Each question has associated marks distribution.

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Chapter 1: Basic Concepts

Descriptive Questions

Easy

Question 1

MTP Aug'18

Explain the difference between Circulars and Notifications in the context to the Income-tax Act, 1961.

3 Marks

Answer:

Difference between Circulars and notifications

Circulars	Notifications
Circulars are issued by CBDT.	Notifications are issued by the Central Government. The CBDT is also empowered to issue notifications.
Circular are issued with certain specific problems and to clarify doubt regarding the scope and meaning of certain provisions of the Act.	Central Government issues notifications to affect the provisions of the Act and CBDT issues notifications to make and amend Income-tax Rules.
The department is bound by the circulars. While such circulars are not binding on the assesses, they can take advantage of beneficial circulars.	Notification is binding in nature. both department and assesses are bound by the notification.

Question 2

MTP April 22

Compute the tax liability of Ms. Kajal for A.Y. 2024-25, a female resident aged 40 years, where her total income is ₹2,00,50,000 comprising of business income. Ms. Kajal opts for the provisions of section 115BAC.

3 Marks

Answer:

Computation of tax liability of Ms. Kajal under section 115BAC for the A.Y.2024-25

	₹	₹
(A) Tax payable including surcharge on total income of ₹ 2,00,50,000		
Up to ₹ 3,00,000 Nil	Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @30%	55,65,000	



	Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore)	57,15,000	
		14,28,750	71,43,750
(B)	Tax payable on total income of ₹ 2 crore [(₹ 15,000 plus ₹ 30,000 plus ₹ 45,000 plus ₹ 60,000 plus ₹ 55,50,000) plus surcharge @15%]		65,55,000
(C)	Excess tax payable (A)-(B)		5,88,750
(D)	Marginal Relief (₹ 5,88,750 - ₹ 50,000, being the amount of income in excess of ₹ 2,00,00,000)		5,38,750
(E)	Tax payable before cess (A - D)		66,05,000
	Add: Health and education cess @4%		2,64,200
	Tax payable		68,69,200

Alternative Presentation

Computation of tax liability of Ms. Kajal for the A.Y. 2024-25

		₹	₹
(A)	Tax payable including surcharge on total income of ₹ 2,00,50,000		
	Up to ₹ 2,50,000 ₹ 3,00,000 Nil	Nil	
	₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	15,000	
	₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
	₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	45,000	
	₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
	Above ₹ 15,00,000 @30%	55,65,000	
	Add: Surcharge @ 25% (since total income exceed ₹ 2 crore but does not exceed ₹ 5 crore)	57,15,000	
		14,28,750	71,43,750
(B)	Tax payable on total income of ₹ 2 crore [(₹ 15,000 plus ₹ 30,000 plus ₹ 45,000 plus ₹ 60,000 plus ₹ 62,500 plus ₹ 55,50,000) plus surcharge @15%]		65,55,000
(C)	Total income less ₹ 2 crore		50,000
(D)	Tax payable on total income of ₹ 2 crore plus excess of total income over ₹ 2 crore (B + C)		66,05,000
(E)	Tax payable: Lower of A and D		66,05,000
	Add: Health and education cess @4%		2,64,200
	Tax payable		68,69,200
(F)	Marginal Relief (A -D)		5,38,750

Question 3

MTP Oct' 18

Examine with brief reasons whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

- a) Mr. Qureshi, a shareholder of a closely held company, holding 15% shares, received advances from that company which is to be deemed as dividend from an Indian Company, hence exempted under section 10(34).



b) Rent of Rs. 72,000 received by Mr. X for letting out agricultural land for a movie shooting is an agricultural income and hence exempt under section 10(1).

Answer:

i. **False:** As per section 10(34), only income by way of dividend referred to in section 115 -O shall be exempt in the hands of shareholders. Dividend distribution tax under section 115 -O is not leviable on deemed dividend under section 2(22) (e) and hence, such deemed dividend is not exempt under section 10(34), in the hands of Mr. Qureshi.

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

ii. **False:** Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received by Mr. X from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources"

Question 4

RTP Nov' 18

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

- ⊗ Cost of cultivation of 40% of paddy produce is ₹ 9,00,000 which is sold for ₹ 18,50,000.
- ⊗ Cost of cultivation of balance 60% of paddy is ₹ 14,40,000 and the market value of such paddy is ₹ 28,60,000.
- ⊗ Incurred ₹ 3,60,000 in the manufacturing process of rice on the balance (60%) paddy. The rice was sold for ₹ 38,00,000.

Compute the Business income and Agricultural Income of Mr. Charan for A.Y. 2024-25.

Answer:

Computation of Business Income and Agriculture Income of Mr. Charan for A.Y. 2024-25

Particulars	Business Income	Agricultural Income	
	₹	₹	₹
Sale of Rice			
Business income			
Sale Proceeds of Rice	38,00,000		
Less: Market Value of paddy (60%)	28,60,000		
Less: Manufacturing expenses	3,60,000		
Agricultural Income	5,80,000		
Market value of paddy (60%)		28,60,000	
Less: Cost of cultivation		14,40,000	14,20,000
Sale of Paddy			
Agricultural Income			



Sale proceeds of paddy produce (40%)		18,50,000	
Less: Cost of cultivation		9,00,000	9,50,000
			23,70,000

Question 5

RTP Nov' 20

Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

- Rent received for letting out agricultural land for a movie shooting.
- Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.

Answer:

i. **Rent received for letting out agricultural land for a movie shooting:** As per section 2(1A), "agricultural income" means, inter alia,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does not constitute agricultural income.

ii. **Income from sale of seedlings in a nursery:**

As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land. Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

Question 6

PYQ May '18

Briefly explain the purpose for which the words "PROVISO" and "EXPLANATION" are incorporated under various sections of the Income-tax Act, 1961.

4 Marks

Answer:

Proviso: The Proviso to a section is incorporated to specify the exception(s) to the provision contained in the respective section i.e., the proviso spells out the cases where the provision contained in the respective section would not apply or where the provision contained in the respective section would apply with certain modification.

Explanation: An Explanation is incorporated in a section to provide a clarification relating to the provision contained in that section. Generally, an Explanation is clarificatory in nature.

Question 7

PYQ Nov '22

Mr. X a resident, aged 56 years, till recently was a successful businessman filing his return of incomes regularly and promptly ever since he obtained PAN card. During the COVID- Pandemic period his business suffered severely and he incurred huge losses. He was not able to continue his business and finally on 1st January, 2024 he decided to wind-up his business which he also promptly intimated to the jurisdictional Assessing Officer about the closure of his business. The Assessing Officer sent him a notice to tax income of A.Y. 2024-25 during the A.Y. 2023-24 itself. Does the Assessing Officer have the power to do so? Are there any exceptions to the general rule "Income of the previous year is assessed in the assessment year following the previous year"?

4 Marks

Answer:

Yes, he has the power to do so.



Since the business of Mr. X is discontinued on 1st January, 2024, the income of the period from 1.4.2023 to 1.1.2024 may, at the discretion of the Assessing Officer, be charged to tax in A.Y.2024-25 itself.

Following are the other exceptions to the general rule "Income of the previous year is assessed in the assessment year following the previous year" i.e., the income of the previous year is assessed in the previous year itself.

- (i) Shipping business of non-resident
- (ii) Persons leaving India with no present intention of returning
- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose and likely to be dissolved
- (iv) Persons likely to transfer property to avoid tax.

Question 8

PYQ May '22

The assessee is found to be the owner of the gold (market value of which is ₹ 50,00,000) during the financial year ending 31-03-2024 but he recorded to have spent ₹ 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue.

2 Marks**Answer:**

As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2024 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the income of the assessee for A.Y.2024-25, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @78% (@60% plus surcharge @25% and cess @4%).

Question 9

RTP Nov '23

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Cash credit of ₹ 1,50,000 were traced in the books of accounts of Mr. Yogesh for which no explanation about its source was provided. Such income is taxable @30% under section 115BB in the hands of Yogesh.

Answer:

The statement is incorrect.

Unexplained cash credit is taxable @60% plus surcharge @25% plus cess @4% under section 115BBE.

Question 10

PYQ Jan'21

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion. Attempt any two out of the following three parts:

- i. Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
- ii. Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally



packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form

4 Marks

Answer:

(i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A) (a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.

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

Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

Moderate

Question 1

RTP May '18

Examine with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961.

- Mr. Akash received a sum of ₹ 3,00,000 as compensation from "Sahayata Foundation" towards the loss of property on account of Flood Disaster at Chennai.
- Rent of ₹ 60,000 received for letting out agricultural land for a movie shooting.
- Dividend of ₹ 17 lakhs received by Mr. Yatin during P.Y. 2023-24 from A Ltd., a domestic company.
- Agricultural income of ₹ 1,30,000 of Mr. Sunil from a land situated in Canada.

Answer:

Taxability of receipts under the provisions of Income-tax Act, 1961

	Taxable/Not taxable	Reason
(a)	Taxable	As per section 10(10BC), any amount received or receivable by an individual as compensation, on account of any disaster, from the Central Government, State Government or a local authority is exempt from tax, to the extent the individual has not been allowed deduction under any other provision of Income-tax Act, 1961 on account of any loss or damage caused by such disaster. However, in this case, since Mr., Akash has received a compensation of ₹ 3,00,000 from Sahayata Foundation, and not from the Central Government or State Government or local authority, no exemption will be available under section 10(10BC) and the same is chargeable to tax.



(b)	Taxable	Agricultural income is exempt from income-tax as per section 10(1). Agriculture income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In this case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 60,000, being rent received from letting out agricultural land for movie shooting, is not exempt under section 10(1) and the same is chargeable to tax.
(c)	Partly taxable (Taxable)	As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished
(d)	Taxable	Agricultural income from a land situated in any foreign country is not exempt under section 10(1) and hence, is chargeable to tax. Therefore, in this case, agricultural income of ₹ 1,30,000 of Mr. Sunil from land situated in Canada is taxable.

Question 2

RTP May '19

Mr. Rana, a resident and ordinarily resident aged 42 years, manufactures rubber from the latex processed from rubber plants grown in Kerala. Thereafter, he sold the rubber for ₹ 47 lakhs. The cost of growing rubber plants was ₹ 25 lakhs and the cost of manufacturing rubber was ₹ 7 lakhs. He has no other income during the previous year 2023-24. Compute his tax liability for the Assessment Year 2024-25.

Answer:

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

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

Agricultural Income = 65% of ₹ 15 lakhs = ₹ 9.75 lakhs Business Income = 35% of ₹ 15 lakhs = ₹ 5.25 lakhs.

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

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

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

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹ 12,25,000 [₹ 9,75,000 plus ₹ 2,50,000]	1,80,000



	82,500
Add: Health and Education cess@4%	3,300
Total Tax liability	85,800

Question 3

PYP Nov'18, PYP May '20

Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2024-25:

Income from Salaries	27,88,000
Income from House Property (Computed)	15,80,000
Interest Income from FDR's	7,22,000

He has not claimed any deduction under Chapter VI-A. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income-tax Act, 1961. Assume that he has not opted for 115BAC. **5 Marks**

Answer:

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

Particulars	₹	₹
Income from Salaries		27,88,000
Income from house property (computed)		15,80,000
Interest income from FDR's		7,22,000
Total Income		50,90,000
Tax Liability		
(A) Tax payable including surcharge on total income of ₹ 50,90,000		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 - ₹ 50,90,000 @30%	12,27,000	
	13,39,500	
Add: Surcharge @ 10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,33,950	14,73,450
(B) Tax Payable on total income of ₹ 50 lakhs		
(₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000, being 30% of ₹ 40,00,000)		13,12,500
(C) Excess tax payable (A)-(B)		1,60,950
(D) Marginal Relief (₹ 1,60,950 - ₹ 90,000, being the amount of income in excess of ₹ 50,00,000)		70,950
Tax payable (A)-(D) [₹ 14,73,450 - ₹ 70,950]		14,02,500
Add: EC & SHEC @ 4%		56,100
Tax Liability		14,58,600
Tax Liability (Rounded off)		14,58,600



Question 4

Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-03-2024 are given hereunder:

PARTICULARS	AMOUNT ₹
Opening balance of the car as on 01-04-2023	3,00,000
Opening balance of machinery as on 01-04-2023	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the assessment year 2024-25 and the written down value as on 01-04-2024 (WDV as on 31-03-2024 less depreciation for the P.Y. 2023-24).

4 Marks

Answer:

Computation of Income from growing and curing coffee of Mr. Kabra for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from growing and curing coffee		
Sale value of cured coffee		22,00,000
Less: Expenses incurred in growing coffee	3,10,000	
Depreciation on Car (15% of ₹ 3,00,000)	45,000	3,55,000
Less: Expenses of curing coffee	3,00,000	18,45,000
Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000	5,25,000
		13,20,000
Business Income [25% of ₹ 13,20,000]		3,30,000
Agricultural Income [75% of ₹ 13,20,000]		9,90,000
Computation of Written Down Value as on 1.4.2024		
Opening balance of Car as on 1.4.2023	3,00,000	
Less: Depreciation@15% on ₹ 3 lakh	45,000	
WDV of car as on 1.4.2024	2,55,000	
Opening balance of machinery as on 1.4.2023	15,00,000	
Less: Depreciation@15% on ₹ 15 lakh	2,25,000	
WDV of machinery as on 1.4.2024	12,75,000	

Question 5

MTP Oct '21

Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2023-24 consisting of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2024-25.

4 Marks

Answer:



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

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

Difficulty**Question 1**

MTP Oct' 20

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

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

You are required to determine the residential status of Miss Deepika and compute the business income and agricultural income of Miss. Deepika for the Assessment Year 2024-25. **7 Marks**

Answer:



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

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

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

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

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

Particulars		Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown and cured in Kodagu, Karnataka (Apportioned between business and agricultural income in the ratio of 25:75, as per Rule 7B (1) of the Income-tax Rules, 1962)	2,00,000	50,000	1,50,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iv)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	2,00,000	-	2,00,000
		22,50,000	10,82,500	11,67,500

Notes:

- Since MS Deepika is resident and ordinarily resident in India for A.Y. 2024-25, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of Rs.2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.



Question 2

MTP Oct' 18

For the Assessment year 2024-25, the Gross Total Income of Mr. Manas, a resident in India aged 65 years, was Rs. 8,18,240 which includes long-term capital gain of Rs. 2,45,000 and Short-term capital gain of Rs. 98,000. The Gross Total Income also includes interest income of Rs. 15,000 from savings bank deposits with banks. Mr. Manas has invested in PPF Rs. 1,40,000 and also paid a medical insurance premium Rs. 31,000. Mr. Manas also contributed Rs. 40,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Manas.

7 Marks

Answer:

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

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
Less: Deductions under Chapter VI-A:		5,73,240
Under section 80C in respect of PPF deposit	1,40,000	
Under section 80D (it is assumed that premium of Rs.31,000 is paid by otherwise, then by cash. The deduction would be restricted to Rs.30,000 (as per amendment Rs. 50,000 is the limit for senior citizen.), since Mr. Manas is a senior citizen)	31,000	
Under section 80G (See Notes 1 & 2 below)	19,662	
Under section 80TTA (See Note 3 below)	10,000	2,00,662
Total income (excluding long term capital gains)		3,72,578
Total income (including long term capital gains)		6,17,578
Total income (rounded off)		6,17,580
Tax on total income (including long-term capital gains of Rs.2,45,000)		
LTCG Rs.2,45,000 x 20%		49,000
Balance total income Rs.3,72,580		3,629
		52,629
Add: EC & HSEC @ 4% (as per amendment)		2,105
Total tax liability		54,734
Total tax liability (rounded off)		54,730

Notes:

1. Computation of deduction under section 80G:

Particulars	Rs.
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTA	1,80,000
	3,93,240
10% of the above	39,324
Contribution made	40,000
Lower of the two eligible for deduction under section 80G	39,324
Deduction under section 80G - 50% of Rs.39,324	19,662



2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding Rs. 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of up to Rs. 10,000 under section 80TTA is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.

Question 3

PYQ May' 18

Mr. Avani, a resident aged 25 years, manufactures tea leaves from the Tea plants grown by him in India. These are then sold in the India market for ₹ 40 lakhs. The cost of growing tea plants was ₹ 15 lakhs and the cost of manufacturing tea leaves was ₹ 10 lakhs. Compute her tax liability for the Assessment Year 2024-25.

7 Marks**Answer:****Computation of tax liability of Ms. Avani for the A.Y. 2024-25**

In cases where the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 of 40% of profit on sale of tea is taxable as business income under the head "Profits and gains from business or profession", and the balance 60% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of tea = ₹ 40 lakhs - ₹ 15 lakhs - ₹ 10 lakhs = ₹ 15 lakhs
 Agricultural Income = 60% of ₹ 15 lakhs = ₹ 9 lakhs
 Business Income = 40% of ₹ 15 lakhs = ₹ 6 lakhs.

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

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

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹11,50,000 [₹ 9,00,000 plus ₹ 2,50,000]	1,57,500
	1,05,000
Add: EC & SHEC @ 4% (as per amendment)	4,200
Total Tax liability	1,09,200

Question 4

MTP1 Sep' 24

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

(i) Depreciation 15,40,000

(ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid 10,00,000

(iii) He received income-tax refund of 15,550 which includes interest on refund of 4,550.

(iv) Dividend income from Indian companies 15,00,000. Dividend received from each company is less than 5,000.



Additional information -

(i) Mr. Ayush installed new plant and machinery for 65 lakhs on 1.10.2023 which was put to use on 1.1.2024. Depreciation (including additional depreciation) on this amount of 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.

(ii) Mr. Ayush took a loan from SBI of 50 lakhs on 1.9.2023 @10.5% p.a. to purchase such plant and machinery. Total interest up to 31.3.2024 has been paid on 31.3.2024 and the same has been debited to profit and loss account.

(iii) Advance tax paid during the year is 17,50,000

(iv) Ayush purchased goods for 40 lakhs from Mr. Ram, his brother. The market value of the goods is 35 lakhs.

(v) He paid 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is 5,00,000 and the policy was taken on 1.4.2016.

(vi) He paid 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.

(vii) On 1.7.2023, Mr. Ayush withdrew 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2024-25 assuming that he has shifted out of the default tax regime under section 115BAC.

Answer:

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

	Particulars	₹	₹	₹
I.	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of 1,75,000 [50,00,000 × 10.5% × 4/12] has to be added back, since the same is debited to the profit and loss account]	1,75,000		
	(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (40 lakhs) and the fair market value (35 lakhs) has to be added back as per section 40A (2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	<u>5,00,000</u>		
			<u>6,75,000</u>	
			89,20,000	
	Less: Items of income to be treated separately under the respective head of income			
	(i) Income-tax refund including interest on refund of 4,550	15,550		
	(ii) Dividend from Indian companies	15,00,000		
	(iii) Short term capital gains on transfer of listed equity shares	<u>10,00,000</u>		



	<p>Less: Depreciation on interest on loan capitalised to plant and machinery 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized Normal depreciation @15% x 50% on such interest Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2023-24, it is eligible for 50% of the rate of depreciation]</p>	<p>25,15,550 64,04,450</p> <p>13,125 <u>17,500</u></p> <p><u>30,625</u></p>	<p>63,73,825</p>
II.	Capital Gains Short term capital gains on transfer of listed equity shares		10,00,000
III.	Income from Other Sources Interest on income-tax refund Dividend from Indian companies Gross Total Income Less: Deductions under Chapter VI-A - Deduction under section 80C Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of 40,000 is allowable as it does not exceed 10% of the 5,00,000, being the sum assured] - Deduction under section 80D Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to 25,000]	<p>4,550 <u>15,00,000</u></p> <p>40,000</p> <p><u>25,000</u></p>	<p><u>15,04,550</u> 88,78,375</p> <p><u>65,000</u></p>
	Total Income		<u>88,13,375</u>
	Total Income (Rounded off)		88,13,380

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

Particulars	₹	₹
Tax on total income of 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [10,00,000 x 15%]		1,50,000
Tax on other Income of 78,13,380		
Up to 2,50,000	Nil	
2,50,001 - 5,00,000 [@5% of 2.50 lakh]	12,500	
5,00,001 - 10,00,000 [@20% of 5,00,000]	1,00,000	
10,00,001- 78,13,380 [@30% of 68,13,380]	<u>20,44,014</u>	<u>21,56,514</u>
		23,06,514



Add: Surcharge @10%, since total income exceeds 50,00,000 but does not exceed 1 crore		2,30,651
		25,37,165
Add: Health and education cess@4%		<u>1,01,487</u>
Total tax liability		26,38,652
Less: TDS u/s 194N @ 2% on 50 lakhs, being the cash withdrawals exceeding 1 crore	1,00,000	
Less: Advance tax paid	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		<u>7,88,652</u>
Tax payable (rounded off)		7,88,650

Question 5

MTP1 Sep' 24

Mr. Aman has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2024:

Sr.no	Particulars	₹ (in lakhs)
i.	Payment made to AB University, an approved University	15
ii.	Payment made to Siya College	17
iii.	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
iv.	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2024-25, while computing his income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC.

Answer:

Computation of deduction allowable under section 35

Particulars	Amount (in lakhs)	Section	% of deduction	Amount of deduction (in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	Nil	Nil
Siya College	17	-	Nil	Nil
IIT Bangalore (under an approved programme for scientific research)	12	35(2AA)	Nil	Nil
In-house research				
Capital expenditure - Purchase of Machinery	25	35(1)(iv) r.w. 35(2)	100%	<u>25</u>
Deduction allowable under section 35				<u>25</u>

Deduction under section 35(1)(ii) and 35(2AA) is not allowable under default tax regime under section 115BAC.



Question 6

Karan, a resident aged 50 years, furnishes the following information for the year ended on 31-03-2024:

Particulars	Amount (₹)
Salary (Gross)	2,75,000
Income from let out house property	(2,85,000)
Interest on loan paid for self-occupied house property	1,20,000
Income from sale of rubber products from rubber plants	2,00,000
Business income - Retail business	1,20,000
Business income - wholesale business	(1,00,000)
Brought forward business loss (A.Y. 2023-24)	(1,35,000)
Dividend received from ABC Ltd., an Indian company carrying on agricultural operations	13,500
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Short-term capital gains on sale of shares	(1,10,000)
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor son Raju from special talent	1,50,000
Interest from Bank received by Raju on deposit made out of his special talent	10,000

Compute Karan's total income under the default tax regime under section 115BAC for the A.Y. 2024-25 assuming his wife does not earn any income.

Answer:

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

Particulars	₹	₹
Salary		
Gross salary	2,75,000	
Less: Standard deduction under section 16(ia)	50,000	2,25,000
Income from house property Interest on loan paid for self-occupied property [Not allowable under section 115BAC]	-	
Loss from let out house property	2,85,000	
[Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC.]	2,85,000	
Profits and gains from business and profession		
Income from sale of rubber products from rubber plants [70,000 (35% of 2,00,000) is business income and 1,30,000 (65% of 2,00,000) is agricultural income which is exempt from tax]	70,000	
Business Income- Retail business	1,20,000	
	1,90,000	
Less: Set-off of wholesale business loss of 1,00,000	1,00,000	
	90,000	



Less: Set-off of brought forward business loss of 1,35,000 of A.Y.2023-24 allowable to the extent of 90,000 by virtue of section 72(1)	90,000	Nil
[Balance brought forward business loss of 45,000 (i.e., 1,35,000 - 90,000) to be carry forward to A.Y. 2025-26 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of listed equity shares on which STT is paid	2,00,000	
Less: Set-off of short-term capital loss of 1,10,000	1,10,000	90,000
Income from Other Sources		
Dividend from Indian companies [13,500/90 x 100]	15,000	
Lottery winnings	45,000	
Income of minor son from special talent [Not included in Karan's income since it is earned from special talent]	-	
Interest from bank received by minor son on deposit made out of his income from special talent [Includible in the income of Mr. Karan, since Mrs. Karan does not earn any income]	10,000	
Less: Exemption under section 10(32) [Not allowable under section 115BAC]	-	70,000
Gross Total Income		3,85,000
Less: Deduction under section 80C [Not allowable under section 115BAC]		-
Total Income		3,85,000

Question 7

RTP Sep' 24

Mr. Anand, a resident Indian aged 45 years, has provided you the following information for the previous year ended on 31.03.2024

(i) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was 200 lakhs. Export turnover received in India in convertible foreign exchange on or before 30.9.2024 is 120 lakhs. This industrial undertaking fulfils all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is 35 lakhs.

(ii) Mr. Anand sold equity shares of different Indian companies on 14th March, 2024:
CII - F.Y. 2017-18: 272; F.Y. 2023-24: 348

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration.

(iii) He made payment of 90,000 on 1.9.2023 vide cheque towards medical insurance as lumpsum premium for himself and his wife till 31.8.2027. He also made cash payment of 7,500 towards preventive health checkup for himself and his wife.

(iv) He received royalty of 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 16% of value of books and expenditure made for earning this royalty was 40,000. The amount remitted to India till 30th September, 2024 is 2,50,000.

(v) He received income-tax refund of 15,750 (including interest 1,750) relating to the assessment year 2023-24.



(vi) He occupies ground floor of his residential building and has let out first floor for residential use for a monthly rent of 15,000. He has paid municipal taxes of 30,000 for the current financial year. Both floors are of equal size. He has taken a loan from bank of 50 lakhs for the construction of this property in 2020 and has repaid 2,05,000 (including interest 1,00,000) during the year 2023-24.

(vii) Mr. Anand deposited 1,30,000 in Public Provident Fund and 80,000 in 5 years term deposit in the name of his minor son, Aman.

You are required to compute the total income and tax liability of Mr. Anand under section 115BAC as well as under normal provisions for the A.Y. 2024-25. Ignore AMT provisions.

Answer:

Computation of total income and tax liability of Mr. Anand for A.Y. 2024-25 under section 115BAC

	Particulars	₹	₹	₹
I.	Income from house property Let out portion [First floor] Gross Annual Value [Rent received is taken as GAV, in the absence of other information] Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [30,000/2]		1,80,000 15,000	
	Net Annual Value (NAV) Less: Deduction u/s 24 (a) 30% of 1,65,000 (b) Interest on loan [1,00,000/2]	49,500 50,000	1,65,000 99,500	
			65,500	
	Self-occupied portion [Ground Floor] Annual Value [No deduction is allowable in respect of municipal taxes paid] Net Annual Value (NAV) Less: Interest on loan [Not allowable under section 115BAC]		Nil Nil Nil	65,000
II.	Profits and gains of business or profession Income from SEZ unit			35,00,000
III.	Capital Gains Short-term capital gains on sale of equity shares of Sam Ltd. (since held for not more than 12 months) Full Value of Consideration [2000 x 150] Less: Brokerage @ 0.1% Net sale consideration Less: Cost of acquisition [2000 x 120]	3,00,000 300 2,99,700 2,40,000		59,700



	Long-term capital gains on sale of equity shares of Jam Ltd. (since held for more than 12 months)			
	Full Value of Consideration [1250 x 100]	1,25,000		
	Less: Brokerage @ 0.1%	125		
	Net sale consideration	1,24,875		
	Less: Cost of acquisition [No indexation benefit would be available]	90,000	34,875	94,575
	Higher of cost of acquisition of 90,000 (72 x 1250) and 62,500, being lower of FMV of 62,500 and full value of consideration of 1,25,000			
IV.	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on income-tax refund		1,750	
				2,49,750
	Gross Total Income			39,09,825
	Less: Deduction under Chapter VI-A [Not allowable under section 115BAC]			
	Total Income			39,09,825
	Total Income (Rounded off)			39,09,830

	Tax on total income of 39,09,830		
	Tax on LTCG exceeding 1 lakh @10% u/s 112A		-
	Tax on STCG of 59,700 @15% u/s 111A		8,955
	Tax on remaining total income of 38,15,255		
	Up to 3,00,000	Nil	
	3,00,001 - 6,00,000[@5% of 3 lakhs]	15,000	
	6,00,001 - 9,00,000[@10% of 3 lakhs]	30,000	
	9,00,001 - 12,00,000[@15% of 3 lakhs]	45,000	
	12,00,001 - 15,00,000[@20% of 3 lakhs]	60,000	
	15,00,001 - 38,15,255[@30% of 23,15,255]	6,94,577	8,44,577
			8,53,532
	Add: Health and education cess@4%		34,141
	Tax liability		8,87,673
	Tax liability (Rounded off)		8,87,670



Computation of total income and tax liability of Mr. Anand for A.Y. 2024-25 under normal provisions of the Act

Particulars	₹	₹	₹
Gross Total Income as per section 115BAC			39,09,825
Less: Interest on loan for self-occupied property [1,00,000/2]			50,000
Gross Total Income as per normal provisions of the Act			38,59,825
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y.2023-24, being the 5th year of operations] [Profits of the SEZ x Export Turnover received in India in convertible foreign exchange on or before 30.9.2024/Total Turnover] x 100% [35 lakhs x 120 lakhs/ 200 lakhs x 100%]			21,00,000
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Repayment of housing loan	1,05,000		
Public Provident Fund	1,30,000		
5 years Term deposit (not allowed as deduction in the name of minor son)	-		
	2,35,000		
Restricted to		1,50,000	
Deduction under section 80D			
Medical insurance premium [90,000 x 1/5]	18,000		
Preventive health check-up of 7,500, subject to maximum of 5,000	5,000	23,000	
Deduction under section 80QQB		2,10,000	
Royalty [2,88,000 x 15/16 = 2,70,000, restricted to amount brought into India in convertible foreign exchange 2,50,000 minus 40,000 expenses already allowed as deduction while computing royalty income]			
			3,83,000
Total Income			13,76,825
Total Income (Rounded off)			13,76,830
Tax on total income of 13,76,830			
Tax on LTCG exceeding 1 lakh @10% u/s 112A			-
Tax on STCG of 59,700 @15% u/s 111A			8,955
Tax on remaining total income of 12,82,255			
Up to 2,50,000		Nil	
2,50,001 - 5,00,000[@5% of 2,50,000]		12,500	
5,00,001 - 10,00,000[@20% of 5,00,000]		1,00,000	



10,00,001 - 12,82,255[@30% of 2,82,255		84,677	1,97,177
			2,06,132
Add: Health and education cess@4%			8,245
Tax liability			2,14,377
Tax liability (rounded off)			2,14,380

Question 7

PYQ Nov' 23

Mr. Pramod, a resident aged 55 years, is a retail trader; he furnished the following information for A.Y. 2023-24:

Trading and Profit and Loss Account for the year ended on 31.03.2023:

	₹		₹
To Opening Stock	1,15,000	By Sales	70,80,000
Purchases	55,40,000	Closing Stock	2,10,000
Transport charges	1,20,000		
Gross Profit c/f	<u>15,15,000</u>		
	<u>72,90,000</u>		<u>72,90,000</u>
To Salaries	3,40,000	By Gross Profit b/f	15,15,000
Rates and Taxes	24,000	Rent from H. Property	1,80,000
Administrative Expenses	3,25,000	Rent from furniture	1,20,000
Depreciation	80,000		
Net Profit	<u>10,46,000</u>		
	18,15,000		18,15,000

- (1) All the sales are by account payee cheques or through bank transfers.
 - (2) The opening and closing stocks have been over valued by 15,000 and 20,000 respectively.
 - (3) Rates and taxes include GST liability of 5,000 paid on 01.05.2023 and municipal taxes for let out property 7,000.
 - (4) Administrative expenses include 25,000 paid as donation to National Children's Fund, and a payment for laptop purchased on 15.05.2022 for 60,000 through bank transfer.
 - (5) Transport charges include 30,000 paid in cash on 01.09.2022.
 - (6) He incurred a loss of 8,000 on sale of equity shares on 10.02.2023, which were purchased on 10.06.2022.
 - (7) Depreciation includes 1,200 as depreciation on Trade Marks wrongly charged at 15%.
 - (8) He deposited 50,000 in PPF a/c and has paid life insurance premium 60,000.
 - (9) He paid interest of 70,000 on loan availed in F.Y. 2017-18 for higher education of his wife.
- Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2023-24, if,
- (i) The business profit is computed as per normal provisions and he opts for section 115BAC.
 - (ii) He opts to compute business profit under presumptive taxation under section 44AD and does not opt for section 115BAC.
 - (iii) The business profit is computed as per normal provisions of Income-tax Act and he does not opt for section 115BAC. Which option is advantageous to Mr. Pramod?

Answer:



(i) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023-24 as per normal provisions of the Act (as per books of accounts) and opting for section 115BAC

	Particulars	₹	₹
I	Income from house property		
	Gross Annual Value ¹	1,80,000	
	Less: Municipal taxes paid	<u>7,000</u>	
	Net Annual Value (NAV)	1,73,000	
	Less: Deduction u/s 24(a) - 30% of NAV	<u>51,900</u>	1,21,100
II	Profits and gains of business or profession		
	Net Profit	10,46,000	
	Add: Over statement of opening stock	<u>15,000</u>	
		10,61,000	
	Less: Over statement of closing stock	<u>20,000</u>	
		10,41,000	
	[Note - Alternatively, net of overstatement of opening stock and closing stock i.e., 5,000 can be reduced.]		
	Add: Expenses debited to profit and loss account but not allowable as deduction		
	GST liability paid on 1.5.2023 [Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible]	-	
	Municipal taxes for let out property	7,000	
	Donation to National Children's Fund	25,000	
	Payment for Laptop	60,000	
	Transport charges of 30,000 in cash [Not disallowed since the limit for one-time cash payment is 35,000 in respect of payment to transport operators.]	-	
		11,33,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	Rent from house property	1,80,000	
	Rent from furniture	<u>1,20,000</u>	
		8,33,000	
	Less: Depreciation		
	-On Trade Marks [Trade Marks are eligible for depreciation @25%] [1,200/15% x 25% - 1,200, being the wrong depreciation]	800	



	[Note - Alternatively, depreciation of 1,200 wrongly claimed can be added and the amount of correct depreciation of 2,000 can be deducted.]		
	- On laptop [60,000 x 40%]	<u>24,000</u>	8,08,200
III	Capital Gains		
	Short term capital loss of 8,000 on sale of equity shares [Can be set off against capital gain only. Hence, carried forward to A.Y. 2024-25]		-
IV	Income from Other Sources		
	Rent from furniture		<u>1,20,000</u>
	Gross Total Income/Total income [Deduction under Chapter VI-A is not allowed under section 115BAC]		<u>10,49,300</u>
	Computation of Tax payable		
	Tax on 10,49,300		
	Up to 2,50,000	Nil	
	2,50,000 @5% [5,00,000 - 2,50,000]	12,500	
	2,50,000 @10% [7,50,000 - 5,00,000]	25,000	
	2,50,000 @15% [10,00,000 - 7,50,000]	37,500	
	49,300 @20% [10,49,300 - 10,00,000]	<u>9,860</u>	84,860
	Add: Health and education cess @4%		<u>3,394</u>
	Tax payable		<u>88,254</u>
	Tax payable (Rounded off)		<u>88,250</u>

(ii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023 -24 as per presumptive provisions under section 44AD and not opting for section 115BAC

Particulars	₹	₹
I Income from house property [Computed in (i) above]		1,21,100
II Profits and gains of business or profession		4,24,800
[6% of sales, as all sales are by account payee cheque or through bank transfers] [70,80,000 x 6%]		
III Income from Other Sources [Computed in (i) above]		<u>1,20,000</u>
Gross Total Income		6,65,900
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
- Deposit in PPF A/c		
- Life insurance premium		1,10,000
Deduction under section 80G		
Donation to National Children's Fund [Allowed 100% without qualifying limit]		25,000
Deduction under section 80E		
Interest on loan for higher education of his wife		<u>70,000</u>



Total Income		4,60,900
Computation of Tax Payable		
Tax on 4,60,900		
2,10,900 @ 5% [4,60,900 - 2,50,000]		10,545
Less: Rebate u/s 87A - lower of 10,545 or 12,500 allowable, since total income does not exceed 5,00,000		10,545
Tax Payable		Nil

(iii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023-24 as per normal provisions of the Act (as per books of accounts) and not opting for section 115BAC

Particulars		₹
Gross Total Income [Computed in (i) above]		10,49,300
Less: Deduction under Chapter VI-A [Computed in (ii) above] [1,10,000 + 25,000 + 70,000]		<u>2,05,000</u>
Total Income		8,44,300
Computation of Tax Payable		
Tax on 8,44,300		
2,50,000 @5% [5,00,000 - 2,50,000]	12,500	
3,44,300 @20% [8,44,300 - 5,00,000]	<u>68,860</u>	81,360
Add: Health and education cess @4%		<u>3,254</u>
Tax payable		<u>84,614</u>
Tax payable (Rounded off)		<u>84,610</u>

Question 8

PYQ Nov' 23

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2023- 24. (State applicable provision and give brief reasons for your answer, wherever applicable)

Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account 15,000 during the P.Y. 2022-23. His pension is also credited in this account. In the same bank he has deposited 10 Lakh in a Term Deposit @7% simple interest on 01.07.2022. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also.

Answer:

Bank of Baroda, being a specified bank notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows:



Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2023-24

Particulars	₹	₹
I Salaries		
Pension (72,000 x 12)	8,64,000	
Less: Standard deduction u/s 16(ia)	<u>50,000</u>	8,14,000
II Income from Other Sources		
Interest on savings account	15,000	
Interest on fixed deposit (10 lakh x 7% x 9/12)	<u>52,500</u>	<u>67,500</u>
Gross total income		8,81,500
Less: Deductions under Chapter VI-A Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	<u>50,000</u>	<u>50,000</u>
Total Income		8,31,500
Computation of tax liability for A.Y. 2023-24		
Tax on 8,31,500 [20% on income exceeding 5 lakhs, being the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		66,300
Add: Health and Education Cess@4%		<u>2,652</u>
Tax liability		<u>68,952</u>
Tax liability (Rounded off)		<u>68,950</u>

Accordingly, Bank of Baroda is required to deduct tax at source of 68,950 for the P.Y. 2022 -23. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2023-24.

Note - The question mentions that Mr. Kumar has deposited 10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above solution is given assuming that term deposit is not for 5 years. However, alternate assumption that such term deposit is for 5 years is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of 1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be 2,00,000, total income would be 6,81,500 and tax liability (rounded off) would be 37,750.



Multiple Choice Questions

<p>Question 1 MTP May'20</p> <p>XYZ LLP falls under which category of person?</p> <p>a) Firm b) Company c) Association of persons d) Artificial judicial person</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 2 MTP April'19</p> <p>Under the provisions of the Income-tax Act, 1961, the term "Person" would not include:</p> <p>a) A body corporate incorporated in a country outside India b) A Limited Liability Partnership (LLP) c) Indian branch of a foreign company d) A local authority</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 3 MTP March'19</p> <p>Mr. Devansh has agricultural income of Rs.2,30,000 and business income of Rs.2,45,000. Which of the following statements are correct?</p> <p>a) Agricultural income has to be aggregated with business income for tax rate purposes. b) No aggregation is required since agricultural income is less than basic exemption limit. c) No aggregation is required since business income is less than basic exemption limit. d) Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds Rs. 5,000</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 4 MTP Nov'21</p> <p>Miss Nish (68 years) is a resident individual. For the Assessment Year 2024-25, she has following income: Long-term capital gain on transfer of equity shares Rs.1,80,000 (Securities Transaction Tax has been paid on acquisition and transfer of the said shares) Other income Rs.2,75,000. Calculate the tax liability of Miss Nish for Assessment Year 2024-25. Assume that she has not opted for 115BAC.</p> <p>a) Nil b) Rs. 5,670 c) Rs.5,720 d) Rs.8,320</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 5 MTP Oct '21</p> <p>Mr. Ashutosh, aged 65 years and a resident in India, has a total income of ₹ 3,20,00,000, comprising long term capital gain taxable under section 112 of ₹ 57,00,000, long term capital gains taxable under section 112A of ₹ 65,00,000 and other income of ₹ 1,98,00,000. What would be his tax liability for A.Y. 2024-25. Assume that Mr. Ashutosh has not opted for the provisions of section 115BAC.</p> <p>a) ₹ 90,05,880 b) ₹ 97,25,690 c) ₹ 97,34,400 d) ₹ 97,22,440</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>



Question 6

MTP Sep'22

During the P.Y.2023-24, Mr. Rohan has ₹ 80 lakhs of short-term capital gains taxable u/s 111A, ₹ 70 lakhs of long-term capital gains taxable u/s 112A and business income of ₹ 2.90 crores. Which of the following statements is correct?

- a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 4.40 crores
- b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 4.40 crore
- c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore; in respect of business income of ₹ 2.90 crores, surcharge is leviable@25% on income-tax
- d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore; in respect of business income of ₹ 2.90 crores, surcharge is leviable@37% on income-tax

Question 7

MTP Oct'22

Mr. Ashish's total income comprises of long-term capital gains on sale of land ₹ 5 lakhs; short-term capital gains on sale of STT paid listed equity shares ₹ 2 lakhs; income from lottery ₹ 1 lakh and savings bank interest ₹ 30,000. He invests ₹ 1.50 lakhs in PPF. His tax liability for A.Y.2024-25, assuming that he is a resident Indian of the age of 40 years and does not opt for the provisions of section 115BAC, is -

- a) ₹ 1,64,800
- b) ₹ 1,66,400
- c) ₹ 1,14,400
- d) ₹ 1,13,300

Question 8

MTP March'23

The Gupta HUF in Maharashtra comprises of Mr. Harsh Gupta, his wife Mrs. Nidhi Gupta, his son Mr. Deepak Gupta, his daughter-in-law Mrs. Deepti Gupta, his daughter Miss Preeti Gupta. Which of the members of the HUF are eligible for coparcenary rights?

- a) Only Mr. Harsh Gupta and Mr. Deepak Gupta
- b) Only Mr. Harsh Gupta, Mr. Deepak Gupta and Miss Preeti Gupta
- c) Only Mr. Harsh Gupta, Mr. Deepak Gupta, Mrs. Nidhi Gupta and Mrs. Deepti Gupta
- d) All the members are co-parceners

Question 9

MTP Oct'20

Sham Singh spends ₹ 1,00,000 on cultivation and harvesting of his agricultural produce. 50% of the production is sold for ₹1,10,000 and rest is stored for self-consumption. What is the amount of the agricultural income?

- a) Rs. 60,000
- b) Rs. 1,10,000
- c) Rs.1,20,000
- d) Rs. 1,00,000



Question 10

MTP Oct'19

Which of the following incomes are exempt incomes as per the provisions of Income-tax Act, 1961?

- (i) Allowance paid by Government to a citizen of India for rendering services outside India
 - (ii) Death-cum-retirement gratuity received by a government employee
 - (iii) Any sum received under a life insurance policy taken on 01.05.2023, if the premium payable for any of the years exceeds 10% of the actual capital sum assured.
 - (iv) Any payment from National Pension System Trust to an employee on account of closure of his NPS account.
- a) (i), (ii), (iii), (iv)
 b) (i) & (ii)
 c) (i), (ii) & (iv)
 d) (ii) & (iv)

Question 11

MTP Oct'19

Which of the following statements is/are true in respect of taxability of agricultural income under the Income-tax Act, 1961?

- (i) Any income derived from saplings or seedlings grown in a nursery is agricultural income exempt from tax u/s 10(1).
- (ii) 60% of dividend received from shares held in a tea company is agricultural income exempt from tax u/s 10(1).
- (iii) While computing income tax liability of an Assesses aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds Rs. 5,000 and the total income (including net agricultural income) exceeds Rs.2,50,000.
- (iv) While computing income tax liability of an Assesses aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds Rs. 5,000 and the total income (excluding net agricultural income) exceeds Rs.2,50,000.

Choose from the following options:

- a) and (iii)
- b) and (iii)
- c) and (iv)
- d) (i), (ii) and (iv)



Question 12

MTP March'23

Income derived from farm building situated in the immediate vicinity of an agricultural land (not assessed to land revenue) would be treated as agricultural income if such land is situated in -

- a) an area at a distance of 3 kms from the local limits of a municipality and has a population of 80,000 as per last census
- b) an area within 1.5 kms from the local limits of a municipality and has a population of 12,000 as per last census
- c) an area within 2 kms from the local limits of a municipality and has a population of 11,00,000 as per last census
- d) an area within 8 kms from the local limits of a municipality and has a population of 10,50,000 as per last census

Question 13

RTP May'19

Mr. Ajay is a recently qualified doctor. He joined a reputed hospital in Delhi on 01.01.2024. He earned Prakshal Shah total income of ₹ 3,40,000 till 31.03.2024. His employer advised him to claim rebate u/s 87A while filing return of income for A.Y. 2024-25. Assume that he does not opt for 115BAC. He approached his father to enquire regarding what is rebate u/s 87A of the Act. His father told him:

- (i) An individual who is resident in India and whose total income does not exceed ₹ 3,50,000 is entitled to claim rebate under section 87A.
- (ii) An individual who is resident in India and whose total income does not exceed ₹ 5,00,000 is entitled to claim rebate under section 87A.
- (iii) Maximum rebate allowable under section 87A is ₹ 5,000.
- (iv) Rebate under section 87A is available in the form of exemption from total income.
- (v) Maximum rebate allowable under section 87A is ₹ 2,500.
- (vi) Rebate under section 87A is available in the form of deduction from tax liability.

As a tax expert, do you agree with the explanation given by Mr. Ajay's father? Choose the correct option from the following:

- a) (ii), (iii), (vi)
- b) (i), (v), (vi)
- c) (ii), (iii), (iv)
- d) (i), (iv), (v)
- e) (ii) (v)(vi)



Question 14

RTP Nov'19

During the P.Y.2023-24, Mr. Ranjit has short-term capital gains of ₹ 95 lakhs taxable under section 111A, long-term capital gains of ₹ 110 lakhs taxable under section 112A and business income of ₹ 90 lakhs. Which of the following statements is correct?

- Surcharge@25% is leviable on income-tax computed on total income of ₹ 2.95 crore, since total income exceeds ₹ 2 crore.
- Surcharge@15% is leviable on income-tax computed on total income of ₹ 2.95 crore.
- Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; in respect of business income, surcharge is leviable@25% on income-tax, since total income exceeds ₹ 2 crore.
- Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; surcharge@10% is leviable on income-tax computed on business income, since the same exceeds ₹ 50 lakhs but is less than ₹ 1 crore.

Question 15

RTP May'20

Mr. Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is ₹ 1,45,000 each) during the financial year ending 31.3.2024 but he could offer satisfactory explanation for ₹ 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Ajay would be liable to pay tax of -

- ₹ 1,87,200
- ₹ 2,26,200
- ₹ 1,49,760
- ₹ 1,80,960

Question 16

RTP May '23, MTP Sep '23

Mr. Rishabh, aged 65 years and a resident in India, has a total income of 4,50,00,000, comprising long term capital gain taxable under section 112 of 85,00,000, long term capital gain taxable under section of 75,00,000 and other income of 2,90,00,000. What would be his tax liability for A.Y. 2024-25.

Assume that Mr. Rishabh has opted for the provisions of section 115BAC.

- 1,41,40,750
- 1,38,50,200
- 1,38,84,390
- 1,39,81,240

Question 17

RTP May'19

Mr. Anay (aged 25) has an agricultural income of ₹ 2,10,000 and business income of ₹ 2,35,000. Which of the following statement is correct?

- Agricultural income always has to be aggregated with business income for rate purposes
- No aggregation is required since business income which constitutes his total income, is less than basic exemption limit
- No aggregation is required since agricultural income is less than basic exemption limit
- Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds ₹ 5,000.



Question 18

RTP May'22

Mr. A has taken two ULIPs. ULIP "X" is issued on 1.1.2023 and ULIP "Y" on 1.5.2023. The sum assured of ULIP "X" and ULIP "Y" is ₹ 30 lakhs and ₹ 40 lakhs, respectively. The annual premium paid by Mr. A during the P.Y. 2023-24 is ₹ 3 lakhs and ₹ 4 lakhs, respectively. What would be the taxability of the consideration received by Mr. A on maturity of both the ULIPs?

- Consideration received on the maturity of ULIP "X" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "Y" would be taxable.
- Consideration received on the maturity of ULIP "Y" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "X" would be taxable.
- Consideration received on the maturity of both ULIP "X" and ULIP "Y" would be exempt u/s 10(10D)
- The profits and gains from receipt of consideration on the maturity of both ULIP "X" and ULIP "Y" would be taxable.

Question 19

MTP2 Sep'24

Mr. Sambhav (aged 48 years) furnishes the following particulars for the previous year 2023-24 in respect of an industrial undertaking established in "Special Economic Zone" in March 2018. It began manufacturing in April 2018.

Export Sales of F.Y. of 2023-24 include freight and insurance of 5 lakhs for delivery of goods outside India. He received rent of 30,000 per month for a commercial property let out to Mr. Akash, a salaried individual. He earned interest on savings bank A/c of 15,000 and interest on Post Office savings A/c of 7,000 during the P.Y. 2023-24. Mr. Sambhav has shifted out of the default tax regime under section 115BAC. Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions: (3 x 2 Marks)

(i) Compute the amount of export turnover and total turnover for purpose of computing deduction under section 10AA for A.Y. 2024-25.

- 45,00,000 and 85,00,000, respectively
- 40,00,000 and 80,00,000, respectively
- 45,00,000 and 80,00,000, respectively
- 40,00,000 and 85,00,000, respectively

(ii) Compute the amount of deduction available to Mr. Sambhav under section 10AA for A.Y. 2024-25.

- 10,00,000
- 4,70,577
- 5,62,500
- 5,00,000

(iii) Compute the total income of Mr. Sambhav for A.Y. 2024-25.

- 17,60,500
- 12,60,500
- 18,72,000
- 17,64,000



Question 20

MTP2 Sep'24

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

- (a) Dearness Allowance - 10% of Basic Pay (considered for retirement purposes)
 (b) Bonus - 98,000
 (c) Medical allowance paid during P.Y. 2023-24 amounting to 60,000
 (d) He was also reimbursed medical bill of his mother amounting to 15,000.
 (e) He was also reimbursed salary of house servant of 4,000 per month.
 (f) Professional tax paid by employer amounting to 2,400.
 (g) 400 equity shares allotted by ABC India Ltd. at the rate of 250 per share against fair market value of share of ₹ 350 on the date of exercise of option.
 (h) Mr. Anshul has exercised the option to shift out of the default tax regime under section 115BAC. Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions: (3 x 2 Marks)

(i) What is Mr. Anshul's residential status for the A.Y. 2024-25?

- (a) Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident from the given information.
 (b) Non-Resident
 (c) Resident but not ordinarily resident
 (d) Resident and ordinarily resident

(ii) What are his taxable perquisites for A.Y. 2024-25?

- (a) 55,000
 (b) 90,400
 (c) 1,05,400
 (d) 1,03,000

(iii) What is the income chargeable under the head "Salaries" in the hands of Mr. Anshul for A.Y. 2024-25?

- (a) 9,76,600
 (b) 9,86,600
 (c) 9,71,600
 (d) 9,61,600

Answers

1	2	3	4	5	6	7	8	9	10
c	c	c	c	d	c	c	b	a	b
11	12	13	14	15	16	17	18	19	20
c	a	e	b	a	b	b	a	b, d, a	a, c, a



Chapter 2: Residence & Scope of Total Income

Descriptive Questions

Easy

Question 1

MTP April'19

Compute the total income of Mr. Rajesh, aged 45 years, an Indian citizen for A.Y. 2024-25. On 22.09.2023, he left India for the first time to work as an officer of a company in Canada.

He earns the following income during the previous year 2023-24:

Sr. No.	Particulars	(Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	40,000
2.	Dividend from Canadian company received in Canada	20,000
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from Profession in Canada (set up in India), out of which Rs.10,000 is received in India	15,000
6.	Agricultural income from a land situated in Gujarat	45,000
7.	Rent received in Canada in respect of house property at Canada	60,000

7 Marks

Answer:

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

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

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

(As per amendment in case of Indian citizen or person of Indian origin, having total income more than Rs. 15,00,000 (other than income from foreign source) then the second basic condition is applicable and instead of 60 days in the previous year, 120 days are considered)

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

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2024-25.



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

Notes:

S. No.	Particulars	Non-Resident (Rs.)
1.	Interest on Canada Development Bond (See Note 1)	20,000
2.	Dividend from Canadian Company received in Canada (See Note 2)	-
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from profession in Canada (set up in India) out of which Rs.10,000 is received in India (See Note 1)	10,000
6.	Agricultural income from a land in Gujarat (See Note 3)	-
7.	Income from house property at Canada (See Note 4)	-
	Gross Total income	1,32,000
	Less: Deduction under Chapter VI-A Section 80TTA (See Note 5)	10,000
	Total Income	1,22,000

(1) As per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

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

Therefore, only that part of interest income and income from profession which is received in India would be taxable in his hands.

- Dividend received in Canada from a Canadian based company would not be taxable in the hands of Mr. Rajesh since it has neither accrued nor arisen in India nor is it received in India.
- Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- Rental income from property in Canada would not be taxable, since it is neither accrued or arisen in India nor it is received in India.

In case of an individual other than senior citizen, interest up to Rs.10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA, irrespective of the residential status.

Question 2

MTP April, 22

Mr. Krishna (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2023. His income during the financial year 2023-24 is given hereunder:

Particulars	₹
Rent from a house situated at UK, received in UK. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500



Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Krishna did not come to India during the financial year 2023-24. Compute his total income for the Assessment year 2024-25. Assume he does not opt for section 115BAC. **4 Marks**

Answer:

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

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

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

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

Particulars	₹
Salaries	
Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Krishna, a citizen of India, even though he is a non-resident and rendering services outside India)	9,25,000
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction under section 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	
Rent from a house situated at UK, received in UK (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	Nil
Income from Other Sources	
Interest on Post office savings bank account - exempt upto ₹ 3,500	1,000
Gross Total Income	8,76,000
Less: Deduction under section 80TTA	1,000
Total Income	8,75,000

Question 3

MTP Nov'22

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

	Particulars	Amount (in ₹)
(i)	Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000



(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

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

6 Marks

Answer:

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

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

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

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

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

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

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

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

Question 4

MTP May'18

Mr. Kavin, a non-resident, entered into the following transactions during the financial year 2023-24:

1. Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.
2. Received foreign currency equivalent to ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Korea.



3. Received ₹ 7 lakhs from RR Ltd., an Indian company as fees for providing technical services in India.
4. Received ₹ 5 lakhs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.
5. Received ₹ 8 lakhs towards interest on moneys borrowed by a non-resident for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India. (RTP May'18)

Answer:

Taxability of certain receipts in the hands of Mr. Kavin, a non-resident, for A.Y. 2024-25

	Taxability	Reason
(a)	Taxable	Amount of ₹ 20 lakhs received from a non-resident is deemed to accrue or arise in India by virtue of section 9(1)(vi)(c), since the patent was used for a business in India. Therefore, the amount is chargeable to tax in India.
(b)	Not Taxable	Foreign currency equivalent to ₹ 15 lakhs received in Korea from a non-resident for use of know-how for a business in Sri Lanka is not deemed to accrue or arise in India as per section 9(1)(vi)(c), since it is in respect of a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.
(c)	Taxable	Amount of ₹ 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of section 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	Not Taxable	Amount of ₹ 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per section 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.
(e)	Taxable	Amount of ₹ 8 lakhs received in Korea towards interest on moneys borrowed by a non-resident for the purpose of business within India is deemed to accrue or arise in India by virtue of section 9(v)(c), since money borrowed was used for the purpose of business in India. Therefore, the same is chargeable to tax in India.

Question 5

MTP May'19

Determine the residential status of Ms. Nicole Kidman, an Australian actress, for the A.Y. 2024-25, from the following information about her stay in India contained in her passport.

F.Y.	From	To	F.Y.	From	To
2023-24	May 3rd	August 12th	2018-19	May 3rd	August 12th
2022-23	July 23rd	August 11h	2017-18	May 3rd	August 12th
2021-22	February 9th	March 26th	2016-17	May 3rd	August 12th
2020-21	September 8th	March 26th	2015-16	May 3rd	August 12th
2019-20	May 17th	September 30th	-	-	-

Answer:

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



Previous Year	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016
No. of Days of Stay in India	102	20	46	201	137	102	102	102	102

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

- Has been in India during the previous year for a total period of 182 days or more (or)
- Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year. Ms. Nicole Kidman's stay in India during the P.Y.2023-24 is less than 182 days. However, her stay in India during the P.Y.2023-24 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y.2023-24 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y.2023-24.

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

- has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days. If she does not satisfy both of these conditions, she would be a resident and ordinarily resident.

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

Question 6

MTP May'20

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

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

Answer:

Determination of residential status

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

- He has been in India during the previous year for a total period of 182 days or more, or



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

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

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

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

Question 7

MTP May'23

Mrs. Roma, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending 31.03.2024:

Determine the gross total income of Roma for the A.Y. 2024-25 ignoring the provisions of section 115BAC on the assumption that she is:

1. Resident but not ordinarily resident in India
2. Non-resident in India.

	₹
1 Salary income received in Malaysia for services rendered there	2,00,000
2 Profit from business carried on in Orissa	80,000
3 Loss from business carried on in Baroda	(20,000)
4 Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris)	42,000
5 Loss from business carried on in Canada (though profits are not received in India, business is controlled from Dehradun)	(46,000)
6 Unabsorbed depreciation of business in Canada	16,000
7 Profit from Indonesia business (controlled from Delhi) and 60% of profit deposited in a bank in Indonesia and 40% received in India	70,000

Answer:

Computation of gross total Income of Mrs. Roma for the A.Y. 2024-25



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

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

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

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

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

Question 8

MTP Jan'21

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services is to be taxed in India irrespective of territorial nexus. Examine the correctness or otherwise of the given statement. **3 Marks**

Answer:

Income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1) shall be included in the total income of the non-resident, whether or not -

- the non-resident has a residence or place of business or business connection in India; or
- the non-resident has rendered services in India.



In effect, the income by way of fees for technical services, interest or royalty, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India.

Therefore, the given statement that income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus, is correct.

Question 9

MTP Nov'20

Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31.03.2024. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2024-25 as per Income-tax Act, 1961. (Give brief reasoning)

1. Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).
2. Received ₹ 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).
3. He is also engaged in the business of running news agency and earned income of ₹ 10 lakhs from collection of news and views in India for transmission outside India.
4. He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged ₹ 10 lakhs for these services from SKK & Co.

5 Marks**Answer:**

1. Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
2. Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of ₹ 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India. Hence, the royalty is taxable in India.
3. No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs are not taxable in India in the hands of Mr. Thomas.
4. ₹ 10 lakhs are deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr. Thomas.

Question 10

MTP Nov'18

Following incomes are derived by Mr. Krishna Kumar during the year ended 31-3-2024: Pension received from the US Government

Pension received from the US Government	3,20,000
Agricultural income from lands in Malaysia	2,70,000
Rent received from let out property in Colombo, Sri Lanka	4,20,000

Discuss the taxability of the above items where the assessed is



- (i) Resident,
(ii) Non- resident.

6 Marks

Answer:

Taxability of items in the hands of Mr. Krishna Kumar

	Item of income	Amount ₹	If Mr. Krishna Kumar is resident	If Mr. Krishna Kumar is non- resident
(i)	Pension Received from the US Government	3,20,000	Taxable, since global income is taxable in case of a resident.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.
(ii)	Agricultural income from lands in Malaysia	2,70,000	Taxable, since global income is taxable in case of a resident. Only agricultural income from lands in India is exempt and not lands outside India.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.
(iii)	Rent received from let-out property in Colombo, Sri Lanka	4,20,000	Taxable, since global income is taxable in case of a resident. 30% deduction from Net annual value is allowed.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.

Question 11

MTP Jan'20

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion. Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai

2 Marks

Answer:

Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per section 9(1)(vi)(b), since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.

Question 12

MTP May'23

Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2015 He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2023-24, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2023-24:

Income from commercial building in Delhi - ₹ 12,00,000 (computed as per the provisions



of the Act). Income from the retail store - ₹ 4,50,000 (computed as per the provisions of the Act) Country X does not tax any individual on their income as there is no personal income-tax regime there. Determine the residential status of Mr. Jai Chand for the Assessment year 2024-25.

Will your answer change if he is a citizen of Country X?

3 Marks

Answer:

Determination of residential status of Mr. Jai Chand for A.Y. 2024-25

Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2023-24, he would not be a resident for A.Y.2024-25 as per section 6(1).

However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of ₹ 16,50,000 [₹ 12,00,000, being income from commercial building in India + ₹ 4,50,000, being Income from retail store in India], which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- not liable to tax in Country X, he would be deemed resident in India for the P.Y. 2023-24. A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2023-24, since the provisions of deemed resident are applicable only to an Indian citizen.

Question 13

PYQ Nov'23

State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

1. Hire charges paid outside India for the use of machinery situated in India.
2. Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.
3. Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
4. Allowances paid by the Government to a citizen of India for the services rendered outside India.
5. Past period foreign untaxed income brought to India during the previous year.
6. Gift received by a non-resident on the occasion of his wedding in India.

3 Marks

Answer:

1. Yes
2. No
3. Yes
4. Yes

Alternative answer - No, since allowances paid by the Government to a citizen of India for the services rendered outside India is exempt u/s 10(7).

5. No
6. No

Question 14

PYQ Nov'23

Mr. Sanjay has following incomes during the previous year 2022 -23:

1. Interest on England Development Bonds (1/3 received in India) ` 60,000.



2. Interest received from a non-resident ` 5,000 against a loan given to him to run a business in India.
3. Royalty received from Akhil, a resident, for technical services given to run a business outside India ` 20,000.
4. Income from business in Sri Lanka ` 25,000 out of which ` 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr. Sanjay for the assessment year 2023 -24 if he is a

- 1) Not ordinarily resident
- 2) Non-resident

4 Marks

Answer:

Computation of taxable income of Mr. Sanjay for the A.Y. 2023-24

		Not ordinarily resident (RNOR)	Non-resident
(1)	Interest on England Development Bonds (1/3 received in India), amount of ₹20,000 being received in India would be taxable in case of both RNOR and non-resident.	20,000	20,000
(2)	Interest received from non-resident against a loan given to him to run a business in India would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both RNOR and non-resident	5,000	5,000
(3)	Royalty received from Akhil, a resident for technical services given to run a business outside India would not be deemed to accrue or arise in India, since such services are utilised for business carried outside India. Thus, royalty would not be taxable in case of both RNOR and non-resident.	-	-
(4)	Income from business in Sri Lanka of ` 25,000 out of which ` 15,000 were received in India. Whole of the income from business in Sri Lanka is taxable in case of RNOR, since business is controlled from India. However, in case of non-resident only the amount received in India would be taxable.	25,000	15,000
Taxable Income		50,000	40,000

Question 15

CS Execu. Dec'23

Discuss with logical reasoning whether the following are capital or revenue receipts/expenses:

- (a) An amount of ₹ 1,60,000 was spent by a company for sending its production abroad to study new methods of production.
- (b) B & Co. received ₹ 4,00,000 as compensation from C & Co. for pre-mature termination of contract of agency.
- (c) Payment of ₹ 60,000 as compensation for cancellation of a contract for the purchase of machinery with a view to avoid an unnecessary expenditure.



(d) R company Limited instead of receiving royalty year by year, received it in advance in lump sum.

(e) An employee director of a company was paid ₹ 3,60,000 as a lump sum consideration for not resigning from the directorship.

5 Marks

Answer:

(a) ₹ 1,60,000 spent for sending its production manager abroad, is aimed to enhance profitability of the business, hence revenue expenditure.

(b) ₹ 4,00,000 received as compensation for premature termination of contract of agency is revenue receipt under section 28(ii)(c).

(c) ₹ 60,000 paid as compensation for cancellation of contract for the purchase of machinery is revenue expense, deemed in interest of business to prevent loss.

(d) Royalty received in advance in lump sum is revenue receipt, because it is income.

(e) ₹ 3,60,000 paid as a lump sum consideration for not resigning from the directorship is revenue receipt in the hands of director as income.

Moderate

RTP Nov'20

Question 1

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2023. From the following details for the P.Y. 2023-24, determine the residential status of Mr. Anand for A.Y. 2024- 25, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2023-24) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 th June, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9 th December, 2023

Answer:

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2023-24 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more. The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2023- 24 would be 179 days [i.e., 365 days - 187 days]. Since his



period of stay in India during the P.Y. 2023-24 is less than 182 days, he is a non-resident for A.Y. 2024-25.

Question 2

MTP Nov'21

Mr. Thomas, a citizen of Japan, comes to India for the first time during the P.Y. 2019-20. During the financial years 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, he was in India for 50 days, 65 days, 95 days, 150 days and 75 days, respectively. Determine his residential status for the A.Y. 2024-25. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2024-25 of the following transactions entered by him.

- (i) Interest received from Mr. Michel, a non-resident outside India (The borrowed fund is used by Mr. Michel for investing in Indian company's debt fund for earning interest).
- (ii) He is also engaged in the business of running news agency and earned income of Rs. 5 lakhs from collection of news and views in India for transmission outside India.

He entered into an agreement with ABC & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Steel manufacturing plant, in India. He charged Rs. 15 lakhs for these services from ABC & Co. **7 Marks**

Answer:

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

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied; the individual is a non-resident. During the previous year 2023-24, Mr. Thomas was in India for 75 days and during the 4 years preceding the previous year 2023-24, he was in India for 360 days (i.e. 50+ 65+ 95+ 150 days).

The total stay of the Mr. Thomas during the previous year in India was less than 182 days and during the four years preceding this year was for 360 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, he would be treated as non-resident for the Assessment Year 2024-25.

- (i) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- (ii) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, Rs. 10 lakhs are not taxable in India in the hands of Mr. Thomas.
- (iii) Rs. 10 lakhs are deemed to accrue or arise in India to Mr. Thomas, a non-resident,



since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Steel manufacturing plant in India. Hence, the same would be taxable in India in the hands of Mr. Thomas.

Question 3

MTP March'21

Determine the residential status and total income of Mr. Raghu for the assessment year 2024-25 from the information given below.

Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2012. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while continuing to be based at the Gurugram office.

The details of his travel outside India for the financial year 2023-24 are as under:

Country	Period of stay
USA	25 August, 2023 to 10 November, 2023
UK	20 November, 2023 to 23 December, 2023
Germany	10 January, 2024 to 24 March, 2024

During the last four years preceding the previous year 2023-24, he was present in India for 380 days. During the last seven previous years preceding the previous year 2023-24, he was present in India for 700 days. During the P.Y. 2023-24, he earned the following incomes:

- (i) Salary Rs. 15,80,000. The entire salary is paid by the Indian company in his Indian bank account.
- (ii) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (iii) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to Rs. 10,500 was credited to his saving account.

7 Marks

Answer:

Determination of residential status

Mr. Raghu would be a resident in India in P.Y. 2023-24, if he satisfies any one of the following conditions:

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

If he satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, he would be a non-resident.

During the P.Y. 2023-24 Mr. Raghu stayed in India for 179 days i.e., 365 days - 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years.

He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y. 2024-25.

- a. A person would be "Not ordinarily Resident" in India in any previous year, if such person, inter alia,
- b. has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- c. has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.



For the previous year 2023-24, Mr. Raghu would be "Resident but not ordinarily resident" since he stayed for less than 729 days during the 7 previous years immediately preceding P.Y. 2023-24.

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

Particulars			Amount (Rs.)
(1)	Salary from Indian company received in a bank account in India	15,00,000	
	Less: Standard deduction u/s 16(IA)	50,000	14,50,000
(2)	Dividend of Rs. 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the resident but not ordinarily resident since the income has neither accrued or arisen in India nor has it been received in India.		Nil
(3)	Interest on fixed deposit with PNB credited to his savings bank account is taxable in the hands of Mr. Raghu as Income from other sources, since it has accrued and arisen in India and is also received in India.		10,500
Gross Total Income			14,60,500
Less: Deduction u/s 80TTB			10,500
Total Income			14,50,000

Question 4

MTP March'19

Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients:

- Salary paid to Mr. Dinesh, a citizen of India Rs.20,00,000 by the Central Government for the services rendered in London.
- Royalty paid to Raja, a non-resident by Ms. Mute, a resident for a business carried on in Sri Lanka.

2. Ms. Anjali, a non-resident, residing in London since 1995, came back to India on 19-02-2022 for permanent settlement in India. Explain the residential status of Ms. Anjali for the Assessment Year 2024-25 in accordance with the various provisions of Income-tax Act, 1961.

MTP 7 Marks

Answer:

Taxability of certain receipts under the Income-tax Act, 1961

	Taxable/ Not Taxable	Amount liable to tax (Rs.)	Reason
1	2	3	4
(I)	Taxable	20,00,000	Salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India as per section 9(1)(iii). Mr. Dinesh is a citizen of India. Therefore, salary paid by the Central Government to him for services rendered in London would be deemed to accrue or arise in India in his hands.



(ii)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried on outside India would not be taxable in the hands of the non-resident, as the same would not be deemed to accrue or arise in India as per the exception mentioned in section 9(1)(vi)(b). Therefore, royalty paid by Mute, a resident, to Raja, a non-resident, for a business carried on in Sri Lanka would not be deemed to accrue or arise in India. Note - It is assumed that the royalty was not received in India.
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Determination of residential status of Ms. Anjali for the A.Y. 2024-25

Ms. Anjali is a resident since she has stayed in India for 365 days during the P.Y.2023-24. Therefore, she satisfies the condition of stay in India for a period of 182 days or more in the relevant previous year as per the requirement under section 6(1).

As per section 6(6), an individual is said to be "not ordinarily resident" in India in any previous year, if he has:

- been a non-resident in India in nine out of ten previous years preceding the relevant previous year; or
- during the seven previous years immediately preceding the relevant previous year, been in India for a period of, or periods amount in all to, 729 days or less.

Ms. Anjali must, therefore, satisfy either of the conditions to qualify as a not-ordinarily resident.

Ms. Anjali was a non-resident in India up to A.Y.2022-23.

She was resident in India only for P.Y. 2022-23 (A.Y.2023-24) out of the ten previous years preceding P.Y. 2023-24 (A.Y.2024-25). This implies that she has been a non-resident in India in nine out of ten previous years preceding P.Y. 2023-24 (A.Y. 2024-25).

Further, she was in India only for a period of 406 days [i.e., 10 days in February, 2022 + 31 days in March 2022 + 365 days during the P.Y.2022-23] in the seven previous years preceding P.Y. 2023- 24 (A.Y. 2024-25).

Therefore, since Ms. Anjali satisfies both the conditions for "not-ordinarily resident", her residential status for A.Y.2024-25 would be "Resident but not ordinarily resident".

Question 5

MTP Aug'18

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

Sr. No.	Particulars	Amount (Rs.)
1.	Dividend from American company, received in America	20,000
2.	Profits from a profession in Delhi, but managed directly from America	50,000
3.	Long term capital gain on sale of shares of an Indian company, received in India	60,000
4.	Interest on savings bank deposit in SBI, Delhi	17,000



5.	Agricultural income from a land situated in Tamilnadu	55,000
6.	Rent (computed) from property in America deposit in a Bank there, later on remitted to India	1,00,000
7.	Cash gift received from a friend on her birthday on 16.8.2020	51,000
8.	Past foreign untaxed income brought to India	70,000

Determiner her residential status and compute the total income chargeable to tax for the Assessment Year 2024-25. **10 Marks**

Answer:

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

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Kaira, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e. P.Y.2023-24 and in the preceding four assessment years.

Her stay in India during the previous year 2023-24 and in the preceding four years are as under:

P.Y. 2023-24

01.04.2023 to 20.09.2023 - 173 days

27.03.2024 to 31.03.2024 - 5 days

Total 178 days

Four preceding previous years

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

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

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

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

Total 12 days

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

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

S. No.	Particulars	(Non-Resident) (Rs.)
1.	Dividend from American company, received in America (Note 1)	-
2.	Profit from profession in Delhi, but managed directly from America (Note 2)	50,000
3.	Long-term capital gain on sale of shares of an Indian company (Note 2)	60,000



4.	Interest on savings account with SBI (Note 2)	17,000
5.	Agricultural income from land in Tamilnadu [Exempt under section 10(1)]	-
6.	Rent (computed) from property in America deposited in a Bank at America, later on remitted to India (Note 1)	-
7.	Cash gift received from a friend on Mrs. Kaira birthday on 16.8.2023 Note: As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	51,000
8.	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2023-24].	-
Total Income		1,78,000

Notes:

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

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

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

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

Question 6

MTP March, 22

Mr. Sushant furnished the following particulars of his income for the year ended 31.3.2024.

	Particulars	₹
(a)	Income earned from business in Dubai which is controlled from Delhi (₹ 65,000 is received in India)	80,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000
(c)	Dividend from an Oil Company, a Dubai based company, received in Dubai	15,000
(d)	Rent from property in Dubai, deposited in a bank in Dubai and later on, remitted to India through approved banking channels	70,000
(e)	Dividend from Sunset Ltd., an Indian company, received in Dubai	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000
(g)	Agricultural income from a land in Bhutan, received in India	25,000

Compute his gross total income for the assessment year 2024-25, if he is:

1. Resident and ordinarily resident;
2. Resident but not ordinarily resident;
3. Non-resident

7 Marks

Answer:

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



	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in Dubai which is controlled from Delhi, out of which ₹ 65,000 is received in India	80,000	80,000	65,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000	24,000	24,000
(c)	Dividend received in Dubai from an Oil company, a Dubai based company	15,000	-	-
(d)	Rent from property in Dubai, deposited in a bank in Dubai	49,000	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	78,000	78,000	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000	-	-
(g)	Agricultural income from a land in Bhutan, received in India (Taxable)	25,000	25,000	25,000
Gross Total Income		3,26,000	2,07,000	1,92,000

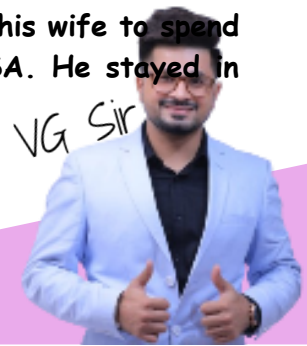
Notes:

- b) As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:
- Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
- Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India. Accordingly, the entire income earned from business in Dubai which is controlled from Delhi would be chargeable to tax in the hands of Mr. Sushant if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.
- c) Agricultural income from a land in Bhutan, received in India is taxable in all cases.
- d) Pension for services rendered in India but received in Dubai and dividend from Sunset Ltd., an Indian company would be taxable in all cases, since it has accrued or arisen in India.
- e) Dividend from a Dubai based company, received in Dubai and interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company, would be taxable in the hands of Mr. Sushant, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.
- f) Likewise, rental income from property in Dubai would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

Question 7

MTP sep'22

Mr. Manek, a person of Indian origin and citizen of USA, got married to Ms. Anjali, an Indian citizen residing in USA, on 24th January, 2023 and came to India on 25-03-2023. He left for Country X on 10th July, 2023. He returned to India again on 24-02-2024 with his wife to spend some time with his parents-in law for 30 days and thereafter returned to USA. He stayed in India for 400 days during the 4 years preceding the previous year 2023-24.



He received the following gifts from his relatives and friends of her wife during 01 -04-2023 to 31-03-2024 in India:

- From wife's parents ₹ 1,51,000
- From wife's sister ₹ 21,000
- From very close friends of his wife ₹ 16,00,000

Determine his residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2024-25. **6 Marks**

Answer:

Under section 6(1), an individual, being a person of Indian origin and who comes on a visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2023-24 would be resident but not ordinarily resident.

Mr. Manek is a person of Indian origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds ₹ 15,00,000, he would be a resident in India if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

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

	P.Y. 2023-24	
01.04.2023 to	10.07.2023	101 days
24.02.2024 to	25.03.2024	30 days
Total		131 days

Since he stays in India is for 131 days during the P.Y. 2023-24 and for 400 days during the 4 years immediately preceding the P.Y. 2023-24, he is resident but not ordinarily resident in India for the P.Y. 2023-24.

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

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

Particulars	₹
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000.	
- ₹ 1,51,000 received from parents of wife would be exempt, since wife's parents fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 21,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceeds ₹ 50,000.	16,00,000
Total Income	16,00,000
Tax on total income of ₹ 16,00,000	1,80,000



Upto ₹ 2,50,000 ₹ 3,00,000 Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	
Above ₹ 15,00,000 @30%	
Add: Health and Education cess@4%	7,200
Tax liability	1,87,200

Note -

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

Question 8

MTP Oct'19

Determine the residential status of Mrs. Rose and compute her gross total income chargeable to tax for the A.Y. 2024-25 from the following information gathered from her documents:

Mrs. Rose is an Australian, got married to Mr. Ram of India in Australia on 2.01.2023 and came to India for the first time on 18.02.2023. She left for Australia on 15.9.2023. She returned to India again on 23.03.2024.

On 01.04.2023, she had purchased a Flat in Delhi, which was let out to Mr. Sahil on a rent of ₹ 25,000

p.m. from 1.5.2023. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 1,85,500 up to 31.03.2024.

While in India, during the previous year 2023-24, she had received a gold chain from her in-laws worth ₹ 1,50,000.

7 Marks**Answer:**

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

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Mrs. Rose, an Australian, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e. P.Y.2023-24 and in the preceding four previous years.

Her stay in India during the previous year 2023-24 and in the preceding four years are as under:
P.Y. 2023-24

01.04.2023 to 15.09.2023	-	168 days
23.03.2024 to 31.03.2024	-	9 days
Total		177 days
Four preceding previous years		



P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	42 days
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y.2019-20 [1.4.2019 to 31.3.2020]	-	Nil
Total		42 days

The total stay of Mrs. Rose during the previous year in India was less than 182 days and during the four years preceding this year was for 42 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2024-25.

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

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

Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.

Question 9

MTP Nov'22

Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2022. He left India for the first time on 31.07.2022 and joined XYZ Inc. on 08.08.2022. During the P.Y. 2023-24, Mr. Dhanush visited India from 25.05.2023 to 22.09.2023. He has received the following income for the previous year 2023-24 -

Particulars	₹
Salary from XYZ Inc., USA received in USA	7,00,000
Dividend from Indian companies	5,50,000
Agricultural income from land situated in Punjab	55,000
Rent received/receivable from house property in Lucknow	4,00,000
Profits from a profession in USA, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Dhanush and compute his total income for the A.Y. 2024-25)

Answer:



As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

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

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

Particulars		Amount (₹)
Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source)		-
Dividend from Indian companies (Included in total income, since deemed to accrue or arise in India)		5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Included in total income, since deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹ 4 lakhs	1,20,000	2,80,000
Profits from a profession in USA, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		14,30,000

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

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India.

Accordingly, his total income would be as follow -

Particulars		Amount (₹)
Salary from XYZ Inc., USA received in USA (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Dividend from Indian companies (Taxable, since deemed to accrue or arise in India)		5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Taxable, since it is deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹ 4 lakhs	1,20,000	2,80,000



Profits from a profession in USA, which was set up in India, received there		-
Gross Total Income/ Total income		8,30,000

Question 10

MTP July'21

Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1999 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2024:

	Particulars	Amount (in ₹)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment Year 2024-25 as per normal provisions. **6 Marks**

Answer:

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed ₹ 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y. 2023-24 and her income other than from foreign sources does not exceed ₹ 15,00,000, she is non-resident for the A.Y. 2024-25. A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for A.Y. 2024-25

Particulars		Amt (₹)
Salaries		
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]		Nil
Income from House Property		
Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000	
Less: Deduction u/s 24(a) @ 30%	27,000	63,000
Capital Gains		



Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]	3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]	60,000
Gross Total Income	4,23,000
Less: Deduction under Chapter VI-A	
Deduction under section 80C - Life insurance premium ² of ₹ 75,000 [Premium paid to Russian Life Insurance Corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]	63,000
Total Income	3,60,000
Computation of Tax Liability	
Long-term capital gains taxable @20% u/s 112 [3,00,000 x 20%]	60,000
Short-term capital gains taxable @15% u/s 111A [60,000 x 15%]	9,000
	69,000
Add: Health and Education Cass @4%	2,760
Tax Liability	71,760

Even if her total income exceeds ₹ 15 lakh, still, she would be non-resident since the minimum period of stay required in the current year for being a resident is 120 days.

Note - The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed ₹ 5 lakh.

Question 11

MTP Jan'21

(Also includes concepts of Chp 8- Computation of Total Income & Tax Payable)

Rajesh was employed in Axis Ltd., Mumbai. He received a salary of ₹ 45,000 p.m. from 1.04.2023 to 20.09.2023. He resigned and left for Dubai for the first time on 28.09.2023 and got monthly salary of rupee equivalent of ₹ 90,000 from 1.10.2023 to 31.03.2024. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2024 was credited in his Dubai bank account.

The cost of his air tickets to Dubai costing ₹ 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing ₹ 40,000 was funded by one of his friends staying in Delhi. He further received interest of ₹ 10,500 on his fixed deposits and ₹ 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹ 10,000 for spouse and ₹ 25,000 for dependent mother aged 71 years. Compute taxable income of Mr. Rajesh for the Assessment Year 2024-25.

7 Marks



Answer:

In case of an Indian citizens leaving India for employment during the relevant previous year, the period of their stay during that previous year for being treated as a resident of India must be 182 days or more.

(As per amendment in case of Indian citizen or person of Indian origin, having total income more than Rs. 15,00,000 (other than income from foreign source) then the second basic condition is applicable and instead of 60 days in the previous year, 120 days are considered)

During the previous year 2023-24, Mr. Rajesh, an Indian citizen, was in India for 181 days only (i.e., 30+31+30+31+31+28 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2024-25. A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to him in India. Hence, salary for January to March 2024, which was credited in his Dubai bank account for services rendered in Dubai, would not be taxable in the hands of Mr. Rajesh.

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

Particulars		Amount (₹)
Salary		
Salary from 1.4.2019 to 20.9.2019 [$45,000 \times 5 + 45,000 \times 20/30$]	2,55,000	
Salary from 1.10.2019 to 31.12.2019 [$90,000 \times 3$]	2,70,000	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(IA)		50,000
Net Salary		4,75,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	7,500	18,000
Gross Total Income		4,93,000
Less: Deduction under Chapter VI-A		
- Deduction under section 80C		25,000
LIC premium for self and spouse [LIC premium for mother is not allowed for deduction]		
- Deduction under section 80TTA		7,500
[Interest on savings account with Mumbai bank]		
Total Income		4,60,500

Working Notes -

- Cost of his air tickets to Dubai costing ₹ 1,50,000 funded by his sister is not taxable under section 56(2)(x) in the hands of Mr. Rajesh, since "sister" is a relative.
- Cost of initial stay at Dubai costing ₹ 40,000 funded by his friend is also not taxable under section 56(2)(x), since the amount does not exceed ₹50,000.

Question 12

MTP Set'21

The following are the incomes of Shri Subhash Chandra, a citizen of India, for the previous year 2023-24:

- Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.
- Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.



(iii) Untaxed income of ₹ 1,30,000 for the year 2021-22 of a business in England which was brought in India on 3rd March, 2024.

(iv) Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident, for technical service provided to run a business outside India.

(v) Agricultural income of ₹ 90,000 in Bhutan.

(vi) Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross Total Income of Shri Subhash Chandra for the A.Y. 2024-25, if he is -

1. A Resident and Ordinarily Resident; and

2. A Resident but Not Ordinarily Resident

6 Marks

Answer:

Computation of Gross Total Income of Shri Subhash Chandra for the A.Y. 2024-25

Particulars	Resident and Ordinarily Resident [ROR] (₹)	Resident but Not Ordinarily Resident [RNOR] (₹)
i. Income from business in India, controlled from London [Taxable both in the hands ROR and RNOR, since income accrues/arises from business in India, irrespective of the fact that business is controlled from London]	2,00,000	2,00,000
ii. Profits earned from business in Japan [Profits from business in Japan is taxable in the hands of ROR, since global income is taxable in the hands of ROR. Moreover, entire profit of ₹ 70,000 would be taxable in the hands of RNOR, even if only ₹ 20,000 is received in India, since the business in Japan is controlled from India]	70,000	70,000
iii. Untaxed income for the year 2021-22 of a business in England which was brought in India during the P.Y. 2023-24 [Not taxable either in the hands of ROR or RNOR, since such income is not related to the P.Y. 2023-24.]	Nil	Nil
iv. Royalty received from a resident for technical service provided to run a business outside India [Taxable in the hands of ROR, since global income is taxable in the hands of ROR. Not taxable in the hands RNOR, since royalty income is not deemed to accrue or arise in India as such income is paid by a resident for technical services used to run a business outside India.]	4,00,000	Nil



v.	Agricultural Income in Bhutan [Since agricultural income accrues/arises outside India, it is taxable only in the hands of ROR. No exemption is available in respect of agricultural income earned outside India]		90,000	Nil
vi.	Income from house property in Dubai, which was deposited in a bank at Dubai			
	Since income accrues/arises outside India and is also received outside India, it is taxable only in the hands of ROR	73,000		
	Less: Deduction u/s 24@30%	21,900	51,100	Nil
	[See Note below for alternative treatment]			
	Gross Total Income			2,70,000

Note -

In the above solution, income of ₹ 73,000 from house property in Dubai is presumed to be the rent received, since the said amount is stated to be the amount deposited in bank. Accordingly, deduction@30% of the said amount has been provided to compute the "Income from house property", where Shri Sub hash Chandra is a ROR.

3 Presumed that the same was received in Bhutan However, since the words "Income from house property" appears to indicate that the same is the income computed under that head of income, it is possible to consider the said amount of ₹ 73,000 as income computed under the head "Income from house property" after providing deduction@30% under section 24(a). In such a case, the gross total income of Shri Sub hash Chandra, if he were a ROR, would be ₹ 8,33,000.

Question 13

MTP Oct'23

Examine the tax implications of the following transactions for the assessment year 2024-25: (Give brief reason)

- Government of India has appointed Mr. Rahul as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of ₹ 2,40,000 during the previous year 2023-24 for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year 2023-24.
- Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned ₹ 2,50,000 during the previous year 2023-24.
- Mr. Naveen, a non-resident in India, has earned ₹ 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.
- Mr. James, a NRI, borrowed ₹ 10,00,000 on 01.04.2023 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @ 12% per annum.

7 Marks**Answer:**

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



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

However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, ₹ 2,40,000, being the allowance would be exempt.

- (ii) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export. Thus, income of ₹ 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.
- (iii) Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India. In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.
- (iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India. In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of ₹ 1,20,000 (₹ 10,00,000 × 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.

Question 14

MTP, May'22

Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2023-24, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2019-20, 2020-21, 2021-22, 2022-23 respectively. Her annual income for the previous year 2023-24 is as follows:

Particulars	Amount (₹)
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated in UAE	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2024-25. (Support your Answer with computation) **4 Marks**

Answer:

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

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

P.Y.	No. of days
P.Y. 2019-20	200



P.Y. 2020-21	100
P.Y. 2021-22	76
P.Y. 2022-23	45
Total	421

Computation of Total Income of Mrs. Shruti (excluding income from foreign sources)

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

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

(i)	She is in India for 182 days or more during the P.Y.2023-24 or
(ii)	She is in India for a period of 120 days or more during the P.Y.2023-24 and her stay in India in the four immediately preceding previous years is 365 days or more. [This condition will apply to her since she comes on a visit to India during the previous year 2023-24 and her total income (excluding income from foreign sources) is ₹ 16.50 lakhs, which exceeds the threshold of ₹ 15 lakhs]

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

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

Note -

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



Question 15

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

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

- Income from business in Australia controlled form Australia - ₹ 20,00,000
- Income from business in Sri Lanka controlled form Chennai - ₹ 16,00,000
- Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.
- Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000 Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2024- 25.

4 Marks

Answer:

Determination of Residential Status of Mr. Prashant¹

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

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

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

First condition

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

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

Therefore, he satisfies the first condition of being resident in India in at least 2 out of 10 previous years preceding the relevant P.Y.³

Second condition

Stay in India in 7 immediately preceding PYs = 7×125 days = 875 days $>$ 730 days Since both the conditions are satisfied, he is Resident and Ordinarily Resident (ROR).

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2024-25 would as follows:

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

	Particulars	₹
(i)	Income from business in Australia	20,00,000



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

Notes -

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

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

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

- In such case, the computation of total income for A.Y.2024-25 would be as follows -
- Computation of Total Income of Mr. Prashant for A.Y.2024-25



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

Question 16

MTP, Sept'24

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

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

You are required to determine the residential status of Miss Geeta and compute the business income and agricultural income of Miss. Geeta for the Assessment Year 2024-25. **6 Marks**

Answer:

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

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

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

Further, Miss Geeta would be "Resident and ordinarily resident" in India in during the previous year 2023-24, since her stay in India in the last seven previous years prior to P.Y.2023-24 is more than 729 days and she must be resident in the preceding ten years.



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

Particulars		Income	Business Income	Agricultural Income
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iii)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	<u>2,00,000</u>	_____ -	<u>2,00,000</u>
		<u>20,50,000</u>	<u>10,32,500</u>	<u>10,17,500</u>

Notes:

- Since Ms. Geeta is resident and ordinarily resident in India for A.Y. 2024-25, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of ₹ 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

Question 17

CS Execu. June'19

Manish Garg a non-resident during Financial Year 2023-24 came back to India on 16th July, 2023 for settling in India permanently. Now, for the Financial Year 2023-24 his status is resident and ordinary resident of India for tax purposes. He has reported his income from various sources as under the Financial Year 2023-24.

Salary received and earned in USA from 1-4-2023 to 15-7-2023 (Gross)	12,60,000
Salary earned and received in India (computed)	8,47,000
Dividend from Indian Company received in India	12,000
Rent received in USA for a property situated in USA	4,50,000

Calculate his gross taxable income for the Assessment Year 2024-25.

Which disclosures he is required to give in out of above given information's in the return form for Assessment Year 2024-25. **4 Marks**

Answer:

Mr. Manish Garg is resident and ordinary resident during the Previous Year 2023-24.

Now Gross Taxable Income of Mr. Manish is as follows:

Particulars	₹
Salary received and earned in USA from 1-4-2023 to 15-7-2023 (Taxable)	12,60,000
Salary earned and received in India (Taxable)	8,47,000
Dividend from an Indian Company Shares received in India	12,000



Rent received in USA for a property situated in USA	= ₹ 4,50,000	
Less: Standard Deduction @ 30%	= ₹ 1,35,000	3,15,000
Gross Total Income		24,34,000

Question 18

CS Execu. June'11

For the Assessment Year 2024-25, Hari is a non-resident in India. From the information given below, find out his income chargeable to tax for the assessment year 2024-25. **6 Marks**

Particulars	
Royalty received by him outside India from the Government of India	17,000
Technical fees received from an Indian Company in Germany for advice given by him in respect of a project situated in Iran	1,17,000
Income from a business situated in Sri Lanka (goods are sold in Sri Lanka, sale consideration is received in Sri Lanka but business is partly controlled in Sri Lanka and partly in India.	2,17,000
Income received in Nepal from a business connection in India	3,17,000
Gift in foreign currency from a friend received in India on 20 th January, 2024	80,000
Past untaxed profit of 2012-13 brought in India on 10th April, 2023	27,000

Answer:

Computation of Income of Hari, a non-resident in India, chargeable to tax in India for Assessment Year 2024-25

Particulars	
Royalty received by him outside India from the Government of India	17,000
Technical fees received from an Indian Company in Germany for advice given by him in respect of a project situated in Iran	1,17,000
Income from a business situated in Sri Lanka (goods are sold in Sri Lanka, sale consideration is received in Sri Lanka but business is partly controlled in Sri Lanka and partly in India.	2,17,000
Income received in Nepal from a business connection in India	3,17,000
Gift in foreign currency from a friend received in India on 20 th January, 2024	80,000
Past untaxed profit of 2012-13 brought in India on 10th April, 2023	Nil
Total Taxable Income	7,48,000

Difficulty**Question 1**

MTP April'21

Miss Bhanushali, an American National, got married to Mr. Vikas of India in New York on 3rd February, 2023 and came to India for the first time on 14-02-2023. She left for New York on 11-08-2023. She returned to India again on 20-02-2024.

She received the following gifts from her relatives and friends during 01 -04-2023 to 31-03-2024 in India:

- From parents of husband Rs. 71,000
 - From married sister of husband Rs. 21,000
 - From two very close friends of her husband Rs. 1,41,000 and Rs. 1,21,000 Rs. 2,62,000
- (ii) Determine her residential status and compute the total income chargeable to tax for the Assessment Year 2024-25.



(iii) Will the residential status change if she had returned to India again on 20-01-2024 instead of 20-02-2024?

7 Marks

Answer:

Determination of residential status and computation of total income of Miss Bhanushali (if she returned to India on 20.2.2024)

Particulars		Rs.
Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:		
(I) He/she has been in India during the previous year for a total period of 182 days or more, or		
(ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.		
If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.		
Therefore, the residential status of Miss Bhanushali, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e. P.Y.2023-24 and in the preceding four assessment years.		
Her stay in India during the previous year 2023-24 and in the preceding four years are as under:		
P.Y. 2023-24		
01.04.2023 to 11.08.2024	133 days	
20.02.2024 to 31.03.2025	40 days	
Total	173 days	
Four preceding previous years		
P.Y.2022-23 [14.2.2023 to 31.3.2024]	47 days	
P.Y.2021-22	Nil	
P.Y.2020-21	Nil	
P.Y.2019-20	Nil	
Total	47 days	
The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2024-25.		
Computation of total income of Miss Bhanushali for the A.Y. 2024-25.		
Income from other sources		
Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds Rs. 50,000.		



-Rs. 71,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.		Nil
-Rs. 21,000 received from married sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.		Nil
- Gift received from two friends of her husband Rs. 1,41,000 and Rs. 1,21,000 aggregating to Rs. 2,62,000 is taxable under section 56(2)(x) since the aggregate of Rs. 2,62,000 exceeds Rs. 50,000.		2,62,000
Total Income		2,62,000

Determination of residential status of Miss Bhanushali (if she returned to India on 20.1.2024)

Yes, the Answer would change, if she had returned to India again on 20.1.2024 instead of 20.2.2024.

In such case, her stay in India during the previous year 2023-24 would be:

01.04.2023 to	11.08.2023	133 days
20.01.2024 to	31.03.2024	71 days
Total		204 days

Since she satisfies the condition of stay in India for more than 182 days during the previous year 2023-24, she would become resident in India. She would be a resident but not ordinarily resident in India for A.Y. 2024-25, since her stay in India in the preceding seven years is less than 730 days (it is only 47 days)¹

Question 2

MTP May'20

Simran, a Chartered Accountant, is presently working in a firm in India. She has received an offer for the post of Chief Financial Officer from a company at New York. As per the offer letter, she should join the company at any time between 1st September, 2023 and 31st October, 2023. She approaches you of your advice on the following issues to mitigate her tax liability in India:

- Date by which she should leave India to join the company;
- Direct credit of part of her salary to her bank account in Delhi maintained jointly with her mother to meet requirement of her family.
- Period for which she should stay in India when she comes on leave. 7 Marks,

Answer:

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

- Indian citizens, who leave India in any previous year, inter alia, for purposes of employment outside India, or
- Indian citizen or person of Indian origin engaged outside India, inter alia, in an employment, who comes on a visit to India in any previous year.



(a) Since Simran is leaving India for the purpose of employment outside India, she will be treated as resident only if the period of her stay during the previous year amounts to 182 days or more. Therefore, Simran should leave India on or before 28th September, 2023, in which case, her stay in India during the previous year would be less than 182 days and she would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable. The income earned by her in New York would not be chargeable to tax in India for A.Y. 2024-25, if she leaves India on or before 28th September, 2023.

(b) If any part of Simran's salary will be credited directly to her bank account in Delhi then, that part of her salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if she is a non-resident. Therefore, Simran should receive her entire salary in New York and then remit the required amount to her bank account in Delhi in which case, the salary earned by her in New York would not be subject to tax in India.

(c) In case Simran visits India after taking up employment outside India, she would be covered in the second exception provided above and she will be treated as resident only if the period of her stay during the relevant previous year amounts to 182 days or more. Therefore, when Simran comes India on leave, she should stay in India for less than 182 days during the relevant previous year so that her status remains as a non-resident for the relevant previous year. Moreover, she should not visit India again during the current previous year i.e. P.Y. 2023-24.

Question 3

MTP Oct'18

Mrs. Bhawna and Mrs. Prerna are sisters and they earned the following income during the Financial Year 2023-24. Mrs. Bhawna is settled in Malaysia since 1992 and visits India for a month every year. Mrs. Prerna is settled in Indore since her marriage in 2000. Compute the Gross total income of Mrs. Bhawna and Mrs. Prerna for the assessment year 2024-25:

Sl. No.	Particulars	Mrs. Bhawna (Rs.)	Mrs. Prerna (Rs.)
(i)	Income from Profession in Malaysia, (set up in India) received there	15,000	
(ii)	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	1,20,000	-
(iv)	Dividend from PQR Ltd., an Indian Company	5,000	9,000
(v)	Agricultural income from land in Maharashtra	7,500	4,000



(vi)	Past foreign untaxed income brought to India	5,000	-
(vii)	Fees for technical services rendered in India received in Malaysia	25,000	-
(viii)	Income from a business in Pune (Mrs. Bhawna receives 50% of the income in India)	12,000	15,000

10 Marks

Answer:

The residential status of Mrs. Bhawna and Mrs. Prerna has to be determined on the basis of the number of days of their stay in India. Since Mrs. Bhawna is settled in Malaysia since 1992, she would be a non-resident for A.Y. 2024-25. Her visit to India for a month every year would not change her residential status. However, Mrs. Prerna would be resident and ordinarily resident for A.Y. 2024-25, since she is settled in India permanently since 2000. Based on their residential status, the gross total income of Mrs. Bhawna and Mrs. Prerna would be determined as follows:

Computation of Gross Total Income of Mrs. Bhawna & Mrs. Prerna for the A.Y. 2024-25

S. No.	Particulars	Mrs. Bhawna (Non-Resident) (Rs.)	Mrs. Prerna (Resident)(Rs.)
(i)	Income from profession in Malaysia (set up in India) received there (See Note below)	-	-
(ii)	Profit from business in Delhi, but managed directly from Malaysia (See Note below)	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (See Note below)	-	-
(iv)	Dividend from PQR Ltd. an Indian Company [Exempt under section 10(34), both in the hands of non-resident and resident] <i>As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessed. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.</i>	5,000	9,000
(v)	Agricultural income from land in Maharashtra [Exempt under section 10(1), both in the hands of non-resident and resident].	-	-
(vi)	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y. 2023-24].	-	-
(vii)	Fees for technical services rendered in India, but received in Malaysia (See Note below)	25,000	-
(viii)	Income from a business in Pune (Mrs. Bhawna receives 50% of the income in India) (See Note below)	12,000	15,000
Gross Total income		82,000	24,000

Note:

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

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



Therefore, income from profession in Malaysia and rent from property in Malaysia received in Malaysia by Mrs. Bhawna, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Delhi would be taxable in India in the hands of Mrs. Bhawna, even though it is managed directly from Malaysia.

Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mrs. Bhawna, since it is deemed to accrue or arise in India.

The entire income from a business in Pune is taxable in the hands of both Mrs. Bhawna and Mrs. Prerna due to their accrual/deemed accrual in India, even though a part of income from business in Pune is received by Mrs. Bhawna outside India.

Question 4

MTP March'18

Mr. Kunal is an Indian citizen and a member of the crew of a Thailand bound Indian ship engaged in carriage of passengers in international traffic departing from Port Blair on 10th July, 2023. His stay in India in the last 4 previous years (preceding P.Y. 2023-24) is 375 days and last seven previous years (preceding P.Y.203-24) is 729 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Kunal	10 th July, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Kunal	21 st January, 2024

He earned following income during the previous year 2023-24 Dividend from Thailand Company received in Thailand ₹ 30,000.

Short term capital gains on sale of shares of an Indian company ₹ 25,000 Interest on savings account with Post office ₹ 13,000.

Past foreign untaxed income brought to India during the previous year ₹ 5,000 Cash gift received from non-relative ₹ 20,000.

Income from agricultural land in Nepal received there and then brought to India ₹ 18,000

Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi ₹ 1,50,000.

From the above details for the P.Y. 2023-24, compute the total income of Mr. Kunal for A.Y. 2024-25.

10 Marks**Answer:**

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

Therefore, the period beginning from 10th July, 2023 and ending on 21st January, 2024, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Kunal, an Indian citizen who is a member of the crew of the ship, has to be



excluded for computing the period of his stay in India. Accordingly, 196 days [22+31+30+31+30+31+21] have to be excluded from the period of his stay in India. Consequently, Mr. Kunal's period of stay in India during the

P.Y. 2023-24 would be 169 days [i.e., 365 days - 196 days]. Since his period of stay in India during the P.Y. 2023-24 is less than 182 days, he is a non-resident for A.Y. 2024-25.

Based on the residential status, the total income of Mr. Kunal would be determined as follows

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

S. No.	Particulars	(₹)
(i)	Dividend from Thailand Company received in Thailand (Note 2)	-
(ii)	Short term capital gain on sale of shares of an Indian company	25,000
(iii)	Interest on savings account with Post office (Note 3)	9,500
(iv)	Past foreign untaxed income brought to India during the previous year [Not taxable, since it does not represent income of the P.Y.2023-24]	-
(v)	Gift received from non-relative [As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds ₹ 50,000 in aggregate during the previous year]	-
(vi)	Income from agricultural land in Nepal received there and then brought to India (Note 2)	-
(vii)	Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi (Note 4)	1,50,000
Gross Total income		1,84,500
Less: Deductions under Chapter VIA		
Section 80TTA		9,500
(In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a post office is allowable as deduction under section 80TTA)		
Total Income		1,75,000

Notes:

Since the residential status of Mr. Kunal is "non-resident" for A.Y. 2024-25 consequent to his number of days of stay in P.Y. 2023-24 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

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

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

Therefore, dividend from Thailand Company received in Thailand and Income from agricultural land in Nepal received there and then brought to India by Mr. Kunal, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

- ❖ The interest on Post Office Savings Bank Account, would be exempt under section 10(15) (i), only to the extent of ₹ 3,500 in case of an individual account.



- ❖ As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

Question 5

RTP May '22, PYP May '18

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2024, compute the total income for the A.Y. 2024-25, if he is

(a) Resident and ordinarily resident

(b) Non-resident

10 Marks

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

Answer:**Computation of total income of Mr. Ashutosh for the A.Y. 2024-25**

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



Notes -

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

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

Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.

2. In case of a senior citizen, being a resident aged 60 years or more, interest up to ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question 6

MTP Nov'23

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2020 with the name "New way associates". In May 2022, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2021 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2022. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2023 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2023-24.

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

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

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

Answer:

Determination of residential status of Mr. Ram

Mr. Ram is an American citizen who comes on a visit to India during the P.Y. 2023-24 for 3 months. He has been in India from 1st May 2021 to 1st October 2022. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y. 2023-24 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2024-25.



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

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

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

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

Determination of residential status of Mrs. Asha

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

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

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

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

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

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

Particulars of income	(₹)
Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
Profit from consultancy profession in India [Taxable, since it accrues and arises in India]	3,00,000
Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-



Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2025-26]	-
	3,00,000

Question 7

MTP Nov'19

Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is ₹ 6,00,000). The annual value of the house in Thailand is ₹ 50,00,000 i.e. converted value in INR. Mr. Jagdish purchased a flat in Pune during F.Y. 2019-20, which has been given on monthly rent of ₹ 27,500 since 01.07.2022. The annual property tax of Pune flat is ₹ 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2022. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to ₹ 15,00,000. The interest on such loan for the F.Y. 2023-24 was ₹ 84,000. However, interest for March 2024 quarter has not yet been paid by Mr. Jagdish. He had a house in Jaipur which was sold in May 2019. In respect of this house he received arrears of rent of ₹ 96,000 in Feb. 2024 (not taxed earlier). He also derived some other incomes during F.Y. 2023-24 which are as follows: Profit from business in Thailand ₹ 2,75,000, Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India. Income from Apple Orchard in Nepal given on contract and the yearly contract fee of ₹ 5,00,000, for F.Y. 2023-24 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch. Compute the total income of Mr. Jagdish for Assessment Year 2024-25 chargeable to income tax in India.

7 Marks

Answer:

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y. 2023-24, he would be a non-resident for that year.

Computation of Total Income of Mr. Jagdish, a non-resident, for the A.Y. 2024-25

	Particulars	₹	₹
(i)	Income from house property		
	Income from house property at Bangkok [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]		NIL
	Income from house property in Pune (taxable in India since it accrues and arises in India)		
	Gross Annual Value of Pune flat (₹ 27,500 × 12)	3,30,000	
	Less: Municipal taxes (Deduction is not allowable, since no amount has been paid during the previous year 2023-24)	Nil	



	Net Annual Value (NAV)		3,30,000	
	Less: Deductions u/s 24			
	(a) 30% of NAV	99,000		
	(b) Interest due on housing loan (allowable even if not paid)	84,000	1,83,000	
	Arrears of rent received in respect of Jaipur house (taxable u/s 25A, even if he is not the owner of the house property in the P.Y.2023-24)	96,000	1,47,000	
	Less: Deduction@30%	28,800	67,200	2,14,200
(ii)	Profits and gains of business or profession			
	Profit from business in Thailand (not taxable in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India; and it is also not stated to be received in India)			Nil
(iii)	Income from Other Sources			
	Interest on bonds of a Japanese company [Only ₹ 22,500, being 50% of ₹ 45,000 is taxable in India, since it is stated to be received in India]		22,500	
	Income from Apple Orchid in Nepal [Contract fee directly credited to bank account in India is taxable in India, since it is received in India]		5,00,000	5,22,500
	Total Income			7,36,700

Note:

Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor in the Kathmandu branch of UBI in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by 4 Rent received is taken as the gross annual value in the absence of information related to expected rent the contractor directly in UBI's Pune branch, the income is received in India and hence, would be taxable in the hands of Mr. Jagdish. The above solution has been worked out accordingly. However, due to the use of the word "in the Kathmandu branch", a view is taken that such receipt is actually received in Kathmandu and subsequently it is remitted to Indian branch, the amount of ₹ 5 lakh would not be taxable in India and hence, the total income would be ₹ 2,36,700.



Multiple Choice Questions

Question 1

MTP Nov '21

Determine residential status of Sandarac (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr. Sandarac who is from Chennai visits India on 01.06.2023 and leaves to Malaysia on 10.02.2024. He has not visited India for the past 11 years.

- a) Non-resident
- b) Resident but not ordinarily resident
- c) Deemed resident
- d) Resident and ordinarily resident

Question 2

MTP April '21

Mr. Mango, an Indian citizen, lives in New York, USA since the last 10 years. He has a penthouse in Mumbai, given on rent @2,00,000 per month. During the year 2023-24, he came to India for 152 days in aggregate. His total stay in India in the immediately preceding 4 previous years is 366 days. You are, being the tax consultant of Mr. Mango, advise him about his residential status for the A.Y. 2024-25.

- a) Non-Resident
- b) Resident but not ordinary resident
- c) Resident and ordinary resident
- d) Deemed resident

Question 3

MTP April '21

Lister Internationals Inc., a non-resident, engaged in business of selling "Good Z" appoints Mr. Risky as an agent in India for selling such product. Mr. Risky works as an agent for several other persons also including nonresidents aiding them in selling their products. The appointment of Mr. Risky will -

- a) lead to business connection in India as he is not independent agent
- b) lead to business connection in India as he is an independent agent
- c) not lead to business connection in India as he is not independent agent
- d) not lead to business connection in India as he is an independent agent



Question 4

MTP March'21

Mr. Harry, an Indian citizen, is a marketing consultant who provides consultancy to various countries around the globe. Due to his profession, he is required to travel across various countries throughout the year. His marketing project does not last for more than 40 days and therefore his stay in any country including India usually never exceeds 40 days during a year. His income is Rs. 80 lakhs across the globe which is not liable to tax in any country. During the P.Y. 2023-24, an Indian company provides him a marketing project in India. His stay in India for the project is expected to be only 25 days and his income from that project would be Rs. 30 lakhs. Being a highly qualified professional, he consults you about the tax regime on his income and his residential status in India. Correct, interest expenses incurred for business are allowed as deduction u/s 36(1)(iii).

- He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on Rs. 30 lakhs.
- He shall be treated as resident and ordinarily resident and shall be liable to pay tax on Rs. 80 lakhs.
- He shall be treated as non-resident and shall not be liable to any tax.
- He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on his entire income of Rs. 80 lakhs earned across the globe

Question 5

MTP Oct '20

Mr. Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during the F.Y. 2023-24 was 135 days. He has no source of Income in India. Following is his details of stay in India in the preceding previous years:

Financial Year	Days of Stay in India
2022-23	125
2021-22	106
2020-21	83
2019-20	78
2018-19	37
2017-18	40
2016-17	35

You are his tax consultant. Advise him on his residential status for the P.Y. 2023-24.

- Resident but Not Ordinary Resident (RNOR)
- Resident and Ordinary Resident
- Non-Resident
- Resident but information incomplete to know whether resident but not ordinarily resident or resident and ordinarily resident



Question 6

MTP May'20, April'19

Mr. Raj, an Indian citizen and a government employee, left India for the first time on 25.03.2023 on account of his transfer to High Commission in Singapore. During P.Y. 2023-24, he visited India only for ten days on occasion of his sister's marriage. During F.Y. 2023-24, his income composition includes salary, foreign allowances, rent from property in Singapore and interest earned from fixed deposits maintained with SBI. His taxable income for P.Y. 2023-24 will include:

- All of them, since Mr. Raj is a resident in India, hence his global income will be taxable
- Only interest earned from fixed deposits maintained in India
- No income shall be taxable since Mr. Raj is a non-resident in India for P.Y. 2019-20
- Salary and interest income of fixed deposits with SBI

Question 7

MTP Oct'19, Mar 19

Mr. Vikesh, a US citizen, came to India for an assignment from 11.01.2020 to 09.10.2020 and went back to his home country on completion of the same. He thereafter, visited India on 05.07.2022 again for an assignment, which ended on 26.05.2023. What is the latest date by which Mr. Vikesh should depart from India after completing the assignment so as to qualify as non-resident for P.Y. 2023-24? (Assume that he shall not be visiting India again during the year)

- 29-05-2023
- 30-05-2023
- 29-09-2023
- 28-09-2023

Question 8

MTP April'19

On 31.08.2023, Mr. Kashyap moved to Japan for employment. His family accompanied him, owing to long term nature of employment. Mrs. Kashyap is also planning to start a fashion boutique in Japan soon, once she gets settled. Both Mr. & Mrs. Kashyap are Indian citizens and have been working in India for more than a decade now. Comment on their residential status for A.Y. 2024-25, assuming they did not visit India after August 2023

- Mr. & Mrs. Kashyap will qualify to be non-resident
- Mr. Kashyap will qualify to be non-resident and Mrs. Kashyap will be resident but not ordinarily resident
- Mr. Kashyap will qualify to be non-resident and Mrs. Kashyap will be resident and ordinarily resident
- None

Question 9

MTP April'22

Mr. Sushant is a person of Indian origin, residing in Canada. During P.Y. 2023-24, he visited India on several occasions and his period of stay, in total, amounted to 129 days during P.Y. 2023-24 and his period of stay in India during P.Y.2019-20, P.Y. 2020-21, P.Y. 2021-22 and P.Y. 2022-23 was 135 days, 115 days, 95 days and 125 days, respectively. He earned the following incomes during the P.Y. 2023-24:

Source of Income	Amount (₹)
Income received or deemed to be received in India	2,50,000
Income accruing or arising or which is deemed to accrue or arise in India	3,75,000
Income accruing or arising and received outside India from business controlled from India	5,50,000



Income accruing or arising and received outside India from business controlled outside India	6,50,000	
<p>What is the residential status of Mr. Sushant for A.Y. 2024-25 and his income liable to tax in India during A.Y. 2024-25</p> <p>a) Non-Resident; ₹6,25,000 is liable to tax in India</p> <p>b) Resident and ordinary resident; ₹18,25,000 is liable to tax in India</p> <p>c) Resident but not ordinarily resident; ₹ 11,75,000 is liable to tax in India</p> <p>d) Non-Resident; ₹11,75,000 is liable to tax in India</p>		
Question 10		MTP April'19
<p>Which of the following incomes is not deemed to accrue or arise in India under section 9(1)(i) of the Income- tax Act, 1961?</p> <p>a) Income from any business connection in India</p> <p>b) Income through or from any property in India</p> <p>c) Income arising from transfer of a capital asset situated in India</p> <p>d) Income relating to operations which are confined to purchase of goods in India for the purpose of export</p>		
Question 11		MTP March'19
<p>Which of the following statements is true for companies in the context of the Income-tax Act, 1961?</p> <p>a) Residential status of a company has an impact on the tax rate of company</p> <p>b) Tax Rate of a company depends upon the place of incorporation</p> <p>c) Residential status of a company helps to classify the company as domestic company and foreign company</p> <p>d) Residential status of company helps classification of closely held company and widely held company</p>		
Question 12		MTP May'20
<p>Mr. Ramesh, a citizen of India, is employed in the Indian embassy in the Australia. He is a non-resident for A.Y. 2024-25. He received salary and allowances in the Australia from the Government of India for the year ended 31.03.2024 for services rendered by him in the Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?</p> <p>a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ramesh, since he is non-resident.</p> <p>b) Salary, allowances and perquisites received outside India by Mr. Ramesh are taxable in India since they are deemed to accrue or arise in India.</p> <p>c) Salary received by Mr. Ramesh is taxable in India but allowances and perquisites are exempt.</p> <p>d) Salary received by Mr. Ramesh is exempt in India but allowances and perquisites are taxable.</p>		



Question 13

MTP Oct'22

Who among the following will qualify as non-resident for the previous year 2023-24?

-Mr. Bob, an Italian dancer, came on visit to India to explore Indian dance on 15.09.2023 and left on 25.12.2023. For past four years, he visited India for dance competition and stayed in India for 120 days each year.

-Mr. Samrat born and settled in USA, visits India each year for 100 days to meet his parents and grandparents, born in India in 1946, living in Delhi. His Indian income is ₹ 15,20,000.

-Mr. Joseph, an American scientist, left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2019 till 01.07.2023.

Choose the correct answer

- Mr. Bob and Mr. Joseph
- Mr. Samrat
- Mr. Bob, Mr. Samrat and Mr. Joseph
- None of the three

Question 14

RTP May'19. MTP 2 Marks Sep '23

Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April, 2023. From the following details for the P.Y. 2023-24, determine the residential status of Mr. Sumit for A.Y. 2024-25, assuming that his stay in India in the last 4 previous years preceding P.Y. 2023-24 is 365 days and last seven previous years preceding P.Y. 2023-24 is 730 days:

Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2023 Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2023

Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years. What is his residential status for A.Y. 2024-25:

- Resident and ordinarily resident
- Resident but not-ordinarily resident
- Non-resident
- Non-resident till 24.10.2023 and resident till 31.03.2023

Question 15

RTP May'19

Aashish earns the following income during the P.Y. 2023-24:

- Interest on U.K. Development Bonds (1/4th being received in India): ₹4,00,000
- Capital gain on sale of a building in India but received in Holland: ₹ 6,00,000

If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2024-25?

- ₹ 7,00,000
- ₹ 10,00,000
- ₹ 6,00,000
- ₹ 1,00,000



Question 16

RTP May'20

Mr. Suhaan (aged 35 years), a non-resident earned dividend income of ₹ 12,50,000 from an Indian Company which is credited directly to its bank account in France and ₹ 15,000 as interest in Saving A/c from State Bank of India during the previous year 2023-24. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for A.Y. 2024-25?

- a) ₹ 2,55,000
- b) ₹ 2,65,000
- c) ₹ 15,000
- d) ₹ 5,000

Question 17

RTP Nov'20

Mr. Nishant, a resident but not ordinarily resident for the previous year 2022-23 and resident and ordinarily resident for the previous year 2023-24 has received rent from property in Canada amounting to ₹ 1,00,000 during the P.Y.2022-23. He has deposited the same in a bank in Canada. During the financial year 2023-24, he remitted this amount to India through approved banking channels. Is such rent taxable in India, and if so, how much and in which year?

- a) Yes; ₹ 70,000 was taxable in India during the previous year 2022-23.
- b) Yes; ₹ 1,00,000 was taxable in India during the previous year 2022-23.
- c) Yes; ₹ 70,000 was taxable in India during the previous year 2023-24.
- d) No; such rent is not taxable in India either during the previous year 2022-23 or during the previous year 2023-24

Question 18

RTP May '21, MTP 2 Marks Oct '23

Mr. Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2018. From Canada, he is managing his retail business of toys in India. For the purpose his Indian business, he visits India every year from 1st September to 31st January. His business income is ₹ 23.50 lakhs and ₹ 18 lakhs from retail trade business in Canada and in India, respectively for the F.Y. 2023-24. He has no other income during the P.Y. 2023-24. Determine his residential status and income taxable in his hands for the A.Y. 2024-25.

- a) Resident and ordinarily resident in India and income of ₹ 18 lakhs and ₹ 23.50 lakhs would be taxable.
- b) Non-Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- c) Resident but not ordinarily Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- d) Deemed resident and ₹ 18 lakhs from Indian retail trade business would only be taxable



Question 19

RTP May '22

Mr. Rajesh, aged 53 years, and his wife, Mrs. Sowmya, aged 50 years, are citizens of Country X. They are living in Country X since birth. They are not liable to tax in Country X. Both of them have keen interest in Indian Culture. Mr. Rajesh's parents and grandparents were born in Country X. Mrs. Sowmya visits India along with Mr. Rajesh for four months every year to be with her parents, who were born in Delhi and have always lived in Delhi. During their stay in India, they organize Cultural Programme in Delhi-NCR. Income of Mr. Rajesh and Mrs. Sowmya from the Indian sources for the P.Y. 2023-24 is ₹ 18 lakhs and ₹ 16 lakhs, respectively. What is the residential status of Mr. Rajesh and Mrs. Sowmya for A.Y.2024-25?

- a) Both are resident and ordinarily resident in India
- b) Both are non-resident in India
- c) Mr. Rajesh is resident but not ordinarily resident in India and Mrs. Sowmya is non-resident
- d) Mrs. Sowmya is resident but not ordinarily resident in India and Mr. Rajesh is non-resident

Question 20

CS Execu.

HUF of Ashwin consisting of himself, his wife and 2 sons is assessed to income-tax. The residential status of HUF would be non-resident, when -

- (A) The management and control of its affairs is wholly in India
- (B) The management and control of its affairs is wholly outside India
- (C) The status of karta is non-resident for that year
- (D) When majority of the members are non-residents.

Question 21

CS Execu.

Mr. Ajay (age 40) resident of India earned agricultural income of ₹ 1 lakh from land situated in Sri Lanka. His total income in India amounts to ₹ 7lakhs. The tax liability would be:

- (A) ₹ 77,250
- (B) ₹ 75,400
- (C) ₹ 74,675
- (D) ₹ 56,650

Question 22

CS Execu.

Rajendra a non-resident Indian in the previous year 2022-23 was in receipt of rent of house property located in Dubai of ₹ 27,50,000. The amount of rent was transferred and credited in the bank account of Rajendra maintained with SBI, Vadodara by the tenant quarterly. The Annual Letting Value (ALV) of the house located in Dubai subject to tax under the head Income from house property in A.Y. 2023-24 shall be

- (A) ₹ 16,50,000
- (B) ₹ 19,25,000
- (C) ₹ 27,50,000
- (D) Not taxable as property is in Dubai and he is non-resident



Question 23

CS Execu.

Xavier, a resident and ordinary resident had the income computed under the salary of ₹ 1,20,000; agriculture income of ₹ 25,000 in Indonesia being invested there and income of a business in Burma controlled from India of ₹ 20,000 during the previous year ended on 31-3-2023. He has brought into India ₹ 45,000 in January, 2023 out of the past untaxed profits earned in UK. His total income for tax purpose for Asst. Year 2023-24 shall be:

- (A) ₹ 1,65,000
- (B) ₹ 2,10,000
- (C) ₹ 1,40,000
- (D) ₹ 1,85,000

Question 24

CS Execu.

The residential status of Raghav, born in Delhi and a citizen of India, who was staying in India during the period September, 2022 to March, 2023 for 125 days, for the A.Y. 2023-24 would be, if Raghav during the previous year 2022-23 was having income in India of ₹ 17,25,000 besides the income of ₹30 lacs from foreign sources which is not liable to tax in any other country by reason of his domicile.

- (A) Resident and ordinarily resident
- (B) Resident but not ordinarily resident
- (C) Non-resident
- (D) Deemed resident

Question 25

CS Execu.

Hitarth who is resident and not ordinarily resident in India, earns the following income during the previous year ended 31st March, 2023 : Interest on U.K. development Bonds (14th being received in India) : ₹ 4,00,000, profits on sale of a building in India but received in Holland : ₹ 4,00,000. What is the income liable to tax for the assessment year 2023-24 ?

- (A) ₹ 5,00,000
- (B) ₹ 8,00,000
- (C) ₹ 4,00,000
- (D) ₹ 1,00,000

Question 26

CS Execu.

Pankaj Kumar, a citizen of India having salaried employment received amount of dividend of ₹ 42,725 from a Canadian Company credited in his bank account in Canada in March 2022. The amount of dividend of ₹ 42,725 was remitted to India during the month of February, 2023. The amount of dividend so received shall be taxable in A.Y. 2022-23 when the residential status of Pankaj Kumar is :

- (A) Resident and Ordinarily Resident
- (B) Resident but Not-Ordinarily Resident
- (C) Non-Resident
- (D) Not included in any case



Answers

1	2	3	4	5	6	7	8	9	10
b	b	d	a	c	d	a	c	a	d
11	12	13	14	15	16	17	18	19	20
b	c	b	a	a	d	d	c	d	b
21	22	23	24	25	26				
b	b	a	b	b	a				

CA VIVEK GABA



Chapter 3: Salaries

Unit 1

Descriptive Questions

Easy

Question 1

RTP May'20

Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd.

- (i) She is getting a salary of ₹ 48,000 per month. During the previous year 2023-24, she received the following amounts from her employer.
- (ii) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- (iii) Bonus for the previous year 2022-23 amounting to ₹ 52,000 was received on 30th November, 2023.
- (iv) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.
- (v) She was also reimbursed the medical bill of her father dependent on her amounting to ₹4,900.
- (vi) Ms. Suhaani was provided; a laptop both for official and personal use. Laptop was acquired by the company on 1st June,

4 Marks

Answer:

Computation of Income under the head "Salaries" in the hands of Ms. Suhaani for the A.Y. 2024-25

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



Less: Deduction under section 16	
Professional tax paid	2,200
Standard Deduction (Lower of ₹ 40,000 or amount of salary)	40,000
(As per amendment Rs. 50,000)	50,000
Taxable Salary	8,34,700
	8,24,700

Moderate

Question 1

MTP sep'22, Nov.22

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

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

You are required to compute the income chargeable under the head salaries for the assessment year 2024-25 if she pays tax under default tax regime. **6 Marks**

Answer:

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

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000



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

Note:

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

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

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

Question 2

MTP Sept'22

Mr. Raj Kumar (aged 65 years) is retired from a Public Sector Undertaking. He resides in Delhi. He provides you the following particulars of his income and certain payments/investments for the previous year 2023- 24:

- ☞ Pension income of ₹ 8,50,000
- ☞ Interest from fixed deposits with SBI of ₹ 3,35,000 (Gross)
- ☞ Life insurance premium paid by cheque ₹ 27,500 for insurance of his life. The insurance policy was taken on 10-07-2017 and the sum assured is ₹ 2,40,000.



- ⊗ Premium of ₹ 37,500 paid by cheque for health insurance of self and his wife, who is also a senior citizen.
- ⊗ ₹ 3,000 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his father aged 90 years.
- ⊗ Paid interest of ₹ 8,500 on loan taken from bank for MBA course pursued by his son.
- ⊗ A sum of ₹ 1,20,000 donated by cheque to an institution approved for the purpose of section 80G for promoting family planning.
- ⊗ ₹ 10,000 contributed towards PM CARES Fund by cheque.

Compute the total income of Mr. Raj Kumar for the assessment year 2024-25, assuming he does not opt for section 115BAC.

6 Marks

Answer:

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

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	8,50,000		
Less: Standard deduction u/s 16(ia) Lower of ₹ 50,000 or actual salary/pension	50,000		8,00,000
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			3,35,000
Gross Total Income			11,35,000
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
LIC premium of ₹ 27,500 (restricted to 10% of ₹ 2,40,000, being the sum assured, as the policy is taken after 31.3.2012)		24,000	
Deduction under section 80D			
Premium for health insurance for self and his wife paid by cheque, allowed up to ₹ 50,000 since Mr. Raj Kumar is a senior citizen	37,500		
Preventive health check-up for self, ₹ 3,000, and for his father, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000		
		42,500	
Deduction under section 80E			
Interest on loan taken from bank for MBA course pursued by his son Deduction under section 80G		8,500	
Donation to PM CARES Fund - 100% allowable		10,000	
Donation to an approved institution for promoting family planning - 100% allowable subject to qualifying limit of ₹ 1,01,000 i.e., 10% of ₹ 10,10,000 being the adjusted total income		1,01,000	
Deduction under section 80TTB			



Interest on fixed deposit with bank allowable as deduction up to ₹ 50,000, since Mr. Raj Kumar is a senior citizen		50,000	
			2,36,000
Total Income			8,99,000

Question 2

RTP Sept'24

Mr. Anshul, a salaried employee in a private company, furnishes you the following information for the year ended on 31-03-2024:

- (i) Basic salary 75,000 p.m. From 1st December 2023, basic salary increased to 85,000 p.m.
- (ii) Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).
- (iii) Entertainment allowance 10,000
- (iv) Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.
- (v) Professional tax paid 2,200 of which 1,800 was paid by the employer.
- (vi) House rent allowance of 16,000 p.m. He paid rent of 17,000 p.m. for accommodation in Meerut
- (vii) Conveyance allowance of 1,500 p.m. by the company towards actual reimbursement of conveyance spent on official duty.
- (viii) Loan of 2,00,000 was taken from the employer on 1.7.2023 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2024. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2023 was 11%.
- (ix) Free education was provided to the sister of Mr. Anshul in a school maintained and owned by the company. The cost of such education facility is computed at 900 p.m. No amount was recovered by the company for such education facility from Anshul. (viii) Leave travel concession given to Anshul, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer 20,000 for adults and lumpsum of 25,000 for three children. Anshul is eligible for availing exemption this year to the extent it is permissible under the Income tax Act, 1961.

Compute the taxable salary of Mr. Anshul if he has shifted out of the default tax regime under section 115BAC.

Answer:

Computation of taxable salary of Mr. Anshul for the A.Y. 2024-25

Particulars	₹	₹
Basic Salary [(75,000 × 8) + (85,000 × 4)]		9,40,000
Dearness allowance [50% of basic salary]		4,70,000
Employer's contribution to recognized provident fund [18% × 9,40,000]	1,69,200	
Less: Exempt up to 12% of basic salary and D.A. forms part of retirement benefit [12% × 11,28,000]	1,35,360	33,840
Taxable allowances		
Entertainment allowance		10,000



Conveyance allowance [Exempt, since it is based on actual reimbursement for official purpose]		-
House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)	91,200	1,00,800
(i) HRA received	1,92,000	
(ii) Rent paid (-) 10% of salary [2,04,000 - 10% x 11,28,000]	91,200	
(iii) 40% of salary [40% x 11,28,000]	4,51,200	
Taxable Perquisite		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
Provision of education facility [900 x 12]		10,800
Leave travel concession	45,000	
Less: Exempt	45,000	-
[Mr. Anshul can avail exemption on the entire amount of 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		
Gross Salary		15,67,240
Less: Deduction under section 16		
Professional tax paid	2,200	
Standard Deduction, lower of salary or 50,000	50,000	52,200
Taxable Salary		15,15,040

Difficult**Question 1**

MTP Oct'19, PYQ Nov '18

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

- (i) Basic salary up to 31.10.2023 Rs. 50,000 p.m.
Basic salary from 01.11.2023 Rs. 60,000 p.m.

Note: Salary is due and paid on the last day of every month.

- (ii) Dearness allowance @ 40% of basic salary.
(iii) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.
(iv) Contribution of employer to recognized provident fund account of the employee @16% of basic salary.
(v) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.



- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2023.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2024-25 assuming he has not opted for the provisions of section 115BAC.

7 Marks

Answer:

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

Particulars	Rs.
Basic salary [(₹50,000 × 7) + (₹60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of Rs. 50,000) (See Note 1)	70,000
Employers contribution to recognized provident fund in excess of 12% of salary = 4% of Rs.6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia) Rs. 50,000	
Professional tax u/s 16(iii) (See Note 6) Rs.2,500	52,500
Taxable Salary	9,67,500

Notes:

- Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax-free perquisite, whether used for official or personal purpose or both.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2023, therefore the perquisite value has been calculated for 5 months.
- Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child. It is assumed that the Leave Travel Concession was availed for journey within India.



6. He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
7. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment
8. i.e. professional tax paid during the year.
9. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs.2,500 is provided from salary.

Question 2

MTP Oct'21

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:

- (i) He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- (v) He is receiving ₹ 5,000 as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution. **7 Marks**

Answer:

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

Particulars	₹	₹
Basic Salary = ₹ 25,000 × 9 months		2,25,000
House Rent Allowance = ₹ 6,000 × 9 months [Fully taxable under default tax regime.]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 × ₹ 25,000 × 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	



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

Question 3

MTP Nov'21

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent-free accommodation which is owned by the company. The HRA amount payable was ₹ 8,000 per month. The rent for the hired accommodation was ₹ 6,500 per month at New Delhi. Advise Mr. Kashyap whether it would be beneficial for him to available HRA or Rent-Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kashyap does not opt for the provisions of section 115BAC.

7 Marks,

Answer:

Computation of tax liability of Kashyap under both the options

Particulars	Option I - HRA (₹)	Option II - RFA (₹)
Basic Salary (₹ 40,000 × 12 Months)	4,80,000	4,80,000



Perquisite value of rent-free accommodation (15% of ₹ 4,80,000) (As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)	N.A.	72,000 48,000
House rent Allowance (₹ 8,000 x 12 Months) ₹ 96,000		
Less: Exempt u/s 10(13A) - least of the following -		
- 50% of Basic Salary ₹ 2,40,000		
- Actual HRA received ₹ 96,000		
Rent paid less 10% of salary ₹ 30,000	66,000	
Gross Salary	5,46,000	5,28,000
Less: Standard deduction u/s 16(IA)	50,000	50,000
Net Salary	4,96,000	4,78,000
Less: Deduction under Chapter VI-A	-	-
Total Income	4,96,000	4,78,000
Tax on total income	12,300	11,400
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,300, since total income does not exceed ₹ 5,00,000	12,300	11,400
	Nil	Nil
Add: Health and Education cess@4%	Nil	Nil
Total tax payable	Nil	Nil
Tax Payable (Rounded off)	Nil	Nil

Cash Flow Statement

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

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

Question 4

MTP May'20, Nov, 18

Mr. Neural, aged 45 years, working in Ashiyana Pvt. Ltd. provides the following details pertaining to the financial year 2023-24:

Particulars	₹
Basic salary	7,20,000
Dearness allowance (40% of basic pay) (50% of D.A. forms part of retirement benefits)	-
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000



Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Neeraj paid by employer	40,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessed are also using the laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessed, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

You are required to compute the income chargeable under the head salaries in the hands of Mr. Neeraj for the assessment year 2024-25. 7 Marks

Answer:

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

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	2,88,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) as per Rule 3(7)(iv) [See Note below]	15,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	40,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes -perquisite value would be ₹21,600 [₹1,800 ×12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	11,58,600
Less: Deductions under section 16	
Standard deduction u/s 16(ia)	50,000
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Neeraj is not a Government employee)	Nil



Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head "Salaries"	11,05,600

Note:

As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Neeraj from his employer on the occasion of his birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite ₹ 10,000. In such case, the gross salary and net salary would be, ₹ 11,53,600 and ₹11,00,600, respectively.

Question 5

MTP Aug'18

Mr. Thomas is an executive at M/s. A Ltd., Chennai from 01-04-2023. His salary and other particulars are as given here under:

Basic Salary ₹ 20,000 p.m.

Dearness Allowance ₹ 15,000 p.m. (100% forming part of retirement benefits) House Rent Allowance ₹ 20,000 p.m.

Rent paid by Mr. Thomas is ₹ 25,000 p.m.

Telephone bills paid by A Ltd. for the telephone installed at his Residence ₹ 24,000 p.a.

Motor car running and maintenance charges of ₹ 30,600 fully paid by employer. (The motor car is owned and driven by Mr. Thomas. The engine cubic capacity is below 1.60 liters. The motor car is used for both official and personal purpose by the employee)

Annual premium paid by A Ltd. towards a personal accident policy on his life ₹ 5,000.

He was retrenched by his previous employer M/s B Ltd. after continuous service of 20 year. He received a compensation of ₹ 15 Lakhs. His Basic Salary and Dearness Allowance at the time of retrenchment was ₹ 25,000 p.m. and ₹ 18,000 p.m. respectively.

Compute the amount taxable under the head salary for the Assessment Year 2024-25. Assume that he has not opted for 115BAC.

10 Marks

Answer:

Computation of Income taxable under the head "Salaries" for the A.Y. 2024-25

Particulars	₹	₹	₹
Basic Salary (₹ 20,000 × 12)			2,40,000
Dearness Allowance (₹ 15,000 × 12)			1,80,000
House Rent Allowance Received		2,40,000	



Less: Exempt under section 10(13A)		2,10,000	30,000
Least of the following would be exempt			
House Rent Allowance Received	2,40,000		
Rent paid (-) 10% of salary [(₹ 25,000 × 12) - 10% × 4,20,000]	2,58,000		
50% of salary, since place of residence is Chennai (50% × 4,20,000)	2,10,000		
Telephone bills paid by A Ltd. for the telephone installed of his Residence [Telephone provided at the residence of the employee and payment of bill by the employer is a tax-free perquisite]			-
Annual premium paid by A. Ltd. for towards personal accident policy on his life			-
Motor car owned and driven by employee, running and maintenance charges borne by the employer [₹ 30,600 - ₹ 21,600 (i.e., ₹ 1,800 × 12)]			9,000
Retrenchment compensation received		15,00,000	
Exempt under section 10(10B)		4,96,154	10,03,846

Least of the following would be exempt			
Compensation actually received	15,00,000		
Monetary Limit	5,00,000		
Amount calculated as per section 25F of Industrial Disputes Act {15/26 × [(25,000 + 18,000) × 3]/3 × 20}	4,96,154		
Salary income chargeable to tax			14,62,846
Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) (As per amendment)			50,000
Net Salary Income			14,12,846

Question 6

MTP March'18

Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2023-24:

- She was appointed on 01-03-2023 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.
- She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.
- She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.
- She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.
- Lunch provided by the company during office hours Cost to the employer ₹ 10,000
- Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.



- (vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.
- (viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.
- (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2022.
- (x) Professional tax paid by the company ₹ 2,000 Compute the amount of salary chargeable to tax in the hands of Mrs. Anjali for A.Y. 2024-25. Assume that she has not opted for 115BAC.

10 Marks

Answer:

Computation of taxable salary of Mrs. Anjali for A.Y. 2024-25

Particulars		₹
Basic pay [(₹20,000×11) + (₹22,500×1)] = ₹2,20,000 + ₹22,500		2,42,500
Dearness allowance [30% of basic pay]		72,750
Bonus [₹22,500 × 2]		45,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹3,15,250)		9,458
Taxable allowances		
Transport allowance (₹2,000 × 12)	24,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹1,600 p.m. (As per amendment no transport allowance allowed)	19,200	4,800 24,000
Hostel allowance (₹ 4,000 × 3)	12,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹300 p.m. per child maximum for two children	7,200	4,800
Taxable perquisites		
Rent-free accommodation [See Note 1 below]		55,478 58,358 38,905
Medical reimbursement (₹35,000 - ₹15,000) [See Note 2 below] (As per amendment no ₹15,000 deduction withdrawn)		20,000 35,000
Gift voucher [See Note 3 below]		6,000
Value of free lunch facility [See Note 4 below]		-
Professional tax paid by the company [See Note 6 below]		2,000
Gross Salary		4,80,413
Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) (As per amendment)		50,000
Less: Professional tax paid by the company [Section 16(iii)]		2,000
Salary chargeable to tax		4,28,213



Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent -free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% 10% of salary, whichever is lower.

(As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)

For the purposes of valuation of rent-free house, salary includes:

(I)	Basic salary	2,42,500
(ii)	Dearness allowance	72,750
(iii)	Bonus	45,000
(iv)	Transport allowance	4,800 (24,000)
(v)	Hostel allowance	4,800
Total		3,89,050

15% of salary = ₹3,89,050 × 10/100 = ₹ 38,905 Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
- 10% of salary (i.e., ₹ 38,905), whichever is lower.

Therefore, the perquisite value is ₹ 38,905.

- Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 - ₹ 15,000) is a taxable perquisite.

As per amendment the ₹ 15,000 allowance is withdrawn. Hence full ₹ 35,000 will be added.

- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is 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, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹1,000.

- Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹50 per meal.
- As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

Question 7

MTP March'21... Mtp2 Sep24

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

Basic salary is ₹ 70,000 per month.

- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.



- (iv) Smile Ltd. allotted 800 sweat equity shares in August 2023. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (v) He was provided with furniture during September 2019. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2024, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vi) Received ₹ 10,000 towards entertainment allowance.
- (vii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2023 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2023. The lending rate of SBI for similar loan as on 01.04.2023 was 8%.
- (viii) Facility of laptop costing ₹ 50,000

7 Marks

Answer:

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

Particulars	₹	₹
Basic Salary [₹ 70,000 × 12 months]		8,40,000
Dearness allowance [40% of ₹ 8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee 10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 × 10% × 4 years (from September 2019 to 2023)]	44,000	66,000
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291



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

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2023	15,00,000	4,375
May, 2023	15,00,000	4,375
June, 2023	14,50,000	4,229
July, 2023	14,50,000	4,229
August, 2023	14,50,000	4,229
September, 2023	14,00,000	4,083
October, 2023	14,00,000	4,083
November, 2023	14,00,000	4,083
December, 2023	13,50,000	3,937.50
January, 2024	13,50,000	3,937.50
February, 2024	13,50,000	3,937.50
March, 2024	13,00,000	3,792
Total value of this perquisite		49,290.50

Note:

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

Question 8

MTP March'22

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

Basic Salary ₹ 60,000 p.m.

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

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

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

7 Marks**Answer:**

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

Particulars		₹
Basic Salary [₹ 60,000 × 12]		7,20,000
Dearness allowance [₹ 24,000 × 12]		2,88,000
Bonus [₹ 21,000 × 12]		2,52,000
Perquisite of Motor car (₹2,400 × 6 months) [See Note 1]		14,400
Professional tax paid by employer [See Note 2]		2,000
Perquisite value in respect of concessional rent [See Note 3]		17,040
Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]		8,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 15% × [(₹ 60,000 + ₹ 24,000) × 12] - 12% × { [₹ 60,000 + ₹ 9,600 (being 40% of ₹ 24,000)] × 12 } = 1,51,200 - 1,00,224 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		50,976
Medical insurance premium of ₹ 20,000 paid by the employer to affect an insurance on the health of an employee is an exempt perquisite		-
Gross salary		13,52,416
Less: Deduction under section 16		
Standard deduction under section 16(ia)	50,000	
Professional tax u/s 16(iii) [See Note 2]	2,500	52,500
Salary chargeable to tax		12,99,916

Notes:

- In case a motor car (engine cubic capacity more than 1.6 litres) owned by employer is provided to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer, the value of perquisite would be ₹ 2,400 p.m. The car was provided to Ms. Aashima on 1.10.2023, therefore, the perquisite value has been calculated for 6 months.
- As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Ms. Aashima. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.
- Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or (10%) of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite. Actual rent paid by the employer from 1.12.2023 to 31.3.2024 = ₹ 48,000 [₹ 12,000 × 4 months] 10% of salary = ₹ 36,240 [10% × (₹ 60,000 + ₹ 9,600 + ₹ 21,000) × 4 months] Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement



benefits + Bonus Lower of the above is ₹ 36,240 which is to be reduced by the rent recovered from the employee. Hence, the perquisite value of concessional rent = ₹ 36,240 - ₹ 19,200 [₹ 4,800 × 4 months] = ₹ 17,040

(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)

4. As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Aashima from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly. Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.

Question 9

MTP May'19

Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars: Basic

Salary ₹ 70,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (30% of which forms part of retirement benefits)

Bonus ₹ 21,000 p.m.

Her employer has provided her with an accommodation on 1st April 2023 at a concessional rent. The house was taken on lease by Shipra Ltd. for ₹ 12,000 p.m. Ms. Aarohi occupied the house from 1st November 2023, ₹ 4,800 p.m. is recovered from the salary of Ms. Aarohi. The employer gave her a gift voucher of ₹ 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance on the health of Ms. Aarohi ₹ 20,000. Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aarohi from 1st November 2023 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for the Assessment Year 2024-25.

Answer:

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

Particulars	₹
Basic Salary [₹ 70,000 × 12]	8,40,000
Dearness allowance [₹ 24,000 × 12]	2,88,000
Bonus [₹ 21,000 × 12]	2,52,000



Perquisite value in respect of concessional rent [See Working Note below]	25,100
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) [See Note for Alternative view]	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary	91,872
= $18\% \times [(\text{₹ } 70,000 + \text{₹ } 24,000) \times 12] - 12\% \times \{[\text{₹ } 70,000 + \text{₹ } 7,200 \text{ (being 30\% of ₹ } 24,000)] \times 12\} = 2,03,040 - 1,11,168$ [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	
Medical insurance premium of ₹ 20,000 paid by the employer to affect an insurance on the health of an employee is an exempt perquisite	-
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹2400/- p.m. [₹2,400 × 5 months]	
	12,000
Gross salary	15,18,972
Less: Standard deduction under section 16(ia)	40,000
(As per amendment Rs. 50,000)	50,000
Salary chargeable to tax	14,89,872
	14,68,972

Working Note:

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% 10% of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2023 to 31.3.2024 = ₹ 60,000 [₹ 12,000 × 5 months]

10% of salary = ₹ 49,100 [10% × (₹ 70,000 + ₹ 7,200 + ₹ 21,000) × 5 months]

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

Lower of the above is ₹49,100 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 49,100 - ₹24,000 [₹ 4,800 × 5 months] = ₹ 25,100
(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)

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

In this case, the gift voucher of ₹ 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.



Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. The salary chargeable to tax, in this case, would be ₹ 14,84,872.

Question 10

RTP May'22

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

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

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

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600
PC1	Nil
TP1	Nil
R	$I/F_{avg} = 5,56,500/60,90,850 = 0.0914$
I	RPF balance as on 31.3.2024 - employee's and employer's contribution during the year - RPF balance as on 1.4.2023 = ₹ 5,56,500 (₹ 71,46,700 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 50,35,000)
Favg	Balance to the credit of recognized provident fund as on 1 st April, 2022 + Balance to the credit of recognized provident fund as on 31 st March, 2023)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850

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

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

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2022-23 = ₹ 27,600



TP1	Taxable perquisite under section 17(2)(viii) for the P.Y. 2022-23 = ₹ 1,261
R	$I/\text{Favg} = 7,55,800/83,02,200 = 0.0910$
I	RPF balance as on 31.3.2024 - employee's and employer's contribution during the year - RPF balance as on 1.4.2023 = ₹ 7,55,800 (₹ 94,57,700 - ₹ 7,77,600 - ₹ 7,77,600 - ₹ 71,46,700)
Favg	Balance to the credit of recognized provident fund as on 1 st April, 2023 + Balance to the credit of recognized provident fund as on 31 st March, 2024)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200

Note -

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

Question 11

PYQ Nov'18

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

Allowance received by an employee Mr. Ram working in a transport system at ₹ 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

Answer:

	Chargeability	Amount liable to tax (₹)	Reason
(I)	Partly taxable	43,200	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 8,400 per month being, 70% of ₹ 12,000) or ₹ 10,000 per month, whichever is less. Hence, 1,00,800 (i.e., ₹ 8,400 × 12) is exempt. Balance ₹ 43,200 (₹ 1,44,000 - ₹ 1,00,800) is taxable in the hands of Mr. Ram.

Question 12

PYQ May'18

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

He submits the following information:

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

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

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

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



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

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

10 Marks

Answer:

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

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

Particulars	₹	₹
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 × 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 × 6)	3,00,000	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 × 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	Nil	36,000
Perquisites:		
Value of rent-free accommodation in USA		63,600
Lower of:		
15% 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance) (As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)	63,600	
Rent paid by employer = ₹ 15,000 × 12	1,80,000	
Value of guest house in India		-
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		
Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]		48,000
Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]		84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 × 6], since cubic capacity exceeds 1.6 liters, assuming that expenses are fully met by employer	14,400	



Used for personal purposes by his family members for 6 months when he is in India			
Actual running and maintenance expenditure ³ [₹ 5,000 × 6]	30,000		
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 × 10% × 6/12	40,000	70,000	
Education expenditure of elder son in India met by employer [Fully taxable perquisite]			12,000
Life insurance premium paid by the employer - any sum payable by the employer to affect an assurance on the life of the employee is a taxable perquisite			10,000
Accident insurance premium paid by employer - exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.			-
Gross Salary			8,85,800
Less: Deductions under section 16			Nil
Standard deduction (lower of actual salary or Rs. 50,000) (as per amendment)			(50,000)
Taxable Salary			8,35,800

Notes:

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

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

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



Question 13

Mr. B is a sales manager in PQR Ltd. During F.Y. 2023-24 he has received the following towards his salary and allowances/perquisites:

- Basic pay ₹ 85,000 per month up to December 2023 and thereafter an increase of ₹ 2,000 per month.
- Dearness allowance 40% of basic pay forming part of retirement benefits.
- Bonus 1-month basic pay based on the salary drawn during January month every year.
- He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- Travelling allowance of ₹ 5,000 per month towards on duty tours.
- Research and training allowance ₹ 3,000 per month.
- Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
- Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2023.
- Reimbursement of medical expenses on his treatment in private hospital ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

- Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.
- What will be the income under the head "Salaries", if he opts for the provisions under section 115BAC?

8 Marks

Answer:

Computation of income chargeable to tax under the head "Salaries" for A.Y.2024-25, if Mr. B does not opt for the provisions of section 115BAC

Particulars	₹	₹
Basic Pay [₹ 85,000 × 9 + ₹ 87,000 × 3]		10,26,000
Dearness Allowance [₹ 10,26,000 × 40%]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours ¹]		-
Research and training allowance [₹ 3,000 × 12]		36,000
Medical allowance [₹ 1500 × 12]		18,000
Children Education allowance [₹ 600 × 12 × 3]	21,600	
Less: Exempt [₹100 × 12 × 2]	2,400	19,200
Salary (for the purpose of valuation of Rent-free accommodation)		15,96,600
Value of Rent-free accommodation [10% of ₹ 15,96,600] (As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)	1,59,660	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,660
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000



Health insurance premium paid by PQR Ltd. [Exempt]		-
Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400)		28,728
Gross Salary		18,09,988
Less: Deductions under section 16		
Standard deduction		50,000
Income chargeable under the head "Salaries"		17,59,988

ii. Computation of income chargeable to tax under the head "Salaries" for A.Y. 2024-25, if Mr. B opts for the provisions of section 115BAC

Income chargeable under the head "Salaries"		17,59,988
Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2400
Add: Standard deduction [Not allowable as per section 115BAC] (As per amendment standard deduction is allowable as per section 115BAC)		50,000
		17,62,388
Less: Value of rent-free accommodation (As per regular provisions)		1,69,660
		15,92,728
Add: Value of Rent-free accommodation [15% 10% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)] (As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)	1,59,900	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,900
Income chargeable under the head "Salaries"		17,62,628

It is assumed that he has fully expended the amount

Question 14

PYQ May'23

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2024 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- (ii) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (iii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
- (iv) Crochery set worth ₹ 4,500 from his employer at the farewell party which was organized by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month along with 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2023 to 31st March, 2024.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2022 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only.



Upon retirement, he gave the car back to the. You are required to compute the taxable salary of Mr. Rohan for A.Y.2024-25 assuming that he neither claims any relief under section 89 nor does he opt to pay tax under section 115BAC.

7

Marks**Answer:****Computation of taxable salary of Mr. Rohan for A.Y. 2024-25**

Particulars		₹
Basic Salary ₹ 25,000 × 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [₹ 7,50,000 - ₹ 6,05,769]		1,44,231
Less: Exempt under section 10(10) - Least of the following:	₹	
(i) Notified limit	20,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) $15/26 \times$ last drawn salary \times no. of completed years of services or part in excess of 6 months [$15/26 \times 37,500^4 \times 28$]	6,05,769	
Leave encashment [₹ 3,25,000 - ₹ 1,75,000]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:		
(iv) Notified limit	3,00,000	
(v) Actual leave salary received	3,25,000	
(vi) 10 months \times ₹ 25,000	2,50,000	
(vii) Cash equivalent of leave to his credit [₹ 25,000 \times 210/30]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]		-
Perquisite value of car [Driver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000 \times 12) + ₹ 80,000 (10% of ₹ 8,00,000), being normal wear and tear on car]		
Gross Salary		2,00,000
		9,44,231
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		8,94,231



Multiple Choice Questions

Question 1

MTP April '19

A member of parliament is entitled to salary, constituency allowance and daily allowance when the Parliament is in session. Which of the following statements are correct?

- (a) His entire income is taxable under the head "Salaries".
- (b) Only his salary component is taxable under the head "Salaries". Constituency allowance and daily allowance are exempt.
- (c) Only his salary component is taxable under the head "Income from other sources". Constituency allowance and daily allowance are exempt.
- (d) His salary component and constituency allowance are taxable under the head "Income from other sources". Daily allowance is exempt.

Question 2

MTP April '19

Provision of rent-free accommodation and motor car owned by Alpha Ltd. to its employee Mr. Anurag, where motor car is allowed to be used by Mr. Anurag both for official and personal purposes, is a -

- (a) requisite taxable in case of all employees
- (b) requisite taxable only in case of specified employees
- (c) requisite of rent-free accommodation is taxable in case of all employees whereas requisite of motor car is taxable only in case of specified employees
- (d) requisite of rent-free accommodation is taxable only in case of specified employees whereas requisite of motor car is taxable in case of all employees

Question 3

MTP March '19

X is an employee of Z Ltd who receives ₹1,25,000 as gratuity (he is covered under the Payment of Gratuity Act, 1972). He retires on 31.01.2024 after service of 29 years and 8 months. At the time of retirement, X drew monthly salary of ₹ 5,200 and monthly bonus of ₹ 2,000. Compute the amount of gratuity exempt from tax in the instant case u/s 10(10) of the Income-tax Act, 1961.

- (a) ₹ 90,000
- (b) ₹1,25,000
- (c) ₹ 78,000
- (d) ₹ 87,000

Question 4

MTP April '23, RTP May'20

Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2023-24, following transactions were undertaken by Mr. Jagat:

- (i) He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.
- (ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) paid to private coaching classes (not having any tie-up with Bharat Ltd.) was reimbursed by Bharat Ltd. Amount of fees was ₹ 25,000.
- (iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month by Mr. Jagat. Cost of education in similar institution is ₹ 5,250 per month.

What shall be the amount which is chargeable to tax under the head "Salaries" in hands of



Mr. Jagat for A.Y. 2024-25?

- (a) ₹ 25,000
- (b) ₹ 37,500
- (c) ₹ 66,500
- (d) ₹ 79,000

Question 5

RTP May '19

Miss Riya has started working in a reputed company. This is her first job. She earned total income of ₹ 8 Lakhs in P.Y. 2023-24. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend said that maximum deduction of ₹1600 p.m. in respect of the said allowance can be claimed.

According to you, what is the correct treatment for the same?

- (a) Transport allowance up to a maximum ₹1600 per month can be claimed.
- (b) Transport allowance up to a maximum ₹800 per month can be claimed.
- (c) No separate deduction for transport allowance is allowed. However, a standard deduction of ₹ 40,000 is allowed to salaried assesses.
- (d) Deduction of transport allowance is allowed without any monetary limit.

Question 6

RTP Nov'22

Mr. Karan completed his MBA in April 2023 and joined XYZ Ltd from 01.05.2023. His basic salary is ₹ 2,25,000 p.m. He is paid 12% of basic salary as D.A forming part of retirement benefits. He contributed 11% of his pay and D.A. towards recognized provident fund and the company contributes the same amount. Accumulated interest on provident fund as on 31.3.2024 is ₹ 49,325. What would be the income chargeable to tax under the head "Salaries" of Mr. Karan for the A.Y. 2024-25 if he does not opt for section 115BAC?

- (a) ₹ 27,26,442
- (b) ₹ 27,30,884
- (c) ₹ 27,22,000
- (d) ₹ 27,71,325

Question 7

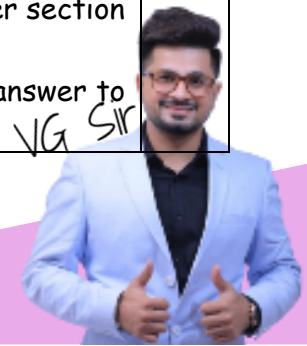
MTP2 Sep'24

Mr. Anshul, aged 54 years, an Indian citizen, is working as Assistant Manager in ABC India Ltd. He is getting basic salary of 58,000 per month. He used to travel frequently out of India for his office work. He left India from Delhi Airport on 5th October, 2023 and returned to India on 2nd April, 2024.

For previous year 2023-24, following information are relevant;

- (a) Dearness Allowance - 10% of Basic Pay (considered for retirement purposes)
- (b) Bonus - 98,000
- (c) Medical allowance paid during P.Y. 2023-24 amounting to 60,000
- (d) He was also reimbursed medical bill of his mother amounting to 15,000.
- (e) He was also reimbursed salary of house servant of 4,000 per month.
- (f) Professional tax paid by employer amounting to 2,400.
- (g) 400 equity shares allotted by ABC India Ltd. at the rate of 250 per share against fair market value of share of 350 on the date of exercise of option.
- (h) Mr. Anshul has exercised the option to shift out of the default tax regime under section 115BAC.

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



(i) What is Mr. Anshul's residential status for the A.Y. 2024-25?

- (a) Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident from the given information
 (b) Non-Resident
 (c) Resident but not ordinarily resident
 (d) Resident and ordinarily resident

(ii) What are his taxable perquisites for A.Y. 2024-25?

- (a) 55,000
 (b) 90,400
 (c) 1,05,400
 (d) 1,03,000

(iii) What is the income chargeable under the head "Salaries" in the hands of Mr. Anshul for A.Y. 2024-25?

- (a) 9,76,600
 (b) 9,86,600
 (c) 9,71,600
 (d) 9,61,600

Question 8

MTP2 Sep'24

Mr. Ross, an Australian citizen, is employed in the Indian embassy in Australia. He is a non-resident in India for A.Y. 2024-25. He received salary and allowances in Australia from the Government of India for the year ended 31.03.2024 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?

- (a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ross, since he is non-resident
 (b) Salary, allowances and perquisites received outside India by Mr. Ross are taxable in India since they are deemed to accrue or arise in India
 (c) Salary received by Mr. Ross is taxable in India but allowances and perquisites are exempt
 (d) Salary received by Mr. Ross is exempt in India but allowances and perquisites are taxable

Answers

1	2	3	4	5	6	7	8		
c	c	a	d	c	a	a, c, a	a		



Descriptive Questions

Easy

Question 1

RTP May '19

Shraddha has two flats in Mumbai, both of which are self-occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	Flat at Goregaon	Flat at Navi Mumbai
Municipal Valuation per annum	1,40,000	1,35,000
Fair Rent per annum	1,60,000	1,80,000
Standard rent per annum	1,40,000	1,90,000
Date of completion of construction	1-02-2012	24-08-2006
Municipal taxes payable during the year (paid for Flat at Navi Mumbai only)	10%	12%
Interest on money borrowed for repair of property during current year	-	72,000

Compute Shraddha's income from house property for the Assessment Year 2024-25. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum.

Answer:

In this case, Shraddha has more than one house property for self-occupation. As per section 23(4), Shraddha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one (two) of the house properties

(As per amendment If Assess see has more than one property for own residential purpose then up to 2 houses can be treated as self occupied property and any other houses are deemed to be let out.)

As per amendment-

Particulars	Amount in ₹
Flat at Goregaon (Self-occupied) [Annual value is Nil] Flat at Navi (Self-occupied) [Annual value is Nil]	Nil Nil
Income from house property	Nil

Question 2

CS Execu. June 14 (New)

Discuss the term Deemed Ownership of the house property as given under section 27. 6 Mark

Answer:

In addition to legal ownership, following persons are treated as deemed owner under section 27:

1. Transfer to spouse or minor child.
2. Holder of Impartible Estate.
3. Property held as a member of Co-operative Society.



4. Property acquired under Power of Attorney Transactions.
5. Acquired a right in building under section 269UA(f).

Question 3

CS Execu. Dec' 14 (New)

Distinguish between taxation of unrealized rent and recovery of unrealized rent. **4 Marks****Answer:**

- Unrealized rent is deducted in calculation of gross annual value.
- Unrealized rent recovered late on is taxable in the previous year of its receipt after allowing 30% Standard Deduction.

Question 4

CS Execu. Dec' 12 (New)

Riya has a house property in Delhi, particulars of which are as under:

Particulars	
- Municipal Value	3,00,000
- Standard Rent	3,12,000
- Municipal Taxes Paid	50,000
- Interest on money borrowed for acquiring the house after 1st April, 2020	16,000
- Actual Rent for 10 months	35,000 per month
- Period of occupation for own residence	2 months

Compute the Income from House Property for the Assessment Year 2024-25 **5 Marks****Answer:**

Computation of Taxable Income from House Property of Riya for Assessment Year 2024-25

Particulars	₹	₹
Gross Annual Value (Actual Rent)		3,50,000
Less: Municipal Taxes paid		(50,000)
Net Annual Value		3,00,000

Particulars	₹	₹
Deductions:		
(i) Standard Deduction @ 30% of ₹ 3,00,000	(90,000)	
(ii) Interest on Loan	(16,000)	(1,06,000)
Taxable Income from House Property		1,94,000

Question 5

CS Execu. June'19 (New)

Nisha, a resident of India owns a house property at Karnal in Haryana. The municipal value of the property is ₹ 7,50,000, fair rent of the property is ₹ 6,30,000 and standard rent is ₹ 7,20,000 per annum. The property was let out for ₹ 75,000 per month for the period April, 2023 to December, 2023.

Thereafter the tenant vacated the property and Nisha used the house for self-residence. Rent for the months of November and December, 2023 could not be realized from the tenant. The tenancy was bona fide but the defaulting tenant was in occupation of another property of the assessed, paying rent regularly. She paid municipal tax @ 12% during the year and paid interest of ₹ 35,000 during the year for amount borrowed towards repairs of the house property.



You are required to compute her Income from "House Property" for the Assessment Year 2024-25.

5 Marks

Answer:

Computation of Income from House Property of Ms. Nisha for Assessment Year 2024-25

Particulars	₹
Gross Annual Value (Standard Rent)	7,20,000
Less: Municipal Taxes paid (12% of ₹ 7,50,000)	90,000
Net Annual Value	6,30,000
Less: Deduction u/s 24:	
(a) Standard Deduction	1,89,000
(b) Interest on amount borrowed for repairs	35,000
	2,24,000
Income from House Property	4,06,000

Computation of Gross Annual Value:

Expected Rent for the Whole Year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000.

But restricted to Standard Rent of ₹ 7,20,000, So Expected Rent is ₹ 7,20,000.

Actual Rent received for let out period = ₹ 75,000 × 9 = ₹ 6,75,000.

Gross Annual Value is higher of Expected Rent or Actual Rent Received = ₹ 7,20,000.

Moderate

Question 1

MTP Nov'19, March'22, Nov'18

You are required to compute the income from "House Property" for the A.Y. 2024-25 of Mrs. Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum. The property was let out for ₹ 80,000 per month for the period April 2023 to November 2023. Thereafter, the tenant vacated the property and Mrs. Rajni used the house for self-occupation. Rent for the months of October and November 2023.

could not be realized from the tenant. The tenancy was Bonafede but the defaulting tenant was in occupation of another property of the assessed, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

7 Marks

Answer:

Computation of income from house property of Mrs. Rajni for the A.Y. 2024-25

Particulars	Amount in ₹
Computation of Gross Annual Value	
Expected Rent for the whole year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000, but restricted to Standard Rent of ₹ 7,20,000	7,20,000
Actual rent received for the let-out period = ₹ 80,000 × 8 [Unrealized rent is not deductible from actual rent in this case since the defaulting tenant is in occupation of another property of the assessed, and hence, one of the conditions laid out in Rule 4 has not been fulfilled]	6,40,000



GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period		7,20,000	
Gross Annual Value (GAV)			7,20,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 7,50,000			90,000
Net Annual Value (NAV)			6,30,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 6,30,000	1,89,000	
	b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let- out property)		2,39,000
Income from house property		50,000	3,91,000

Question 2

RTP May'20, MTP Sep'22

Mr. Varun is a resident but not ordinarily resident in India during the Assessment Year 2024-25. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2023-24:

He owns two houses, one in Australia and the other in Delhi.

The house in Australia is let out there at a rent of SGD 3,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1000 and Sewerage Tax SGD 500 there. (1SGD=INR 55)
The house in Delhi is self-occupied. He had taken a loan of ₹ 20,00,000 to construct the house on 1st June, 2019 @12%. The construction was completed on 31st May, 2022 and he occupied the house on 1st June, 2022.

The entire loan is outstanding as on 31st March, 2024. Property tax paid in respect of the second house is ₹ 2,500.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Varun for the Assessment Year 2024-25. **4 Marks**

Answer:

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

Particulars	₹	₹
1. Income from let-out property in Australia [See Note 1 below]		19,80,000
¹ Gross Annual Value (SGD 3,000 p.m. x 12 months x ₹ 55)		
Less: Municipal taxes paid during the year [SGD 1,500 (SGD 1,000 + SGD 500) x ₹ 55] ²		82,500
Net Annual Value (NAV)		18,97,500
Less: Deductions under section 24		
(a) 30% of NAV	5,69,250	
(b) Interest on housing loan	-	5,69,250
		13,28,250
2. Income from self-occupied property in Delhi		
Annual Value [Nil, since the property is self-occupied]		Nil
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		Nil



Less: Deduction in respect of interest on housing loan [See Note 2 below]		2,00,000
		(2,00,000)
Income from house property [₹ 13,28,250 - ₹ 2,00,000]		11,28,250

Notes:

- a) Since Mr. Varun is a resident but not ordinarily resident in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Australia would be taxable in India since such income is received by him in India.
- b) Interest on housing loan for construction of self-occupied property allowable as deduction under section 24.

Interest for the current year (₹ 20,00,000 × 12%) ₹ 2,40,000

Pre-construction interest

For the period 01.06.2019 to 31.03.2022 (₹ 20,00,000 × 12% × 34/12) = ₹ 6,80,000

₹ 6,80,000 allowed in 5 equal installments (₹ 6,80,000/5) ₹ 1,36,000

₹ 3,76,000

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

¹ In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV

² Both property tax and sewerage tax qualify for deduction from gross annual value

Question 3

RTP Nov '18

Mr. Ranjan owns a shop whose construction got completed in August 2022. He took a loan of ₹ 22 lakhs from Bank of Baroda on 1-8-2021 and had been paying interest calculated at 9% per annum. During the financial year 2023-24, the shop was let out at a monthly rent of ₹ 45,000. He paid municipal tax of ₹ 18,000 each for the financial year 2022-23 and 2023-24 on 25-5-2023 and 15-4-2024, respectively. Compute income under the head 'House Property' of Mr. Ranjan for the Assessment year 2024-25, assuming that the entire amount of loan is outstanding on the last day of the current previous year.

Answer:

Computation of income under the head "House Property" of Mr. Ranjan for A.Y. 2024-25

Particulars	₹	₹
2Gross Annual Value (₹ 45,000 × 12)		5,40,000
Less: Municipal taxes (See Working Note 1)		18,000
Net Annual Value (NAV)		5,22,000
Less: Deductions under section 24		
(i) 30% of NAV	1,56,600	
(ii) Interest on housing loan (See Working Note 2)	2,24,400	
		3,81,000
Income chargeable under the head "House Property"		1,41,000

Working Notes:

(1)	Municipal taxes deductible from Gross Annual Value	
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	As per proviso to section 23(1), municipal taxes actually paid by the owner during the previous year is allowed to be deducted from Gross Annual Value. Accordingly, only ₹ 18,000 paid on 25.05.2023 is allowed to be deducted from Gross Annual Value, while computing income from house property of the previous year 2023-24	
(2)	Interest on housing loan allowable as deduction under section 24	
	As per section 24(b), interest for the current year (₹ 22,00,000 × 9%)	₹ 1,98,000
	Pre-construction interest For the period 01.08.2021 to 31.03.2022 (₹ 22,00,000 × 9% × 8/12) = ₹ 1,32,000 ₹ 1,32,000 allowed in 5 equal installments (₹ 1,32,000/5) from P.Y. 2022-23 to P.Y. 2026-27	₹ 26,400
		₹ 2,24,400
3.	Deduction under section 24(b), in respect of interest on housing loan for let out property, fully allowed without any limit.	

2. In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the Gross Annual Value

3. The municipal tax of ₹ 18,000 paid on 15.4.2022 would be allowed as deduction while computing income from house property of the previous year 2022-23.

Question 4

RTP Nov'22

Mr. Roy owns a house in Kolkata. During the previous year 2023-24, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2024. The property was vacant during March, 2024. Rent for the months of January 2024 and February 2024 could not be realized in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2014 for acquiring the property. Interest on loan paid during the previous year 2023-24 was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2024-25.

Answer:

There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self-occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let-out during the previous year and its annual value has to be determined as per section 23(1).

Computation of Income from house property of Mr. Roy for the A.Y. 2024-25

Particulars		₹
Unit I (3/4th area - self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		(1,13,250)
Unit II (1/4th area - let out)		
Computation of GAV		
Step 1 - Computation of Expected Rent (ER)		



ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		
Step 2 - Computation of actual rent received/ receivable ₹ 12,000 × 9 = 1,08,000 [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2024 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]	1,08,000	
Step 3 - Computation of GAV		
The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2022, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
Gross Annual Value (GAV)		
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion		1,08,000
1/4th of (10% of ₹ 4,50,000) = ₹ 45,000/4 = ₹ 11,250	29,025	11,250
Net Annual Value (NAV)		96,750
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 96,750		
(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	66,775
Income from Unit II (let-out)		29,975
Loss under the head "Income from house property" (-1,13,250 + 29,975)		-83,275

Note -

Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.

Question 5

PYP July'21

Mr. Ramesh constructed a big house (construction completed in Previous Year 2011-12) with 3 independent units. Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 15,000. A sum of ₹ 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Ramesh is occupied by the tenant. Unit - 1 remains vacant for 2 months when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:
Municipal valuation - ₹ 1,88,000 Fair rent - ₹ 2,48,000 Standard rent under the Rent Control Act - ₹ 2,28,000 Municipal taxes - ₹ 20,000 Repairs - ₹ 5,000



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

Income of Ramesh from the business is ₹ 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Ramesh for the assessment year 2024-25 if he does not opt to be taxed under section 115BAC. **6 Marks**

Answer:

Computation of Taxable Income of Mr. Ramesh for A.Y. 2024-25 under the regular provisions of the Act

Particulars		Amount (₹)	Amount (₹)
Income from house property			
Unit - 1 [50% of floor area - Let out]			
Gross Annual Value, higher of			
- Expected rent ₹ 1,14,000 [Higher of Municipal Value of ₹ 94,000 p.a. and Fair Rent of ₹ 1,24,000 p.a., but restricted to Standard Rent of ₹ 1,14,000 p.a.]			
- Actual rent ₹ 1,47,000 [₹ 15,000 × 10] less unrealized rent ³ of ₹ 3,000			
Gross Annual Value		1,47,000	
(Alternatively, ₹ 1,50,000 can be shown as actual rent and gross annual value, and thereafter, deduct ₹ 3,000 unrealized rent therefrom)			
Less: Municipal taxes [50% of ₹ 20,000 ⁴]		10,000	
Net annual value		1,37,000	
Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		41,100	
(b) Interest on loan [50% of ₹ 60,000]		30,000	
Unit - 3 [25% of floor area - Self occupied]			
Net Annual Value		-	65,900
Less: Interest on loan [25% of ₹ 60,000]		15,000	(15,000)
Income from house property			50,900
Profits and gains from business or profession			
Business Income [without deducting expenditure on Unit - 2 25% floor area used for business purposes]		1,40,000	
Less: Expenditure in respect of Unit -2			
- Municipal taxes [25% of ₹ 20,000 ⁵]	5,000		
- Repairs [25% of ₹ 5,000]	1,250		
- Interest on loan [25% of ₹ 60,000]	15,000		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	15,000	37,750	
			1,02,250
Taxable Income			1,53,150

3 Since the conditions laid down under Rule 4 of Income-tax Rules, 1962, are satisfied

4 Assumed to have been paid during the year by Mr. Ramesh



Question 6

MTP Sep '23

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

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

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2. During the previous year 2023-24, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

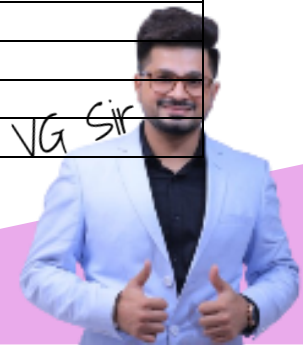
Determine the taxable income of Mr. Madhvan for the assessment year 2024-25. All workings should form part of your answer.

7 Marks

Answer:

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

Particulars		₹	₹
Salaries			
Basic Salary = ₹ 30,000 × 12		3,60,000	
Rent free accommodation		36,000	
[Lower of lease rental paid or payable by the employer (or) 15% 10% of salary i.e., lower of ₹ 65,000 or ₹ 54,000 ₹ 36,000, being 10% of ₹ 3,60,000] (As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)			
Gross Salary		3,96,000	
Less: Standard deduction u/s 16(IA) [Actual salary or ₹ 40,000 (As per amendment Rs.50,000), whichever is less]		40,000 50,000	
Net Salary	House 1		3,74,000 3,46,000
Income from house property		House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	75,000	2,85,000	
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	



Income from house property [₹ 39,900 + ₹ 1,33,500]	39,900	1,33,500	1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]			Nil
Total Income			5,19,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

Question 7

RTP May '23

Mr. Akash owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @8% of the Municipal Value were paid during the year by Mr. Akash. He made the following payments in respect of the house property during the previous year 2022-23:

Light and Water charges ₹ 2,000, Repairs ₹ 1,45,000, Interest on loan taken for the repair of property ₹ 36,000. Mr. Akash has taken a loan of ₹ 5,00,000 in July, 2016 for the construction of the above house property. Construction was completed on 30th June, 2019. He paid interest on loan @12% per annum and every month such interest was paid. No repayment of loan has been made so far.

Income of Mr. Akash from his profession amounted to ₹ 8,00,000 during the year (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 8,000 on the portion of house used for profession).

Determine the Gross total income of Mr. Akash for the A.Y. 2024-25 ignoring the provisions of section 115BAC.

Answer:

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

Particulars		₹	₹
I	Income from House Property		
	Unit-II (75% of floor area)		
	Gross Annual Value		
	(a) Actual rent received (₹ 8,500 × 12)	₹ 1,02,000	
	(b) Expected rent	₹ 1,27,500	
	[Higher of municipal value (i.e. ₹ 1,60,000) and fair rent (i.e. ₹ 1,70,000) but restricted to standard rent (i.e. ₹ 1,90,000) ₹ 1,70,000 × 75%]		
	Higher of (a) or (b) is GAV		1,27,500
	Less: Municipal taxes (₹ 1,60,000 × 8% × 75%)		9,600
	NAV		1,17,900
	Less: Deductions u/s 24		
	(a) 30% of NAV	₹ 35,370	
	(b) Interest on loan (See note)	₹ 96,750	1,32,120



II	Profits & Gains of business & profession			(14,220)
	Income from Profession		8,00,000	
	Less: Light & Water Charges (25% of ₹ 2,000)	₹ 500		
	Municipal taxes (25% of ₹ 12,800)	₹ 3,200		
	Repairs (25% of ₹ 1,45,000)	₹ 36,250		
	Interest on loan taken for repair (25% of ₹ 36,000)	₹ 9,000		
	Interest on loan taken for construction of house property (25% of ₹ 60,000)	₹ 15,000		
	Depreciation	₹ 8,000	71,950	7,28,050
	Gross Total Income			7,13,830

Note:**Computation of Interest on loan**

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

Question 8

MTP Sept'24

Mr. Kamal, a resident but not ordinarily resident in India during the Assessment Year 2024-25. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1DHS=INR 22). The entire rent is received in India. He paid property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2023-24. The house in Mumbai is self-occupied. He had taken a loan of ₹ 10,00,000 to construct the house on 1st June, 2020 @12%. The construction was completed on 31st May, 2022 and he occupied the house on 1st June, 2022. The entire loan is outstanding as on 31st March, 2024. Property tax paid in respect of the second house is ₹ 2,400 for the Financial Year 2023-24. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kamal for the Assessment Year 2024-25 under regular provisions of the Act. **5 Marks**

Answer:**Computation of income from house property of Mr. Kamal for A.Y. 2024-25**

Particulars		
1. Income from let-out property in Dubai [See Note 1 below]		
2Gross Annual Value (DHS 20,000 p.m. × 12 months × ₹ 22)		52,80,000
Less: Municipal taxes paid during the year [DHS 4,000 (DHS 2,500 + DHS 1,500) × ₹ 22]		88,000
Net Annual Value (NAV)		51,92,000
Less: Deductions under section 24		
(a) 30% of NAV	15,57,600	



(b) Interest on housing loan		15,57,600 36,34,400
2. Income from self-occupied property in Mumbai		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		1,64,000
Less: Deduction in respect of interest on housing loan [See Note 2 below]		<u>(1,64,000)</u>
Income from house property [$\text{₹ } 36,34,400 - \text{₹ } 1,64,000$]		34,70,400

Notes:

(1) Since Mr. Kamal is a resident but not ordinarily resident in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India. Accordingly, rent received from house property in Dubai would be taxable in India since such income is received by him in India. Income from property in Mumbai would accrue or arise in India and consequently, interest deduction in respect of such property would be allowable while computing Mr. Kamal's income from house property because of self-occupied property.

(2)	Interest on housing loan for construction of self-occupied property allowable as deduction under section 24	
	Interest for the current year ($\text{₹ } 10,00,000 \times 12\%$)	₹ 1,20,000
	Pre-construction interest For the period 01.06.2020 to 31.03.2022 ($\text{₹ } 10,00,000 \times 12\% \times 22/12$) = ₹ 2,20,000 ₹ 2,20,000 allowed in 5 equal installments ($\text{₹ } 2,20,000/5$)	₹ 44,000
		₹ 1,64,000

Difficulty**Question 1**

MTP April '23, March'21, Apr'19

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

Following is the other information.

(i)	Fair rental value of each unit (ground floor /first floor)	₹1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	₹ 72,000 per annum
(iii)	Municipal taxes paid by	Ramesh - ₹ 8,000
		Suresh - ₹ 8,000



(iv)	Repair and maintenance charges paid by	Ramesh - ₹ 28,000
		Suresh - ₹ 30,000

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

7 Marks

Answer:

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

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

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

Particulars	Ground floor (Self occupied)	First floor
Gross annual value (See Note below)	Nil	90,000
Less: Municipal taxes (for first floor)		4,000
Net annual value(A)	Nil	86,000
Less: Deduction under section 24		
(a) 30% of net annual value		25,800
(b) interest on borrowed capital		
Current year interest		
₹ 12,00,000 × 10% = ₹ 1,20,000	60,000	60,000
Pre-construction interest		
₹ 12,00,000 × 10% × 9/12 = ₹ 90,000		
₹ 90,000 allowed in 5 equal installments		
₹ 90000/5 = ₹ 18,000 per annum	9,000	9,000
Total deduction under section 24(b)	69,000	94,800
Income from house property (A)-(B)	(69,000)	(8,800)
Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor)	(77,800)	

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

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



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

Expected rent = ₹ 75,000 being higher of - Fair rent

= $1,00,000 \times 9 / 12 = ₹ 75,000$

Municipal value

= $72,000 \times 9 / 12 = ₹ 54,000$

Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2023)

Gross Annual Value = ₹ 90,000 (being higher of Expected Rent of ₹ 75,000 and actual rent of ₹ 90,000).

Question 2

MTP April'22

Mr. Sailesh constructed a house in P.Y. 2017-18 with 3 independent units. During the P.Y. 2023-24, Unit- 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2024 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2024 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

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

Standard rent under the Rent Control Act - ₹ 2,78,000 Municipal taxes - ₹ 30,000 paid by Mr. Sailesh Repairs - ₹ 7,000

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

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

Determine the taxable income of Mr. Sailesh for the assessment year 2024-25 if he opts to be taxed under section 115BAC.

7 Marks

Answer:

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

Particulars	Amount	Amount
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
- Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]		
- Actual rent ₹ 1,80,000 i.e., [₹ 20,000 × 10] less unrealized rent of January, 2022 ₹ 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of ₹30,000]	15,000	
Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of ₹ 90,000]	45,000	70,500



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

Note:

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

Question 3

RTP Nov '20)

Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

Particulars	(Value in ₹)		
	House - I	House - II	House-III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31.5.2011
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2024-25 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum.

Answer:

In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.



OPTION 1 [House I & II - Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property for A.Y.2024-25 would be:

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowable].	(30,000)
House III (Deemed to be let-out) [See Working Note below]	82,600
Income from house property	52,600

OPTION 2 [House I & III - Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y.2024-25 would be

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	46,940

OPTION 3 [House I - Deemed to be let out and House II & III - Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2024-25 would be Since Option 3 is more beneficial, Pihu should opt to treat House - II & III as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2024- 25.-

Particulars	Amount in ₹
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowable].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	40,000



Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV) Expected rent is the GAV of house property Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	1,00,000	1,74,200	1,18,000
Less: Deductions under section 24			
(a) 30% of NAV	30,000	52,260	35,400
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	70,000	46,940	82,600

Question 4

RTP May'21, MTP Oct '23

Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2023-24. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2023, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2023-24. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2022 for purchasing this flat. No amount is repaid by him till 31.03.2024.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2023-24. Compute the income chargeable from house property of Mr. Roxx for the assessment year 2024-25.

6 Marks**Answer:**

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

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

Particulars	₹	₹
1. Self-occupied house at Delhi		
Annual value		Nil
Less: Deduction under section 24	Nil	VG Sir



	Interest on borrowed capital (See Note below)		2,00,000
	Chargeable income from this house property		(2,00,000)
2.	Let out house property at Bangalore		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [40,000 × 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24 - 30% of net annual value [30% × 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

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



Multiple Choice Questions

Question 1

MTP Oct'21

Mr. Ashutosh purchased his first dream home in Bangalore on 16.8.2023. He applied for home loan of ₹ 40 lakhs from IDFC bank on 15.7.2023, the same was sanctioned by bank on 20.7.2023. The stamp duty value of the said house was ₹ 44 lakhs. The interest due on the said home loan is ₹ 3,75,000 for the financial year 2023-24. Due to liquidity issues, Mr. Ashutosh could only pay ₹ 3,26,000. Compute the total interest deduction Mr. Ashutosh can claim for the A.Y. 2024-25, assuming Mr. Ashutosh doesn't opt for the tax rates under the new scheme.

- (a) ₹ 3,26,000
 (b) ₹ 2,00,000
 (c) ₹ 3,75,000
 (d) ₹ 3,50,000

Question 2

MTP April'19

Ms. Sheetal and her brother jointly own a bungalow. They had taken a housing loan to purchase the bungalow. The loan is sanctioned in the name of Ms. Sheetal and her brother in the year 2020. Interest on housing loan for the P.Y. 2023-24 amounted to ₹4,50,000 which is paid by Ms. Sheetal (₹2,25,000) and her brother (₹2,25,000). The bungalow is used by them for their residence. In this case, what will be the amount of deduction available under section 24(b) to Ms. Sheetal and her brother?

- (a) ₹ 30,000 each
 (b) ₹2,00,000 each
 (c) ₹2,25,000 each
 (d) ₹4,50,000 each

Question 3

MTP Oct'22

Mr. Akash is constructing a residential house property in Patna for self-occupation. He has taken a loan of ₹ 40 lakhs from SBI on 30.3.2023 for this purpose. He pays interest of ₹ 2.50 lakhs during the P.Y.2023-24. He repays ₹ 1.50 lakhs towards principal on 31.3.2024. The construction is completed in May, 2023. The stamp duty value of the house is ₹ 46 lakhs. This is the only house property of Mr. Akash. For A.Y. 2024-25-

- a) Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24 and ₹ 1.50 lakhs under section 80C
 b) Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24, ₹ 50,000 under section 80EEA and ₹ 1.50 lakhs under section 80C.
 c) Mr. Akash is neither entitled for deduction under section 24 nor under section 80C. He is, however, entitled for deduction of ₹ 1.50 lakhs under section 80EEA
 d) Mr. Akash is not entitled for deduction under section 24, section 80C and section 80EEA



Question 4

RTP May '19

In respect of loss from house property, which of the following statements are correct?

- While computing income from any house property, the maximum interest deduction allowable under section 24 is ₹ 2 lakhs
- Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of ₹ 2 lakhs
- The loss in excess of ₹ 2 lakh, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)
- All the above

Question 5

RTP Nov '19

Mr. Raghav has three houses for self-occupation. What would be the tax treatment for A.Y.2024-25 in respect of income from house property?

- One house, at the option of Mr. Raghav, would be treated as self-occupied. The other two houses would be deemed to be let out.
- Two houses, at the option of Mr. Raghav, would be treated as self-occupied. The other house would be deemed to be let out.
- One house, at the option of Assessing Officer, would be treated as self-occupied. The other two houses would be deemed to be let out.
- Two houses, at the option of Assessing Officer, would be treated as self-occupied. The other house would be deemed to be let out.

Question 6

RTP May '23

Mr. Virat has a house property in Chennai which he let out to Mr. Sumit. For acquisition of this house, Mr. Virat has taken a loan of ₹ 30,00,000 @10% p.a. on 1-4-2017. He has further taken a loan of ₹ 5 lakhs @12% p.a. on 1.7.2023 towards repairs of the house. He has not repaid any amount of loan so far. The amount of interest deduction u/s 24(b) to Mr. Virat for A.Y. 2024-25 if he opted for the provisions of section 115BAC is -

- ₹ 2,00,000
- ₹ 2,30,000
- ₹ 3,45,000
- ₹ 3,60,000

Question 7

CS Execu..

Nishit was allowed deduction of unrealized rent to the extent of ₹ 1,20,000 in F.Y. 2021-22, although the total unrealized rent during the F.Y. 2021-22 was ₹ 1,60,000. In F.Y. 2022-23 he is able to recover from the tenant ₹ 90,000 on account of such unrealized rent. His Income under the head of House Property for assessment year 2023-24 is :

- ₹ 90,000
- ₹ 63,000
- ₹ 35,000
- ₹ 50,000



Question 8

CS Execu.

Javed borrowed ₹ 5,00,000 @ 12% p.a. on 1st April, 2014 for construction of let out house property whose construction was completed on 15th March, 2020. The loan was repaid on 31st August, 2022. The deduction of interest for previous year 2022-23 shall be :

- (A) ₹ 60,000
(B) ₹ 85,000
(C) ₹ 25,000
(D) ₹ 30,000

Question 9

CS Execu.

Abhinav has three residential house properties, all of which are self-occupied, the annual value of:

- (A) All the house properties shall be computed as if all these are deemed to be let out
(B) All the three house properties shall be Nil
(C) One house property shall be nil and for the other two properties, annual value shall be computed as if these are let out
(D) Two house properties shall be nil and for one house property annual value shall be computed as if it is deemed to be let out

Question 10

CS Execu.

A House owned by Meghna and located at Jaipur was on rent till it was sold out in the month of March, 2021. She received an amount of ₹ 45,000 as arrears of rent from the tenant in the month of February, 2023. The taxable amount of arrears of rent so received by her in A.Y. 2023-24 would be :

- (A) ₹ 31,500
(B) ₹ 22,500
(C) ₹ 45,000
(D) NIL

Answers

1	2	3	4	5	6	7	8	9	10
d	b	d	b	b	c	b	c	d	a



Chapter 3: Profits & Gains from Business Profession

Unit 3

Descriptive Questions

Easy

Question 1

RTP May'19

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

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

Would your Answer change if the goods vehicles purchased in April, 2023 were put to use only in July, 2023?

Answer:

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

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2023	8	16
1	23.02.2024	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2023	12	24
1	15.3.2024	1	1
3	16.7.2023	9	27
1	02.1.2024	3	3
			55



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

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

Question 2

MTP April '21 & Oct '23

M/s. Moksh Enterprises, a sole proprietorship owns four machines, put in use for business in March, 2022. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2023 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2023 for ₹ 10,00,000. A second-hand plant was bought for ₹ 6,10,000 on 30th December, 2023. You are required to:

- Determine the claim of depreciation for Assessment Year 2024-25.
- Compute the capital gains liable to tax for Assessment Year 2024-25.

If Moksh Enterprises had sold the two machines in July, 2023 for ₹ 15,00,000, explain, will there be any difference in your above workings? **4 Marks**

Answer:

i. Computation of depreciation for A.Y.2024-25

Particulars	₹
W.D.V. of the block as on 1.4.2023	7,70,000
Add: Purchase of second hand plant during the year [in December, 2023]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2023]	10,00,000
W.D.V of the block as on 31.03.2024	3,80,000
Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5% [Since the value of the block as on 31.3.2024 represents part of actual cost of second-hand plant purchased in December, 2023, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	28,500

- In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year.
- If the two machines are sold in July, 2023 for ₹ 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		15,00,000
Less: W.D.V. of the machines as on 1.4.2023	7,70,000	
Purchase of second plant during the year	6,10,000	
		13,80,000
Short term capital gains		1,20,000



Question 3

MTP April'21 & Nov 19

Mr. Yogesh 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	9000	2-6-2022	Yes
B	15000	15-5-2022	Yes
C	12000	4-8-2022	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	11500	20-4-2023	10-5-2023
E	14000	15-5-2023	18-5-2023

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

4 Marks

Answer:

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

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000 kgs) purchased on 15.5.2020	11	₹ 1,000	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle		Rate per month		
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on 20.4.2023	12	₹ 7,500	-	90,000
Total				6,04,000

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. Yogesh.



Question 4

MTP Oct'20, RTP May 18

Mr. Abhimanyu has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2024:

Sl. No.	Particulars	₹ (in lakhs)
(I)	Payment made to AB University, an approved University	15
(ii)	Payment made to Soya College	17
(iii)	Payment made to IIT, Madras (under an approved programmed for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2024-25, while computing his income under the head "Profits and gains of business or profession".

4 Marks

Answer:

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	150% (100%)	22.5 15
Soya College [See Note 1]	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	12	35(2AA)	150% (100%)	18 12
In-house research [See Note 2]				
Capital expenditure - Purchase of Machinery	25	35(1)(iv) row 35(2)	100%	25
Deduction allowable under section 35				65.50 52

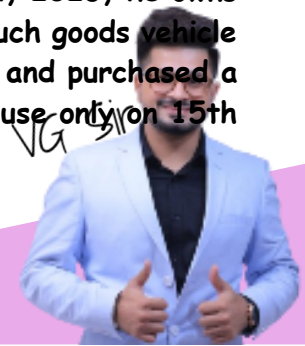
Notes: -

1. Payment to Soya College: Since the Question clearly mentions that AB University (mentioned in item (I)) is approved research institutions, it is logical to conclude that Siya College mentioned in item (ii) is not an approved research institution. Therefore, payment to Siya College would not qualify for deduction under section 35.
2. Deduction for in-house research and development: Only company assesses are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business. *(As per amendment sec 352AA & sec 35(1)(ii) the deduction limit is reduced from 150% to 100%)*

Question 5

MTP March'19

Mr. Satinder is engaged in the business of plying goods carriages. On 1 set April, 2023, he owns 10 trucks (out of which 5 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 17,000 kg each). On 5th May, 2023, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 8th May, 2023. This new vehicle could however be put to use only on 15th



July, 2023. Compute the total income of Mr. Satinder for the assessment year 2024-25, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,50,500
Less : Operational expenses	5,25,500	
Depreciation as per section 32	1,85,000	
Other office expenses	17,000	7,27,500
Net Profit		5,23,000
Other business and non- business income		70,000

5 Marks

Answer:

Section 44AE would apply in the case of Mr. Satinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year. Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assesses in the previous year or such higher sum as declared by the assesses in his return of income. Mr. Santander's business income calculated applying the provisions of section 44AE is ₹13,82,500 [See Notes (1) & (2) below] and his total income would be

₹14,52,500. However, as per section 44AE (7), Mr. Satinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹5,23,000 instead of ₹13,82,500 and his total income would be ₹5,93,000.

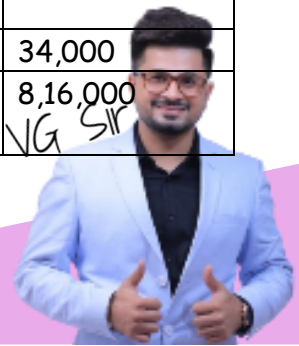
Notes:

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

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note (2) Below]	13,82,500	5,23,000
Other business and non-business income	70,000	70,000
Total Income	14,52,500	5,93,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/per month	Ton	Amount ₹
(1)	(2)		(3)	(1) × (2) × (3) = (4)
Heavy goods vehicle				
1 goods carriage up to 5th May	2	1,000	17 (17,000/ 1,000)	34,000
4 goods carriage held throughout the year	12	1,000	17 (17,000/ 1,000)	8,16,000



Goods vehicle other than heavy goods vehicle				
1 goods carriage from 8th May	11	7,500	-	82,500
5 goods carriage held throughout the year	12	7,500	-	4,50,000
Total				13,82,500

Question 6

MTP March'18

Kapil & Sons, a partnership firm consisting of two working partners, reports a net profit of ₹ 6,00,000 before deduction of the following items:

- (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery purchased on 15.7.2013 by a bearer cheque in single payment for ₹ 1,50,000.
- (3) Interest on capital at 18% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹5,00,000

You are required to compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the assessment year 2024-25 as per section 40(b).

5 Marks

Answer:

- (i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partner. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 (See note below)	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	60,000
Book Profit		5,40,000

Note:

As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on plant and machinery purchased on 15.7.2013 is not allowable since the payment is made otherwise than by A/c payee cheque/ A/c payee draft/ ECS to a person in a day.

- (i) Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -



On the first ₹ 3,00,000 of bookprofit or in case of loss	₹ 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2024-25 in this case would be:

Particulars	₹
On the first ₹3,00,000 of book profit [(₹1,50,000 or 90% of ₹ 3,00,000) whichever is more.]	2,70,000
On the balance of book profit [60% of (₹ 5,40,000 - ₹ 3,00,000)]	1,44,000
Maximum allowable partners' salary	4,14,000

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is ₹ 4,14,000.

Question 7

RTP Nov '18

Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2024-25 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross Profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

- He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2023 to M/s Décor World.
- Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
- No deduction of tax at source on payment of interest on bank loan has been made.
- Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employee's contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2024-25.



Answer:

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

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
Less: Expense allowed		14,75,000
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		40,000
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		14,35,000
		25,000
Business Income		14,60,000

Notes:-

- Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
- Provisions for bad debts is allowable as deduction under section 36(1)(viiia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
- Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.
- Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
- Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2024-25.
- As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.
- Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
- TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.



Question 8

RTP May '20

Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2023. The following machineries (falling under 15% block) purchased by him during the previous year 2023-24.

		Amount(₹ lakhs)
(i)	Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2023, 25th July 2023 and 1st August 2023, respectively). Payment is made on 15th April 2024 to Sahaj Limited by net banking.	58
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2023). The Invoice was paid through a cash payment on the same day.	35
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2023 (The payment for the purchase invoice was made through NEFT on 5th January, 2024)	15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the assessment year 2024-25.

Answer:

Computation of depreciation under section 32 for A.Y. 2024-25

Particulars	₹	₹
Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash and installed on 8.8.2023 [Since payment of ₹ 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable]		NIL
Second hand Machinery M from Sunshine Ltd on 18.12.2023 assuming it is installed and put to use in P.Y. 2023-24. [Since payment is made to Sunshine Ltd by way of use of ECS]		
Actual Cost		73,00,000
Depreciation for P.Y.2023-24		
Depreciation@15% on Machineries X, Y and Z on ₹ 58 lakhs	8,70,000	
Depreciation@7.5% (50% of 15%) on ₹ 15 lakhs for Machinery M since it is put to use for less than 180 days	1,12,500	



	9,82,500	
Additional Depreciation@35% on ₹ 58 lakhs, since the machinery is acquired and installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh	20,30,000	
Additional depreciation is not allowable on second hand machinery	-	
Depreciation under section 32 for A.Y. 2024-25	30,12,500	

Question 9

RTP Nov '23

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

M/s XY & Co., a partnership firm, is engaged in the business of operating goods vehicles and computes its income on presumptive basis under section 44AE. Since the income is computed under section 44AE, no further deduction of any kind is allowable from the income so computed.

Answer:

The statement is incorrect.

If the income is computed under presumptive taxation under section 44AE, deduction allowable under section 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed. However, in case of firm, salary and interest paid to partners is deductible subject to the conditions and limits prescribed in section 40(b).

Question 10

PYQ Nov'18, RTP Nov '19

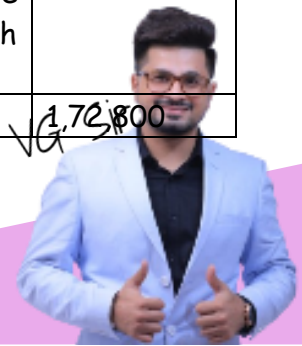
Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2023, for the purpose of his business as per following details:

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

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2024-25, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2025-26 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. **4 Marks**

Answer:

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2017- 18, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2023-24 = $15\% \times ₹15,36,000 \times 75\% =$	1,72,800



Written Down Value as on 1.4.2024 = ₹15,36,000 - ₹1,72,800 = ₹13,63,200	
Depreciation for P.Y.2024-25 = 15% × ₹13,63,200 × 75% =	1,53,360

Note -

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

¹As per section 49(4), in case where capital gains arise from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition.

GST would form part of actual cost of car. The above solution has been worked out accordingly. However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows -

Alternative Answer

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

Question 11

PYQ Jan'21, RTP Nov '19

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:

- ₹ 15,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- ₹35,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- 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.
- 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 2019-20. 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 2020-21.
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
 - 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.
 - ₹ 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 does not opt for section 115BAC

14 Marks

Answer:

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

	Particulars	₹	₹	₹
	Income from business or profession			
I	Net profit as per profit and loss account		3,95,11,290	
	Add: Items of expenditure debited but not allowable while computing business income			
	(a) Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	15,000		
	(b) Contribution to a university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required]	-		



	(c) Interest on loan taken for purchase of e-vehicle [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.]	1,75,000		
	(iii) Sale of goods to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 3 lakh]	-	1,90,000	
			3,97,01,290	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	(i) Royalty on patent [Not taxable as business income since Mr. Anmol is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income.]	3,50,000		
	(ii) Bad debt recovered [Actual bad debt is ₹ 1 lakhs i.e., ₹ 4 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 2.50 lakhs. Bad debt recovered to the extent of ₹ 1.50 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 1.50 lakhs has to be reduced]	1,50,000	5,00,000	
			3,92,01,290	
	Less: Allowable expenditure			
	7. Depreciation on car [₹ 14 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2021-22]		2,10,000	
				3,89,91,290
II	Capital Gain			
	Long term capital gain on sale of house property		55,00,000	
	Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.] [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]		55,00,000	
III	Income from Other Sources			
	Royalty on patent [Taxable as "income from other sources", since he is engaged in business of manufacturing]			
	Gross Total Income			3,93,41,290
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D - Medclaim premium for self and spouse [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]	20,000		
	- Preventive health checkup of self and spouse [Preventive health checkup paid in cash allowed to the extent of ₹ 5,000]	5,000	25,000	
	Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2023-24, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]		1,50,000	
	Deduction under section 80G [Donation of ₹ 15,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]		-	



Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]		3,00,000	4,75,000
Total income			3,88,66,290

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

Particulars	₹	₹
Tax on total income of ₹ 3,88,66,290		
Up to ₹3,00,000	Nil	
₹3,00,001 - ₹ 5,00,000 [@5% of ₹2 lakh]	10,000	
₹5,00,001 - ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001- ₹ 3,88,66,290 [@30% of ₹ 3,78,66,290]	1,13,59,887	1,14,69,887
Add: Surcharge @ 25%, since total income exceeds ₹ 2,00,00,000 but does not exceed ₹ 5,00,00,000		28,67,472
		1,43,37,359
Add: Health and education cess@4%		5,73,494
Total tax liability		1,49,10,853
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

Question 12

MTP March '23, RTP July'21

Mr. Samar, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2024 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to financial year 2023-24:

(i) The expenses on Employees' Remuneration & Benefits includes:

(a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.



- (b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Samar, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr. Samar as Employees' Contribution to EPF for the month of February, 2024 - ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Samar. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Annalee on 5th January, 2024 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2023 were as follows:
Professional Books ₹ 90,000 Computers ₹ 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2023 and was put to use on the same day. The payment was made as under:
- ₹ 18,000 paid in cash at the time of purchase of new furniture on 31.08.2023.
 - ₹ 19,000 paid by account payee cheque on 05.09.2023 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31.08.2023 to the transporter as freight charges for the new furniture.
- (vii) Mr. Samar purchased a car on 02.04.2022 for ₹ 3,35,000 for personal use. However, on 30.04.2023 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2023 was ₹ 2,50,000.
- (viii) Mr. Samar made a contribution of ₹ 1,00,000 in his PPF A/c on 31.01.2024.
- (ix) The Gross Professional Receipts of Mr. Samar for P.Y. 2022-23 was ₹ 52,00,000.
- Compute the total income and tax liability of Mr. Samar for A.Y. 2024-25, assuming that he has not opted for payment of tax under section 115BAC.
- Ignore provisions under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

14 Marks

Answer:

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

Particulars	₹	₹	₹
Income from business or profession		39,43,000	
Excess of income over expenditure			
Add: Items debited but not allowable while computing business income			
- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assesses / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" ¹ for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar's sister-in-law]	Nil		



- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
- Commission to Ms. Annalee without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2022-23. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2024-25]	7,500		
- Depreciation as per books of account	90,000	2,45,500	
- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000		
		41,88,500	
Add: Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employee's contribution to EPF for February 2024 is deposited after the due date under the relevant Act, no deduction would be available]		10,000	
Less: Depreciation as per Income-tax Rules		41,98,500	
- On Professional Books [₹ 90,000 x 40%]	36,000		
- On Computers [₹ 35,000 x 40%]	14,000		
- On Furniture [₹ 19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2023 in cash would not be included in the actual cost of furniture]	1,900		

	- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., ₹ 3,35,000]	50,250	1,02,150	
			40,96,350	
II	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000	1,01,000	
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	21,000		
	Income from Other Sources	1,00,000		39,95,350
	Interest on savings bank account	21,000	20,000	
	Interest on National Savings Certificates VIII Issue (3 rd Year)		21,000	41,000
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A Deduction under section 80C			
	Contribution to PPF Interest on NSC (3rd Year) (Reinvested)		1,21,000	



Deduction under section 80D Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
Deduction under section 80TTA Interest on savings bank account to the extent of ₹ 10,000		10,000	1,81,000
Total Income			38,55,350

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

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	8,56,605	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		10,07,869
Tax liability (rounded off)		10,07,870

Question 13

RTP Nov 18

You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2024-25 from the following information shown in his Profit and Loss Account for the year ended 31st March 2024:

- 1) The net profit was ₹ 8,40,000.
 - 2) Depreciation debited in the books of account was ₹ 1,05,000.
 - 3) The following incomes were credited in the Profit & Loss Account :
 - a. Interest on notified government securities ₹ 32,000
 - b. Dividend from a foreign company ₹ 28,000.
 - c. Gold chain worth ₹ 78,000 received as gift from his mother.
 - 4) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2023.
 - 5) General expenses included:
 - (a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
 - (b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.
- Additional Information:**
- 6) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].
 - 7) He contributed the following amounts by cheque:
 - (a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.
 - (b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.



- (c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check up for self and his wife.
- (d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

Answer:

Computation of total income of Mr. Anoop for the Assessment Year 2024-25

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: Income credited to profit and loss account but not taxable under this head Interest on notified government securities	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	78,000	1,38,000	
Add: Depreciation debited in the books of account		7,02,000	
		1,05,000	
		8,07,000	
Add: Expenses debited to profit and loss account but not allowable as deduction		1,00,500	
Interest on capital borrowed for purchase of plant & machinery [As per the proviso to section 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2014 not allowable as deduction. The said amount has to be added to the cost of the asset ⁴ . Since the amount has been debited to profit and loss account, it has to be added back].	82,000		
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	-		
Less: Depreciation allowable under the Income-tax Act, 1961 [Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2023-24]		9,07,500	7,91,500
Income from Other Sources			
Interest on notified Government Securities, exempt under section 10(15)		-	
Dividend from foreign company [(not exempt under section 10(34)]		28,000	



Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]		-	28,000
Gross Total Income			8,19,500
Less: Deductions under Chapter VI-A			1,31,000
Under section 80C			
Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			
Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health checkup, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name, restricted to ₹ 30,000 as per amendment the limit is increased to ₹ 50,000	35,000	60,000	
Under section 80G			
Donation to Clean Ganga Fund (qualifies for 100% deduction)		23,000	
Total Income			6,88,500
Tax on total income @ 5% on ₹ 2,50,000 (₹ 5,00,000 less ₹ 2,50,000, being the basic exemption limit) plus @20% on ₹ 1,88,500 (in excess of ₹ 5,00,000)			50,200
Add: Education cess @2%			1024
Add: Secondary and higher education cess @1%			512
Add: EC & SHEC @4%			2008
Tax Payable			52,208
Tax Payable (rounded off)			52,200

Question 14

RTP Nov '19

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2024 is as follows:

Income and Expenditure account for the year ending 31st March, 2024

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		



To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2023-24:

- (1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.
- (2) Written down value of the assets as on 1st April, 2023 are as follows: Motor Car (25% used for personal use) ₹ 3,50,000 Furniture and Fittings ₹ 80,000
- (3) Medical expenses include:
 - Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
 - Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.
- (4) The computer was purchased on 5th June, 2023 on credit. The total invoice was paid in the following manner:
 - ₹ 18,000 paid in cash as down payment on the date of purchase.
 - Remaining amount was paid through account payee cheque on 10th August, 2023.
- (5) Bonus was paid on 30th September, 2023.
- (6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2023 without deduction of tax at source.
- (7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2023. The market value of the coins on the said date was ₹ 85,000.

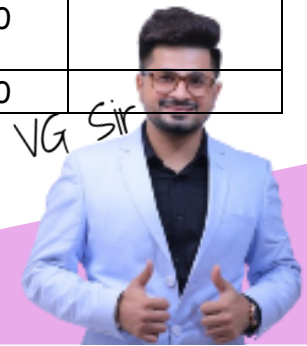
The consultancy fees for the previous year 2022-23 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the assessment year 2024-25.

Answer:

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

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 × 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	



- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2023)	-	
[For the P.Y.2022-23 the gross receipts i.e., fees of Mr. Manohar from consultancy services are ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 30.9.2023 (as per amendment 31 st Oct from AY 22-23)]		
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2023-24, since his gross receipts from profession during the P.Y.2022-23 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
Less: Income credited but not taxable or taxable under any other head		52,07,600
- Share of profit from HUF (Exempt)	55,000	
- Interest on bank fixed deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 [See Working Note]		76,175
- Income from Other Sources		50,25,425
- Interest on bank fixed deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2)(x), as the fair market value of such coins exceeds - ₹ 50,000)	85,000	1,36,000
Gross Total Income		51,61,425
Less: Deduction under Chapter VI-A		
Section 80D Medical expenses for father (Deduction allowable to the extent of ₹50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		50,000
Total Income		51,11,425
Total Income (Rounded off)		51,11,430

Computation of tax liability of Mr. Manohar for A.Y. 2023-24

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Up to ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	



Above ₹ 10,00,001 i.e., 41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
Less: Marginal Relief:		14,80,522
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		14,80,887
Tax liability (rounded off)		14,80,890

Working note:**Computation of depreciation allowable as per Income-tax Act, 1961**

Particulars	₹
On Motor Car	
₹ 3,50,000 × 15% × 75%	39,375
On Furniture and fittings	
₹ 80,000 × 10%	8,000
On Computer	
₹ 72,000 × 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 - ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.	28,800
	76,175

Question 15

RTP Nov'22

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 Account

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:

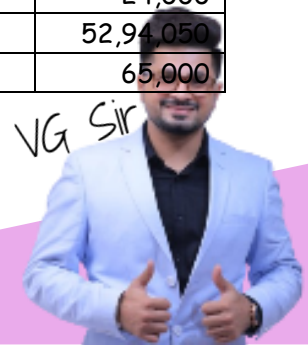
- (i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (ii) Bonus to staff includes an amount of ₹ 7,500 relating to P.Y. 2022-23, paid in the month of December 2023.
- (iii) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (iv) Miscellaneous expenses include:
 - (a) amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - (b) amount of ₹ 1,00,000 paid to Political Party by cheque.
- (v) 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.
- (vi) 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".
- (vii) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) 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.

Answer:

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

Particulars		₹
Net profit as per profit and loss account		50,85,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	30,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	50,55,000
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 2)	2,500
	- Payment made to political party by cheque (See Note 4)	1,00,000
	- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 5)	5,300
	- Depreciation as per books	1,07,250
	- 30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		52,94,050
Less:	Depreciation allowable as per Income-tax Act, 1961	65,000



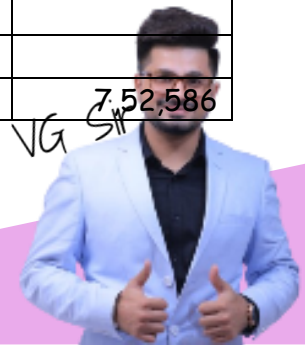
Less:	Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately		52,29,050
			22,50,000
	Income from business (other than specified business)		29,79,050
	Computation of income/ loss from specified business		
	Income from specified business	₹22,50,000	
	Less: Deduction under section 35AD @ 100% of ₹ 20 lakhs (See Note 6)	₹20,00,000	
	Income from specified business		2,50,000
	Profits and gains from business or profession		32,29,050
	Income from Other Sources		
	Interest on income-tax refund		4,570
	Gross Total Income		32,33,620
Less:	Deduction under section 80GGC		
	Contribution to Political Party (See Note 4)		1,00,000
	Total Income		31,33,620

Notes -

- 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.
- The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- 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.
- 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.
- 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.
- Deduction @ 100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

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

Particulars	₹	₹
Tax on total income of ₹ 31,33,620		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,33,620 [@30% of ₹ 21,33,620]	6,40,086	7,52,586



Add: Health and education cess@4%		30,103
Total tax liability		7,82,689
Total tax liability (rounded off)		7,82,690

Computation of adjusted total income and AMT of Mr. Kamal for A.Y. 2024-25

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Adjusted Total Income		49,33,620
Alternative Minimum Tax@18.5%		9,12,720
Add: Health and education cess@4%		36,509
Total tax liability		9,49,229
Total tax liability (rounded off)		9,49,230

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

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

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		32,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Gross Total Income/Total Income as per section 115BAC		50,33,620
[No deduction under Chapter VI-A allowable]		

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,33,620		
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%]	45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%]	60,000	
Above ₹ 15,00,000 @30%	10,60,086	12,10,086

Computation of marginal relief

Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]	1,21,008
	13,31,094
Less: Marginal relief (See computation below)	97,474
	12,33,620
Add: Health and education cess@4%	49,345
Total tax liability	12,82,965
Total tax liability (Rounded off)	12,82,970



Notes:

- (1) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) An individual exercising option u/s 115BAC is not liable to alternate minimum tax u/s 115JC. Since the tax liability of Mr. Kamal under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt for section 115BAC for A.Y. 2024-25. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	9,49,230
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,82,690
	1,66,540

Question 16

RTP Nov '23

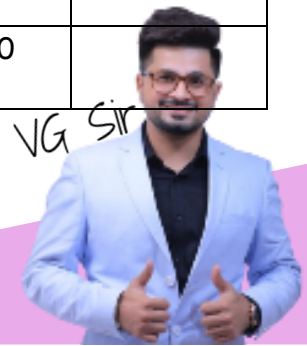
AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2024, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

	₹
(i) Current year revenue expenditure on scientific research	2,40,000
(ii) Unabsorbed capital expenditure on scientific research relating to P.Y. 2020-21	85,000
(iii) Brought forward business loss of A.Y. 2015-16	40,000
(iv) Unabsorbed depreciation of A.Y. 2012-13	52,000
(v) Current year depreciation under section 32	4,70,000
(vi) Brought forward business loss of A.Y. 2019-20	49,000
(vii) Current year capital expenditure on scientific research	3,45,000

You are required to compute the total income of AB Light LLP for A.Y. 2024-25 after considering the above items. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Answer:**Computation of total income of AB Light LLP for the A.Y. 2024-25**

Particulars		Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
-Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% × 2)	3,60,000	



-Current year revenue expenditure on scientific research under section 35(1)(i)	2,40,000	6,00,000
- Current year depreciation under section 32(1)	4,70,000	19,86,000
-Current year capital expenditure on scientific research under section 35(1)(iv)	3,45,000	
-Unabsorbed depreciation of A.Y. 2012-13 under section 32(2)	52,000	
-Unabsorbed capital expenditure on scientific research relating to P.Y. 2020-21 under section 35(4)	85,000	9,52,000
Book Profit		10,34,000
Less: Partners' remuneration allowable under section 40(b)		
(i) As per limit prescribed in section 40(b)		
On first ₹ 3,00,000 90%	2,70,000	
On the balance ₹ 7,34,000 60%	4,40,400	
(ii) Remuneration actually paid or payable [₹ 50,000 × 12 + ₹ 40,000 × 12]	7,10,400	
	10,80,000	
(i) or (ii) whichever is less, is deductible		7,10,400
Profit from manufacturing business		3,23,600
Less: Brought forward business loss of A.Y. 2015-16 [Not allowed to set off in the last 8 years have been already expired]	-	
Less: Brought forward business loss of A.Y. 2019-20	49,000	49,000
Profits and gains of business or profession		2,74,600

Remuneration taxable in the hands of Mr. Anand as business income = ₹ 7,10,400 × 6,00,000/10,80,000 = ₹ 3,94,667

Remuneration taxable in the hands of Mr. Bheem as business income = ₹ 7,10,400 × 4,80,000/10,80,000 = ₹ 3,15,733

Question 17

PYP Nov '22

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2024.

Receipts	₹	Payments	₹
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2023 received in April, 2023		Entertainment Expenses	1,10,000
IPD 40,000	85,000	Purchase of Television	48,000
OPD 45,000			
Dividend from shares (net)	18,900	Gift to daughter-in law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500



	19,18,500		19,18,500
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Other Information:

- 1) He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- 2) Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.
- 3) Entertainment expenses include ₹ 25,000 for dinner to doctors in a five star hotel.
- 4) Interest on loan for repairs to property includes ₹ 40,000 for his residential property.
- 5) His daughter in law earned income of ₹ 10,000 from the amount received as gift.
- 6) Fixed Assets values as on 01.04.2023 are as under :
 - Nursing Home Equipment's ₹ 2,20,000,
 - Medical Books (incl. annual publications ₹ 10,000) ₹ 35,000,
 - Laptop ₹ 40,000.
- 7) Television purchased for nursing home purpose on 21.09.2023 is put to use on 03.10.2023.
- 8) He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2023. You are required to Compute the total income and tax payable by him for AY 2024 -25 as per the regular provisions of the Income-tax Act, 1961.

Assume that he has not opted for section 115BAC.

What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA?

14 Marks

Answer:

Computation of total income and tax payable by Dr. Rohan for A.Y. 2024-25 as per the regular provisions of the Act

	Particulars	₹	₹	₹
I	Income from house property			
	Annual value [Assuming residential property self-occupied]		Nil	
	Less: Deduction under section 24(b)			
	Interest on loan for repairs to property, ₹ 40,000, restricted to		30,000	
	Loss from self-occupied property			30,000
	[can be set-off against Profits and gains of business or profession or Income from other sources]			
	Profits and gains from business and profession			
	Gross Receipts			
	Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2023 received in April 2023 [Fees for March 2023 is chargeable to tax during P.Y. 2023-24, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]	85,000		
	Fees received during the year	10,25,000		
	Gifts received from relatives of patients [taxable as business income]	45,000	18,05,000	
	Less: Permissible deductions			



Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 - ₹ 60,000]	2,90,000		
Taxes and insurance	26,000		
Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
Interest on loan for repair to property [to the extent relating to business] = ₹ 65,000 - ₹ 40,000, relating to residential property	25,000		
Nursing home expenses	3,75,000		
Professional fees paid for consulting services	1,20,000	9,46,000	
		8,59,000	
Less: Depreciation under section 32 Nursing home equipment's [2,20,000 x 15%]	33,000		
<i>Note - Nursing home equipment would be eligible for depreciation @15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment is in the nature of life saving medical equipment, they would be eligible for higher depreciation @40%. If 40% rate is applied, depreciation would be ₹ 88,000</i>			
Medical books [35,000 x 40%]	14,000		
Laptop [40,000 x 40%]	16,000		
Television [48,000 x 15%, since the television is put to use for 180 days during the P.Y. 2023-24] Note - Television would be eligible for depreciation @15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @40%. If 40% rate is applied, depreciation for TV would be ₹ 19,200. Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation@10%. If 10% rate is applied, depreciation for TV would be ₹ 4,800.	7,200	70,200	
Income from Other Sources			
Dividend from shares [18,900/90%]		21,000	
Honorarium for painting services in Jai Hind Art School [22,500/90%]		25,000	
Honorarium (Alternative without TDS)- ₹ 22,500			
Note - In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹ 22,500. Since the threshold limit for deducting tax at source under section 194J is ₹ 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.			



Interest on income-tax refund		1,500	
Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		10,000	57,500
Gross Total Income			8,16,300
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Deposits in PPF		55,000	
Deduction under section 80D Medical expenses to the extent of ₹ 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy)		50,000	
Deduction under section 80G Donation towards PM CARES Fund		10,000	1,15,000
Total Income			7,01,300
Tax Payable			
Up to ₹ 5,00,000 [since Dr. Rohan is aged 80years or above]		Nil	
₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300@20%]		40,260	
			40,260
Add: HEC@4%			1,610
Tax liability			41,870
Less: TDS on fees from visits to other hospitals		65,000	
TDS on dividend from shares		2,100	
TDS on honorarium for painting services in JaiHind art School		2,500	69,600
Tax Refundable			27,730

Computation of total income and tax payable by Dr. Rohan for A.Y. 2024-25 if he opts for section 44ADA

	Particulars	₹	₹
I	Income from house property		
	Loss from self occupied property		(30,000)
II	Income from business or profession		
	Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]		9,02,500
III	Income from Other Sources		57,500
	Gross Total Income		9,30,000
	Less: Deduction under Chapter VI-A		1,15,000
	Total Income		8,15,000
	Tax Payable		
	Upto ₹ 5,00,000	Nil	
	₹ 5,00,001 to ₹ 8,15,000 [3,15,000@20%]	63,000	
			63,000



	Less: HEC@4%		2,520
	Tax liability		65,520
	Less: TDS		69,600
	Tax Refundable		4,080
Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.			

Question 18

MTP, Nov'21, RTP Nov'21

Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2023-24, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs were received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions of section 115BAC. What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings.

3 Marks**Answer:**

Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD
The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than Rs. 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

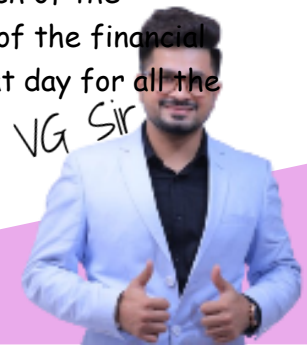
Particulars	Rs.
6% of Rs. 25 lakhs, being turnover effected through account payee cheque	1,50,000
8% of Rs. 85 lakhs, being cash turnover	6,80,000
	8,30,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in Rs.	
Total Income	8,30,000	
Tax on 8,30,000		
Upto Rs. 2,50,000	Nil	
₹ 2,50,001 - Rs. 5,00,000@5%	12,500	
₹ 5,00,001 - Rs. 8,30,000@20%	66,000	78,500
Add: Health and Education cess@4%		3,140
Tax liability		81,640

Accordingly, she is required to pay advance tax of Rs. 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.



Question 19

Discuss in brief about deduction on account of Preliminary Expenses under section 35D. **5 Marks**

Answer:

Under section 35D an Indian Company or a resident non-corporate assessee can claim deduction in respect of preliminary expenses incurred before commencement of business or setting up a new unit (Including extension of the business).

Maximum qualifying amount is as under:

- (a) Corporate assessed - 5% of cost of the project. Or 5% of capital employed, whichever is more.
- (b) Non-Corporate assessed - 5% of cost of the project.

Deduction of preliminary expenses is allowed in five successive previous years equally (1/5th Every Year) beginning from year of commencement of business.

Question 20

CS Execu. June'14 New

What are the special provisions for computing Profits and Gains of Business or Profession on presumptive basis under section 44AD? **5 Marks**

Answer:

Under section 44AD if the taxpayer is ordinary resident or Hindu Undivided Family or Resident Partnership firm (except limited liability) and engaged in any business (except business of negative list), whose annual turnover does not exceed ₹ 2 crores can opt for taxation on estimated income basis. Presumptive income will be 8 per cent (6% if received by a/c payee cheque/drafts/ECS, etc.) of turnover (without any deduction therefrom). In such case assessee will enjoy following benefits:

1. He is not required to maintain account books.
2. He can pay advance tax in one instalment up to 15th March.
3. He can submit his return of income in ITR-4 (a simplified form).

Question 21

CS Execu. June'14 New

Discuss giving reason regarding admissibility or otherwise of the following expenditures while computing income under the head Income from Business or Profession :

- (i) Expenses incurred in connection with a branch, the business of which was discontinued during the previous year.
- (ii) Penalty paid to customs authorities for importing prohibited goods which gave a huge profit to the business.
- (iii) Interest paid on an amount borrowed to acquire a plant for business use upto the date on which the plant is put to use.
- (iv) Rent paid to daughter of the assessee for her building used as office premises of the business. The building was actually gifted to her by the assessee (father) at the time of her marriage. (You need not rewrite the statements. Write only admissible/Not admissible with reasons).

4 Marks



Answer:

(i) **Admissible:** Expenses incurred in connection with a branch, the business of which was discontinued during the previous year, are admissible while computing income under the head Income from business or profession as the discontinuance of a branch is not discontinuance of whole business.

(ii) **Not Admissible:** Penalty paid to customs authorities for importing prohibited goods which is an illegal activity and therefore not admissible while computing income under the head Income from Business or Profession.

(iii) **Not Admissible:** Interest paid on an amount borrowed to acquire a plant for business use up to the date on which the plant is put to use is capital in nature and shall be capitalized by adding with the cost of the plant and therefore not admissible while computing income under the head Income from Business or Profession.

(iv) **Admissible:** The building is owned by the daughter of the assessed and used for the business of the assessed. Therefore, rent paid to daughter of the assesses for her building used as office premises is allowed up to the reasonable limit (Not exceeding market rent).

Question 22

CS Execu. June'14 New

XYZ Pvt. Ltd. furnishes the following information relating to its two business units, one located in Special Economic Zone (SEZ) and other located in Domestic Tariff Area (DTA) for the year ended 31-3-2024:

Particulars

Total turnover of Unit A located in SEZ	400
Profit of the business of Unit A	120
Export turnover of Unit A	200
Total turnover of Unit B located DTA	800
Profit of the business of Unit B	80

You are required to compute the deduction available under section 10AA to XYZ Pvt. Ltd. for the Assessment Year 2024-25 by taking that Unit A in SEZ was set-up in the previous year 2019-20 and separate books of account are being maintained for both the units by the company. Give brief reasons for your answer in the context of provisions of the Act. **4 Marks**

Answer:

100% of the profits derived from export of articles or things or services are eligible for deduction under section 10AA of the Income-tax Act, 1961 within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the unit in SEZ and thereafter for next 5 years 50%.

Unit A in SEZ is in fifth year of operation and therefore deduction of 100% is available as per section 10AA(7). The profit derived from export of articles or things or services shall be the amount which bears to the profits of business of the undertaking, being the Unit, the same proportion as the export turnover of the business carried on by the undertaking as the separate books of account for both the units have been maintained.

Deduction under section 10AA

$$= \text{Profits of the business of Unit A} \times (\text{Export Turnover of Unit A} / \text{Total Turn of Unit A})$$

$$= ₹ 120 \text{ Lakhs} \times (200/400)$$



= ₹ 60 Lakhs

Question 23

CS Execu. June'14 New

Mr. Aman has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2024:

	Particulars	₹ (in lakhs)
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Siya College	17
(iii)	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2024-25, while computing his income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC .

4 Marks

Answer:

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	Nil	Nil
Siya College	17	-	Nil	Nil
IIT Bangalore (under an approved programme for scientific research)	12	35(2AA)	Nil	Nil
In-house research				
Capital expenditure - Purchase of Machinery	25	35(1)(iv) r. w. 35(2)	100%	<u>25</u>
Deduction allowable under section 35				<u>25</u>

Deduction under section 35(1)(ii) and 35(2AA) is not allowable under default tax regime under section 115BAC.



Multiple Choice Questions

Question 1

MTP Nov '21

K is a working partner in a firm on behalf of his HUF and the HUF has contributed ₹3,00,000 as its capital contribution. Apart from this, K has given a loan of ₹ 50,000 to the firm in his individual capacity. The firm pays interest as per market rate of 15% per annum on capital as well as loan. Compute the amount of interest that shall be allowed to the firm while calculating its business income assuming that the interest is authorized by the partnership deed.

- (a) ₹ 42,000
 (b) ₹ 51,000
 (c) ₹ 52,500
 (d) ₹ 43,500

Question 2

MTP April'21

Mr. C aged 35 years is a working partner in M/s BCD, a partnership firm, with equal profit-sharing ratio. During the P.Y. 2023-24, the firm has paid remuneration to Mr. B, Mr. C and Mr. D, being the working partners of the firm, of ₹ 2,00,000 each. The firm has paid interest on capital of ₹ 1,20,000 in total to all the three partners and the same is within the prescribed limit of 12%. The firm had a loss of ₹ 1,12,000 after debiting remuneration and interest on capital.

Note - Remuneration and interest on capital is authorized by the partnership deed. You, being the CA of Mr. C, are in the process of computing his total income. What would be his taxable remuneration from the firm?

- (a) ₹ 2,00,000
 (b) ₹ 1,51,600
 (c) ₹ 1,27,600
 (d) ₹ 1,50,000

Question 3

MTP May'20

Mrs. Shavian, wife of Mr. Anurag, is a partner in a firm. Her capital contribution of ₹5 lakhs to the firm as on 1.4.2023 included ₹3.5 lakhs contributed out of gift received from Anurag. On 10.4.2023, she further invested ₹2 lakhs out of gift received from Anurag. The firm paid interest on capital of ₹ 50,000 and share of profit of ₹ 60,000 during the F.Y.2023-24. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?

- a) Share of profit is exempt but interest on capital is taxable in the hands of M^{rs} Shavian.
 b) Share of profit is exempt but interest of ₹ 39,286 is includible in the income of Mr. Anurag and interest of ₹ 10,714 is includible in the income of M^{rs} Shivani.
 c) Share of profit is exempt but interest of ₹ 35,000 is includible in the income of Mr. Anurag and interest of ₹ 15,000 is includible in the income of M^{rs} Shivani.
 d) Share of profit to the extent of ₹ 42,000 and interest on capital to the extent of ₹ 35,000 is includible in the hands of Mr. Anurag.



Question 4

MTP Oct'19

Match the following to their respective rate of depreciation -

L.	Pollution control equipment	1.	10%
M.	Commercial building	2.	40%
N.	Oil Wells	3.	100%
		4.	15%

Select the correct answer from the options given below:

	L.	M.	N.
(a)	2	1	4
(b)	4	2	1
(c)	2	4	1
(d)	3	1	4

Question 5

MTP Oct'19

Mr. Kunal is a doctor by profession engaged in his medical practice from last 15 years His gross receipts from the profession in FY 2021-22, 2022-23, 2023-24 were ₹2,00,000, ₹16,00,000 and ₹18,50,000 respectively. Further, Kunal follows cash system of accounting. Determine which of the following books of accounts and documents are required to be kept and maintained by Kunal.

- (i) Cash Book
 - (ii) Journal
 - (iii) Inventory of the stock of drugs, medicines, etc.
 - (iv) A daily case register
- (a) (i) and (ii)
 - (b) (i), (ii), (iii) & (iv)
 - (c) (i), (iii) & (iv)
 - (d) none of the above

Question 6

MTP Oct'19

Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments he made throughout the year -

12.06.2013: loan repayment of ₹ 27,000 taken for business purpose from his friend Kunal. The repayment also includes interest of ₹ 5,000.

19.08.2013: Portable dye machinery purchased for ₹ 15,000. The payment was made in cash in three weekly instalments.

26.01.2014: Payment of ₹ 10,000 made to electrician due to unforeseen electric circuit at shop

28.02.2014: Purchases made from unregistered dealer for ₹ 13,500

What will be disallowance under 40A (3), if any, if Mr. Shahid opts to declare his income as per the provisions of section 44AD?

- (a) ₹ 18,500
- (b) ₹ 28,500
- (c) ₹ 13,500
- (d) NIL



Question 7

MTP April'19

M/s ABC & Co., a firm carrying on business, furnishes the following particulars for the P.Y. 2023-24.

Particulars	₹
Book profits (before setting of unabsorbed depreciation and brought forward business loss)	2,50,000
Unabsorbed depreciation of P.Y.2017-18	1,20,000
Brought forward business loss of P.Y.2022-23	2,00,000

Compute the amount of remuneration allowable under section 40(b) from the book profit.

- (a) ₹ 2,25,000
 (b) ₹1,80,000
 (c) ₹1,50,000
 (d) ₹1,17,000

Question 8

MTP March'19

Which of the following persons are compulsorily required to get their accounts audited u/s 44AB of the Income-tax Act, 1961?

- (i) An assessee, who has not opted for presumptive taxation and his turnover during the P.Y. is ₹2 crores.
 (ii) A professional whose gross receipts during the previous year amounts to ₹50 lakhs, who declares his profits and gains from profession u/s 44ADA.
 (iii) An assessee having turnover of ₹1.5 crore, who declares his profits and gains from business u/s 44AD.
 (iv) A lawyer having gross receipts of ₹40 lakhs during the P.Y. who claims his profits and gains from the legal profession to be 40% of the gross receipts.
 (v) An individual who opts out of the presumptive taxation scheme u/s 44AD during the P.Y., however, his total income for the said year is ₹2,00,000.
- (a) (i), (iv)
 (b) (i), (iv), (v)
 (c) (i), (ii), (iv)
 (d) (iv), (v)

Question 9

MTP March 22

Mrs. Bhawna, wife of Mr. Sonu, is a partner in a firm. Her capital contribution of ₹ 10 lakhs to the firm as on 31.3.2023 included ₹ 6 lakhs contributed out of gift received from Sonu. On 1.4.2023, she further invested ₹ 2 lakh out of gift received from Sonu. The firm paid interest on capital of ₹ 1,20,000 and share of profit of ₹ 1,00,000 during the F.Y.2023-24. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?

- a) Share of profit is exempt but interest on capital is taxable in the hands of M₹ Bhawna
 b) Share of profit is exempt but interest of ₹ 80,000 is includible in the income of Mr. Sonu and interest of ₹ 40,000 is includible in the income of M₹ Bhawna
 c) Share of profit is exempt but interest of ₹ 72,000 is includible in the income of Mr. Sonu and interest of ₹ 48,000 is includible in the income of M₹ Bhawna
 d) Share of profit to the extent of Rs 60,000 and interest on capital to the extent of ₹ 72,000 is includible in the hands of Mr. Sonu Ans : (b)



Question 10

MTP April '22

Mr. Raja, a proprietor, commenced operation of the business of a new three-star hotel in Mumbai on 1.7.2023. He had made a total investment of ₹ 7.58 crores till 30.6.2023. Out of total investment of ₹ 7.58 crores, ₹ 1.58 crores was used for purchase of land in P.Y.2022-23. ₹ 4.70 crores was used for constructing Hotel and balance of ₹ 1.30 used for purchasing the furniture in P.Y. 2023-24. He wants to avail the benefit of deduction under section 35AD as he satisfied with all the conditions prescribed u/s 35AD. His profit and gains from the business for P.Y. 2023-24 is ₹ 50 lakhs before claiming deduction u/s 35AD. He wants to file his income-tax return on 12.12.2023. How much deduction Mr. Raja can claim for A.Y. 2024-25 and the losses which he can carry forward to A.Y. 2025-26?

- He can claim the deduction of ₹ 7.58 crores from his business income but he would not be able to carry forward the business loss of ₹ 7.08 crores
- He can claim the deduction of ₹ 6.00 crores from his business income and can carry forward the business loss of ₹ 5.50
- He can claim the deduction of ₹ 6.00 crores from his business income but cannot carry forward the business loss of ₹ 5.50
- He can claim the deduction of ₹7.58 crores from his business income and can carry forward the business loss of ₹ 7.08 crores Ans: (c)

Question 11

MTP April '23, RTP May'19

M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:

- ◆ Total turnover for the financial year 2023-24 is ₹ 130 lakh
- ◆ Out of the above:
 - ₹ 25 lakh received by A/c payee cheque during the financial year 2023-24;
 - ₹ 50 lakh received by cash during the financial year 2023-24;
 - ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
 - ₹ 30 lakh not received till due date of filing of return.

What shall be the amount of deemed profits of M/s ABC under section 44AD(1) for A.Y. 2024-25?

- ₹10.4 lakh
- ₹7.0 lakh
- ₹5.5 lakh
- ₹9.4 lakh



Question 12

RTP May '23

Mr. A engaged in the retail trading of toys, had acquired a motor vehicle - A for ₹ 4 lakhs on 20.08.2021, put to use on 04.10.2022 and another motor vehicle - B for ₹ 3 lakhs on 19.02.2022, put to use on 03.09.2022. On 01.04.2022, Mr. A took a vehicle loan of ₹ 5 lakhs at 10% p.a. and acquired the motor vehicle - C for ₹ 5 lakhs on 31.05.2022, put to use on 30.06.2022. On 30.07.2023 the same vehicle - C was sold for ₹ 5.50 lakhs and reacquired it back on 28.08.2023 for ₹ 6 lakhs. Assuming the above-mentioned assets are the only assets in the block of assets for Mr. A, what would be its total depreciation claim under section 32 for P.Y. 2023- 24?

- (a) ₹ 1,66,594
 (b) ₹ 1,62,094
 (c) ₹ 1,37,438
 (d) ₹ 1,60,500

Question 13

MTP May'20

'A' Transport company engaged in the business of plying goods carriage with 4 heavy vehicles and 3 non-heavy vehicles. All the non-heavy vehicles were sold on 10th May, 2021 and 2 heavy vehicles were acquired on the same date. Transporter wants to declare its income for AY 2023-24 as per

- (a) ₹ 5,70,000
 (b) ₹ 5,47,500
 (c) ₹ 5,55,000
 (d) ₹ 3,60,000

Question 14

MTP Mar'22

The WDV of the block of asset of plant & machinery depreciated @ 15% as on 1st April, 2022 was of ₹ 13,50,000. Out of this block, one machine was sold 1st July, 2022 for ₹ 4,50,000 and a new machine of ₹ 7,50,000 was purchased on 1st August, 2022 which could be put to use from 1st March, 2023. The amount of depreciation to be claimed on the block of plant & machinery in the computation of income for A.Y 2023-24 shall be :

- (a) ₹ 1,35,000
 (b) ₹ 2,47,500
 (c) ₹ 1,91,250
 (d) ₹ 2,53,125

Question 15

MTP Oct'22

Ping Pong is a Proprietorship firm of Pinga, resident in India having turnover from manufacturing and sale of Steel balls for the year 2022-23 of ₹ 148 lakh which is inclusive of amount of ₹ 42 lakh received through electronic clearing system/RTGS/NEFT. The accounts are not properly maintained by Pinga and therefore he wants to pay tax on the income computed under section 44AD of Act. Advise Pinga, how much income he will be required to pay tax for A.Y. 2023-24 as per section 44AD :

- (A) ₹ 11,84,000
 (B) Not allowed to opt 44AD being turnover above ₹ 100 lakh
 (C) ₹ 11,00,000
 (D) ₹ 8,88,000



Question 16

MTP Mar'21

Which out of the following elements shall be considered for bringing to tax the income under the head Income from Business & Profession?

- (i) Ownership of the business is not necessary
- (ii) Business must be legal
- (iii) Income may be earned in cash or kind
- (iv) Profit motive is not the sole consideration

- (a) (iii) & (iv)
- (b) (i), (iii) & (iv)
- (c) (ii) & (iii)
- (d) all the above four

Question 17

MTP April'19

Brownny Processors (P.) Ltd. Paid ₹ 4,50,000 as contract charges to Martin. It deducted tax at source @1% for the expenditure incurred up to 30th April, 2022 of ₹ 1,50,000 and did not deduct tax on the subsequent payments of ₹ 3,00,000 made during the previous year 2022-23. How much of the expenditure would be added to its income while computing the income of Brownny Processors (P) Ltd. of the assessment year 2023-24 ?

- (A) ₹ 4,50,000
- (B) ₹ 3,00,000
- (C) ₹ 1,50,000
- (D) ₹ 90,000

Answers

1	2	3	4	5	6	7	8	9	10
d	c	c	a	c	d	b	a	b	c
11	12	13	14	15	16	17			
d	c	b	c	c	b	d			



Descriptive Questions

Easy

Question 1

RTP May'20

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

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

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

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

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

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

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

Answer:

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

Particulars	Rs.
Basic salary [(₹50,000 × 7) + (₹60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of Rs. 50,000) (See Note 1)	70,000



Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs.6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia) Rs. 50,000	
Professional tax u/s 16(iii) (See Note 6) Rs.2,500	52,500
Taxable Salary	9,67,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax-free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2023, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child. It is assumed that the Leave Travel Concession was availed for journey within India.
6. He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
7. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment
8. i.e. professional tax paid during the year.
9. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs.2,500 is provided from salary.



Question 2

MTP Oct'21

Mr. Gyaan Chand purchased 1200 shares of "A" limited at ₹ ₹130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2005. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001 was ₹900 per share and ₹2,000 per share as on 31.01.2018. On 07.07.2023 Mr. Gyaan Chand sold all 1800 shares @ ₹ 2,400 per share at

Mumbai Stock Exchange and securities transaction tax was paid. Compute capital gain chargeable to tax in the hands of Mr. Gyaan Chand for the A.Y.2024-25. **4 Marks**

Answer:

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

Particulars	₹	₹
Capital Gains		
In respect of 600 shares (bonus shares)		
Full value of consideration [600 shares × ₹2,400 per share]	14,40,000	
Less: Cost of acquisition [600 shares × ₹2,000]	12,00,000	2,40,000
Higher of (I) and (ii), below		
(I) Nil, being cost of acquisition		
(ii) ₹2,000 per share, being the lower of FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration - ₹2,400 per share		
In respect of 1,200 original shares		
Full value of consideration [1,200 shares × ₹2,400]	28,80,000	
Less: Cost of acquisition [1,200 shares × ₹2,000]	24,00,000	4,80,000
Higher of (I) and (ii), below		
(I) ₹900, being original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹900), at the option of the assessee		
(ii) ₹2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration - ₹2,400 per share		
Long term capital gain		7,20,000

Question 3

MTP Oct'21

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

Answer:

Tax implications in the hands of HUF

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



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

Tax implications in the hands of Mr. Subhash Aggarwal

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

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

Question 4

MTP Nov'21

Mr. Raj is carrying on business of manufacture and sale of art-silk cloth. He purchased machinery worth ₹ 4 lacs on 1.5.2020 and insured it with United India Assurance Ltd against fire, flood, earthquake etc., The written down value of the asset as on 01.04.2023 was ₹ 1,87,850. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of the machinery, as on the date of fire etc., in case of destruction of loss. A fire broke out in August, 2023 causing extensive damage to the machinery of the assesses rendering them totally useless. The assesses company received a sum of ₹ 4 lacs from the insurance company on 15th March, 2024. Examine the issues arising on account on the transactions and their tax treatment.

4 Marks

Answer:

As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head "Capital Gains" and shall be deemed to be the income of such person of the previous year in which such money or asset was received.

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was destroyed and the money from the insurance company was received in the previous year, there will be a liability to compute capital gains in respect of the insurance moneys received by the assessed.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head "Capital gains". For the purpose of section 48, the moneys received shall be deemed to be the full value of the consideration accruing or arising. Under section 50 the capital gains in respect of depreciable assets had to be computed in the following manner (assuming it was the only asset in the block).

The computation of capital gain and tax implication is given below:

Full value of the consideration	₹ 4,00,000
Less: Written down value as on April 1st, 2023	₹ 1,87,850
Short term capital gains	₹ 2,12,150



Question 5

MTP Nov'21

Mrs. Neha transferred 100 shares of ABC (P) Ltd. to M/s. XYZ Co. (P) Ltd. on 10.9.2023 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mrs. Neha was computed at ₹ 4,30,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in the hands of Mrs. Neha and M/s. XYZ Co.(P) Ltd. because of the above said transaction. **2 Marks**

Answer:

Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s XYZ (P) Ltd. from Mrs. Neha for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of ABC (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of ABC (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,30,000) would result in a long-term capital gains of ₹ 70,000 in the hands of Mrs. Neha.

Question 6

MTP April'21, PYP Nov'21

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2024-25 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2023-24, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and ches): **7 Marks**

- (i) Sold 10,000 shares of Y Ltd. on 05-04-2023 @ ₹ 650 per share Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under: Highest price - ₹ 300 per share, Average price - ₹ 290 per share Lowest price - ₹ 280 per share
- (ii) Sold 1,000 units of AB Mutual Fund on 20-05-2023 @ ₹ 50 per unit
AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.
- (iii) Sold 100 shares of C Ltd. on 27-09-2023 @ ₹ 200 per share. C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as:

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



Answer:

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

	Particulars	₹
(i)	<u>Sale of 10,000 shares of Y Ltd. on 5.4.2023 @ 650 per share</u> Sales consideration (10,000 × ₹ 650)	65,00,000
	Less: Cost of acquisition Higher of:	₹ 30,00,000
	- Actual cost (10,000 × ₹ 100)	10,00,000
	- Lower of: 30,00,000	
	• ₹ 30,00,000 (₹ 300 × 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and	
	• ₹ 65,00,000, being full value of consideration on transfer	
	Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	35,00,000
(ii)	<u>Sale of 1,000 units of AB Mutual Fund on 20.5.2023 @ ₹ 50 per unit</u> Sale consideration (1,000 × ₹ 50)	50,000
	Less: Cost of acquisition - Higher of -	50,000
	- Actual cost (1,000 × ₹ 10) 10,000	
	- Lower of: 50,000	
	• ₹ 55,000 (₹ 55 × 1,000), FMV, being Net Asset Value as on 31.1.2018; and	
	• ₹ 50,000, being full value of consideration on transfer	
	Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	Nil
(iii)	<u>Sale of 100 shares of C Ltd. on 27.9.2023 @ 200 per share</u>	
)	Sale consideration (100 × ₹ 200)	20,000
	Less: Indexed Cost of acquisition [100 × ₹ 50 (being FMV on 1.4.2001) × 348/100] 646	17,400
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]	2,600

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

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



Question 7

MTP April'21, PYP Nov'21

Mr. Yusuf bought a vacant land for ₹ 80 lakhs in March 2009. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2010-11.

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2023. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs.

The sale deed was executed and registered on 10-2-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was

₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received. Subsequent to sale, Mr. Yusuf made following investments:

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

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

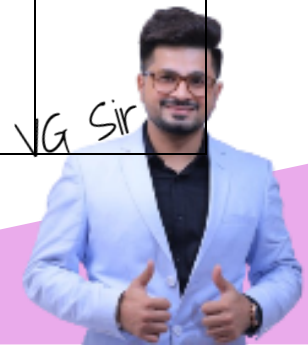
Cost Inflation Index:

F.Y. 2008-09	137
F.Y. 2010-11	167
F.Y. 2023-24	348

Answer:

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

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



account or through any other prescribed electronics mode on or before the date of agreement. In this case, since advance of ₹20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 105% (110%) of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]		6.00
Less: Brokerage@1% of sale consideration (1% of ₹ ₹600 lakhs)		
Net Sale consideration		644.00
		594
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/137]		
	223.53	
-Construction cost of residential building (₹Rs 100 lakhs × 348/167)	208.38	431.91
Long-term capital gains before exemption		182.05
		162.09
Less: Exemption under section 54		80.00
Since the amount of capital gain does not exceed ₹ Rs 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assesses. However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India		
Less: Exemption under section 54EC		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2020) would qualify for exemption, to the maximum extent of ₹50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 09.08.2024 (i.e., within six months from the date of transfer).		
Long term capital gains chargeable to tax		52.05
		32.09

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



Question 8

MTP May'20

Mr. Ramesh sold a house plot to Mrs Vikas for ₹ 45 lakhs on 10-9-2023. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Mr. Vikas has sold this plot to Ms. Bali on 21-3-2024 for ₹ 55 lakhs. The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2024.

Discuss the tax consequences of above, in the hands of each one of them, visa, Mr. Ramesh, Mr. Vikas & compute the capital gain in the hands of Mr. Vikas.

Note: None of the party's visa Mr. Ramesh, Mr. Vikas & Ms. Bali are related to each other; the transactions are between outside ₹

7 Marks

Answer:

I	<u>Tax consequences in the hands of Mr. Ramesh</u>									
	<p>As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration. However, where the stamp duty value does not exceed 105% (110%) of the sale consideration received or accruing as a result of transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2024-25, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same exceeds 105% (110%) of the actual consideration of ₹ 45 lakhs.</p> <p>Note - If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA</p> <p><i>(As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)</i></p>									
II	<u>Tax consequences in the hands of Mr. Vikas</u>									
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 5% of actual sales consideration.</p> <p>Therefore, in this case, ₹ 8 lakhs (₹ 53 lakhs - ₹ 45 lakh) would be taxable in the hands of Mr. Vikas under the head "Income from Other Sources" in A.Y.2024-25 since the difference exceeds ₹2,25,000, being the higher of ₹50,000 and 5% of consideration.</p> <p>At the time of subsequent sale of property by Mr. Vikas to Ms. Bali (on 21.3.2024), short- term capital gains would arise in the hands of Mr. Vikas in A.Y.2024-25, since the property is held by him for less than 24 months.</p>									
	<table border="1"> <thead> <tr> <th data-bbox="185 1603 1219 1641">Particulars</th> <th data-bbox="1232 1603 1495 1641">₹</th> </tr> </thead> <tbody> <tr> <td data-bbox="185 1650 1219 1720">Full value of consideration (Since actual consideration of ₹55 lakhs is higher than stamp duty value of ₹54 lakh)</td> <td data-bbox="1232 1650 1495 1720">55 lakh</td> </tr> <tr> <td data-bbox="185 1729 1219 1798">Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x)2</td> <td data-bbox="1232 1729 1495 1798">53 lakh</td> </tr> <tr> <td data-bbox="185 1807 1219 1821">Short-term capital gains</td> <td data-bbox="1232 1807 1495 1821">2 lakh</td> </tr> </tbody> </table>	Particulars	₹	Full value of consideration (Since actual consideration of ₹55 lakhs is higher than stamp duty value of ₹54 lakh)	55 lakh	Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x)2	53 lakh	Short-term capital gains	2 lakh	
Particulars	₹									
Full value of consideration (Since actual consideration of ₹55 lakhs is higher than stamp duty value of ₹54 lakh)	55 lakh									
Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x)2	53 lakh									
Short-term capital gains	2 lakh									



Question 9

Mr. Sarthe entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for ₹ 80,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.01.2024.

He paid the sale proceeds as per the sale agreement. The value determined by the Stamp Duty Authority on 16.08.2023 was ₹ 90,00,000 whereas on 14.01.2024 it was ₹ 91,50,000.

Mr. Sarthe had acquired the property on 01.04.2001 for ₹ 20,00,000. After recovering the sale proceeds from Jaikumar, he purchased another residential house property for ₹ 20,00,000 on 24.3.2024. Compute the income under the head "Capital Gains" for the Assessment Year 2024-

25. Cost Inflation Index for Financial Year(s) 2001-02- 100; 2023-24 - 348

7 Marks

Answer:

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

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration ₹ 80 lakhs	
Value adopted by Stamp Valuation Authority ₹ 90 lakhs	
Full value of sale consideration [Higher of the above]	90,00,000
[As per section 50C, where the actual sale consideration declared by the assessed on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house	
[₹ 20 lakhs × 348/100]	69,60,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthe for more than 24 months immediately preceding the date of its transfer]	20,40,000
Less: Exemption u/s 54	20,00,000



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 within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	40,000

(As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)

Question 10

MTP March'19

On 29.12.2023, Mr. Gaurav (a bank employee) received ₹7,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2019-20.

Out of this interest, ₹2,00,000 relates to the financial year 2020-21; ₹3,45,000 to the financial year 2021-22; and ₹1,55,000 to the financial year 2022-23.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2024-25?

2 Marks**Answer:**

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as „Income from other sources“.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Computation of interest on enhanced compensation taxable as “Income from other sources” for the A.Y 2024-25:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	7,00,000
Less: Deduction under section 57(iv) (50% × ₹7,00,000)	3,50,000
Taxable interest on enhanced compensation	3,50,000

Question 11

MTP March '23 & Aug '18

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2009, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2016, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received



₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2023, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2024. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2023 was ₹ 39,00,000 and on 20th February, 2024 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y. 2023 -24. CII for F.Y. 2001-02: 100; F.Y. 2008- 09: 137; F.Y. 2016-17: 264; F.Y. 2022-23: 331

7 Marks

Answer:

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500



Less: Indexed cost of acquisition (Note 1)	33,37,320	
Less: Indexed cost of improvement (Note 2)	5,14,091	38,51,411
Long term capital gain		18,089

Notes:**Computation of indexed cost of acquisition**

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition for indexation		9,59,000
Indexed cost of acquisition (₹ 9,59,000 × 348/100)		33,37,320

Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2016	3,90,000
Indexed cost of improvement (₹ 3,90,000 × 348/264)	5,14,091

Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 - ₹ 1,11,000 (being the advance money forfeited during the P.Y.2009-10) = ₹ 9,59,000]. However, where the advance money is forfeited during the previous year 2015-16 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2017-18.

Question 12**MTP April 22**

Mr. Ramesh, a builder, entered into an agreement on 1.4.2021 with Mr. Vikas to transfer 4th Floor in Tower A of a new project for ₹ 1,50,00,000. He received ₹ 25 lakhs as advance in cash on 1.4.2021. Transfer is by way of first time allotment. The stamp duty value of such floor on that date was ₹ 1,70,00,000. The sale deed was executed and registered on 15.6.2021 for the agreed consideration. However, the stamp duty value on that date was ₹ 1,75,00,000. Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vikas.

7 Marks

(AY have not been changed so as to satisfy all conditions of sec 43CA)



Answer:

I	<p>Tax consequences in the hands of Mr. Ramesh</p> <p>As per section 43CA, where the consideration received or accruing is less than the stamp duty value of an asset (other than capital asset), being land or building or both and such stamp duty value exceeds 110% of the consideration received or accruing, then the stamp duty value shall be deemed to be the full value of the consideration.</p> <p>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 whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement.</p> <p>Further, in case of transfer of an asset, being a residential unit, if the stamp duty value of the residential unit does not exceed 120% of the consideration received or accruing, then, such consideration shall be deemed to be the full value of consideration for the purpose of computing profits and gains from transfer of such asset, subject to the satisfaction of following conditions</p> <ul style="list-style-type: none"> (i) The transfer of residential unit takes place during the period between 12.11.2020 and 30.6.2021 (ii) Such transfer is by way of first time allotment of the residential unit to any person (iii) The consideration received or accruing as a result of such transfer \leq ₹ 2 crores <p>Accordingly, in this case, since ₹ 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Since such stamp duty value (₹ 1.75 crores) does not exceed 120% of the consideration received (₹ 1.50 crores), business income would be computed in the hands of Mr. Ramesh, for A.Y.2022-23, taking sale consideration of ₹ 1,50,00,000 as the full value of consideration arising on transfer.</p>
II	<p>Tax consequences in the hands of Mr. Vikas</p> <p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration. However, in case the property is a residential unit and conditions of section 43CA are satisfied, the difference would be taxable if such difference exceeds the higher of ₹ 50,000 or 20% of actual sales consideration.</p> <p>In this case, no income would be taxable in the hands of Mr. Vikas under the head "Income from Other Sources" in A.Y.2022-23 since the difference of ₹25,00,000 does not exceed ₹30,00,000, being the higher of ₹50,000 and 20% of consideration.</p>

Question 13

PYP July 21, MTP Sep'22

i. Examine the taxability of capital gains in the following scenarios for the Assessment Year 2024-25, determine the taxable amount and rate of tax applicable:

On 20th December, 2023 5,000 shares of AB Ltd., a listed company are sold by Mr. Kumar @ 500 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th June, 2017 @ ₹ 425 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of AB Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 450 per share. (MTP 2Marks Sep'22)



ii. Mr. Satish is the owner of a residential house which was purchased on 1st July, 2017 for ₹ 10,50,000. He sold the said house on 14th October, 2023 for ₹ 25,00,000. Valuation as per stamp valuation authorities was

₹ 45,00,000. He invested ₹ 15,00,000 in RECL Bonds on 20th March, 2024.

The Cost Inflation index for-

F.Y.	2017-18	272
F.Y.	2023-24	348

4 Marks & 2 Marks

Answer:

(i)	Long-term capital gain on transfer of 5,000 shares of AB Ltd. [taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]	
	Full value of consideration [5,000 × ₹ 500]	25,00,000
	Less: Cost of acquisition	
	Higher of	
	Cost of acquisition [5,000 × ₹ 425]	21,25,000
	Lower of fair market value per share as on 31.1.2018	22,50,000
	i.e., ₹ 450 per share and sale consideration i.e., ₹ 500 per share [5,000 × ₹ 450]	22,50,000
	Long term capital gain taxable u/s 112A	2,50,000
	Long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 1,50,000 would be taxable @10%	
(ii)	Sale of residential house [long-term capital asset, since held for more than 24 months]	
	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
	Less: Indexed cost of acquisition [₹ 10,50,000 × 348/272]	13,43,382
		31,56,618
	Less: Deduction under section 54EC	15,00,000
	Since ₹ 15,00,000 is invested in RECL bonds on 20th March 2024 i.e., before six months from the date of transfer	
	Long-term capital gain taxable u/s 112 @ 20%	16,56,618

Question 14

RTP Nov'18, MTP Oct'19

Mr. Suresh entered into an agreement with Mr. Mukesh to sell his residential house located at New Delhi on 25.05.2023 for ₹ 80,00,000. Mr. Mukesh was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.02.2024.

Mr. Mukesh had paid the sale proceeds in the following manner;

- 25% through account payee bank draft on the date of agreement.
- 50% on the date of the possession of the property.
- Balance after the completion of the registration of the title of the property.

The value determined by the Stamp Duty Authority on 25.05.2023 was ₹ 92,00,000 whereas on 14.02.2024 it was ₹ 94,50,000.



Mr. Suresh had acquired the property on 01.04.2003 for ₹ 21,00,000. After recovering the sale proceeds from Mukesh, he purchased another residential house property in Kanpur for ₹ 22,00,000.

Cost Inflation Index for Financial Year(s)

2003-04 109

2023-24 348

Compute the capital gain arising in the hands of Mr. Suresh for the Assessment Year 2022-23.

7 Marks

Answer:

Computation of Capital Gain of Mr. Suresh for A.Y. 2024-25

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration ₹ 80 lakhs	
Value adopted by Stamp Valuation Authority ₹ 92 lakhs	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 25% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Full value of consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	92,00,000
Less: Indexed cost of acquisition of residential house	
[₹ 21 lakhs × 348/109]	67,04,587
Long-term capital gains [Since the residential house property was held by Mr. Suresh for more than 24 months immediately preceding the date of its transfer]	24,95,413
Less: Exemption under section 54	22,00,000
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 residential house property in India within one year before or two years after the date of transfer of original asset.	
Long-term capital gains chargeable to tax	2,95,413

Question 15

RTP Nov 22, MTP April'23

Mr. Ramesh entered into an agreement with Mr. Vikas to sell a plot on 5.4.2023 for ₹ 45 lakhs. He received an advance of ₹ 15 lakhs from him on the date of agreement by account payee cheque.



Transfer took place on 10-9-2023. The valuation determined by the stamp valuation authority on the date of agreement and transfer was ₹ 49 lakhs and ₹ 53 lakhs, respectively.

Mr. Vikas has sold this plot to Ms. Babli on 21-3-2024 for ₹ 55 lakhs.

The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2024.

Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vikas. Also, compute the capital gain in the hands of Mr. Vikas.

Note: None of the parties viz Mr. Ramesh, Mr. Vikas & Ms. Babli are related to each other; the transactions are between outsiders. 7 Marks

Answer:

I.	Tax consequences in the hands of Mr. Ramesh
	<p>As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since ₹ 15 lakhs is received through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration.</p> <p>Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2024-25, taking the actual consideration of ₹ 45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration.</p> <p>Note - If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA</p>
II	Tax consequences in the hands of Mr. Vikas
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since ₹ 15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.</p> <p>Therefore, nothing would be taxable in the hands of Mr. Vikas under the head "Income from Other Sources" in A.Y.2024-25 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed ₹ 4,50,000, being the higher of ₹ 50,000 and 10% of consideration.</p>



At the time of subsequent sale of property by Mr. Vikas to Ms. Babli (on 21.3.2024), short-term capital gains would arise in the hands of Mr. Vikas in A.Y.2024-25, since the property is held by him for less than 24 months.	
Particulars	₹
Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 54 lakh)	55 lakh
Less: Cost of acquisition	45 lakh
Short-term capital gains	10 lakh

Question 16

PYP May'19, MTP Sep '23

Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2014 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2021.

Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2021. The said house property was sold on 31.10.2023 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2024. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2021-22 and 2024-25. All workings should form part of your answer: Cost inflation index for various financial years are as under:

2014-15	-	240
2020-21	-	301

2021-22	-	317
2023-24	-	348

7 Marks, 6 Marks

Answer:

Computation of capital gains chargeable to tax for A.Y. 2021-22

Particulars	₹
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [₹ 30,00,000 × 301/240]	37,62,500
Long-term capital gain	1,19,37,500
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2021 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	1,19,37,500
Taxable long term capital gain	Nil

Computation of capital gains chargeable to tax for A.Y. 2024-25

Particulars	₹
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000



Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2021, in this case) is transferred within 3 years of its purchase (i.e., on 31.10.2023, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,19,37,500,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [₹85,62,500 (₹ 2,05,00,000 - ₹ 1,19,37,500) × 348/317]	93,99,842
Long-term capital gain [Since the residential house is held for more than 24 months]	2,31,00,158
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2024 i.e., within two years from 31.10.2023, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	2,31,00,158
Taxable long term capital gain	Nil

Question 17

MTP Oct '23

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

4 Marks

Answer:

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

Particulars	₹
Full value of consideration	25,00,000
[As per section 50C, in case the actual sale consideration (i.e., ₹ 22 lakhs, in this case) is less than the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration. However, if assesses has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	
Less: Indexed cost of acquisition [₹ 2,00,000 × 348/117]	5,94,872
Long-term capital gain [Since the residential house is held for more than 24 months]	19,05,128
Less: Exemption under section 54	



Purchase of new residential house property on 31.3.2024 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	2,05,128

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

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

Question 18

PYP May 18, RTP May'19

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

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

Other information:

- Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.
- Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2013 and was revalued at ₹ 180 lacs.
- Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income- tax Act, 1961.
- Unit RS was set up by Mr. Pratap in December, 2011.

Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2019-20. Note: Cost Inflation Indices for the financial year 2011-12 and financial year 2023-24 are 184 and 348, respectively.

10 Marks

Answer:

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



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

Working Note: Net worth of Unit-RS

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

Notes:

- In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.
- "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.
However, any change in the value of assets on account of revaluation shall not be considered for this purpose.
- For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- Indexation benefit is not available in case of slump sale.

Question 19

RTP May'22

Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2023, he has transferred Unit 2, which he started in 2004-05, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2023 is as under:

Liabilities	₹	Assets	Unit 1 ₹	Unit 2 ₹	Total
Own Capital	20,50,000	Land	12,75,000	7,50,000	20,25,000



Revaluation reserve	2,50,000	Furniture	2,00,000	5,00,000	7,00,000
Bank Loan (70% for Unit 1)	8,50,000	Debtors	2,00,000	3,50,000	5,50,000
Trade Creditors (20% for Unit 2)	4,50,000	Patents	-	7,25,000	7,25,000
Unsecured Loan (30% for Unit 2)	4,00,000				
	40,00,000		16,75,000	23,25,000	40,00,000

Other Information:

- Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2004 and revalued at ₹ 7,50,000 as on 31.3.2023.
- No individual value of any asset is considered in the transfer deed.
- Patents were acquired on 01-12-2021 on which no depreciation has been provided.
- Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2022 on which no depreciation has been provided.
- Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹18,10,000. Compute the capital gain for A.Y. 2024-25.

Answer:

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Computation of capital gain on slump sale of Unit 2

Particulars	₹
Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹ 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹ 18,00,000) whichever is higher]	18,10,000
Less: Expenses on sale [professional fees & brokerage]	78,000
Net full value of consideration	17,32,000
Less: Cost of acquisition, being the net worth of Unit 2 (Note 1)	13,35,781
Long term capital gains arising on slump sale	3,96,219
(The capital gains is long-term as the Unit 2 is held for more than 36 months)	

Notes**Computation of net worth of Unit 2**

Particulars	₹
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	5,00,000
(ii) Debtors	3,50,000
(2) Written down value of depreciable assets under section 43(6)	



(i) Furniture (See Note 2)		4,75,000
(ii) Patents (See Note 3)		4,75,781
Aggregate value of total assets		18,00,781
Less: Current liabilities of Unit 2		
Bank Loan [₹ 8,50,000 × 30%]	2,55,000	
Trade Creditors [₹ 4,50,000 × 20%]	90,000	
Unsecured Loan [₹ 4,00,000 × 30%]	1,20,000	4,65,000
Net worth of unit 2		13,35,781

Written down value of furniture as 1.4.2023

Value of patents	₹
Cost as on 1.12.2022	5,00,000
Less: Depreciation @ 10% × 50% for Financial Year 2022-23	25,000
WDV as on 1.4.2023	4,75,000

Written down value of patents as 1.4.2023

Value of patents	₹
Cost as on 1.12.2021	7,25,000
Less: Depreciation @ 25% × 50% for Financial Year 2021-22	90,625
WDV as on 1.4.2022	6,34,375
Less: Depreciation @ 25% for Financial Year 2022-23	1,58,594
WDV as on 1.4.2023	4,75,781

Question 20

RTP Nov '23

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

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

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

Mr. Kabir, a resident aged 45 years, is the owner of residential house which was purchased on 1st August, 2021 for ₹ 19,00,000. He sold the said house on 25th September, 2023 for ₹ 24,50,000. Valuation as per stamp valuation authorities was ₹ 25,50,000 as on the date of sale. CII - 2021-22: 317; 2023-24: 348.

Answer:

	Particulars		Amount ₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]		



	Full value of consideration [1,200 × ₹ 1,550]		18,60,000
	Less: Cost of acquisition		8,16,000
	Higher of		
	(i) Cost of acquisition [1,200 × ₹ 425]	5,10,000	
	(ii) Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 × 680]	8,16,000	
	Fair market value of listed equity shares as on 31.1.2018 [Highest price quoted on the recognized stock exchange i.e., ₹ 680 per share sale consideration ₹ 1,550 per share]		
	Long term capital gain taxable u/s 112A/ Total Income		10,44,000
(ii)	Tax on long-term capital gain exceeding ₹ 1 lakh i.e., ₹ 9,44,000 @10%		94,400
	Add: Health and Education Cess@4%		3,776
	Tax liability		98,176
	Tax liability (Rounded off)		98,180
	Since Mr. Vishal is a non-resident, benefit of unexhausted basic exemption limit would not be available to him.		
	Sale of residential house [Long-term capital asset, since held for more than 24 months]		
	Full value of consideration [Actual consideration, since stamp duty value does not exceeds 110% of actual sale consideration]		24,50,000
	Less: Indexed cost of acquisition [₹ 19,00,000 × 348/317]		20,85,804
	Long term capital gain/ Total Income		3,60,631
	Total Income (Rounded off)		3,64,196
	Long-term capital gain taxable u/s 112 @20% on ₹ 64,196 [₹ 3,64,196 - ₹ 3,00,000, being unexhausted basic exemption limit] (As per amendment in the new scheme the basic limit is increased to ₹ 3,00,000)		12,839
	Less: Rebate under section 87A [Since the total income does not exceed ₹ 5 lakhs]		12,500
			339
	Add: Health and Education Cess@4%		385
	Tax liability		14
	Tax liability (Rounded off)		400

Question 21

PYP July'21

Mr. Patel is a proprietor of Star Stores since 20-05-2021. He has transferred his shop by way of slump sale for a total consideration of ₹ 40 Lakh. The professional fees & brokerage paid for this sale are ₹ 80,000. His Balance Sheet as on 31-03-2024 is as under

Liabilities	₹	Assets	₹
Own Capital	10,50,000	Building	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000
Trade Creditors	2,50,000	Debtors	2,00,000
Unsecured Loan	2,00,000	Other Assets	8,00,000



	20,00,000		20,00,000
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Other Information:

1. No individual value of any asset is considered in the transfer deed.
2. Other assets include trademarks valuing ₹ 2,00,000 as on 01-04-2023 on which no depreciation has been provided.
3. Furniture of ₹ 1,50,000 purchased on 05-11-2023 on which no depreciation has been provided.
4. Unsecured loan includes ₹ 50,000 as advance received from his wife, which she has agreed to waive off. Compute the capital gain for A.Y. 2024-25. **4 Marks**

Answer:

Computation of capital gains on slump sale of shop

Particulars		₹
*Sale value		40,00,000
Less: Expenses on sale [professional fees & brokerage]		80,000
Net sale consideration		39,20,000
Less: Net worth (See Working Note below)		10,42,500
Short-term capital gain [Since shop is held for not more than 36 months immediately preceding the date of transfer]		28,77,500
Working Note:		
Computation of net worth of shop		
Building		5,00,000
Furniture	5,00,000	
Less: Depreciation on ₹1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year	7,500	4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Depreciation on ₹ 2,00,000, being intangible asset @ 25%	50,000	7,50,000
Total assets		19,42,500
Less: Bank loan	5,00,000	
Trade creditors	2,50,000	
Unsecured loan ₹ 2,00,000 less ₹ 50,000, being the amount waived off by his wife	1,50,000	9,00,000
Net worth		10,42,500

**(As per amendment The fair market value of capital asset would be higher of:*

FMV1- being the fair market value of capital assets transferred by way of slump sale & FMV2- being the fair market value of the consideration (monetary or non-monetary) received or accruing as a result of transfer by way of slump sale)

Question 22

PYP Nov'20

Mr. Govind purchased 600 shares of "Y" limited at ₹ 130 per share on 26.02.1979. "Y" limited issued him, 1,200 bonus shares on 20.02.1984. The fair market value of these share at Mumbai Stock Exchange as on 1.04.2001 was ₹ 900 per share and ₹ 2,000 per share as on 31.01.2018. On 31.01.2022 he converted 1000 shares as his stock in trade. The shares were traded at Mumbai Stock Exchange on that date at a high of ₹ 2,200 per share and closed for the day at ₹ 2,100 per share. On 07.07.2023 Mr. Govind sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute total income of Mr. Govind for the assessment-year 2024-25. **5 Marks**

Answer:



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

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares × ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 × 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares × ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares × ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y. 2023-24, when the stock in trade is sold)		
	Full value of consideration [1000 shares × ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares × ₹ 2,000] (See Working Note below)	20,00,000	1,00,000
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		
	Higher of (I) and (ii), below	2,000	
(I)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration - ₹ 2,400 per share		

Note -

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

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

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



Alternate Answer

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

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

Note -

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

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

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



	Less: FMV on the date of conversion (₹ 2,100 × 1000 shares] [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares × ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares × ₹ 900 × 348/100] (See Working Notes 1 and 2 below)	25,05,600	
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)	(5,85,600)	
	Full value of consideration [1000 shares × ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares × ₹ 900 × 331/100] (See Working Notes 1 and 2 below)]	29,79,000	
		(8,79,000)	
	Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(14,64,600)	
	Total Income		3,00,000

Working Note -			
1. Cost of acquisition (per share)			
Higher of (I) and (ii), below i.e., ₹ 900 per share			
(I)	₹ 900 per share, being the FMV as on 1.4.2001		
(ii)	In case of shares purchased - Original cost of acquisition (₹ 130)		
	In case of bonus shares - Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2023-24 i.e., 348 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2023, the CII of the year of conversion, i.e., F.Y.2022-23 i.e., 331 has to be considered to compute the indexed cost of acquisition.		

Note -

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

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



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

Alternate Answer

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 348/100] (See Working Notes 1 and 2 below)	25,05,600	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(5,85,600)	
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 331/100] (See Working Notes 1 and 2 below)]	29,79,000	
	Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(8,79,000)	
		(14,64,600)	
	Total Income		2,00,000

Working Note -

1. Cost of acquisition (per share)	
Higher of (I) and (ii), below i.e., ₹ 900 per share	
(I)	₹ 900 per share, being the FMV as on 1.4.2001
(ii)	In case of shares purchased - Original cost of acquisition (₹130)
	In case of bonus shares - Nil
2.	In case of 800 shares sold during the year, the CII of F.Y.2023-24 i.e., 348 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2023, the CII of the year of conversion, i.e., F.Y.2022-23 i.e., 331 has to be considered to compute the indexed cost of acquisition.



Question 23

PYP Nov'18

Mr. Subramani sold a house plot to Mrs. Vimala for ₹ 45 lakhs on 12-5-2023. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Discuss the tax consequences of above, in the hands of each one of them, visa, Mr. Subramani & Mrs. Vimala. Mrs. Vimala has sold this plot to Ms. Padmaja on 21-3-2024 for ₹ 55 lakhs. The valuation as per stamp valuation authority remains the same at ₹ 53 lakhs. Compute the capital gains arising on sale of the house plot by Mrs. Vimala.

Note: None of the party's visa Mr. Subramani, Mrs. Vimala & Ms. Padmaja are related to each other; the transactions are between outsiders.

6 Marks

Answer:

(I)	Tax consequences in the hands of Mr. Subramani	
	As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration.	
	(As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)	
	Accordingly, in this case, capital gains would be computed in the hands of Mr. Subramani, for A.Y.2024-25, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same is higher than the actual consideration of ₹ 45 lakh.	
	Note - If it is assumed that Mr. Subramani is a property dealer, the income would be taxable as his business income under section 43CA difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds ₹ 50,000.	
	Therefore, in this case, ₹ 8 lakh (₹ 53 lakh - ₹ 45 lakh) would be taxable in the hands of Mrs. Vimala under the head "Income from Other Sources" in A.Y.2024-25.	
	At the time of subsequent sale of property by Mrs. Vimala to Mrs. Padmaja (on 21.3.2024), short-term capital gains would arise in the hands of Mrs. Vimala in A.Y.2024-25, since the property is held by her for less than 24 months.	
	Particulars	
	Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 53 lakh)	55 lakh
	Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x))	53 lakh
	1	
	Short-term capital gains	2 lakh

Question 24

PYP Dec '21

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

She has also purchased a house on 09.05.2023 in consideration of ₹ 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2023 and disbursement was made on 01.06.2023. She does not own any other residential house on the date of sanction of loan. Principal amount of ₹ 1,30,000 was paid during the financial



year 2023-24.

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

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

7 Marks

Answer:

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

Particulars	Amount (₹)	Amount (₹)
Income from house property [Self-occupied]		Nil
Net Annual Value	Nil	
Less: Interest on housing loan of ₹ 3,55,000 [₹ 35,50,000 × 12% × 10/12 months] restricted to ₹ 2,00,000/-	2,00,000	
	(2,00,000)	
Less: Set-off of loss against long-term capital gains	2,00,000	
Long-term capital gains on transfer of land under specified agreement Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2020-21 would be taxable in the previous year 2023-24, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be- Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate (₹ 4,14,00,000 × 20%)]		82,80,000
Less: Indexed of cost of acquisition [₹ 15,00,000 × 348/200]	26,10,000	
Long-term capital gain		56,70,000
Less: Deduction under section 54F		
Deduction in respect of amount invested for purchase of a residential house acquired within one year prior to date of transfer would be allowable proportionately, since amount invested is less than the net consideration. Accordingly, deduction would be ₹ 29,05,180 (₹ 56,70,000 × ₹46,00,000 / ₹ 82,80,000)	31,50,000	
Long-term capital gains		25,20,000
Less: Set-off of loss from house property [It is beneficial to set-off loss from house property against long-term capital gains, since in case of Ms. Mishika total income comprises of LTCG taxable@20% and STCG taxable at normal slab rates; and she can claim deduction of ₹ 2,80,000 under Chapter VI-A against STCG of ₹ 2,90,000. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]	2,00,000	
		23,20,000



Short-term capital gains Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration		65,00,000
Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [₹ 4,14,00,000 × 15%]	62,10,000	
Short-term capital gains		2,90,000
Gross Total Income		26,10,000
Less: Deductions under Chapter VI-A (allowable against short-term capital gains of ₹ 2,90,000)		
Deduction under section 80C - repayment of principal amount of housing loan	1,30,000	
Deduction under section 80EEA - Ms. Mishika would be eligible for deduction of interest on housing loan (₹ 3,55,000 - ₹ 2,00,000 = ₹ 1,55,000) to the extent of ₹ 1,50,000, since stamp duty value of the house does not exceed ₹ 45,00,000 [being ₹ 44,37,500 (₹ 35,50,000 × 100/80)] and she does not own any other residential house on the date of sanction of loan.	1,50,000	2,80,000
Total Income		23,30,000
Total Income (rounded off)		23,30,000

Note -

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

Alternate view -

The definition of transfer, inter alia, includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred. Hence, in case of 'specified agreement(s)', 'transfer' takes place at the time when the owner of the immovable property hands over the same to the developer i.e., in F.Y.2020-21 in this case. As per the plain reading of definition of 'indexed cost of acquisition', the CII of the year in which the asset (land, in this case) is transferred has to be considered. Accordingly, as per this interpretation, CII of F.Y. 2020-21 i.e., 301 can be considered for computing indexed cost of acquisition. If the CII of F.Y.2020-21 is considered on the basis of this line of reasoning, the figures of long-term capital gains and total income would accordingly change. However, the CII of F.Y.2020-21 has not been given in the question for the purpose of making such computation.



Question 25

PYP May'22

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration. On 01-10-2023, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2023-24 is ₹ 1,00,000. Determine the tax implications.

4 Marks

Answer:

	₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2023 ($6/12 \times ₹ 70,000$ [Net Annual Value of ₹ 1,00,000 less deduction under section 24(a) @30%]) would be included in the total income of Mr. Sarthak.	35,000
Since the HUF was partitioned on 1.10.2023, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on attrition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	
Sarthak's Share [25% of ₹ 35,000 ($₹ 70,000 \times 6/12$)]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32).	
25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income.	
Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

Question 26

MTP March'19

Mrs. Harsha purchased a land at a cost of Rs.45 lakhs in the financial year 2012-13 and held the same as her capital asset till 31st March, 2022. She started her real estate business on 1st April, 2022 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was Rs.225 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is Rs.15 lakhs. Construction was completed in January, 2024. She sold 10 flats at Rs.40 lakhs per flat in 20th March, 2024. The remaining 5 flats were held in stock as on 31st March, 2024. She invested Rs.50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another Rs.50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2024. Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harsha arising from the above transactions for Assessment Year 2024-25 indicating clearly the



reasons for treatment for each item. [Cost Inflation Index: FY 2012-13: 200; FY 2022-23: 331; FY 2023-24: 348].

7

Marks

Answer:

Computation of capital gains and business income of Harsha for A.Y. 2024-25

Particulars	Rs.
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,25,00,000
Less: Indexed cost of acquisition [Rs.45,00,000 × 331/200]	74,47,500
	1,50,52,500
Proportionate capital gains arising during A.Y.2019-20 [Rs. 1,50,52,500× 2/3]	1,00,35,000
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2024-25	50,35,000
Business Income	
Sale price of flats [10 × Rs.40 lakhs]	4,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [Rs.225 lacs × 2/3]	1,50,00,000
Cost of construction of flats [10 × Rs.15 lakhs]	1,50,00,000
Business income chargeable to tax for A.Y.2024-25	1,00,00,000

Notes:

- The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
- However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade and not up to the year of sale of stock-in-trade.
- For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset. In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.
- On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on



land or building or both in any financial year, the maximum deduction under section 54EC would be Rs.50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of Rs.50 lakhs has been made in bonds of NHAI during the P.Y.2023-24 and investment of Rs.50 lakhs has been made in bonds of RECL during the P.Y.2024-25, both within the stipulated six-month period, the maximum deduction allowable for A.Y.2024-25, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only Rs.50 lakhs.

Question 27

MTP Sept'24

Mr. Ashish entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16.08.2023 for ₹80,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

Mr. Dhaval was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.01.2024. He paid the sale proceeds as per the sale agreement. The value determined by the Stamp Duty Authority on 16.08.2023 was ` 90,00,000 whereas on 14.01.2024 it was ` 91,50,000.

Mr. Ashish had acquired the property on 01.04.2001 for ` 20,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property in Kanpur for ` 15,00,000. Compute the income under the head "Capital Gains" for the Assessment Year 2024-25.

Cost Inflation Index for Financial Year(s)

2001-02	-	100
2023-24	-	348

5 Marks

Answer:

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

Particulars		
Capital Gains on sale of residential house		
Actual sale consideration	` 80 lakhs	
Value adopted by Stamp Valuation Authority	` 90 lakhs	
Full value of sale consideration [Higher of the above]		90,00,000
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.		
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of ` 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]		
		69,60,000



Less: Indexed cost of acquisition of residential house [$\text{₹ } 20 \text{ lakhs} \times 348/100$]	
Long-term capital gains [Since the residential house property was held by Mr. Ashish for more than 24 months immediately preceding the date of its transfer]	20,40,000
Less: Exemption under section 54	15,00,000
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 within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	5,40,000

Question 28

MTP Sept'24

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2024-25 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2023-24 in respect of these assesses:

1. Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2023 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows -

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

2. Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2023 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

4 Marks

Answer:

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity-oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

- cost of acquisition of such asset, i.e., actual cost; and
- lower of
 - the fair market value of such asset as on 31.1.2018; and



(ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

(i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares. The long-term capital gain of ₹ 50,000 (i.e., the amount in excess of ₹ 1,00,000) would be subject to tax @10% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @10.4% would be ₹ 5,200 ($₹ 50,000 \times 10.4\%$)

(ii) In the case of units listed on recognized stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognized stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 $(₹ 900 - ₹ 750) \times 200$ units. Since the long term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,00,000, the said sum is not chargeable to tax under section 112A.

Question 29

PYQ Nov'23

Mr. Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2022 for ₹ 10,00,000. The shares were bought on 01.08.2012 for a consideration of ₹ 2,00,000. Mr. Aryan paid ₹ 2,000 as brokerage on sale of shares.

Mr. Aryan deposited ₹ 5,00,000 in Capital Gain Account Scheme on 15.06.2023 (Before filing the return of income for the Assessment Year 2023-24).

On April 30, 2024 he withdraws ₹ 4,50,000 and purchases a residential house properly at Delhi on May 1, 2024 for ₹ 4,50,000.

Cost Inflation Index (CII) - F.Y. 2012-13 - 200, F.Y. 2022-23 - 331.

Ascertain -

i. The amount of Capital Gain chargeable to tax for the A.Y. 2023-24.

ii. Tax treatment (with mention of relevant assessment year) of the unutilized amount. **4 Marks**

Answer:

(i) Computation of Capital Gains on sale of unlisted shares for A.Y.2023-24

Particulars	₹
Net Sales Consideration [₹ 10,00,000 - ₹ 2,000]	9,98,000



Less: Indexed cost of acquisition [$\text{₹ } 2,00,000 \times 331/200$]	<u>3,31,000</u>
Less: Exemption u/s 54F	6,67,000
Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset. Accordingly, exemption u/s 54F would be $\text{₹ } 3,34,168$ [$\text{₹ } 5,00,000 \times \text{₹ } 6,67,000 / \text{₹ } 9,98,000$]	<u>3,34,168</u>
Capital Gains chargeable to tax	<u>3,32,832</u>

(ii) Tax treatment of unutilized amount in Capital Gains Accounts Scheme

The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3-year period from 17.5.2022 expires on 16.5.2025. Consequently, the proportional capital gains on the unutilized amount will be taxable in the A.Y. 2026-27, relevant to the P.Y. 2025-26.

The amount of capital gains for A.Y. 2026-27 would be $\text{₹ } 33,416$ [$\text{₹ } 3,34,168 - \text{₹ } 3,00,752$ ($\text{₹ } 4,50,000 \times \text{₹ } 6,67,000 / \text{₹ } 9,98,000$)]

Question 30

CS Execu. June'11

Distinguish between Cost of Acquisition and Cost of Improvement.**3 Marks****Answer:**

Cost of acquisition of an asset is the value which was paid by the assessee. It includes expenses/commission paid on purchase and interest on money borrowed to purchase the asset.

Cost of improvement is capital expenditure incurred by the assessee in making additions and improvement, which enhance capital value of asset.

Question 31

CS Execu. Dec'23

Ajay, a property dealer, entered into an agreement with Mukesh to sell a plot on 6th April, 2023 for ₹ 55 lakh. He received an advance of ₹ 12 lakhs from him on the date of agreement by account payee cheque. Transfer took place on 12th September, 2023. The Valuation determined by the stamp valuation authority on the date of agreement and date of transfer was ₹ 59 Lakhs and ₹ 63 Lakhs, respectively. Mukesh has sold this plot to Deepti on 24th March, 2024 for 65 Lakhs.

The valuation as per stamp valuation authority was ₹ 64 Lakhs on 24th March 2024.

Discuss the tax consequences of above, in the hands of Ajay and Mukesh. Also compute the capital gain in the hands of Mukesh. Note: none of the parties viz. Ajay, Mukesh and Deepti are related to each other the transactions are between outsiders.

Answer:

Computation of Capital Gain of Mukesh

Sales consideration (On 24.03.2024)	65,00,000
Less: Cost of Acquisition (On 12.09.2023)	55,00,000
Short Term Capital Gain	10,00,000

Note: Since difference in purchase/sale price is within 110% of stamp duty value, there is no additional tax liability on Ajay, Mukesh and Deepti.



Multiple Choice Questions

Question 1

MTP Oct'19

Neha sold her residential house for ₹85 lakhs on 11.08.2023. Value adopted by the Stamp Valuation Authority on the date of registration of the Conveyance Deed i.e., 17.08.2023 was ₹150 lakhs. Neha disputed the valuation done by the said authority before the Assessing Officer and filed an application before him to refer her case to the Valuation Officer. The Valuation Officer determined the value of the house on date of registration of Conveyance Deed at ₹160 lakhs. In light of these facts, compute the full value of consideration to be taken in case of Neha for the purpose of calculation of capital gains in her hands.

- a) ₹85 lakh
- b) ₹150 lakh
- c) ₹160 lakh
- d) ₹89.25 lakh

Question 2

MTP Oct'19

Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2023 and charges ₹14,50,000 towards goodwill. Determine the tax implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

- a) ₹14,50,000 shall be charged to tax as capital gains
- b) ₹14,50,000 shall be charged to tax as income from other sources
- c) ₹14,50,000 shall be charged to tax as income from profession
- d) No tax implications shall arise

Question 3

MTP April'19

XYZ a partnership firm was dissolved on 30-6-2023. A machine acquired on 1-5-2016 for ₹2,50,000 was distributed amongst the partners on dissolution for ₹2,25,000. The value of machinery as per books of account and Fair Market Value on 30-6-2023 was ₹2,00,000 and ₹3,50,000, respectively. What will be the full value of consideration of this machine?

- (a) ₹2,25,000
- (b) ₹3,50,000
- (c) ₹2,50,000
- (d) ₹2,00,000



Question 4

MTP April'19

Mr. Vicar sold his old residential house in May, 2022 for ₹25,00,000. Long-term capital gain arising on transfer of old house amounted to ₹8,70,000. In December, 2022 he purchased another residential house worth ₹4,50,000. The new house was however, sold in May, 2023 for ₹14,00,000 (stamp duty value of the new house was ₹13,00,000). What will be amount of taxable capital gains in the hands of Mr. Vikram for the A.Y. 2023-24 and 2024-25?

- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and short-term capital gain of ₹14,00,000 in A.Y. 2024-25
- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹14,00,000 in A.Y. 2024-25
- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹9,50,000 in A.Y. 2024-25
- Long term capital gain of ₹4,20,000 in A.Y. 2023-24 and long term capital gain of ₹4,50,000 and short-term capital gain of ₹8,50,000 in A.Y. 2024-25

Question 5

MTP March'19

Ms. Jaya acquires 5,000 equity shares on 01.01.2016 at ₹500. The Fair Market Value of the said share on 31.01.2018 is ₹250 and on 31.03.2018 is ₹600. She sells the said shares on 30.04.2018 at ₹700. Calculate the amount of long term capital gain in the hands of Ms. Jaya assuming that Securities Transaction Tax has been paid by her on acquisition and transfer of the said equity share.

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

- ₹10 lakhs, out of which ₹9 lakhs is taxable@10%
- ₹22.50 lakh, out of which ₹21.5 lakh is taxable@10%
- ₹7.45 lakh, out of which ₹6.45 lakh is taxable @10%
- ₹5 lakhs, out of which ₹4 lakhs is taxable@10%

Question 6

MTP March 22

In P.Y. 2023-2024, Mr. A has transferred the following assets:

Asset transferred	Full Value of Consideration (₹)	Indexed Cost of Acquisition (₹)	Transfer Date
Residential house property	8 crores	6 crores	25.11.2023
Jewellery	3 crores	2 crores	05.01.2024

Mr. A bought a new residential house property on 01.04.2022 for ₹ 1 crore and on 28.02.2024 deposited ₹ 3 crores in a capital gains deposit account scheme. On 30.07.2024, Mr. A has withdrawn ₹ 3 crores from capital gains deposit account and acquired a residential house property worth ₹ 2.5 crore. What would be the capital gains in the hands of Mr. A for A.Y. 2024-25, if the expenses in connection with transfer of jewellery were ₹ 2,00,000?

- ₹ 80,50,000
- ₹ 81,55,705
- ₹ 98,00,000
- ₹ 48,00,000



Question 7

MTP March '19

The following information is available with respect to Tina:

Capital Asset acquired on 01.04.2001 for ₹85,200

The capital asset was converted into stock-in-trade on 30.09.2022. On the said date, the fair market value of the said asset was ₹6,00,000.

The stock-in-trade so converted was sold on 15.07.2023 for ₹8,50,000. Determine the tax implications in the hands of Tina for A.Y. 2024-25.

Cost Inflation Index Financial year 2001-02: 100, 2022-23: 331, 2023-24: 348]

- Only business profits of ₹2,50,000 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Only long term capital gain of ₹6,11,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Business profits of ₹2,50,000 and long term capital gain of ₹3,61,440 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.
- Business profits of ₹2,50,000 and long term capital gain of ₹3,17,988 shall be chargeable to tax in the hands of Tina in A.Y. 2019-20.

Question 8

RTP May '20

Mr. Rana is a resident of India residing in Meerut. During F.Y. 2010-11 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2018 -19, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2019. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2019. Cost inflation index for F.Y. 2010-11 and F.Y. 2018-19 is 167 and 280 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2019-20:

- ₹ 3,23,353
- ₹ 8,23,353
- ₹ 10,00,000
- None of the above

Question 9

RTP Nov '20, MTP April '23

Mr. A, aged 45 years sold an agricultural land for ₹ 52 lakhs on 04.10.2023 acquired at a cost of ₹ 49.25 lakhs on 13.09.2022 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2023 acquired at a cost of ₹ 46 lakhs on 15.02.2022 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2024-25? Cost inflation index for F.Y. 2017-18: 272; 2018-19: 280; 2019-20:289; F.Y. 2023-24- 348.

- Short-term capital gain of ₹ 9.75 lakhs
- Short-term capital gain of ₹ 7 lakhs
- Long-term capital gain of ₹ 4,12,500
- Long-term capital gain of ₹ 5,29,196



Question 10

RTP May '21, MTP Oct '23

Mr. Vikas transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.12.2023 for ₹ 3,50,000 when the market price was ₹ 5,15,000. The indexed cost of acquisition of shares for Mr. Vikas was computed at ₹ 4,25,000. Determine the income chargeable to tax in the hands of Mr. Vikas and ABC (P) Ltd. in respect of the above transaction.

- ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.
- ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.

Question 11

RTP Nov '21

A building was acquired on 1.4.1995 for ₹ 20,00,000 and sold for ₹ 80,00,000 on 01.06.2023. The stamp duty value on the date of transfer was ₹ 85,00,000. The fair market value of the building on 1.4.2001 was ₹ 25,00,000. Its stamp duty value on the same date was ₹ 22,00,000. Determine the capital gains on sale of such building for the A.Y. 2024-25? Cost Inflation Index for F.Y. 2001-02: 100; F.Y. 2023-24: 348

- ₹ 3,44,000
- ₹ 18,78,000
- ₹ 9,75,000
- ₹ 4,75,000

Question 12

RTP May '20

Mr. Rana is a resident of India residing in Meerut. During F.Y. 2015-16 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2023-24, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2024. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2024. Cost inflation index for F.Y. 2015-16 and F.Y. 2023-24 is 254 and 348 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2024-25:

- ₹ 3,23,353
- ₹ 8,23,353
- ₹ 10,00,000
- None of the above



Question 13

RTP May '22

Ashiyana Developers has completed one of its housing projects in Gurugram in January, 2023 which comprises of 10 residential units. It has transferred 9 residential units in February, 2023 and remaining one residential unit in May, 2023 to Mr. Suraj. All the units were transferred by way of first time allotment. The consideration received from Suraj for the residential unit is ₹ 50 lakhs while the stamp duty value of the unit in May, 2023 is ₹ 57 lakhs. Due to some emergency in the family, Mr. Suraj was in urgent need of funds and he sold such residential unit to Mr. Prakash in December, 2023 for ₹ 53 lakhs. The stamp duty value of the unit was ₹ 61 lakhs in December, 2023. Determine the capital gain/ income which is chargeable to tax in the hands of Mr. Suraj and Mr. Prakash from the above transactions for A.Y. 2024-25.

- In the hands of Mr. Suraj - STCG of ₹ 11 lakhs; In the hands of Mr. Prakash - ₹ 8 lakhs as income under the head "Other sources"
- In the hands of Mr. Suraj - ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 4 lakhs; In the hands of Mr. Prakash - ₹ 8 lakhs as income under the head "Other sources"
- In the hands of Mr. Suraj - STCG of ₹ 11 lakhs; In the hands of Mr. Prakash - Nil
- In the hands of Mr. Suraj - ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 11 lakhs; In the hands of Mr. Prakash - ₹ 8 lakhs as income under the head "Other sources"

Question 14

RTP Nov '20

Mr. Arjun holding 1000 shares of X Ltd acquired on 01.07.2022 for ₹ 600 per share, sold 500 shares to Mr. Shaurya, on 01.05.2023 for ₹ 550 per share. X Ltd. declared dividend @ ₹ 65 per share on 20.07.2023, being the record date for declaration of dividend. Mr. Shaurya sold 300 equity shares at ₹ 475 per share on 28.09.2023 and the balance 200 equity shares at ₹ 450 per share on 28.10.2023. Apart from above mentioned information, Mr. Shaurya was having only long-term capital gains from sale of unlisted shares of ₹ 50,000. Assuming that Mr. Shaurya has no other income, his total income for A.Y. 2024-25 is -

- ₹ 7,500
- ₹ 27,000
- ₹ 50,000
- ₹ 30,000

Question 15

RTP Nov '23

Mr. Kashyap, CEO of SHY Ltd., purchased a BMW of ₹ 1.15 crores on 23rd September, 2020 for his personal use. On 28.2.2024, he sold this car for ₹ 1 crore and incurred an expenditure of ₹ 2.74 lakhs for transferring the ownership of car. Compute the taxable capital gain/loss, if any to Mr. Kashyap for the A.Y. 2024-25. CII-2020-21: 301; 2022-23: 331; 2023-24: 348

- Short term capital loss of ₹ 0.1774 crores
- Long term capital loss of ₹ 0.3445 crores
- Nil
- Long term capital loss of ₹ 0.317 crores



Question 16

CS Execu.

Kirti acquired a house property on 25th July, 2016 for ₹ 8,00,00. On 15th June, 2022 she became a partnership firm. On this day, she transferred this property to partnership firm as her capital contribution. The fair market value of the property as on 15th June, 2022 was ₹ 20,00,000, but it was recorded in the books of account of the firm at ₹ 18,00,000. Compute capital gain chargeable to tax in the hands of Kirti for the assessment year 2023-24?
(Cost inflation index for F.Y. 2015-16 = 240, 2016-17 = 254 and 2022-23 = 317)

- (A) LTCG ₹ 8,01,575
(B) LTCG ₹ 10,01,575
(C) LTCG ₹ 7,43,333
(D) Not Taxable

Question 17

CS Execu.

If new agricultural land purchased for which exemption was claimed u/s 54B is transferred within 3 years then.

- (A) Capital gain exempt u/s 54B earlier shall be separately taxable as capital gains
(B) Capital gain exempt u/s 54B earlier shall be added to the cost of acquisition of new house property
(C) Capital gain exempt u/s 54B earlier shall be reduced from cost of acquisition of new house property
(D) The entire capital gain on new transfer shall be taxable

Question 18

CS Execu.

Which out of the following is the capital asset?

- (A) A maruti dealer holding cars for sale
(B) A maruti dealer has Honda city car for his personal use
(C) Jewellery held by a jeweller for his personal use
(D) Jewellery held by a jeweller which has been held as SIT

Question 19

CS Execu.

Shanthi sold a vacant land for ₹ 2 crores on 18th June, 2021. The cost of acquisition of land was ₹ 25 lakhs in the year 2009-10. She deposited 90 lakhs in RECL bonds in October 2021. The amount of capital gain liable to tax after deduction under sec. 54EC is (Assessee has not opted form section 115BAC). Indexation F.Y. 2021-22 = 317. F.Y. 2009-10 = 148

- (A) ₹ 56,45,270
(B) ₹ 86,45,270
(C) ₹ 1,46,45,270
(D) ₹ 96,45,270

Question 20

CS Execu.

Ganesh incurred short term capital loss of ₹ 80,000 on sale of shares during the previous year 2022-23 through the national stock exchange. Such loss can be :

- (A) Set off against short term capital gain
(B) Set off against short term and long term capital gain
(C) Not be allowed to set off
(D) Set off against long term capital gains



Answers

1	2	3	4	5	6	7	8	9	10
b	d	b	a	a	b	d	d	b	c
11	12	13	14	15	16	17	18	19	20
a	d	a	b	c	a	a	c	d	c

CA VIVEK GABA



Descriptive Questions

Easy

Question 1

MTP Aug'18

Examine the taxability or otherwise of the following independent transactions as per the provisions of section 56 of the Income-tax Act, 1961 for the Assessment year 2024-25.

- (i) Mrs. Meenakshi has received cash gifts aggregating of ₹ 2 lakhs from several friends and relatives on her birthday. Each cash gift ranges from ₹ 500 to ₹ 1,000.
- (ii) Mr. Krishna has received an immovable property, the stamp duty value of which is ₹ 10 lakhs as per a WILL executed by Mrs. Chandraben on her death.
- (iii) Mr. King has received an immovable property at Kilkanur Village from Mr. Prince as a gift. The stamp duty value of the property is ₹ 75,000
- (iv) Mrs. Vijay has gifted diamonds valued at ₹ 1 lakh to Mrs. Preethi, her sister's daughter-in-law on her birthday.

4 Marks

Answer:

S. No	Taxable	Reason
(i)	Taxable	As per Sec 56(2)(x), where any person receives, in any previous year from any person or persons, any sum the aggregate value of which exceeds ₹ 50,000, the whole of the aggregate value of such sum shall be included in the total income of such person under the head "Income from other sources". Though the gifts range from ₹ 500 to ₹ 1000, the aggregate value exceeds ₹ 50,000. Hence, ₹ 2 lakhs are taxable in her hands.
(ii)	Not taxable	Immovable property received by Mr. Krishna from the deceased Mrs. Chandraben as per a WILL is not taxable since any sum of money or any property received under a will is excluded under section 56(2)(x).
(iii)	Taxable	Where any immovable property is received by any person without consideration the stamp duty value of which exceeds ₹ 50,000, the stamp duty value shall be included in the total income of such person under the head "Income from other sources". Therefore, ₹ 75,000 being the stamp duty value of the immovable property received as gift by Mr. King is taxable in his hands.
(iv)	Taxable	The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. However, sister's daughter in law is not a relative as per section 56(2)(x). Since, the fair market value of diamonds exceeds ₹ 50,000, the value of diamonds is taxable in the hands of sister's daughter in law.



Question 2

MTP March'22

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

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

4 Marks

Answer:

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

- (i) In this case, since XYZ (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹100 each) at par i.e., ₹ 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
- (ii) In this case, since shares are issued at a premium, the amount by which the issue price of ₹110 each exceeds the FMV of ₹ 75 each would be chargeable to tax under the head "Income from other sources". Hence, ₹35 lakh, being ₹35 (i.e., ₹110 - ₹75) × 1,00,000 shares, would be chargeable under section 56(2) (viib).
- (iii) If shares are issued at ₹115 each and FMV of share is ₹ 125 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.

Question 3

MTP Oct'22 MTP Nov'21

Mr. Koshi transferred 300 shares of Style Pvt Ltd. to Moksh Pvt. Ltd. on 10. 9.2021 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. Koshi was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

- (i) Determine the income chargeable to tax in the hands of Mr. Koshi and Moksh Pvt. Ltd. because of the above said transaction.
- (ii) Mr. Chetan is employed in a company with taxable salary income of ₹ 4,00,000. He received a cash gift of ₹ 1,00,000 from Help Charitable Trust (registered under section 12AB) in March 2022 for meeting his medical expenses.

2 Marks

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chetan?

Answer:

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by Moksh Pvt. Ltd. from Mr Koshi for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.



As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of Style Pvt. Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of Style Pvt. Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long-term capital gain of ₹ 55,000 in the hands of Mr. Koshi.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Help Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chetan.

Question 4

MTP May'18, MTP Oct '20

From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2024-25. Your Answer should be supported by reasons:

- (i) Received cash gifts on the occasion of her marriage on 19-11-2023 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non-relatives.
- (ii) On 1-1-2024, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.
- (iii) On 12-2-2024, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.
- (iv) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000. **3 Marks**

Answer:

Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2024-25

	Particulars	₹
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2023-24 does not exceed ₹ 50,000.	Nil
(iii)	Purchase of vacant site for inadequate consideration on 12.2.2024 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual. <i>(As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely:- (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax)</i> Therefore, in the given case ₹ 80,000 (₹ 1,92,000 - ₹ 1,12,000) is taxable in the hands of Mrs. Sonu.	80,000



(iv)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is ₹ 58,000 (₹ 1,33,000 - ₹ 75,000) i.e. it exceeds ₹ 50,000, the difference would be taxable under section 56(2)(x).	58,000
	Amount chargeable to tax	1,38,000

Question 5

RTP May '20, PYQ Nov 18

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

- (i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
- (ii) During the previous year 2023-24, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund.

2 Marks**Answer:**

	Chargeability	Amount liable to tax (₹)	Reason
(i)	Partly taxable	96,000	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e., ₹ 10,000 × 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 - ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	Not Taxable (Taxable)	- 13,97,000	As per section 10(34), dividend received up to ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya. As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished. Income/dividend from UTI/Mutual Fund will also be taxable. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. Even TDS u/s 194 & 194K respectively for dividend from shares & mutual fund/UTI @10% if the aggregate income is over Rs. 5000 will be applicable.



Question 6

RTP Nov '23

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Akash, aged 17 years, received ₹ 3,50,000 as educational scholarship from M/s ABC Ltd. As a part of public welfare program, ABC Ltd. gave the above scholarship for his exceptional performance in Higher Secondary Examinations and to meet the cost of his further studies. The scholarship so received by Akash is taxable in his hands under the head "Income from other sources".

Answer:

The statement is incorrect.

Income of Akash, being a minor child, from his skill or talent would be taxable in his hands. However, as per section 10(16), the value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

Question 7

RTP Nov '23

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Mr. Shyam is a salaried individual. He purchased a painting and sculpture from his friends Mr. Kamal and Mr. Ashish for ₹ 45,000 and ₹ 35,000, respectively. The fair market value of painting and sculpture on the date of purchase was ₹ 80,000 and ₹ 60,000, respectively. Since the difference between fair market value and consideration of painting and sculpture does not exceed ₹ 50,000 individually, nothing would be taxable in the hands of Mr. Shyam.

Answer:

The statement is incorrect.

In case movable property is received for inadequate consideration and the difference between aggregate fair market value of the property and such consideration exceeds ₹ 50,000, such difference would be taxed as the income of the recipient. Since the difference between aggregate fair market value of painting and sculpture (i.e., ₹ 1,40,000) and consideration (i.e., ₹ 80,000) exceeds ₹ 50,000, the difference of ₹ 60,000 would be taxable in the hands of Mr. Shyam under the head "Income from other sources".

Question 8

PYQ Nov'20

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

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

4 Marks

Answer:



- (i) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ` 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of 2 lakhs would be treated as deemed dividend for the A.Y.2024-25. Such dividend would, however, be taxable@30% in the hands of ABC Ltd. Consequently, it would be fully exempt in Julie's hands under section 10(34).

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

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

Question 9

PYQ Nov'19

MLX Investments (P) Ltd. was incorporated during P.Y. 2021-22 having a paid-up capital of 10 lacs. In order to increase its capital, the company further issues, 1,00,000 shares (having face value of 100 each) during the year at par as on 01-08-2023. The FMV of such share as on 01-08-2023 was 85.

- (i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.
 (ii) Will your answer change, if shares were issued at 105 each?
 (iii) What will be your answer, if shares were issued at 105 and FMV of the share was 120 as on 01-08- 2023?

4 Marks**Answer:**

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

- (i) In this case, since MLX Investments (P) Ltd., a closely held company issued 1,00,000 shares (having face value of 100 each) at par i.e., 100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.
 (ii) In this case, since shares are issued at a premium, the amount by which the issue price of 105 each exceeds the FMV of 85 each would be chargeable to tax under the head "Income from other sources". Hence, 20 lakhs, being 20 (i.e., 105 - 85) x 1,00,000 shares, would be chargeable under section 56(2) (vibe).
 (iii) If shares are issued at 105 each and FMV of share is 120 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.



Question 10

PYQ May'18

Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income-tax Act, 1961 for A.Y. 2018-19:

- (i) 51,000 received from his sister living in US on 1-6-2023.
 (ii) Received a car from his friend on payment of 2,50,000, the FMV of which was 5,50,000.
 Provisions of taxability or non-taxability must be discussed. **3 Marks**

Answer:

(i) Not taxable

Cash gift of 51,000 received from his sister, being a relative, would not be taxable in the hands of Mr. Sanjay Kamboj under section 56(2)(x), even though the amount exceeds 50,000.

(ii) Not Taxable

Car is not included in the definition of "property", for the purpose of taxability of gifts in kind, in the Hence, 5,50,000, being the fair market value of car received for inadequate consideration from his friend is not taxable under section 56(2)(x) in the hands of Mr. Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ` 50,000 and the gift is received from a non-relative.

Moderate

Question 1

MTP May'18, MTP Oct '20

From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2024-25. Your Answer should be supported by reasons:

- (v) Received cash gifts on the occasion of her marriage on 19-11-2023 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non-relatives.
 (vi) On 1-1-2024, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.
 (vii) On 12-2-2024, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.
 (viii) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000. **3 Marks**

Answer:

Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2024-25

	Particulars	₹
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2023-24 does not exceed ₹ 50,000.	Nil



(iii)	Purchase of vacant site for inadequate consideration on 12.2.2024 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual.	80,000
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Question 2

RTP Nov '18

- (a) Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is ₹ 30 lakh. Pranav & Sons had taken a loan of ₹ 35 lakh from TRP(P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.
- (b) Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:
- (i) MNS Private Limited, a closely held company, issued 12,000 shares at ₹ 125 per share. (The face value of the share is ₹ 80 per share and the fair market value of the share is ₹ 110 per share).
- (ii) Mr. Arun received an advance of ₹ 56,000 on 11-09-2017 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.
- (iii) Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.
- (iv) Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000.

Answer:

Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern) is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm). However, the amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 35 lakhs given to Pranav & Sons, only ₹ 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

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



S. No.	Taxable / Not Taxable	Reason
(i)	Taxable	Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2) (viib) in its hands under the head "Income from other sources". Therefore, ₹ 1,80,000 [12,000 × ₹ 15 (₹ 125 - ₹ 110)] shall be taxable as income in the hands of MNS Private Limited under the head "Income from other sources".
(ii)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.
(iii)	Not Taxable	As per section 56(2)(x), immovable property received without consideration by any person from his relative is not taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iv)	Not Taxable	Refrigerator is not included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

Difficulty

Question 1

MTP Oct'18

Mr. Akash, a property dealer, sold a building in the course of his business to his friend Varun, who is a share broker, for ₹85 lakhs on 12.12.2023, when the stamp duty value was ₹130 lakhs. The agreement was, however, entered into on 10.6.2023 when the stamp duty value was ₹120 lakhs. Mr. Akash had received a down payment of ₹15 lakhs by a crossed cheque from Varun on the date of agreement. Discuss the tax implications in the hands of Akash and Varun, assuming that Mr. Akash has purchased the building for ₹65 lakhs on 29th August, 2022. **6 Marks**

Answer:

In the hands of Mr. Akash

The provisions of section 43CA would be attracted in the hands of Mr. Akash, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of agreement.



Therefore, ₹55 lakhs, being the difference between the stamp duty value on the date of agreement (i.e., ₹120 lakh) and the purchase price (i.e., ₹65 lakh), would be chargeable as business income in the hands of Mr. Akash.

In the hands of Mr. Varun

Since Mr. Varun is a share broker, 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. Varun who has received immovable property, being a capital asset, for inadequate consideration. Therefore, ₹45 lakhs, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹130 lakh) and the actual consideration (i.e., ₹85 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Varun, since the payment is made by crossed cheque and not account payee cheque/draft or ECS. (As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely: - (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value are chargeable to tax)

Question 2

RTP May '19

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2023 for a consideration of ₹42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property.

What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the assessment year 2024-25? Mr. Suraj had purchased the land on 19th February, 2013 for ₹ 9,20,000 and completed the construction of house on 18th January, 2017 for ₹ 15,50,000. Cost Inflation Index: F.Y. 2012-13 - 200; F.Y. 2016-17 - 264; F.Y. 2018-19 - 280, FY 2023-24- 348.

Answer:

In the hands of the seller, Mr. Suraj

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 105% (110%) of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.



Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹ 44,10,000(46,20,000) i.e., 105% (110%) of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000]	29,40,000
Less: Indexed cost of acquisition ₹ 9,20,000 × 384/200	17,66,400
Long-term capital gain (A)	11,73,600
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building [30% of ₹ 42,00,000]	12,60,000
Less: Cost of acquisition	15,50,000
Short term capital loss (B)	(2,90,000)

As per section 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹8,83,600 (i.e., ₹ 11,73,600 - ₹ 2,90,000). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long-term capital gain.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 5% (10% as per amendment) of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources.

Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 2,10,000 being higher of ₹ 50,000 and ₹ 2,10,000 (4,20,000) (5% (10%) of ₹ 42,00,000), no income would be chargeable to tax as income from other sources in the hands of Mr. Ganesh.

(As per amendment where any person receives, in any previous year, from any person or persons any immovable property having stamp duty value that exceeds such consideration and if the amount of such excess is more than the higher of the following amounts, namely: - (i) the amount of fifty thousand rupees; and (ii) the amount equal to ten per cent of the consideration then the difference between the consideration and stamp duty value is chargeable to tax)



Question 3

Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2024 from Government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2022-23. (Old & New SM)
- (ii) Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2023 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was affected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
- (iii) Mr. A received ₹ 5,00,000 on 1st March 2024 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under section 12AB of Income-tax Act.

6 Marks

Answer:

(i) Interest on enhanced compensation received on 31.03.24 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to P.Y. 2022-23) would be deemed to be the income of P.Y. 2023-24, being the year in which it is received irrespective of the method of accounting followed by the assessee.

Interest of ₹ 3,00,000 on enhanced compensation is chargeable to tax during the P.Y. 2023-24 after providing deduction of 50% under section 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head "Income from other sources".

(ii) In the hands of Mr. Narayanan

Since the consideration of ₹ 2,00,000 is less than ₹ 3,00,000, being the fair market value of unquoted shares of BS Ltd., the fair market value of shares i.e., ₹ 3,00,000 would be deemed to be the full value of consideration.

Accordingly, ₹ 25,000 [₹ 3,00,000 - ₹ 2,75,000, being indexed cost of acquisition] would be liable to tax as long-term capital gains in the hands of Mr. Narayanan.

In the hands of AB Pvt. Ltd.

Shares received by AB Pvt. Ltd. from Mr. Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds ₹ 50,000. Accordingly, ₹ 1,00,000, being the difference between aggregate Fair Market Value of the shares i.e., ₹ 3,00,000 and consideration i.e., ₹ 2,00,000 would be chargeable to tax under the head "Income from other sources".

(iii) The sum of ₹ 5,00,000 received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr. A, since the same is received from a trust registered under section 12AB.



Multiple Choice Questions

Question 1

MTP Nov'21

Ms. Saline received interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2022-23, ₹ 1,90,000 relates to previous year 2019-20 and ₹ 1,60,000 relates to previous year 2023-24. She paid ₹ 1 lakh to her advocate for his efforts in the matter. What amount would be taxable in P.Y. 2023-24 and taxable, if any, under which head of income.

- ₹ 2,50,000 under the head "income from other sources"
- ₹ 4,00,000 under the head "income from other sources"
- ₹ 1,60,000 under the head "income from other sources"
- ₹ 1,60,000 under the head "Capital gains" Division B -

Question 2

MTP April'21

Pankaj gifted an amount of Rs 3,00,000 to his wife, Pinky and ₹ 2,00,000 to his daughter, Rink aged 20 years, on 1st April 2020. Both Pinky and Rinky invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Pinky for A.Y. 2024-25?

- ₹ 4,473
- ₹ 12,132
- ₹ 33,000
- Nil

Question 3

MTP Oct'19

Neeraj was working as an accountant with the company Umali Ltd. He died on 30.04.2023 and on account of his death, his wife Neha started receiving a pension of ₹ 10,000 per month i.e. 01.06.2023. Determine under which head of income, the pension received by Neha during F.Y. 2023-24 shall be taxable. Also, compute the taxable amount in her hands.

- Income from other sources: ₹1,00,000
- Income from other sources: ₹ 85,000
- Income from Salary: ₹1,00,000
- Income from Salary: ₹ 85,000

Question 4

MTP March'19

Mrs. Gupta, resident in India, holds many equity shares of reputed domestic companies. During the previous year 2023-24, total dividend earned by her is ₹11,00,000. She is of the belief that dividend income earned by her is tax free. She approaches you to assist her in filing her income tax return. As her tax consultant, will you advise her that any dividend income earned by her is tax free?

- Yes, as dividend earned by her is fully exempt from tax u/s 10(34).
- No, as any dividend income earned by an individual is fully chargeable to tax.
- No, as dividend income earned above ₹10,00,000 is chargeable to tax in her hands.
- Yes, as dividend income above ₹10,00,000 is chargeable to tax only in the hands of the companies and not in her hands.



Question 5

MTP March'19

Mr. X receives the following gifts during the previous year 2023-24:

- On 20.09.2023, he gets a gift of ₹7,00,000 from his grandmother.
- On 30.12.2023, he gets by way of gift a commercial flat from the elder brother of his father-in-law (stamp duty value is ₹25,00,000).
- On 20.01.2024, he gets a wrist watch by gift from his friend B (Fair market value: ₹1,00,000).

On 10.02.2024, he gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners- father of Mr. X and MRS. X. The stamp duty value of the plot of land is ₹19,00,000. Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the A.Y. 2024-25.

- ₹25,00,000
- ₹44,00,000
- ₹45,00,000
- ₹52,00,000

Question 6

RTP May'20

APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2023-24, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2023- 24, Mr. A received deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd. Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

- Deposit Receipts (without interest) are taxable to the extent of ₹ 2,50,000 under Income from other sources.
- Deposit Receipts (without interest) are fully taxable under Income from other sources.
- Deposit Receipts (without interest) are exempt since DDT is payable by the company.
- Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A.

Question 7

RTP Nov'21

Mr. T, an Indian Citizen and resident of India, earned dividend income of ₹ 4,500 from an Indian company, which was declared on 1.10.2023 and paid in cash to Mr. T. What are the tax implications with respect to the dividend in the hands of Mr. T and Indian Company?

- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @7.5%.
- Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @10%.
- Such dividend is taxable in the hands of Mr. T. However, Indian company is not required to deduct tax at source since it does not exceed ₹ 5,000.
- Such dividend is exempt in the hands of Mr. T. Hence, Indian company is not required to deduct tax at source.



Question 8

RTP Nov'21

Mr. Vikas received a gold ring worth ₹ 60,000 on the occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth ₹ 80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas and Ms. Kavya?

- Yes, the gift of gold ring and gold chain is taxable in the hands of Mr. Vikas and Ms. Kavya, respectively
- Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya
- Value of gold ring is taxable in the hands of Mr. Vikas but value of gold chain is not taxable in the hands of Ms. Kavya
- Value of gold chain is taxable in the hands of Ms. Kavya but value of gold ring is not taxable in the hands of Mr. Vikas

Answers

1	2	3	4	5	6	7	8		
a	b	b	b	b	b	b	c		



Chapter 4: Income of Other Person included in Assesses Total Income

Descriptive Questions

Easy

Question 1

RTP May'23

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

Answer:

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

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2022	3,00,000 (5,00,000 - 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2021 (3:5)	1,50,000 $4,00,000 \times \frac{3}{8}$	2,50,000 $4,00,000 \times \frac{5}{8}$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is ₹ 2,50,000. In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

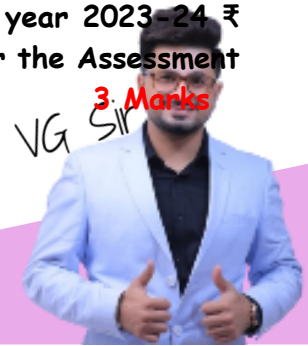
Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

Question 2

MTP Apr'19, RTP May'18

A proprietary business was started by Smt. Rani in the year 2021. As on 1.4.2022 her capital in business was ₹ 3,00,000. Her husband gifted ₹ 2,00,000 on 10.4.2022 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the financial year 2022-23, ₹ 1,50,000 and financial year 2023-24 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2024-25 with reasons.

Answer:



Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
Capital as at 1.4.2022	3,00,000	-	3,00,000
Investment on 10.04.2022 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2022	1,50,000		1,50,000
Capital employed as at 1.4.2023	4,50,000	2,00,000	6,50,000
Profit for F.Y.2023-24 to be apportioned on the basis of capital employed as at 1.4.2023 (i.e., 45: 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is ₹1,20,000.

Question 3

MTP Oct'21, Mar'19, RTP Nov '18, Nov'19

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

Answer:

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

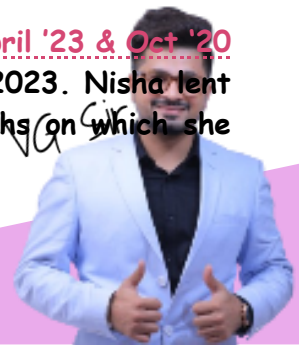
Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by Mrs. Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

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

Question 4

MTP April '23 & Oct '20

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2023. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2023 for six months on which she



received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2023, which were sold for ₹ 75,000 on 30th December, 2023. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2023. She suffered loss of ₹ 15,000 in the business in Financial Year 2023-24. In whose hands the above income and loss shall be included in Assessment Year 2024 -25? Support your answer with brief reasons. **4 Marks**

Answer:

Interest on loan

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

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

Loss from business

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

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

Capital Gain on sale of shares of listed company

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

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

Question 5

MTP May'20

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

Answer:

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

If two transactions are inter-connected and are part of the same transaction in such a way that it can



be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morori (1967) 66 ITR 142.

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

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

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

Question 6

MTP Oct'22 & Oct '18

Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14-5-2023. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Raja. Son of Mr. Raja's brother invested the amount in fixed deposit with SBI@ 9% p.a. interest and Mrs. Raja received interest of ₹ 81,000 on these debentures during the previous year 2023-24. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

4 Marks

Answer:

In the given case, Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14.5.2023 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Raja's wife on the same date. Mr. Raja's brother's minor son invested the gifted amount of ₹ 8 lakhs in fixed deposit with SBI.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted¹.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Raja's brother's son from fixed deposits would be included in the total income of Mr. Raja's brother, assuming that Mr. Raja's brother's total income is higher than his wife's total income, before including minor's income. Mr. Raja's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Raja would be taxable in the hands of Mr. Raja as per section 64(1)(iv).

This is because both Mr. Raja and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Raja, interest received by his spouse on debentures of ₹ 8 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 8 lakhs.

Hence, only proportional interest (i.e., 8/10th of interest on debentures received) ₹ 64,800 would be includible in the hands of Mr. Raja.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.



It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Question 7

MTP March '23.

Mr. Om has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. Uma, who in turn has gifted the same to Mrs. Pallavi, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. Om and Mrs. Pallavi. Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi? **4 Marks**

Answer:

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

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

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

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

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

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

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

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

Question 8

RTP May '22

Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2023-24, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the A.Y. 2024-25

- (i) Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.



- (ii) Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.
- (iii) Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000
- (iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.
- (v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name.

Answer:

Computation of Gross Total Income of Mr. Samrat and Mrs. Komal for A.Y. 2024 -25

Particulars	Mr. Samrat		Mrs. Komal	
	₹	₹	₹	₹
Salary of Samrat	8,50,000			-
Less: Standard deduction under section 16(ia)	50,000	8,00,000		-
Salary of Komal	5,50,000			-
Less: Standard deduction under section 16(ia)	50,000	5,00,000		-
[Salary earned by Mrs. Komal has to be included in the total income of Mr. Samrat, since he has substantial interest in the concern (i.e., having 24% voting power in ABC (P) Ltd., along with his wife) and Mrs. Komal does not have any professional qualification for the job.]				
Business Income		15,60,000		-
Dividend income from ABC (P) Ltd. [Taxable in the hands of Mr. Samrat as per section 60, since he transferred the income i.e., dividend without transferring the asset i.e., shares]	[22,500/ 90 × 100 × 2]	50,000	[45,000/ 90 × 100]	50,000
Interest on Fixed Deposit earned by Mrs. Komal		-		9,00,000
Total Income (before including minor's income)		29,10,000		9,50,000
Income of minor child to be included in Mr. Samrat's income, since his total income before including minor's income is higher than that of Mrs. Komal. [₹ 54,000 /90 × 100]	60,000			
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income of each child so included.	1,500	58,500		
Gross Total Income		29,68,500		9,50,000

Question 9

PYQ Dec'21

Details of Income of Mr. R and his wife Mrs. R for the previous year 2023-24 are as under:

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2023-24 the HUF earned an income of ₹ 50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2009 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2023-24, she earned interest @ 11% per annum.



(iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2023-24 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.

(iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2016 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2019. On 04.03.2023, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000. Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2024 -25.

4 Marks

Answer:

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2024-25

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property		
	Income from property transferred to HUF without consideration	50,000	
	Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 from such property would be included in the total income of Mr. R as per section 64(2).		
II.	Capital Gains		
	Income from equity shares transferred by Mrs. R to Mr. R without consideration		
	Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 × 5,000/8,000]		3,25,000
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 × 3,000/8,000]	1,95,000	
III.	Income from Other Sources		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
	Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500

VG Sir



IV.	Salary income from a company in which both Mr. R and Mrs. R have substantial interest		
	Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
	Salary income of Mr. R = ₹ 3,20,000 - ₹ 50,000 (standard deduction)		2,70,000
	Salary income of Mrs. R = ₹ 2,70,000 - ₹ 50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

Assumed as computed figure

In the absence of any other information, the capital gains have been apportioned on the basis of number of original shares to number of bonus shares.

Question 10

PYQ Nov'22

From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2024-25.

- Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @6% from 01-04-2023 to 31-03-2024 to the savings account of his brother's son for his education.
- Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30% equity shares of the ABC Private Limited.
- Raman started proprietary business on 01-04-2002 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the previous year 2022-23. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2023 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the previous year 2023-24
- Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account.

4 Marks

Answer:

Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2024-25

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	
(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 × 6%]	30,000	
(ii) Salary income [₹ 3,00,000 (₹ 25,000 × 12) less standard deduction of ₹ 50,000]		2,50,000
[Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		



(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., $1/3 \times ₹ 3,00,000$) arising from such investment is to be included in the total income of Savita.	2,00,000	1,00,000
Mr. Raman's contribution in capital as on 1.4.2023 = ₹ 8,00,000 [₹10,00,000 - ₹ 2,00,000]		
Mrs. Savita's contribution on 1.4.2021 = ₹ 4,00,000 ₹ 3,00,000, being the profit for P.Y.2021-22 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2023 (8:4 or 2:1)		
Total income [before considering minor income from interest on savings account]	2,30,000	3,50,000
(iv) Cash award won in a debate by Sajjan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent.	-	-
However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹ 1,500) is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband [₹ 7,000 - ₹1,500]	-	5,500
Gross Total Income	2,30,000	3,55,500
Less: Deduction under section 80TTA (Interest on savings bank account)	-	5,500
Total Income	2,30,000	3,50,000

Moderate

Question 1

MTP Oct '19

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

- Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.
- Nonu won a prize money of ₹3,00,000 in National Sports competition.

This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

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

Answer:

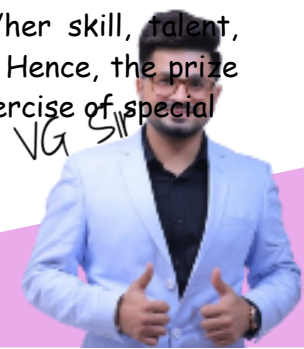
1. Gift received from non-relative by minor daughter Mahi

Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)

2. Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu

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



talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

Question 2

MTP Sep '23, PYP Nov'19

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

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

Compute total taxable income of Mr. Manoj & Mrs. Daya for the A.Y. 2024-25 if they opt for the provisions of section 115BAC. **5 Marks**

Answer:

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

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son - Ganesh	
- Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	Nil
-Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter - Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000
Less: Exempt under section 10(32) [Since Mr. Manoj has opted for the provisions of section 115BAC, exemption u/s 10(32) would not be available]	-
(Income of minor daughter would be included in the hands of Mr. Manoj, since his income, before including minor daughter's income, is higher than his wife's income).	
Taxable Income	6,05,000

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

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

Question 3

PYQ Nov'18

Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2024:

(i) M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.

(ii) M won a prize money of ₹ 3,00,000 in National Quiz competition.

This was invested in debentures of a company, from which interest of ₹ 19,000 (gross) accrued during the year.

(iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income-tax Act, 1961. Detailed computation of income is not required. **5 Marks**

Answer:

Gift received from non-relative by minor daughter M Gift of ₹ 70,000 received by minor daughter M, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Vinod Amin, since his income before considering clubbing provisions is higher than that of his wife. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y.2032-33, in this case.

(ii) Prize money of ₹ 3,00,000 in National Quiz Competition/Interest on debentures received by minor daughter M Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Quiz Competition by minor daughter M from exercise of special talent would not be included in the income of either parent.

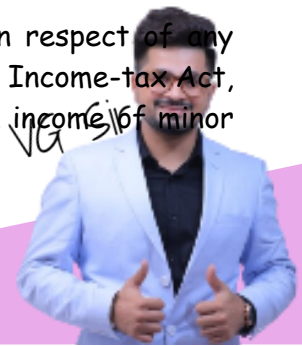
However, interest of ₹ 19,000 on debentures has to be included in the hands of her father, Mr. Vinod Amin, even if the investment is made out of income arising from application of special talent.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter M so included in the hands of Mr. Vinod Amin under section 10(32).

(iii) Winning from lottery by minor child N Winnings of ₹ 1,50,000 ($1,05,000 \times 100/70$) from lotteries by minor child N is includible in the hands of his father, Mr. Vinod Amin. Mr. Vinod Amin can claim credit of tax of ₹ 45,000 deducted at source from such lottery income.

Note - As regards availability of exemption under section 10(32) in respect of lottery income of minor child N includible in the hands of his father, there are two possible views. Since exemption of up to ₹ 1,500 under section 10(32) is available in respect of any income of minor child includible in the total income of parent, one view is that such exemption would also be available in respect of lottery income of a minor child includible in the hands of parent.

The alternate view is that since as per section 58(4), no deduction is allowable in respect of any expenditure or allowance in connection with lottery income under any provision of the Income-tax Act, 1961, exemption under section 10(32) would also not be available in respect of such income of minor



child includible in the hands of the parent. Further, lottery income is subject to tax at a flat rate of 30%, and hence, if any exemption is allowed in respect of such income, it would reduce the tax liability and the effective rate of tax.

Question 4

PYP July'21, MTP Oct '23

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

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

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024-25 assuming that they have not opted to be taxed under section 115BAC. **5 Marks**

Answer:

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

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



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

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

Question 5

PYQ May'18

Mr. Madhab made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2023, which he deposited in a fixed deposit account in a Nationalized 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. Madhab (Date of birth 10th April, 2016) in July 2016 which were purchased by him on 8th December, 2010 for ₹ 80,000. Manan received a dividend of ₹ 5,000 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.

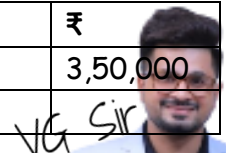
Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2010-11	167
2017-18	272
2023-24	348

Mr. Madhab 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.

5 Marks**Answer:****Computation of Gross Total Income of Mr. Madhab for the A.Y. 2024-25**

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			



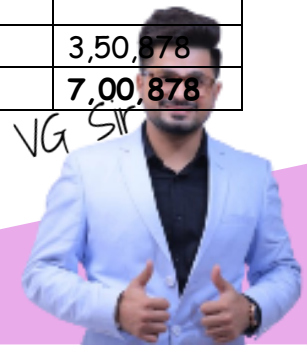
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [$\text{₹ } 80,000 \times 348/167$]	1,66,707	3,33,293	
Income from Other Sources			
Dividend of ₹ 80,000 on equity shares [Exempt u/s 10(34)] (taxable in the hands of shareholder as per amendment)	- 80,000		
Interest on company deposit [$\text{₹ } 3,00,000 \times 15\% \times 5/12$]	18,750	98,750	
		4,32,043	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	4,30,543
Gross Total Income			7,80,543

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.
- In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Manan held the asset, i.e., F.Y.2010-11, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assesses is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

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

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [$\text{₹ } 80,000 \times 348/113$]	2,46,372	2,53,628	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)] (taxable in the hands of shareholder as per amendment)	80,000		
Interest on company deposit [$\text{₹ } 3,00,000 \times 15\% \times 5/12$]	18,750	98,750	
		3,52,378	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	
			3,50,878
Gross Total Income			7,00,878



Question 6

On 10th April, 2018, Mr. Mayur made a gift of ₹ 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a fixed deposit account in a Nationalized bank. The bank credited a sum of ₹ 42,500 as interest on fixed deposit on 31st March, 2024. Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19th June, 2016) in September 2016 which were purchased by him on 18th December, 2004 for ₹ 95,000. Tejas received a dividend of ₹ 10,000 on these shares in October 2023. He sold these shares on 1st December, 2023 for ₹ 4,80,000 and deposited ₹ 3,10,000 in a company at 14% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2011-12	184
2018-19	280
2016-17	264
2023-24	384

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2023-24. Compute his Gross Total Income for the A.Y. 2024-25

Answer:

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

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 × 384/264]	1,38,182	3,41,818	
Income from Other Sources			
Dividend of ₹ 10,000 on equity shares [Exempt u/s 10(34)] As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.	- 10,000		
Interest on company deposit [₹ 3,10,000 × 14% × 4/12]	14,467	24,467	
		3,66,285	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	3,64,785
Gross Total Income			8,14,785

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 ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur

2. Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.

3. In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2016-17, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assesses is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

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

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 × 348/113]	2,92,566	1,87,434	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any another person. DDT has been abolished)	10,000		
Interest on company deposit [₹ 3,10,000 × 14% × 4/12]	14,467	24,467	
		2,11,901	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	2,10,401
Gross Total Income			6,60,401

Difficulty

Question 1

MTP Aug'18

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

- He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2023. During the previous year 2023- 24, she received a rent of ₹ 20,000 p.m. from letting out the flat.



(iv) He gifted ₹ 10,00,000 to M₹ Kajal on 1st April, 2023 which Mrs. Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2023-24 of ₹ 9,00,000.

(v) His minor son Sandeep earned income from company deposit of ₹ 1,50,000.

Mr. Shashank and Mrs. Kajal do not have any other income during the P.Y. 2023-24.

Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2024-25.

6 Marks

Answer:

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

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

Notes:

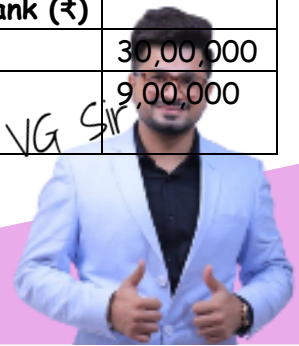
1. According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Shashank shall be deemed to be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

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

2. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.

3. Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs. Kajal received a gift of ₹ 10,00,000 on 1.4.2023 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2024-25 is computed as under:

Particulars	M₹ Kajal's capital contribution (₹)	Capital contribution out of gift from Mr. Shashank (₹)	Total (₹)
Capital as on 1.4.2023	20,00,000	10,00,000	30,00,000
Profit for P.Y. 2023-24 to be apportioned on the basis of capital	6,00,000 (9,00,000 × 2/3)	3,00,000 (9,00,000 × 1/3)	9,00,000



employed on the fit day of the previous year i.e. as on 1.4.2023 (2:1)

Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2024-25 is ₹ 3,00,000.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of M^{rs} Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e, her husband.

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

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

Question 2

PYQ. Nov'20

Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2024- 25 from the following:

- Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹ 2,40,000 per annum.
- Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2019 for adequate consideration. The rent received from this let-out flat is ₹ 9,000 per month.
- Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹ 36,000 and Smt. Ram Kumar received ₹ 64,000 as interest from the firm and also had a share of profit of ₹ 12,000 and ₹ 26,000 respectively.
- Smt. Ram Kumar transferred 10% debentures worth ₹ 3,00,000 to Shri Ram Kumar. The whole amount of ₹ 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹ 39,000.
- Mother of Shri Ram Kumar transferred a property to Master Rohitha (son of Shri Ram Kumar) in the year 2018. Master Rohitha (aged 13 years) received ₹ 15,000 as income from this property on 20th February, 2024.

6 Marks

Answer:

Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2024-25

Particulars	Shri Ram Kumar		Smt. Ram Kumar	
	₹	₹	₹	₹
Salary	1,80,000		2,40,000	
Less: Standard deduction	50,000	1,30,000	50,000	1,90,000
Income from house property				
Rent received (taken as annual value in the absence of other information)	45,000		63,000	
Less: Deduction u/s 24(a)@30% of Annual Value	13,500	31,500	18,900	44,100
Note - Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration. Therefore, the rent for the 5 months				
5 No tax is payable u/s 112A in respect of LTCG of ₹ 50,000, since the same is less than ₹ 1,00,000				



up to the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife.				
Profits and gains of business or profession				
Share of profit from firm [Exempt under section 10(2A)]	-		-	
Interest from firm (assumed that the same is fully deductible in the hands of the firm)	36,000	36,000	64,000	64,000
Income from other sources				
Interest on debentures (interest@10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor- spouse, Smt. Ram Kumar) = 10% of ₹ 3 lakh (See Note 1 below)	-		30,000	
Income from investments [₹ 39,000 × 3,00,000/3,30,000] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from ₹ 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor- spouse, Smt. Ram Kumar. Income from accretion to such debentures (i.e., income earned by investing debenture interest of ₹ 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., ₹ 3,545, will be taxable in the hands of the Shri Ram Kumar himself) (See Note 1 below)	3,545	3,545	35,455	65,455
Total income (before including minor's income)		2,01,045		3,63,555
Income of minor son Rohitha to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of ₹ 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is ₹ 13,500 (₹ 15,000 - ₹ 1,500) (See Note 2 below)				13,500
Total Income		2,01,045		3,77,055

Note -

- In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹ 30,000 as well as income from investment of ₹ 39,000 will be taxable in the hands of Shri Ram Kumar.
- In respect of property transferred to Rohitha, the question simply states ₹ 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution.

VG SIR



However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 9,000 [₹ 15,000 - ₹ 4,500 (30% of ₹ 15,000 allowable as deduction u/s 24(a)) - ₹ 1,500 (exemption u/s 10(32)], and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,72,555.

Question 3

PYQ May '23

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- Mr. Chaman's salary income - ₹ 11,00,000
- Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2023-24. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2023-24.
- Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of up to 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2024-25. Ignore section 115BAC pertaining to alternative tax regime. **6 Marks**

Answer:

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2024-25

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	₹	₹	₹	₹
Income under the head "Salaries" Salaries (computed)	11,00,000			
Profits and gains from business or profession Income from Kathak performances		2,50,000		
Capital Gains Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		2,00,000		



The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since			3,56,000	
such income arises from her own skills/talent. However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500] ⁵	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income				
	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A -Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
Under section 80U - Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note - (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2023 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words "invested the entire amount in the stock market" in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.



Multiple Choice Questions

Question 1

MTP Oct'21

Mr. Vishal started a proprietary business on 01.04.2022 with a capital of ₹5,00,000. He incurred a loss of ₹ ₹ 1,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Kamini, a Chartered Accountant, gave a gift of ₹ 4,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vishal. He earned a profit of ₹ 2,00,000 during the year 2023-24. What is the amount to be clubbed in the hands of M₹ Kamini for the Assessment Year 2024-25?

- a) ₹ 88,888
- b) ₹ 1,00,000
- c) ₹ 2,00,000
- d) Nil

Question 2

MTP April'22

Mr. Raj Makes a gift of ₹ 25,000 to his wife, Mrs. Rama, on 27.03.2023. M₹ Rama, on 2.4.2023, invests ₹ 75,000 (25,000 out of gift and 50,000 of her own) in a partnership firm as capital which is her total capital contribution in the firm. During the year ended 31.03.2024 she earns an interest of ₹ 12,000 and salary of ₹ 1,20,000 from the firm. What amount shall form part of total income of Mr. Raj for the previous year 2023-24?

- a) ₹ 3,000 as interest on capital from firm
- b) ₹ 3,000 as interest on capital from firm and ₹40,000 as salary from firm
- c) ₹ 4,000 as interest on capital from firm and ₹40,000 as salary from firm
- d) Nil

Question 3

MTP Sep'22

Pankaj gifted an amount of ₹ 3,00,000 to his wife, Nikki and ₹ 2,00,000 to his daughter, Pinki aged 20 years, on 1st April 2020. Both Nikki and Pinki invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Nikki for A.Y. 2024-25?

- a) ₹ 4,473
- b) ₹ 12,132
- c) ₹ 33,000
- d) Nil

Question 4

MTP March'23

Mrs. Archana, wife of Mr. Raj, started a business of trading in beauty products on 15.5.2023. She invested ₹ 5 lakhs in the business on 15.5.2023 out of gift received from her husband, Mr. Raj. She further invested ₹ 4 lakhs from her own savings on 15.12.2023. She earned profits of ₹ 1,50,000 from her business for the financial year 2023-24. Which of the following statements is correct?

- a) Share of profit of ₹ 1,50,000 is includible in the hands of Mrs. Archana.
- b) Share of profit of ₹ 66,667 is includible in the hands of Mr. Raj and share of profit of ₹ 83,333 is includible in the hands of Mrs. Archana.
- c) Share of profit of ₹ 83,333 is includible in the hands of Mr. Raj and share of profit of ₹ 66,667 is includible in the hands of Mrs. Archana.
- d) Share of profit of ₹ 1,50,000 is includible in the hands of Mr. Raj.

VG Sir



Question 5

RTP May '19

Ram owns 500, 15% debentures of Reliance Industries Ltd. of ₹ 500 each. Annual interest of ₹ 37,500 was declared on these debentures for P.Y. 2023-24. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2024-25, Shyam showed ₹ 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

- Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
- No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.
- Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.
- No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

Answers

1	2	3	4	5					
b	d	b	d	b					



Chapter 5: Aggregation of Income, Set-off and carry forward of losses

Descriptive Questions

Easy

Question 1

MTP Sep'22

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

	₹
Income from Salary (computed)	22,00,000
Business loss before providing current year depreciation (Business discontinued on 31.5.2023)	1,00,000
Current year depreciation	50,000
Interest from Fixed Deposit	10,15,000
Interest on loan in respect of self-occupied property	2,35,000
Income from specified business (Not eligible for deduction under section 35AD)	20,000

Brought forward losses (Pertaining to A.Y. 2023-24)

Unabsorbed depreciation	45,000
Loss from specified business (eligible for deduction under section 35AD)	20,000

You are required to compute his gross total income for the A.Y. 2024-25 in such a way that his tax liability is minimised.

4 Marks

Answer:

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

Particulars	₹	₹
Income from Salary (Computed)	22,00,000	
Less: Loss from self-occupied house property (on account of interest deduction up to ₹ 2,00,000) [Loss from house property can be set-off against salary income as per section 71(1)]	2,00,000	20,00,000
Profits and gains from business and profession		
Income from specified business [not eligible for deduction u/s 35AD]	20,000	
Less: Set-off of brought forward loss from specified business [eligible for deduction u/s 35AD] allowable as per section 73A	(20,000)	Nil
[Brought forward loss from specified business eligible for deduction u/s 35AD can be set-off against income from any specified business, whether or not the same is eligible for deduction u/s 35AD]		
Income from Other Sources		



Interest from fixed deposit	10,15,000	
Less: Current year business loss set-off [Inter-head set-off is permissible by virtue of section 71(1). Hence, current year business loss can be set-off against interest income from fixed deposit]	1,00,000	
	9,15,000	
Less: Current year depreciation	50,000	
	8,65,000	
Less: Unabsorbed depreciation under section 32(2) [Can be set-off against any head of income other than Salaries]	45,000	
		8,20,000
Gross Total Income		28,20,000

Question 2

RTP May '22

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

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

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

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

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

Answer:

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



Profit and gains from business or profession		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000
Income from Other Sources		
Winnings from lottery tickets		40,000
Gross Total Income		4,60,000

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

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

Notes -

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

Question 3

PYQ Nov'19, MTP Sep '23

Following are the details of incomes/losses of Mr. Rishi for the F.Y. 2013-14:

(Figures in brackets represents losses)	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources:	
from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2024-25.

5 Marks



Answer:

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

Particulars	₹	₹
Salary Income (computed)	3,60,000	
Less: Set-off of loss from house property ₹ 2,20,000, restricted to	2,00,000	1,60,000
Income from House Property		
Income from Property X	1,20,000	
Less: Loss from Property Y [inter-source set-off is permitted under section 70(1)]	3,40,000	
Loss from house property	2,20,000	
Less: Loss eligible for set-off against salary income as per section 71(3A), restricted to	2,00,000	
Loss to be carried forward to A.Y. 2025-26 as per section 71B, for set-off against income from house property, if any, in that year.	(20,000)	
Profits and gains of business or profession		
Income from business P	2,30,000	
Less: Loss from business Q (inter-source set-off is permitted)	12,000	2,18,000
Income from speculation business R	15,000	
Less: Loss from speculation business T [can be set-off only against income from speculation business as per section 73(1)]	25,000	
Loss to be carried forward to A.Y. 2025-26 for set-off against speculative business income of that year by virtue of section 73(2).	(10,000)	
Income from Other Sources		21,00
Income from card games	16,000	
Interest on securities	5,000	
Loss from owning & maintaining race horses [Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to A.Y. 2025-26 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)]	(7,000)	
Gross Total Income		3,99,000

Note: Loss from house property of ₹ 2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be ₹ 3,60,000 and business income would be ₹ 18,000. Gross total income would remain the same. Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible.

Question 4

PYQ July'21, MTP Oct '23

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2024:

S. No.	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000



(ii)	Income from House Property	
	- House in Delhi	22,000
	-House in Chennai	(-) 2,60,000
	-House in Mumbai (self-occupied)	(-) 20,000
(iii)	Profit and gains from business or profession	
	-Textile business	18,000
	-Cosmetics business	(-) 22,000
	-Speculative business- 1	(-) 74,000
	-Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	-Income from betting	34,000
	-Income from card games	46,000
	-Loss on maintenance of race horses	(-)14,600

Determine the gross total income of Mr. X for the assessment year 2024-25 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC **5 Marks**

Answer:

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

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)	2,00,000	22,000
Income from house property		
-House in Delhi	22,000	
-House in Chennai	(2,60,000)	
-House in Mumbai (self-occupied)	(20,000)	
Loss up to ₹ 2 lakhs can be set off against income from salary. Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2025-26.	(2,58,000)	
Profits and gains from business or profession		
Profits from Speculative business - 2	46,000	
Less: Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set- off against any income other than profit and gains of another speculation business. Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2025-26.	(46,000)	
		-



Profits from textile business	18,000	
Less: Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70(1).	(18,000)	-
Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2025-26, since the same cannot be set-off against salary income.	15,400	
Capital Gains		
Long term capital gain from sale of property		
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long- term capital gains to the extent of ₹ 15,400 as per section 74(1).	(15,400)	-
Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2025-26		
Income from Other Sources		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2025-26]	Nil	
Gross Total Income		80,000
		1,02000

Question 5

PYQ May'22

Mr. Harsh furnishes the following details for the year ended on 31-03-2024:

PARTICULARS	AMOUNT (₹)
Salary received from partnership firm (the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2016-17	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2024-25.

4 Marks

Answer:

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

Particulars	₹	₹
Profits and gains from business and profession		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	
Less: Loss from house property ₹ 2,50,000 (can be set-off against income from any other head only to the extent of ₹ 2 lakh)	2,00,000	
	6,50,000	
Less: Set-off of brought forward business loss of A.Y. 2016-17 (since the eight-year time period for set-off has not expired)	6,00,000	
Capital Gains		50,000
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such set-off is permissible since it is a loss from a source of income taxable u/s 112A]	5,00,000	-
Income from Other Sources		
Income from betting (gross)		50,000
[No Loss can be set off against income from betting]		
Loss of ₹ 35,000 from card games can neither be set-off nor be carried forward		-
Total Income		1,00,000

Losses to be carried forward to A.Y. 2025-26		₹
Loss from house property (₹ 2,50,000 - ₹ 2,00,000)		50,000
Loss from specified business covered u/s 35AD [Entire loss is to be carried forward, since there is no income from any specified business for A.Y.2022-23. Such loss has to be carried forward for set-off against income from any specified business in A.Y.2025-26]		3,50,000
Long-term capital loss on sale of listed shares (STT paid) [₹ 6,00,000 - ₹ 5,00,000]		1,00,000

Question 6

PYQ Nov'22

Compute the gross total income of Mr. Prakhar for A.Y. 2024-25 and the losses to be carried forward, from the information given below:

4 Marks

- | | |
|---|--------------|
| (i) Income from House Property (computed) | ₹ 3,60,000 |
| (ii) Short term capital loss on shares of a company | ₹ (-) 18,700 |
| (iii) Long term capital gain on sale of agricultural land | ₹ 6,000 |
| (iv) Income from rubber business (plants grown by Mr. Prakhar) | ₹ 80,000 |
| (v) Loss from garment business b/f discontinued in F.Y. 2019-20 | ₹ (-) 70,000 |
| (vi) Loss from betting | ₹ (-) 5,500 |
| (vii) Income from lotteries (net) | ₹ 5,460 |

Answer:

Aggregation of Income, Set-Off and Carry Forward of Losses



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

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 × 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	28,000	Nil
Capital Gains Long-term capital gain on sale of agricultural land (Exempt, assuming that the same is rural agricultural land)		-
Income from Other Sources Income from lotteries (₹ 5,460 × 100/70)		7,800
[Note - Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word "net" is given in the bracket. Since, the word "net" is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460]		
Gross Total Income		3,67,800

Losses to be carried forward to A.Y. 2025-26	₹
Loss from garment business pertaining to P.Y. 2019-20 (₹ 70,000 - ₹ 28,000)	42,000
Short term capital loss on shares of a company of A.Y. 2024-25	18,700
Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.	-

Note - In the question, long term capital gain on sale of agricultural land is given as ₹ 6,000. However, it is not mentioned as to whether the same is rural agricultural land or urban agricultural land. The main solution given above is based on the assumption that it is rural agricultural land. An alternate solution has been given below based on the assumption that it is urban agricultural land

Moderate

Question 1

(MTP Oct'19, PYP Nov '18)

Mr. Satish Sharma has derived the following income/loss, as computed below, for the previous year 2023-24:

Particulars	₹
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000



Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from betting's (Gross)	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2024-25, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2024.

5 Marks

Answer:

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

Particulars	₹	₹
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	
Less: Set-off of loss from house property, restricted to	2,00,000	7,25,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from betting's	90,000	2,40,000
Gross Total Income		9,65,000
Less: Deduction under Chapter VI-A		Nil
Total income		9,65,000

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

Particulars	₹
Loss from house property (₹ 2,50,000 - ₹ 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. Balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.	50,000
Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A (2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.	4,10,000
Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.	



Question 2

Mr. Krishan, residing in Indore, provides the following information for the financial year 2023-24:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2022-23	10,000
Speculation business loss of assessment year 2023-24	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2024-25 and also state the losses eligible for carry forward and period up to which such losses can be carried forward.

Answer:

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

Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable under section 32(1)	5,000	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2022-23 as per section 32(2)	10,000	4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2023-24 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	Nil
Gross Total Income		4,45,000

Losses eligible for carry forward to A.Y.2021-22

Particulars	₹
Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward up to A.Y.2027-28	5,000
Loss on maintenance of race horses to be carried forward as per section 74A (3) Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward up to A.Y. 2028-29	15,000
Loss from gambling can neither be set-off nor be carried forward.	



Question 3

RTP Nov '19

Compute total income of Mr. Mathur for the assessment year 2024-25 from the following information furnished by him for the financial year 2023-24.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2024	60,000
Brought forward loss of business of assessment year 2018-19	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2010	3,00,000

Answer:

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

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2025-26 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2018-19 set- off since a period of eight assessment years has not expired.	(3,50,000)	
Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2025-26		Nil
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2023-24 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jeweler	(1,50,000)	
	3,60,000	



Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2025-26.	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		6,30,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2024	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 - ₹ 1,60,000 - ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 41,000.	20,500	80,500
Total Income		5,49,500

Question 4

RTP May '23

Mr. Ram, a resident Individual aged 65 years, submits the following details of his income for the assessment year 2024-25:

Particulars	₹
Loss from speculative business A	30,000
Income from speculative business B	1,50,000
Loss from specified business covered under section 35AD	20,000
Income from Salary (computed)	2,00,000
Loss from let out house property	1,90,000
Loss from cloth business	80,000
Long-term capital gain from sale of urban land	3,00,000
Long-term capital loss on sale of shares (STT not paid)	1,00,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,50,000
Income from betting (Gross)	80,000
Loss from gambling	8,000
Interest on saving bank deposits	12,000
Interest on fixed deposits with banks	40,000

Compute the total income of Mr. Ram and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC.

Answer:



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

Particulars	Amount (₹)	Amount (₹)
Salaries		
Income from Salary	2,00,000	
Less: Loss from house property set-off against salary	1,90,000	
Profits and gains from business or profession		10,000
Income from speculative business B	1,50,000	
Less: Loss of ₹ 30,000 from speculative business A	30,000	
Less: Loss from cloth business [Loss from non- speculative business can be set off against profits from speculative business]	80,000	
Capital Gains		40,000
Long-term capital gain from sale of urban land	3,00,000	
Less: Long-term capital loss on sale of shares (STT not paid)	1,00,000	

Difficulty

Question 1

(MTP April'21, RTP May '18)

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

7 Marks

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

Answer:

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	



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

Losses to be carried forward:

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

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
- As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2032-33, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 - ₹ 40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹1,15,000 - ₹ 50,000 (LTCG) - ₹ 45,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.



Question 2

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

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

Following is the brought forward losses:

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

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

Answer:

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

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	
Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2020-21 as per section 73(2), can be set off to the extent of ₹ 13,000.	(13,000)	-
Balance loss will be lapsed, since four years his expired		



Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Short-term capital loss under section 111A as per section 71(2)	(10,000)	-
Gross Total Income		3,86,000

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

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

Question 3

(MTP Oct'20, MTP Mar'18)

The following are the details relating to Mr. Rajesh, a resident Indian, relating to the year ended 31.03.2024

Particulars	Amount (Rs)
Short term capital gain	1,40,000
Loss from house property	2,20,000
Loss from speculative business	50,000
Loss from card games	20,000
Brought forward Long term capital loss of A.Y. 2019-20	86,000
Dividend from Shaba Ltd.	11,00,000
Loss from tea business	96,000



Mr. Rajesh's wife, Isha is employed with Shine Ltd., at a monthly salary of ₹25,000, where Mr. Rajesh holds 21% of the shares of the company. Isha is not adequately qualified for the post held by her in Shine Ltd. You are required to compute taxable income of Mr. Rajesh for the A.Y. 2024-25. Ascertain the number of losses which can be carried forward. **7 Marks**

Answer:

Computation of Taxable Income of Mr. Rajesh for the A.Y. 2024-25

Particulars	₹	₹
Salaries		
Iesha's salary (₹25,000 × 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(IA) up to ₹50,000	50,000	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	2,00,000	50,000
Capital Gains		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 × 40%) [See Note 3 & 4]	38,400	1,01,600
Income from Other Sources		
Dividend income [See Note 5]		11,00,000
Taxable Income		12,51,600

The following losses can be carried forward for subsequent assessment years:

(I) Loss from house property to be carried forward and set-off against income from house property	₹20,000
(ii) Long-term capital loss of A.Y. 2019-20 can be carried forward and set-off against long-term capital gains	₹86,000
(iii) Loss from speculative business to be carried forward and set-off against income from speculative business	₹50,000

Notes:

- As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, M^{rs} Isha is not adequately qualified for the post and Mr. Rajesh has substantial interest in Shine Ltd by holding 21% of the shares of the Shine Ltd., the salary income of Mrs Isha to be included in Mr. Rajesh's income.
- As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹2,00,000 only.
- 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.
- As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.
- Set off of losses is not permissible against such income.



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

6. Loss from Card games can neither be set off against any other income, nor can it be carried forward.
7. Loss of ₹50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.
8. As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2025-26 for set-off against long-term capital gains.

Question 4

MTP May '20

Mr. Mustafa submits the following information for the previous year 2023-24:

	(Amount in ₹)
(I) Income from salary	6,50,000
(ii) Income from House-I	55,000
(iii) Loss from House-II (self-occupied property)	1,25,000
(iv) Loss from House-III	190,000
(v) Loss from leather business	68,000
(vi) Profit from cloth business	1,70,000
(vii) Short term capital loss in equity-oriented funds on which STT was paid	35,000
(viii) Income from crossword puzzles	12,000
(ix) Dividend from foreign company	8,500
(x) Loss on owning and maintenance of race horses	7,500
(xi) Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Mr. Mustafa for assessment year 2024-25. Mr. Mustafa has filed his return of income on 25.07.2024.

6 Marks

Answer:

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

Particulars	₹	₹
Salaries		
Income from salary	6,50,000	
Less: Loss from house property of ₹2,60,000, restricted to	2,00,000	
		4,50,000
Income from house property		
Income from House I	55,000	
Less: Loss from House II (self-occupied) 1,25,000		
Loss from House III 1,90,000	3,15,000	
	(2,60,000)	



Set-off of loss from house property against salary income, restricted to	2,00,000	
Loss to be carried forward to A.Y. 2025-26	(60,000)	
Profits and gains of business or profession		
Profit from cloth business	1,70,000	
Less: Loss from leather business	68,000	
		1,02,000
Capital Gains		
Short term capital loss in equity-oriented funds on which STT is paid ₹35,000 to be carried forward to A.Y. 2025-26 since such loss can be set-off only against capital gains and not against income under any other head	-	
Income from other sources		
Income from owning and maintenance of race bulls	9,000	
Loss of ₹7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y. 2025-26.	Nil	
Income from crossword puzzles	12,000	
Dividend from foreign company	8,500	
		29,500
Gross Total Income		5,81,500

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

Particulars	₹
Loss from house property	60,000
[to be carried forward for set-off against income from house property]	
Short-term capital loss in equity-oriented funds on which STT was paid	35,000
[to be carried forward for set-off against capital gains, long-term or short-term]	
Loss from owning and maintaining race horses	7,500
[to be carried forward for set-off against income from the activity of owning and maintaining race horses]	

Note: Loss from house property can also be set-off to the extent of ₹ 1,02,000 from profits and gains from business or profession and balance i.e., ₹ 98,000 against Income under the head "Salaries".

Question 5

MTP April'19 & Oct '18

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

7 Marks

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000



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

Answer:

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

Particular	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		1,15,000
Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

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

Notes:

(i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.

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



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

Question 6

MTP1 Sep' 24

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

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

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

Answer:

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

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from profession		10,00,000	8,00,000
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	



Capital gains			
Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long- term capital gain as per section 74		(4,20,000)	Nil
Income from other sources			
Income of minor son Raj			
Income from company deposit includible in the hands of Mr. Suresh as per section 64(1A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,58,500	
Income of minor daughter Rashmi			
Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A),	15,000		
since interest income arises out of deposit made and not on account of her special skills	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	13,500	1,72,000
Total Income			9,72,000

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

Particulars	₹
Loss from house property [₹ 2.50,000 - ₹ 2,00,000]	50,000
Short term capital loss under section 111A	5,00,000
Short term capital loss (other than above) [₹ 6,00,000 - ₹ 4,20,000]	1,80,000

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

Particulars	₹
Loss from house property [₹ 2.50,000 - ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 5,00,000 - ₹ 4,20,000]	80,000
Short term capital loss (other than above)	6,00,000

Question 7

(MTP Nov'21)

Compute the total income of Mr. Veer for the assessment year 2024-25 under proper heads from the following information furnished by him for the financial year 2022-23:

Particulars	₹
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self-occupied property	2,00,000
Income from Textile business	5,75,000
Brought forward business loss of Assessment Year 2020-21	1,05,000



Short-term capital loss	70,000
Brought forward long-term loss from Assessment Year 2022-23	90,000
Long-term capital gain on sale of house	75,000
Interest on enhanced compensation from Government for acquisition of land in 2019	5,00,000
Dividend from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 15.02.2024 in his Public Provident fund account	75,000
Loss from owning and maintaining race horse of Assessment Year 2023-24	20,000
Loss from Gambling	8,000

Also state the loss that can be carried forward to A.Y. 2025-26. Mr. Veer filed the return of income for assessment year 2020-21 after the expiry of due date for filing the return. **7 Marks**

Answer:

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

Particulars	₹	₹
Income from house property		
Income from let out house property	3,50,000	
Less: Set-off of loss from self-occupied house property by virtue of section 70(1) [Whole of interest i.e., ₹ 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self-occupied property; The said amount represents loss from self-occupied property]	(2,00,000)	1,50,000
Profits and gains of business or profession		
Income from textile business	5,75,000	
[As per section 80, brought forward business loss of ₹ 1,05,000 of assessment year 2020-21 cannot be set-off, since return of income for that year was filed after the expiry of due date specified under section 139(1)]	Nil	5,75,000
Capital Gains		
Long-term capital gains on sale of house	75,000	
Less: Short-term capital loss can be set-off against long-term capital gains [section 70(2)]	70,000	
	5,000	
Less: Brought forward long-term capital loss of ₹ 90,000 from A.Y. 2022-23, set-off to the extent of ₹ 5,000	5,000	Nil
Income from Other Sources		
Interest on enhanced compensation from Government	5,00,000	
Less: Deduction @50%	2,50,000	
	2,50,000	
Dividend from ABC Ltd.	15,000	2,65,000
Gross Total Income		9,90,000
Less: Deduction under section 80C - Deposit in PPF		75,000
Total Income		9,15,000



Losses to be carried forward to A.Y. 2022-23		
Long-term capital loss of A.Y. 2022-23 (₹ 90,000 - ₹ 5,000) to be set-off against long-term capital gains, if any, in that year	85,000	
Loss from owning and maintaining racehorse of the A.Y. 2023-24 to be set-off against income, if any, from owning and maintaining race horses in that year.	20,000	
Loss from gambling (it can neither be set-off against any income during the previous year nor can it be carried forward for set-off against any income in the subsequent assessment years).		

Question 8 (MTP Oct'22) (Same concepts different figures MTP Oct'21)

Compute total income of Mr. Mihir for the assessment year 2024-25 from the following information furnished by him for the financial year 2023-24. **7 Marks**

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	80,000
Loss from speculation business-X	90,000
Profit from speculation business-Y	80,000
Income from trading and manufacturing business @ 8%	5,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	1,10,000
Short term capital loss on sale of Jewellery	1,90,000
Investment in tax saver deposit on 31-03-2024	50,000
Brought forward loss of business of assessment year 2020-21	7,50,000
Donation to a charitable trust recognized under section 12AB and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2014	4,00,000

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

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	80,000	
Less: Loss of ₹ 90,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(80,000)	
Loss of ₹ 10,000 from speculation business X to be carried forward to A.Y. 2025-26 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	5,50,000	



Less: Brought forward business loss of A.Y. 2020-21 set-off since a period of eight assessment years has not expired. Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2025-26	(5,50,000)	Nil
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2023-24 since enhanced compensation is taxable on receipt basis]	4,00,000	
Long term capital gain on sale of vacant site	1,10,000	
Less: Short term capital loss on sale of jeweler	(1,90,000)	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of 80,000 to be carried forward to A.Y. 2025-26.	3,20,000	
	(2,00,000)	1,20,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		5,90,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2024	50,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 42,000, being 10% of adjusted total income of ₹ 4,20,000 i.e., [₹ 5,90,000 - ₹ 1,20,000 - ₹ 50,000]. Thereafter, deduction would be computed at 50% of ₹ 42,000.	21,000	71,000
Total Income		5,19,000

Question 9

MTP April '23, RTP Nov'21

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

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000



	(c) Brought forward loss of textile business of the A.Y. 2021-22	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

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

Answer:

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

Particulars		₹	₹
Salary Income (computed)		8,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of		2,00,000	6,20,000
Income from House Property			
Net Annual Value of House Property		1,20,000	
Less: Deduction u/s 24			
(a) 30% of NAV	36,000		
(b) Interest on housing loan	3,28,000	3,64,000	
Loss from house property		(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2025-26 for set-off against income from house property, if any, in that year.		(44,000)	
Profits and gains of business or profession			
Share of profit from firm [Exempt u/s 10(2A)]		-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2025-26]		-	
Income from textile business		3,30,000	
Less: Current year depreciation		53,000	
		2,77,000	
Less: Brought forward loss of textile business		1,90,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income		87,000	Nil
Capital Gains			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off		98,000	



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

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

Question 10

RTP Nov '18 & May '19

From following information furnished for the year ended 31-03-2018, compute the total income of Mr. Arihant for A.Y. 2024-25 and show the items eligible for carry forward and up to which assessment year:

Particulars	Amount (₹)
Long-term capital gain from sale of urban land	2,30,000
Long-term capital loss on sale of shares (STT not paid)	85,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered under section 35AD	40,000
Income from salary	3,50,000
Loss from house property	2,20,000
Income from trading business	75,000

Following are details of unabsorbed depreciation and the brought forward losses:

1. Unabsorbed depreciation of ₹ 11,000 pertaining to A.Y 2023-24.
2. Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 ₹ 5,000.
3. Brought forward loss from trading business ₹ 8,000 relating to A.Y. 2020-21.



Answer:

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

Particulars	₹	₹
Salaries		
Income from Salary	3,50,000	
Less: Loss from house property set-off against salary income as per section 71(3A), restricted to	2,00,000	1,50,000
Profits and gains of business or profession		
Income from trading business	75,000	
Less: Brought forward loss from trading business of A.Y. 2020-21 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted has not expired.	8,000	
	67,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X to be set-off as per section 73(1)	15,000	
Loss from speculative business X to be carried forward to A.Y.2025-26 as per section 73(2)	10,000	
Capital Gains		
Long term capital gain on sale of urban land	2,30,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]	85,000	1,45,000
Long-term capital loss of ₹ 1,02,000 on sale of listed shares on which STT is paid both at the time of acquisition and sale cannot be set-off against long- term capital gain on sale of urban land since loss from an exempt source cannot be set- off against profit from a taxable source.		
Total Income		3,51,000

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

Particulars	₹
Loss from House Property As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.	20,000
As per section 71B, balance loss not set-off can be carried forward to the next year for set- off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2032-33, in this case.	



Loss from speculative business X Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., up to A.Y. 2028-29, in this case, as specified under section 73(4).	10,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.	40,000
Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., up to A.Y.2027- 28, in this case as specified under section 74A (3).	5,000

Question 11

RTP May '20

Mr. Raghav is a chartered accountant and his income from profession for the year 2023-24 is ₹ 15,00,000. He provides you with the following information for the year 2023-24.

Particulars	₹
Income of minor son Rahul from company deposit	1,75,000
Income of minor daughter Riya (professional dancer) from her dance performances	20,00,000
Interest from Canara bank received by Riya on fixed deposit made in 2015 out of income earned from her dance performances	20,000
Gift received by Riya from friends of Mr. Raghav on winning National award	45,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000
Long term capital gain under section 112	4,00,000
Short term capital loss under section 111A	10,00,000

Mr. Raghav income before considering clubbing provisions is higher than that of his wife. Compute the Total Income of Mr. Raghav for Assessment Year 2024-25 and the losses to be carried forward assuming that he files his income tax returns every year before due date. (RTP May '20)

Answer:

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

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from chartered accountancy profession		15,00,000	



Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	13,00,000
Capital gains			
Long term capital gain under section 112		4,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(4,00,000)	Nil
Income from other sources			
Income of minor son Rahul			
Income from company deposit includible in the hands of Mr. Raghav as per section 64(1A)	1,75,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,73,500	
Income of minor daughter Riya			
Income of ₹ 20,00,000 of minor daughter Riya (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
Gift of ₹ 45,000 received by her from friends of Mr. Raghav is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	18,500	1,92,000
Total Income			14,92,000

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

Particulars	₹
Loss from house property [₹ 2.50,000 - ₹ 2,00,000]	50,000
Short term capital loss under section 111A	10,00,000
Short term capital loss (other than above) [₹ 6,00,000 - ₹ 4,00,000]	2,00,000

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

Particulars	₹
Loss from house property [₹ 2.50,000 - ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 10,00,000 - ₹ 4,00,000]	6,00,000
Short term capital loss (other than above)	6,00,000

Question 12

RTP May '21

Mr. Prakash furnishes the following information for the financial year 2023-24.

Particulars	₹
Loss from speculation business-X	85,000



Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	65,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jeweler	65,000
Investment in tax saver deposit on 31-03-24	60,000
Brought forward loss of business of assessment year 2018-19	1,00,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G (payment made via credit card)	60,000

Compute total income of Mr. Prakash for the assessment year 2024-25 also show the loss, eligible to be carried forward. Assume that he does not opt for section 115BAC.

Answer:

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

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	4,75,000	
	20,000	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	2,00,000	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading and manufacturing business	1,00,000	
Less: Brought forward business loss of A.Y. 2018-19 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jeweler	65,000	



Less: Loss from house property to be set-off to the extent of LTCG	60,000	
(It is more beneficial for Mr. Prakash to first set-off the loss from house property against the long-term capital gains, since it is taxable @20%)	60,000	Nil
Income from Other Sources		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
Gross Total Income		4,55,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2024	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 - ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500.	19,750	79,750
Total Income		3,75,250

Losses to be carried forward to A.Y. 2024-25	
Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000
Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	

Question 13

RTP Nov'22

Mr. Kabir, a resident individual aged 45 years, furnishes the following particulars of his income and other details for the previous year 2023-24:

Particulars	Amount (₹)
Income from tea business	5,00,000
Losses from sugar business	4,00,000
Dividend from Indian company carrying on agricultural operations (gross)	1,00,000
Agricultural income	55,000
Salary received as a partner from a partnership firm. The same was allowed to the firm.	4,50,000
Net annual value of house property	4,20,000
Loss from gambling	1,00,000
Short term capital gains on sale of land	75,000
Loss on sale of shares listed in BSE. Shares were held for 15 months and STT paid on sale and acquisition	3,00,000
Life insurance premium paid (10% of the capital sum assured)	80,000
Bank interest on Fixed deposit (gross)	55,000
Interest on saving bank account	13,000

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



Particulars	Amount (₹)
Brought forward business loss from sugar business	1,00,000
Brought forward short-term capital loss	45,000
Brought forward loss from house property	3,00,000
Brought forward loss from maintenance of race horses	60,000

Compute the total income of Mr. Kabir for the Assessment Year 2024-25 and the amount of loss, if any, that can be carried forward, if he does not opt for section 115BAC.

Answer:

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

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Net annual value	4,20,000	
Less: Deduction under section 24 (30% of ₹ 4,20,000)	1,26,000	
	2,94,000	
Less: Brought forward loss of ₹ 3 lakhs from house property set off to the extent of ₹ 2,94,000	2,94,000	-
Profit and gains from business or profession		
Income from tea business (40% is business income)	2,00,000	
Salary received as partner from a partnership firm is taxable under the head "Profits and gains from business or profession"	4,50,000	
	6,50,000	
Less: Losses from sugar business	4,00,000	
	2,50,000	
Less: Brought forward business loss from sugar business	1,00,000	1,50,000
Capital Gains		
Short term capital gains on sale of land	75,000	
Less: Brought forward short-term capital loss	45,000	30,000
Income from Other Sources		
Dividend from Indian company	1,00,000	
Agricultural income (exempt)	-	
Bank interest on Fixed deposit	55,000	
Interest on saving bank account	13,000	1,68,000
Gross Total Income		3,48,000
Less: Deduction under section 80C (life insurance premium paid)	80,000	
Less: Interest on saving bank account under section 80TTA, to the extent of	10,000	90,000
Total Income		2,58,000

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

Particulars	Amount (₹)
Loss from house property of A.Y. 2023-24	6,000
Loss from maintenance of race horses of A.Y. 2023-24	60,000



Long term capital loss on sale of STT paid listed shares	3,00,000
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Notes -

- 2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.
- 3) Agricultural income is exempt under section 10(1).
- 4) Loss from gambling can neither be set off against any other income, nor can be carried forward.
- 5) Long term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set off against long term capital gain only. Since there is no long-term capital gains in A.Y. 2024-25, it has to be carried forward for set-off against long term capital gains, if any, during A.Y. 2025-26.
- 6) As per section 74A (3), loss from maintenance of race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. Since there is no income from the activity of owning and maintaining race horses in A.Y. 2022-23, it has to be set off against the income from the activity of owning and maintaining race horses, if any, in A.Y. 2025 -26.

Question 14

PYQ Nov'20

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

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	2,20,000
2.	Income from House Property (let out) (Net Annual Value)	1,50,000
3.	Share of loss from firm in which she is partner	10,000
4.	Loss from specified business covered under section 35AD	20,000
5.	Income from textile business before adjusting the following items:	3,00,000
	(a) Current year depreciation	60,000
	(b) Unabsorbed depreciation of earlier year	2,25,000
	(c) Brought forward loss of textile business of the A.Y. 2022-23	90,000
6.	Long-term capital gain on sale of debentures	75,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,00,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	1,50,000
9.	Dividend from units of UTI	5,000

During the previous year 2023-24, Ms. Pooja has repaid ₹ 5,25,000 towards housing loan from a scheduled bank. Out of this ₹ 3,16,000 was towards payment of interest and rest towards principal.

Compute the gross total income of Ms. Pooja and ascertain the amount of loss that can be carried forward. Ms. Pooja has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961.

8 Marks

Answer:

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

Particulars		₹	₹
Salary Income (computed)		2,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,11,000 can be set-off, to the extent of		2,00,000	20,000
Income from House Property			
Net Annual Value of House Property		1,50,000	
Less: Deduction u/s 24			
(a) 30% of NAV	45,000		
(b) Interest on housing loan	3,16,000	3,61,000	
Loss from house property		(2,11,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2025-26 for set-off against income from house property, if any, in that year.		(11,000)	
Profits and gains of business or profession			
Share of loss from firm [loss from exempt source cannot be set-off against profit from taxable source. Hence such loss can neither be set-off nor be carried forward]		-	
Loss from specified business u/s 35AD ₹ 20,000 [Can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2025-26]		-	
Income from textile business		3,00,000	
Less: Current year depreciation		60,000	
		2,40,000	
Less: Brought forward loss of textile business		90,000	
		1,50,000	
Less: Unabsorbed depreciation (₹ 2,25,000) set-off to the extent of		1,50,000	Nil
Capital Gains			
Long-term capital gains on sale of debentures		75,000	
Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid)		75,000	
		Nil	
Long-term capital gains on sale of listed equity shares (STT paid)		1,50,000	
Less: Set-off of balance long-term capital loss on sale of equity shares (STT not paid) [₹ 1,00,000 - ₹ 75,000]		25,000	
		1,25,000	
Less: Set-off of balance unabsorbed depreciation [₹ 2,25,000 - ₹ 1,50,000 s/o against business income]		75,000	
Long-term capital gains on sale of listed equity shares			50,000
Income from Other Sources			
Dividend from units of UTI [Exempt] (taxable as per amendment)			5,000
Gross Total Income			75,000



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

Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	20,000
Loss from house property [can be carried forward up to 8 successive assessment years for set-off against income from house property]	11,000

Question 15

PYQ, May'19

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.03.2014:

	Particulars	Amount (₹)
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai, which is self-occupied. Loan was taken from PNB on 01.01.1999 for purchase of this property.	1,57,000
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01.04.17 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long-term capital gains on sale of equity shares computed in accordance with section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2024-25 and the amount of loss that can be carried forward. For the above solution, you may assume principal repayment of loan as under:

- | | |
|---|--------------|
| (i) Loan taken for purchase of house property in Delhi | - ₹ 2,50,000 |
| (ii) Loan taken for purchase of house property in Mumbai | - ₹50,000 |
| (iii) Loan taken for repair of house properties in Delhi and Mumbai | - ₹75,000 |

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

10 Marks

Answer:

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

Particulars		₹	₹	₹
Income from salary (computed)				41,20,000
Income from house property				
(i) House property at Delhi (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)		5,00,000		
Less: Deduction u/s 24				
(a) 30% of Annual Value [30% of ₹ 5 lakh]	1,50,000			
(b) Interest on loan				
for purchase of property	7,50,000			
for repairs of property [₹ 1,50,000/2]	75,000			
		9,75,000	(4,75,000)	
(ii) House property at Jaipur (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)		3,20,000		
Less: Deduction u/s 24				
30% of Annual Value = 30% of ₹ 3,20,000		96,000		
			2,24,000	
(iii) House property at Mumbai (Self-occupied)				
Annual value of self-occupied property		Nil		
Less: Deduction u/s 24(b)				
Interest on loan for purchase and repairs (to be restricted to ₹ 30,000, since loan for purchase was taken prior to 1.4.1999)		30,000	(30,000)	
Loss from house property [(i) + (ii) + (iii)]			(2,81,000)	
As per section 71(3A), loss from house property to be set-off against salary income to the extent of				(2,00,000)
				39,20,000
Profits and gains of business or profession Speculation profit (assumed as business income)			2,30,000	
Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm			50,000	



			2,80,000	
Set-off of loss from textile business to the extent of			(2,80,000)	Nil
Note - Share of loss of ₹ 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.				
Capital Gains				
Long-term capital gains on sale of equity shares computed in accordance with section 112A			8,95,000	
Less: Set-off of brought forward short-term capital loss as per section 744				
B/f Short-term capital loss on sale of gold		2,75,000		
B/f Short-term capital loss u/s 111A		25,000	3,00,000	
			5,95,000	
Less: Set-off of balance loss of textile business ⁵ [₹ 7,50,000 - ₹ 2,80,000 - ₹ 73000]			(3,97,000)	1,98,000

As per section 74, B/f short-term capital loss can be set-off against long-term capital gain taxable u/s 112A. It is assumed that the eight-year period for set-off of losses has not expired. ⁵ Permitted as per section 71(2)

Particulars	₹	₹
Income from Other Sources		
Interest on fixed deposit	73,000	
Less: Set off balance loss of textile business to the extent of	(73,000)	
	Nil	
Lottery income (assumed as Gross Income)	75,000	75,000
Gross Total Income		41,93,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Life insurance premium paid		
Life insurance premium paid to ensure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her	15,000	
Repayment of housing loan		
₹ 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend	Nil	
₹ 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property	50,000	



₹ 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties	Nil	
		65,000
Total Income		41,28,000

Loss to be carried forward to A.Y.2025-26:

Particulars	₹
Loss from house property (₹ 2,81,000 - ₹ 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years.	81,000

CA VIVEK GABA



Multiple Choice Questions

Question 1

MTP Oct'19

X Ltd. files its return of loss for the A.Y. 2024-25 on 01.12.2024. The following data is taken from return submitted by the company:

Business Loss for P.Y. 2023-24 (before depreciation)	₹1,70,000
Depreciation	₹30,000
Short term capital loss	₹45,000
Long term capital gain	₹10,000
Income from other sources	₹23,000
Unabsorbed depreciation pertaining to A.Y. 2022-23 and A.Y. 2023-24 which has been determined in pursuance of return filed	₹75,000

Compute the amount of loss that can be carried forward by X Ltd.

- a) ₹1,05,000
b) ₹ 30,000
c) ₹2,87,000
d) Nil

Question 2

MTP March'22

Mr. Kumar, engaged in wholesale business of clothes and speculative business, discontinued its operations on 19.10.2023 and 30.09.2023, respectively. The cloth business loss up to 19.10.2023 for P.Y. 2023-24 was ₹ 8,000 and speculative business loss up to 30.09.2023 for P.Y. 2023-24 was ₹ 40,000. Out of total bad debts of ₹ 1,00,000 that were claimed by Mr. Kumar in respect of a particular debtor of cloth business, ₹ 60,000 was allowed by the Assessing Officer in P.Y. 2022-23. On 29.01.2024, Mr. Kumar received a sum of ₹ 68,000 from the debtor in full and final settlement. How much amount would be taxable in the hands of Mr. Kumar for A.Y. 2024-25?

- a) ₹ 28,000
b) ₹ 20,000
c) ₹ 60,000
d) ₹ 68,000

Question 3

MTP April'23

Mr. Ravi incurred loss of ₹ 4 lakh in the P.Y.2023-24 in leather business. Against which of the following incomes earned during the same year, can he set-off such loss?

- (i) Profit of ₹ 1 lakh from apparel business
(ii) Long-term capital gains of ₹ 2 lakhs on sale of jeweler
(iii) Salary income of ₹ 1 lakh

Choose the correct answer:

- a) First from (ii) and thereafter from (i); the remaining loss has to be carried forward.
b) First from (i) and thereafter from (ii) and (iii)
c) First from (i) and thereafter from (iii); the remaining loss has to be carried forward
d) First from (i) and thereafter from (ii); the remaining loss has to be carried forward



Question 4

MTP March'21

During the A.Y. 2024-25, Mr. Kabir has a loss of ₹ 6 lakhs under the head "Income from house property", loss of ₹ 5 lakhs from business of profession and income of ₹ 3 lakhs from long term capital gains. He filed his return of income for the A.Y. 2024-25 on 31.12.2024. Determine the total income of Mr. Kabir for A.Y. 2024-25 and the amount of loss which can be carried forward in a manner most beneficial to him?

- Total income Nil; loss of ₹ 4,00,000 from house property and loss of ₹ 4,00,000 from business or profession
- Total income ₹ 1,00,000; loss of ₹ 4,00,000 from house property.
- Total income Nil; No loss is allowed to be carried forward.
- Total income Nil; loss of ₹ 6,00,000 from house property.

Question 5

MTP Oct '23

During the A.Y.2023-24, Mr. A has a loss of ₹ 8 lakhs under the head "Income from house property" which could not be set off against any other head of income as per the provisions of section 71. The due date for filing return of income u/s 139(1) in case of Mr. A has already expired and Mr. A forgot to file his return of income within the said due date. However, Mr. A filed his belated return of income for A.Y.2023- 24

Now, while filing return of income for A.Y.2024-25, Mr. A wish to set off the said loss against income from house property for the P.Y. 2023-24. Determine whether Mr. A can claim the said set off.

- No, Mr. A cannot claim set off of loss of ₹ 8 lakhs during A.Y. 2024-25 as he failed to file his return of income u/s 139(1) for A.Y. 2023-24.
- Yes, Mr. A can claim set off of loss of ₹ 2 lakhs, out of ₹ 8 lakhs, from his income from house property during A.Y. 2024-25, if any, and the balance has to be carried forward to A.Y.2025 -26.
- Yes, Mr. A can claim set off of loss of ₹ 2 lakhs, out of ₹ 8 lakhs, from his income from any head during A.Y. 2024-25 and the balance has to be carried forward to A.Y.2025 -26.
- Yes, Mr. A can claim set off of loss of ₹ 8 lakhs during A.Y. 2024-25 from his income from house property, if any, and the balance has to be carried forward to A.Y.2025 -26.

Question 6

RTP May'19

Mr. Rajan incurred loss of ₹ 5.3 lakh in the P.Y.2023-24 in toy business. Against which of the following income earned during the same year, can he set-off such loss?

- profit of ₹ 2 lakh from wholesale cloth business
- speculative business income of ₹ 80,000
- long-term capital gains of ₹ 1.20 lakhs on sale of land
- All of the above



Question 7

RTP May'20

The details of income/loss of Mr. Kumar for A.Y. 2024-25 are as follows:

Particulars	Amt. (in ₹)
Income from Salary (Computed)	5,20,000
Loss from self-occupied house property	95,000
Loss from let-out house property	2,25,000
Loss from specified business u/s 35AD	2,80,000
Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

Compute gross total income of Mr. Kumar for A.Y. 2024-25:

- ₹ 4,40,000
- ₹ 3,20,000
- ₹ 1,60,000
- ₹ 4,80,000

Question 8

RTP May '21, MTP Sep '23

Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2020-21	(-)2,30,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. Arpan for the A.Y.2024-25 and the amount of loss that can be carried forward for the subsequent assessment year?

- Total income ₹ 2,00,000 and loss from house property of ₹ 2,50,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- Total income ₹ 80,000 and loss from house property of ₹ 2,30,000 to be carried forward to subsequent assessment year.
- Total income ₹ 1,80,000 and loss from house property of ₹ 2,30,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- Total income is Nil and loss from house property of ₹ 70,000 to be carried forward to subsequent assessment year

Answers

1	2	3	4	5	6	7	8		
a	b	d	d	d	d	a	a		



Chapter 6: Deductions from Gross Total Income

Descriptive Questions

Easy

Question 1

MTP March'18 PYQ May '22

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

1. Belated return filed under section 139(4).
2. Return already revised once under section 139(5).
3. Return of loss filed under section 139(3).

3 Marks

Answer:

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

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

Moderate

Question 1

MTP Aug'18

The Gross Total Income of Mr. Bharadwaj, a resident, for the year ended 31-03-2024 is ₹ 15 lakhs. Examine the allowability of the deduction to Mr. Bharadwaj from the following information.

- (i) He has contributed ₹ 2 lakh towards Clean Ganga Fund set up by the Central Government
- (ii) He has incurred medical expenditure of ₹ 50,000 towards surgery for his grandmother who is 85 years of age. (No Premium is paid to keep in force an insurance on her health).

3 Marks

Answer:

Allowable deduction to Mr. Bhardwaj from Gross Total Income



- (i) **Contribution towards Clean Ganga Fund set up by the Central Government:** Whole of the contribution i.e., ₹ 2 lakhs towards Clean Ganga Fund, set up by the Central Government, is allowable as deduction under section 80G to Mr. Bharadwaj, since he is a resident of India.
- (ii) **Medical Expenditure of ₹ 50,000 towards surgery of his grandmother:** Deduction is allowable under section 80D, in respect of medical expenditure incurred by an assessee for himself or any member of the family or parents, if any of such person(s) is of the age of 80 years or more and no payment has been made to keep in force an insurance on the health of such person(s).

In the present case, no deduction is allowable to Mr. Bharadwaj, since he incurred medical expenditure towards surgery of his grandmother, who does not fall within the definition of "family" under section 80D. Apart from family, deduction is only allowable in respect of premium paid for parents, and not grandparents.

Question 2

MTP Oct'22, RTP Nov '19 & Nov '21

Mr. Raju furnishes the following particulars for the previous year 2023-24 in respect of an industrial undertaking established in "Special Economic Zone" in March 2016. It began manufacturing in April 2016.

Particulars	(₹)
Total sales	1,70,00,000
Export sales [proceeds received in India]	90,00,000
Domestic sales	80,00,000
Profit from the above undertaking	40,00,000

Export Sales of F.Y. of 2023-24 include freight and insurance of ₹ 10 lakhs for delivery of goods outside India. Compute the amount of deduction available to Mr. Raju under section 10AA for A.Y. 2024-25.

4 Marks**Answer:****Computation of deduction under section 10AA for A.Y. 2024-25**

Since year A.Y. 2024-25 is the 8th assessment year 2017-18 relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profit derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 40,00,000 \times \frac{80,00,000}{1,60,00,000} \times 50\% = ₹ 10,00,000$$

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	90,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	10,00,000



	80,00,000
Total turnover	1,70,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	10,00,000
	1,60,00,000

Question 3

RTP Nov '18

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

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

- 15 casual employees employed on 15th April 2023 till 31st January 2024 on monthly emolument of ₹ 22,000 per month
- 40 regular employees employed on 1st May, 2023 on monthly emolument of ₹ 22,000 per month
- 25 contractual employees employed on 1st July 2023 for 2 years on monthly emolument of ₹ 15,000 per month
- 35 regular employees employed on 1st August, 2023 on monthly emolument of ₹ 30,000 per month
- 25 regular employees employed on 1st October, 2023 on monthly emolument of ₹ 22,000 per month

Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2024-25, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.

Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.

[Note - Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2024-25].

Answer:

Computation of deduction under section 80JJAA

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

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

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



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

Particulars		No. of additional employees	
Total number of additional employees employed during the year			140
Less:	Casual workmen employed on 15th April 2023, who do not participate in the recognised provident fund	15	
	Regular employees employed on 1st August 2023, since their total monthly emoluments exceed ₹ 25,000	35	
	Regular employees employed on 1st October 2023, for a period of less than 240 days during the P.Y.2023-24	25	75
	Total number of additional employees employed during the P.Y.2023-24		65

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

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

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

Question 4

RTP May '20

Mr. Arihant, a resident individual aged 40 years, has Gross Total Income of ₹ 7,50,000 comprising of income from Salary and income from house property for the assessment year 2024-25. He provides the following information:

Paid ₹ 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured ₹ 4,00,000; and date of issue of policy 1-8-2017.

Deposited ₹ 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.

Paid ₹ 78,000 towards medical insurance for the term of 3 years as a lumpsum payment for himself and his spouse. Also, incurred ₹ 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned ₹ 4,50,000 interest from fixed deposit.

Contributed ₹ 25,000 to The Clean Ganga Fund, set up by the Central Government. Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2024-25.

Answer:

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

Particulars	₹	₹	₹
Gross Total Income	60,000		7,50,000
Less: Deduction under Chapter VI-A			



Under section 80C - Life insurance premium of ₹ 70,000 (Restricted to ₹ 60,000 i.e., 15% of ₹ 4,00,000, being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U)	Nil		1,60,000
- Tax saver deposit of ₹ 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C		60,000	
Under section 80D - Medical insurance premium for self and his wife, pertaining to the previous year 2023-24 is ₹ 26,000, being 1/3rd of ₹ 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000		
- Deduction in respect of medical expenditure of ₹ 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of	50,000	75,000	
Under section 80G			
- Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit.		25,000	
Total Income			5,90,000

Question 5

PYQ May '23

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

(i) A housing loan of ₹ 36,00,000/- taken on 15th March, 2023 for the purchase of a house to be used for self-residence at a cost of ₹ 47,00,000/-. The stamp duty value of the house was ₹ 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2023-24 was:

(A) towards principal - ₹ 1,25,000/-

(B) towards interest - ₹ 3,65,000/-

This is the first and only residential house owned by Mr. Ray.

(ii) A vehicle loan of ₹ 16,00,000/- taken on 31st October, 2021 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2023-24 was:

(A) towards principal - ₹ 75,000/-

(B) towards interest - ₹ 1,90,000/-

Besides these loans, he has also paid a sum of ₹ 15,000 to a political party as contribution. The entire amount was paid in cash.



You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y. 2024-25 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC.

4 Marks

Answer:

Computation of amount of deductions available to Mr. Ray for A.Y. 2024-25

		Amount (₹)	
(i)	Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) for interest on loan of ₹ 3,65,000 in respect of self-occupied property restricted to		2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income Deduction under section 80C For repayment of loan of ₹ 1,25,000 to bank	1,25,000	
	Deduction under section 80EEA Since stamp duty value does not exceed ₹ 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto ₹ 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022. ₹ 3,65,000 - ₹ 2,00,000 [claimed as deduction u/s 24(b)] = ₹ 1,65,000 restricted to ₹ 1,50,000, being the maximum permissible deduction	1,50,000	
	Deduction under section 80EEB Deduction for interest on loan for purchase of electric vehicle of ₹ 1,90,000 restricted to ₹ 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2019 and 31.3.2023. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable	1,50,000	
	Deduction under section 80GGC	Nil	
	Contribution of ₹ 15,000 to political party not allowable since the sum is paid in cash Deduction under Chapter VI-A from Gross Total Income		4,25,000

Question 6

PYQ Nov'18

Mrs. Vishal Gupta, a resident individual, is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2024, pertaining to these two units

	DTA Unit (₹ in lakhs)	SEZ Unit (₹ in lakhs)
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10AA:

- (i) When the SEZ unit had been set up on 12-3-2015, and
(ii) When the SEZ unit had been set up on 12-8-2019.

6 Marks

Answer:

Computation of deduction under section 10AA



(I) If Unit in SEZ was set up on 12-03-2016:

Since A.Y. 2024-25 is the 9th assessment year from A.Y. 2015-16, relevant to the previous year 2014-15, in which the SEZ unit was set up, it shall be eligible for deduction of 50% of the profits derived from export, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 220 \text{ lakhs} \times \frac{1000 \text{ Lakhs}}{1100 \text{ Lakhs}} \times 50\% = ₹100 \text{ Lakhs}$$

(ii) If Unit in SEZ was set up on 12-08-2019:

Since A.Y.2024-25 is the 5th assessment year from A.Y. 2020-21, relevant to the previous year 2018-19, in which the SEZ unit was set up, it shall be eligible for deduction of 100% of the profits derived from export, assuming all the other conditions specified in section 10AA are fulfilled.

$$\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$220 \text{ lakhs} \times \frac{1000 \text{ Lakhs}}{1100 \text{ Lakhs}} \times 100\% = ₹200 \text{ lakhs}$$

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

Note-

As per section 10AA, in computing the total income of Mrs. Vishal Gupta from her unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 1.4.2006 but before 1.4.2021, a deduction of 100% of the profit and gains derived from export of such articles or things or from services is allowable for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other conditions specified in section 10AA. In this case, it is assumed that the manufacturing or production commenced from the year in which the SEZ was set up.

Question 7

PYQ Nov'23

Mr. Suraj, an Indian citizen, gives the following details of his income and expenses during the year 2022-23:

	₹
Income from profession	11,70,000
Winning from lottery	70,000
Contribution to ULIP 1971 plan for spouse	70,000
Cheque donation to National Defence Fund	60,000
Cheque donation to Government for promoting family planning	35,000
Cheque the deduction to approved public charitable institute	1,20,000

Compute the deduction under section 80G allowable to him for the assessment year 2023-24.

3 Marks

Answer:



Computation of deduction available to Mr. Suraj under section 80G for A.Y. 2023-24

	Particulars	Amount (₹)
(i)	Donation to National Defence Fund by cheque [100% of ₹60,000 is allowed as deduction without any qualifying limit]	60,000
(ii)	Donation to Government for promoting family planning by cheque - 100% of ₹ 35,000, subject to qualifying limit of ₹ 1,17,000 [See Note below] is allowed as deduction	35,000
(iii)	Donation to approved public charitable institute by cheque is to be restricted to lower of	41,000
	- ₹ 60,000 (50% of ₹ 1,20,000) or	
	- ₹ 41,000 [50% of qualifying limit after adjusting donation for family planning i.e., ₹ 82,000 (₹ 1,17,000 - ₹ 35,000)]	
Deduction under section 80G		1,36,000
Note - Qualifying limit is ₹ 1,17,000 (10% of ₹ 11,70,000, being adjusted total income) Adjusted total income = ₹ 11,70,000 (₹ 11,70,000, being income from profession + ₹ 70,000, being winnings from lottery - ₹ 70,000, being deduction under section 80C)		

Difficulty**Question 1**

MTP March 22

In August 2021, Mr. Kunal, a first-time home buyer, borrowed a sum of ₹ 40 lakhs from the National Housing Bank for acquisition of a residential house for self-occupation. The stamp duty value of the house is ₹ 43 lakhs. The loan was sanctioned on 17.6.2023. The loan amount was disbursed directly to the builder by the bank. The repayments made towards principal and interest during the P.Y. 2023-24 was ₹ 2 lakhs and ₹ 2.80 lakhs, respectively.

In the light of the above facts, determine the deduction, if any, available to Mr. Kunal during the A.Y. 2024-25 in respect of the repayment of loan and interest. **4 Marks**

Answer:

Deduction in respect of repayment of loan under section 80C

Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

Since, Mr. Kunal has repaid loan of ₹ 2 lakhs during the A.Y. 2024-25, he is eligible for deduction under section 80C in respect of loan repayment. However, deduction under section 80C cannot exceed ₹ 1,50,000. Therefore, deduction under section 80C would be ₹1,50,000 for the A.Y. 2024-25.

Deduction in respect of interest on housing loan under section 24

As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. However, where the self-occupied property is acquired or constructed on or after 1.4.1999 and such acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed, the amount of deduction would not exceed ₹ 2 lakhs.

Hence, deduction under section 24 in respect of interest on housing loan would be ₹ 2 lakhs only.



Deduction under section 80EEA

As per section 80EEA, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of ₹ 1,50,000, provided following conditions are satisfied -

1. Such loan is sanctioned by the financial institution during the period 1.4.2019 to 31.3.2022
2. The stamp duty value of the house does not exceed ₹ 45 lakhs and
3. the assessee does not own any residential house on the date of sanction of loan.
4. The individual should not be eligible to claim deduction u/s 80EE

Therefore, in this case, since Mr. Kunal satisfies all the above conditions, he is eligible for deduction under section 80EEA. Mr. Kunal has paid interest of ₹2,80,000 out of which ₹2,00,000 is eligible under section 24(b), hence, interest of ₹80,000 would qualify for deduction under section 80EEA.

(This deduction is only available if individual exercises the option to shift out of the default tax regime)

Question 2

MTP Mar 21, RTP May '19

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

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

7 Marks**Answer:****Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2024-25**

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five year term deposit with bank	45,000	
		2,35,000	
	Restricted to		1,50,000



80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 - ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 × 10/15] [See Note 1]		
			1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years	47,000	
	(b) Preventive health checkup ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	<u>3,000</u>	
		<u>50,000</u>	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	<u>46,000</u>	
	Total of (i) and (ii)		96,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹75,000, deduction restricted to		50,000
	Deduction under Chapter VI-A		6,11,000

Notes:

- The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE.

Question 3

MTP, March'18

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

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



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

- (i) If both the units were set up and start manufacturing from 20-07-2015.
 (ii) If both the units were set up and start manufacturing from 04-10-2020.

5 Marks

Answer:

Computation of deduction under section 10AA of the Income-tax Act, 1961

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

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

i. If unit in SEZ was set up and began manufacturing from 20-07-2015:

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

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

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

ii. If Unit in SEZ was set up and began manufacturing from 04-10-2020:

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

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

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

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

Working Note:

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

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



Question 5

RTP May '18

In August 2022, Mr. Kailash, a first-time home buyer, borrowed a sum of ₹ 35 lakhs from the National Housing Bank for construction of a residential house for ₹ 48 lakhs. The loan was sanctioned on 12.5.2022. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2024 and repayments towards principal and interest commenced immediately after disbursement of loan. In the light of the above facts, examine:

- (i) Whether Mr. Kailash can claim deduction under section 24 in respect of interest for the A.Y. 2024-25?
- (ii) Whether deduction under Section 80C and 80EE can be claimed by him for the A.Y. 2024-25?

Answer:

(i) As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction. It is stated that the construction is completed only in May, 2024. Hence, deduction under section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2024-25.

(ii) Deduction under section 80C cannot be claimed

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2024-25, there is no such income chargeable under this head. Hence, deduction under section 80C cannot be claimed for A.Y. 2024-25.

Deduction under section 80EE can be claimed

As per section 80EE, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of ₹ 50,000, provided following conditions are satisfied -

- (i) Such loan is sanctioned during the P.Y. 2016-17
- (ii) The value of the house does not exceed ₹ 50 lakhs
- (iii) The amount of loan sanctioned does not exceed ₹ 35 lakhs and
- (iv) the assessee does not own any residential house on the date of sanction of loan

Section 80EE does not pose any restriction regarding the chargeability of the income from such property under the head "Income from House Property. Therefore, in this case, since Mr. Kailash does not satisfy the first condition stipulated under section 80EE, interest on such loan would not qualify for deduction under section 80EE, subject to a maximum of ₹ 50,000.



Question 6

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

- (i) He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2018 and the sum assured is ₹ 2,20,000.
- (ii) He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2022-23 amounted to ₹ 9,00,000. Expenses incurred for writing the book amounted to ₹ 40,000.
- (iii) His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.
- (iv) He received a gold chain worth ₹ 68,000 from his in-laws on the occasion of his marriage anniversary
- (v) He had deposited ₹ 70,000 in fixed deposit with SBI in the name of his minor son in September 2023. Interest earned on such deposit ₹ 5,500.
- (vi) He donated ₹ 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
- (vii) He had taken a loan of ₹ 38,00,000 for the purchase of a house property valuing ₹ 45,00,000 for self- occupation from a financial institution on 1st May 2021. He repaid ₹ 1,80,000 during the P.Y. 2023- 24 out of which ₹ 1,05,000 is towards principal payment and the balance is for interest on loan.

Compute the total income of Mr. Jain for the A.Y. 2024-25 if he does not opt for the provisions of section 115BAC.

Answer:

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

Particulars	₹	₹
Income from house property		(75,000)
NAV	Nil	
Less: Interest on loan	75,000	
Income from Other Sources		(75,000)
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati	65,000	
[The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds ₹ 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	1,500	
Less: Exemption under section 10(32)		63,500
Value of Gold Chain [The Fair market value of ₹ 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-



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

Question 7

PYQ Jan'21

Mr. Xavier, an Indian resident individual, set up a unit in Special Economic Zone (SEZ) in the financial year 2018-19 for production of Mobile Phones. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2022-23, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 93 lakhs (including cost of land ₹ 13 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of ₹ 63 lakhs was capitalized in the books on that date.

Further details relevant for the financial year 2023-24 are as follows:

Particulars	₹
Profit from operation of warehousing facility before claiming deduction under section 35AD	1,10,00,000
Net Profit of SEZ (Mobile Phone) Unit	50,00,000
Export sales of SEZ (Mobile Phone) Unit	90,00,000
Domestic Sales of SEZ (Mobile Phone) Unit	60,00,000

Compute income tax (including AMT under 115JC) payable by Mr. Xavier for Assessment Year 2024-25.

6 Marks

Answer:

Computation of total income and tax liability of Mr. Xavier for A.Y. 2024-25 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		



Profit from unit in SEZ	50,00,000	
Less: Deduction under section 10AA	30,00,000	
[50,00,000 × 90,00,000/1,50,00,000 × 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
Profit from operation of warehousing facility	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1.4.2023. Deduction is not available on expenditure incurred on acquisition of land] [₹ 93 lakhs - ₹ 13 lakhs]	80,00,000	
Business income of warehousing facility chargeable to tax		30,00,000
Total Income		50,00,000
Computation of tax liability		
Tax on ₹ 50,00,000		13,12,500
Add: Health and Education cess@4%		52,500
Total tax liability		13,65,000

Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2024-25

Particulars	₹	₹
Total Income (as computed above)		50,00,000
Add: Deduction under section 10AA		30,00,000
		80,00,000
Add: Deduction under section 35AD	80,00,000	
Less: Depreciation u/s 32 [On building@10% of ₹ 80 lakhs ²]	8,00,000	72,00,000
Adjusted Total Income		1,52,00,000
Alternate Minimum Tax@18.5%		28,12,000
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,21,800
		32,33,800
Add: Health and Education cess@4%		1,29,352
Total tax liability		33,63,152
Tax Liability (Rounded off)		33,63,150

² Assuming the capital expenditure of ₹ 80 lakhs are incurred entirely on building Since the regular income- tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 33,63,150.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	33,63,150
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	13,65,000
	19,98,150



Note: In the third para of the question, there is a difference between the figure of capital expenditure incurred in respect of warehouse i.e., ₹ 93 lakhs (including cost of land ₹ 13 lakhs) and the figure of capital expenditure capitalized in the books on 1.4.2023 i.e., ₹ 63 lakhs. It appears to be a typographical error, due to which the main solution has been worked out considering ₹ 93 lakhs as the amount capitalized in the books on 1.4.2023.

However, alternative answers have been worked out below considering ₹ 63 lakhs (being the figure as printed in the question paper) as the amount capitalized in the books on 1.4.2023. In Alternative 1, it has been assumed that the amount of ₹63 lakhs capitalized on 1.4.2023 does not include cost of land. In Alternative 2, it has been assumed that the amount of ₹ 63 lakhs capitalized on 1.4.2023 includes cost of land.

Alternative 1 (The amount of ₹ 63 lakhs capitalized on 1.4.2019 does not include cost of land)

Computation of total income and tax liability of Mr. Xavier for A.Y. 2024-25 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	50,00,000	
Less: Deduction u/s 10AA	30,00,000	
[50,00,000 × 90,00,000/1,50,00,000 × 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
Profit from operation of warehousing facility ³	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1.4.2023. It is assumed that the capitalized expenditure of ₹ 63 lakhs does not include cost of land]	63,00,000	
Business income of warehousing facility chargeable to tax		47,00,000
Total Income		67,00,000
Computation of tax liability		
Tax on ₹ 67,00,000		18,22,500
Add: Surcharge @10%		1,82,250
		20,04,750
Add: Health and Education cess@4%		80,190
Total tax liability		20,84,940

³ Since the question mentions ₹ 1,10,00,000 as the profit from operation of warehousing facility before claiming deduction u/s 35AD, it is assumed that said figure of profit is after providing depreciation u/s 32 on ₹ 17 lakhs, being the amount of capital expenditure not capitalized as on 1.4.2023 less cost of land (i.e., ₹ 93 lakhs - ₹ 63 lakhs = ₹ 30 lakhs - ₹ 13 lakhs (cost of land) = ₹ 17 lakhs)



Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2024-25

Particulars	₹	₹
Total Income (as computed above)		67,00,000
Add: Deduction under section 10AA		30,00,000
		97,00,000
Add: Deduction under section 35AD	63,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹63 lakhs ⁴]	6,30,000	56,70,000
Adjusted Total Income		1,53,70,000
Alternate Minimum Tax@18.5%		28,43,450
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,26,518
		32,69,968
Add: Health and Education cess@4%		1,30,799
Total tax liability		34,00,767
Tax Liability (Rounded off)		34,00,770

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 34,00,770.

⁴Assuming the capital expenditure of ₹ 63 lakhs are incurred entirely on building

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	34,00,770
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	20,84,940
	13,15,830

Alternative 2 (The amount of ₹63 lakh capitalized includes cost of land)

Computation of total income and tax liability of Mr. Xavier for A.Y. 2024-25 (under the regular provisions of the Act)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	50,00,000	
Less: Deduction u/s 10AA	30,00,000	
[50,00,000 × 90,00,000/1,50,00,000 × 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
Profit from operation of warehousing facility ⁵	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations, and capitalized in the books of account on 1.4.2019. Deduction is not available on expenditure incurred on acquisition of land. It is assumed that the capitalized expenditure includes ₹ 13 lakhs of land] [₹ 63 lakhs - ₹ 13 lakhs]	50,00,000	



Business income of warehousing facility chargeable to tax		60,00,000
Total Income		80,00,000
Computation of tax liability		
Tax on ₹ 80,00,000		22,12,500
Add: Surcharge @10%		2,21,250
		24,33,750
Add: Health and Education cess@4%		97,350
Total tax liability		25,31,100

⁵Since the question mentions ₹ 1,10,00,000 as the profit from operation of warehousing facility before claiming deduction u/s 35AD, it is assumed that said figure of profit is after providing depreciation u/s 32 on ₹ 30 lakhs, being the amount of capital expenditure not capitalized as on 1.4.2023 (₹ 93 lakhs - ₹ 63 lakhs).

Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2024-25

Particulars	₹	₹
Total Income (as computed above)		80,00,000
Add: Deduction under section 10AA		30,00,000
		1,10,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹ 50 lakhs ⁶]	5,00,000	45,00,000
Adjusted Total Income		1,55,00,000
Alternate Minimum Tax@18.5%		28,67,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,30,125
		32,97,625
Add: Health and Education cess@4%		1,31,905
Total tax liability		34,29,530

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 payable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 34,29,530.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	34,29,530
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	25,31,100
	8,98,430

Question 8

RTP May '18

For the A.Y. 2024-25, the Gross Total Income of Mr. Raja, a resident in India, was ₹ 8,00,000 which includes long-term capital gain of ₹ 2,50,000 and Short-term capital gain of ₹ 50,000. The Gross Total Income also includes interest income of ₹ 15,000 from savings bank deposits with banks. Mr. Raja has invested in PPF ₹ 1,40,000 and also paid a medical insurance premium



₹ 35,000 for self. Mr. Raja also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Raja, who is 65 years old as on 31.3.2024.

Answer:

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

Particulars	₹	₹
Gross total income including long term capital gain		8,00,000
Less: Long term capital gain		2,50,000
		5,50,000
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,40,000	
is paid by otherwise than by cash. The deduction would be restricted to ₹ 30,000 (50,000 as per amendment), since Mr. Raja is a resident senior citizen)	30,000 35,000	
Under section 80G (See Notes 1 & 2 below)	18,500 18,250	
Under section 80TTA (See Note 3 below)	10,000	2,03,250
Total income (excluding long term capital gains)		3,46,750
Total income (including long term capital gains)		5,96,750
Tax on total income (including long-term capital gains of ₹ 2,50,000)		
LTCG ₹ 2,50,000 × 20%		50,000
Balance total income ₹ 3,46,750: Tax @5% on ₹ 46,750		2,338
(₹ 3,46,750 - ₹ 3,00,000, being the basic exemption limit for senior citizen)		52,338
Add: Education cess @2% and Secondary and higher education cess @1%		1,577
Add: EC & SHEC @ 4%		2094
Total tax liability		54,432
Total tax liability (rounded off)		54,430

Notes:

1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,50,000
Less: Deduction under section 80C, 80D & 80TTA	1,85,000
	3,65,000
10% of the above	36,500
Contribution made to Public Charitable Trust	50,000
Lower of the two eligible for deduction under section 80G	36,500
Deduction under section 80G - 50% of ₹ 37,000	18,250



***Because of amendment in 80D limit to Rs.50,000 to senior citizens**

1. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
2. Deduction of upto ₹ 10,000 under section 80TTA is allowed, inter alia, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank. Since Gross Total Income of Mr. Raja includes interest income of ₹ 15,000 on savings bank deposit, he is eligible for deduction of ₹ 10,000 under section 80TTA.

CA VIVEK GABA



Multiple Choice Questions

Question 1

MTP Oct'19

Which of the following statements is/are correct in respect of deduction allowed to an assessee in respect of certain donations for scientific research or rural development u/s 80GGA?

- (i) Deduction is not allowed to an assessee having income from business.
- (ii) The maximum amount of deduction allowed is ₹ 10,000.
- (iii) 100% deduction is allowed if amount in excess of ₹ 10,000 Rs 2,000 donated is paid by any mode other than cash.
- (iv) Deduction is not allowed to an assessee having income from salaries.
- (v) Any sum paid to a University to be used for scientific research is allowed if such University is approved u/s 35(1)(ii).
- (vi) Any sum paid to a notified Urban Development Fund is allowed.

- a) (i), (iii), (iv), (v), (vi)
- b) (ii), (iii), (v)
- c) (i), (ii)
- d) (i), (iii), (v)

Question 2

MTP April'19

Mr. Arjun, a businessman, whose total income (after allowing deduction under chapter VI-A except under section 80GG) for AY 2024-25 is ₹5,50,000. He does not own any house property and is staying in a rented accommodation in Patna for a monthly rent of ₹ 8,000. Deduction allowance under section 80GG for A.Y. 2024-25 is:

- a) ₹ 41,000
- b) ₹1,37,500
- c) ₹ 60,000
- d) ₹ 96,000

Question 3

MTP March 22

The basic salary of Mr. Raj is ₹ 1,15,000 p.m. He is entitled to dearness allowance, which is 30% of basic salary which forms part of pay for retirement benefits. Mr. Raj and his employer, XYZ Ltd., both contribute 20% of basic salary to the pension scheme referred to in section 80CCD. What is the amount of deduction available to Mr. Raj under section 80CCD for A.Y. 2024 -25?

- a) ₹ 4,08,800
- b) ₹ 5,05,400
- c) ₹ 3,79,400
- d) ₹ 3,58,800

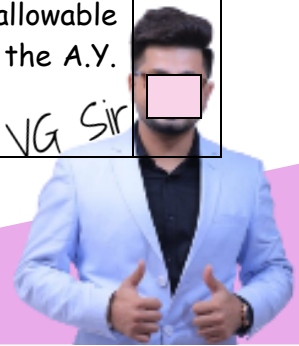
Question 4

MTP April'21

Mr. Krishna, a resident Indian aged 61 years, maintains a saving account with a co-operative land development bank and he earns ₹ 20,000 as interest on saving account for the Financial Year 2023-24. Mr. Krishna also maintains a fixed deposit and recurring deposit account with Mani Finance (A Non- Banking Finance Company) and earns ₹ 25,000 and 10,000 as interest on fixed deposit and recurring deposit, respectively. What would be the deduction allowable to Mr. Krishna under Chapter VI-A if he does not opt for the section 115BAC for the A.Y. 2024 -25?

- (a) ₹ 55,000

VG Sir



- (b) ₹ 10,000
(c) ₹ 20,000
(d) ₹ 50,000

Question 5

MTP March'19

Mr. Krishna is a philanthropic person. During the P.Y. 2023-24, out of his total receipts, he gave away ₹8,00,000 in cash to Prime Minister's National Relief Fund and was left with only ₹2,00,000 which is just enough money to meet his personal requirements. On these facts, Mr. Krishna is of the view that as ₹2,00,000 is below the maximum amount not chargeable to tax, no income of him is chargeable to tax during the previous year. He approaches you to file his income tax return showing ₹2,00,000 as his gross total income. Do you agree with the view of Mr. Krishna? Also, compute the amount of his total income.

- a) Yes, as income actually left in Mr. Krishna's hands is ₹2,00,000 only. His total income shall be ₹2,00,000.
b) No, as what is done after income is earned by Mr. Krishna will not give him any tax exemption. His total income shall be ₹10,00,000.
c) His gross total income and total income are ₹10 lakhs, since this is a case of application of income and donation made in cash will not qualify for deduction under section 80G.
d) Yes, as ₹8,00,000 is exempt from tax, the gross total income as well as total income of Mr. Krishna shall be ₹2,00,000 only.

Question 6

MTP Sep'22

Rudra Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 22.5.2018 and unit in DTA from 10.7.2019. Total turnover of Rudra Ltd. and Unit in DTA is ₹7,50,00,000 and 2,75,00,000, respectively. Export sales of unit in SEZ and DTA is ₹3,25,00,000 and ₹1,50,00,000, respectively and net profit of Unit in SEZ and DTA is ₹60,00,000 and ₹40,00,000, respectively. Rudra Ltd. would be eligible for deduction under section 10AA for -

- (a) ₹41,05,263
(b) ₹20,52,632
(c) ₹26,00,000
(d) ₹13,00,000

Question 7

RTP Nov '21

Mr. Arpit, an employee of MNO Ltd. has contributed ₹1,61,280 towards NPS and similar amount is contributed by his employer. His basic salary is ₹80,000 p.m. and dearness allowance are 40% of basic salary which forms part of retirement benefits. He also paid ₹55,000 towards LIC premium for himself and his wife and medical insurance premium of ₹35,000 by crossed cheque for his mother, being a senior citizen during the previous year 2023-24. How much deduction is available under Chapter VI-A while computing total income of Mr. Arpit for the A.Y. 2024-25?

- (a) ₹3,46,280
(b) ₹3,69,400
(c) ₹3,19,400
(d) ₹3,96,280

Question 8

RTP Nov'22

Mr. Raj, aged 65 years, is a salaried person. He has taken a LIP on his major son's name on 01.11.2014. The sum assured of LIP is ₹16,00,000 and the premium payable is ₹1,70,000. He has also taken a medical policy of ₹10,00,000 for self and his wife on 01.11.2021. The medical



policy is valid for 5 years. He has paid one time premium of ₹ 1,80,000. What is the total deduction available to Mr. Raj for A.Y. 2024-25?

- (a) ₹ 1,86,000
(b) ₹ 1,96,000
(c) ₹ 1,90,000
(d) ₹ 1,80,000

Question 9

RTP May '20

XYZ Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2017 and unit in DTA from 15.6.2019. Total turnover of XYZ Ltd. and Unit in DTA is ₹ 8,50,00,000 and 3,25,00,000, respectively. Export sales of unit in SEZ and DTA is ₹ 2,50,00,000 and ₹ 1,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 80,00,000 and ₹ 45,00,000, respectively. XYZ Ltd. would be eligible for deduction under section 10AA for -

- (a) ₹ 38,09,524
(b) ₹ 19,04,762
(c) ₹ 23,52,941
(d) ₹ 11,76,471

Question 10

CS Execu.

Deduction u/s 80TTB of Income Tax Act, 1961, shall be allowed if the Total Income includes:

- (A) Interest on deposits in a Savings Account with a Bank or Post Office
(B) Interest on deposits in a Savings Account with a Co-operative Bank
(C) Interest on deposits in a Fixed Deposit Account with Bank or Post Office.
(D) Any of the above

Answers

1	2	3	4	5	6	7	8	9	10
d	a	c	c	c	a	b	d	c	d



Chapter 7: Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Descriptive Questions

Easy

Question 1

PYQ Nov 18, MTP2 Sept' 24

Mr. Dhanapal wishes to purchase a residential house costing ₹60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for ₹65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably.

2 Marks

Answer:

Since the sale consideration of residential house exceeds ₹50 lakh, Mr. Dhanapal is required to deduct tax at source @1% of sale consideration of ₹60 lakh under section 194-IA. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds ₹50 lakh.

Question 2

RTP Nov 18

When and at what rate, a seller is required to collect tax source on sale of motor vehicle. Also, discuss whether tax is required to be collected at source on sale of motor vehicle by manufacturers to dealers.

Answer:

As per section 206(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹10 lakhs, shall collect tax from the buyer @1% of the sale consideration.

In case of sale of a motor vehicle, tax shall be collected at the time of receipt of such amount. The CBDT has, vide Circular No. 22/2016 dated 8.6.2016 and Circular No.23/2016 dated 24.6.2016, clarified that tax is required to be collected at source on all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Question 3

MTP March '23, PYQ Dec '21

Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the A.Y. 2023-24.

(i) Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹5 lakhs on 01-11-2022 from an agent who is engaged in organising foreign tours in



course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.

(ii) Mr. Anuj doing business of textile as a proprietor. His turnover in the business is ₹11 crores in the previous year 2021-22. He received payment against sale of textile goods from Mr. Ram of ₹75 lakhs against the sales made to him in the previous year 2022-23. Mr. Ram's turnover for the P.Y. 2021-22 was 5 crores. (Assuming all the sales are domestic sales).

4 Marks

Answer:

TCS implications

(i) Tax @ 5% is required to be collected u/s 206C(1G) by the seller of an overseas tour programme package from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque. Accordingly, tax has to be collected @5% on 5 lakhs. TCS = 5% × ₹5 lakh = ₹25,000

(ii) Mr. Anuj is required to collect tax @0.1% u/s 206C(1H) from Mr. Ram, since his turnover in the P.Y.2021-22 exceeds 10 crores, and the sales receipts from Mr. Ram in the P.Y.2022-23 exceeds ₹50 lakhs. Tax has to be collected by Mr. Anuj on ₹25 lakhs, being the amount exceeding ₹50 lakhs, at the time of receipt. TCS = 0.1% × ₹25 lakhs = ₹2,500.

Question 4

MTP Oct 22

An amount of ₹ 50,000 was paid to Mr. Rakesh on 1.9.2021 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 60,000 was due to Mr. Rakesh on 31.1.2022, from which tax@10% (amounting to ₹ 11,000) on the entire amount of ₹ 1,10,000 was deducted. However, this tax of ₹ 11,000 was deposited only on 22.7.2022. Compute the interest chargeable under section 201(1A).

3 Marks

Answer:

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

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

As per TRACES, interest is computed for 7 months.

Question 5

MTP March 22

Briefly discuss the clarification issued by the CBDT on the cross application of TDS under section 194-Q and TCS under section 206C(1H).

3 Marks

Answer:

As per section 206C(1H), tax is not required to be collected under the said section if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.



As per section 194Q, the provision of section 194Q would not apply to a transaction on which tax is collectible under the provisions of section 206C, other than a transaction on which section 206C(1H) applies.

If a transaction is within the purview of both section 194Q and section 206C(1H), the tax is required to be deducted under section 194Q. The transaction would come out of the purview of section 206C(1H) after tax has been deducted by the buyer on that transaction. Once the buyer has deducted the tax on a transaction, the seller is not required to collect the tax under section 206C(1H) on the same transaction. However, if, for any reason, tax has been collected by the seller under section 206C(1H), before the buyer could deduct tax under section 194Q on the same transaction, such transaction would not be subjected to tax deduction again by the buyer.

Question 6

Examine the applicability of TDS provisions, if any, to be deducted in the following cases:

- (i) Payment of fee for professional services of Rs. 20,000 and royalty of Rs. 27,000 to Ms. Kajal, who is having PAN. (MTP 2 Marks, Aug'18)
- (ii) Payment of Rs. 1,05,000 made to Mr. Ram for purchase of calendars made according to specifications of M/s XYZ Ltd. However, no material was supplied for such calendars to Mr. Ram by M/s XYZ Ltd. (MTP 2 Marks, Aug'18)
- (iii) Rent paid for plant and machinery Rs. 1,70,000 by a partnership firm having sales turnover of Rs. 49,00,000 and net loss of Rs. 15,000. (MTP 1 Mark, Aug'18)

Answer:

- (i) Payment of fee for professional services of Rs. 20,000 and royalty of Rs. 27,000 to Ms. Kajal, who is having PAN.

i. As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for professional services and royalty, individually, exceeds Rs. 30,000 during the financial year. In the given case, since, the individual payments for fee of professional services i.e. Rs. 20,000 and royalty Rs. 27,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for professional services and royalty were made during the year to Ms. Kajal.

- (ii) Payment of Rs. 1,05,000 made to Mr. Ram for purchase of calendars made according to specifications of M/s XYZ Ltd. However, no material was supplied for such calendars to Mr. Ram by M/s XYZ Ltd.

ii. According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.

- (iii) Rent paid for plant and machinery Rs. 1,70,000 by a partnership firm having sales turnover of Rs. 49,00,000 and net loss of Rs. 15,000.



iii. Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 1,05,000 to Mr. Ram, since the contract is a contract for 'sale'. As per section 194-I, tax is to be deducted @ 2% on payment of rent for plant and machinery, only if the payment exceeds Rs. 1,80,000 during the financial year. Since rent of Rs. 1,70,000 paid by a partnership firm does not exceed Rs. 1,80,000, tax is not deductible.

Question 7

MTP Oct'19

Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2019-20:

- (i) Mr. Nihau makes cash payment to a hotel Ginger, Rishikesh of Rs. 50,000 against the bill raised by the hotel.
- (ii) Mr. Suresh, in a single transaction, makes contract of Rs.1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- (iii) Payment to Mutual Funds of Rs. 57,000 for purchase of its units.

3 Marks**Answer:**

Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]

- (i) **PAN not required to be quoted:** Mr. Nihar is not required to quote his PAN while making payment Rs. 50,000 in cash to a hotel Ginger, Rishikesh, since such payment does not exceed Rs. 50,000.
- (ii) **PAN is mandatorily required to be quoted:** Mr. Suresh is required to quote his PAN while making contract of Rs. 1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds Rs. 1,00,000.
- (iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of Rs. 57,000 to Mutual Funds for purchase of its units, since such payment exceeds Rs. 50,000.

Question 8

MTP Oct'20

Mr. Karan is engaged in the business of producing and selling toys. During the previous year 2019-20, his turnover was ₹1.75 crores. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax assuming that whole of the turnover represents cash receipts?

3 Marks**Answer:**

Computation of advance tax liability in the hands of Mr. Karan opting for presumptive taxation scheme under section 44AD.

As per section 211(1)(b), an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount on or before 15th March of the financial year. Thus, Mr. Karan is required to pay advance tax for F.Y.2019-20 on or before 15th March, 2020.



However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during that financial year on or before 15th March.

The advance tax liability is computed as follows -		
Total Income being 8% of 1,75,00,000, since Mr. Karan is an eligible assessee opting for presumptive taxation scheme under section 44AD (Total income comprises of only income under the head "Profits and gains of business or profession", since Mr. Karan is not having any other income during the previous year)		14,00,000
Tax liability		
Upto ₹2,50,000	Nil	
₹2,50,001 to ₹5,00,000@5%	12,500	
₹5,00,001 to ₹10,00,000@20%	1,00,000	
Above ₹10,00,000@30%	1,20,000	2,32,500
Add: Health and Education cess @4%		9,300
Total Tax Payable		2,41,800
Accordingly, Mr. Karan is required pay 2,41,800 as minimum amount of advance tax by 31st March 2020.		

Question 9

MTP Nov'21, RTP Nov'21

Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2020-21, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs were received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions of section 115 BAC. What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings. **3 Marks**

Answer:

Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD The total turnover of Ms. Soha, a dealer of scooter, is ₹110 lakhs. Since her total turnover from such business is less than Rs. 200 lakhs and she does not wish to get his books of account audited; she can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

Particulars	₹
6% of Rs. 25 lakhs, being turnover effected through account payee cheque	1,50,000
8% of Rs. 85 lakhs, being cash turnover	6,80,000
	8,30,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year. Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars		Rs.
Total Income	8,30,000	
Tax on 8,30,000		



Upton Rs. 2,50,000	Nil	
2,50,001 - Rs. 5,00,000@5%	12,500	
5,00,001 - Rs. 8,30,000@20%	66,000	78,500
Add: Health and Education cess@4%		3,140
Tax liability		81,640

Accordingly, she is required to pay advance tax of Rs. 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 10

MTP Nov'21

Compute the amount of TDS on the following payments made:

- Payment of royalty of Rs. 20,000 & fee for technical services of Rs. 24,000 to Mr. A, who is having PAN, were made during the Previous Year 2020-21 by M/s. Zen Ltd.
- Kiara Ltd., paid Rs. 18,000 to one of its directors as sitting fees on 02.02.2021.
- Rs. 2,35,000 paid to Mr. Summit, a resident Individual on 26.12.2021 by State of Tamil Nadu on Compulsory Acquisition of his urban land.

3 Marks

Answer:

(I) Royalty & Fee for technical services

Tax is not required to be deducted at source under section 194J on payment of royalty of Rs. 20,000 and fee for technical services of Rs. 24,000 to Mr. A, since the limit of Rs. 30,000 for non-deduction of tax at source is applicable for royalty and fees for technical services, separately.

(ii) Director's sitting fees

Kiara Ltd. is required deduct tax at source @10% (7.5% for the period between 14.5.2020 to 31.3.2021) under section 194J, on the amount of sitting fees of Rs. 18,000 paid to a director, since the threshold limit of Rs. 30,000 is not applicable in respect of sum paid to a director.

Therefore, tax to be deducted at source = Rs. 18,000 @7.5% (10%) = Rs. 1,350 Rs. 1800.

(Only during 14th May,2020 to 31st March 2021 the TDS rate was reduced to 7.5% from 10% for covid-reasons)

(iii) Compensation on compulsory acquisition of urban land

As per section 194LA, no tax is required to be deducted at source on the amount of Rs. 2,35,000 paid to Mr. Summit by the State Government on compulsory acquisition of his urban land, since amount does not exceed Rs. 2,50,000.

Question 11

MTP Mar'21, RTP Nov '19

Determine the advance tax payable by Mr. Deepak with their due dates for the assessment year 2021-22.

	Amount (Rs.)
Total estimated tax payable	5,50,000



TDS (deductible but not deducted)	70,000
TCS (collected)	20,000

3 Marks

Answer:

Computation of Advance Tax Payable for the A.Y 2021-22

Particulars	RS
Tax Payable	5,50,00 0
Less: TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Less: TCS	20,000
Net Tax Payable	5,30,00 0

Due dates for payment of advance tax

Due date of instalment	Amount payable
On or before 15th June, 2020	Rs. 79,500 [15% of Rs. 5,30,000]
On or before 15th September, 2020	Rs. 1,59,000 [Rs. 2,38,500 (45% of Rs. 5,30,000) less Rs. 79,500, (amount paid in earlier instalment)]
On or before 15th December, 2020	Rs. 1,59,000 [Rs. 3,97,500 (75% of Rs. 5,30,000) Less Rs. 2,38,500 (amount paid in earlier instalment or instalments)]
On or before 15th March, 2021	Rs. 1,32,500, [Rs. 5,30,000 (whole amount of advance tax liability less Rs. 3,97,500 (amount paid in earlier instalment or instalments)]

Question 12

MTP April 22

Briefly discuss the provisions of tax deducted at source under the Income-tax Act in respect of the following payments:

- (i) Mr. Kamlesh (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of ABC Bank of India (working on core banking solution). During the year 2021-22, the bank paid 32,000 and ₹17,000 as interest on these fixed deposits.
- (ii) Mr. Avinash, a pensioner, pays ₹55,00,000 during F.Y. 2021-22 to Mr. Raju, for contract payment for reconstruction of his residential house.

4 Marks

Answer:

(i) ABC Bank is not required to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank ₹49,000 does not exceed the threshold limit of 50,000, applicable in case of senior citizen. Since ABC Bank has adopted core banking solution (CBS), the aggregate interest paid by both branches has to be considered.

(ii) TDS provisions under section 194C are not attracted in this case, since Mr. Avinash is a pensioner. However, Mr. Avinash has to deduct tax at source@5% u/s 194M, since the payment to contractor, Mr. Raju, exceeds ₹50 lakhs.



Question 13

PYQ Nov'18, MTP2 Sept' 24

Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ₹2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations. **2 Marks**

Answer:

Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ` 10 lakhs, is required to collect tax at source @1% of the sale consideration from the buyer. TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, Rahil & Co., even if the value of each car exceeds ` 10 lakhs. However, TCS provisions would be attracted when Rahil & Co., sells cars to individual buyers, since the value of each car exceeds ` 10 lakhs. Rahil & Co. has to collect tax@1% of the consideration on sale of each car to an individual buyer.

(As per amendment From AY 2022-23 Section 194Q applies to any buyer who is responsible for paying any sum to any resident seller for purchase of any goods of the value or aggregate of value exceeding ₹50 lakhs in any previous year. The buyer, at the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier, is required to deduct an amount equal to 0.1% of such sum exceeding 50 lakhs as income tax. Hence this section would become applicable to Rahil & Co if T/O was more than 10 crores and if the AY was 22-23.)

Question 14

PYP Nov '20, MTP Oct'21

State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2021-22 under the Income-tax Act, 1961.

Assume that all payments are made to residents:

- (i) Sahil, a resident Indian individual, not deriving any income from business or profession makes payments of 10 lakh in January, 2022, 25 lakh in February, 2022 and 25 lakh in March, 2022 to Madan, a contractor for reconstruction of his residential house.
- (ii) XYZ Ltd. makes the payment of 2,00,000 to Ramesh, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN. **5 Marks**

Answer:

TDS implications:**(i) On payments made to contractor**

Tax is deductible @5% under section 194M, since payments to Mr. Madan, a contractor, for reconstruction of his residential house exceeds 50 lakhs in aggregate during the F.Y.2021- 22. Amount of tax to be deducted = 5% of 60 lakhs = 3,00,000

(ii) Payment to transporter who has not furnished PAN Under section 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.



However, in this case, this exemption from TDS would not be available, since Ramesh has not furnished his PAN to XYZ Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided under section 194C. Amount of tax to be deducted = 2,00,000 × 20% = 40,000.

Question 15

MTP Oct'20, RTP May'18, CS Exec. June' 14

Mention the significant differences between TDS and TCS.

3 Marks

Answer:

Significant Differences between TDS and TCS

TDS	TCS
TDS is tax deduction at source	TCS is tax collection at source.
Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in case of payment of salary, payment in respect of life insurance policy etc., tax is required to be deducted at the time of payment	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicles of the value exceeding ₹10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

Question 16

PYQ Nov 23

Explain the provisions of tax collection at source for overseas remittance by an authorized dealer. Also enumerate the rate of tax to be collected and the amount on which no tax is to be collected.

4 Marks

Answer:

An authorised dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India is required to collect tax at source at the time of debiting the amount or at the time of receipt of such amount, whichever is earlier.



Rate of TCS in case of collection by an authorized dealer

	Amount and purpose of remittance	Rate of TCS
(1)	Amount or aggregate of amounts remitted for a purpose other than for purchase of overseas tour programme package and	
	Amount or aggregate of amounts remitted is less than ₹7 lakhs in a financial year	Nil (No TCS)
	amount or aggregate of the amounts remitted is in excess of ₹7 lakhs	5% in excess of ₹7 lakhs
(2)	Amount aggregate of the amounts remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and the amount remitted exceed ₹7 lakhs in a financial year.	0.5% of the amount or aggregate of amounts in excess of ₹7 lakh

Question 17

CS Exec. June 2009

Who is liable to pay advance tax? On what dates the instalments of advance tax are payable and what amount is to be paid under each instalment? **4 Marks**

Answer:

Advance tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee during that year, as computed in accordance with the provisions of advance tax, is ₹ 10,000 or more.

Instalments of advance tax and due dates [Section 211]:

	Due date of instalment	Amount payable
A	On or before 15 th June	Not less than 15% of advance tax.
	On or before 15 th September	Not less than 45% of advance tax. It means 45% of advance tax, less the amount paid in earlier instalment i.e. 30%
	On or before 15 th December	Not less than 75% of advance tax. It means 75% of advance tax, less the amount paid in earlier instalment i.e. 30%
	On or before 15 th March	100% of advance tax as reduced by the amounts paid in earlier instalments i.e. 25%.
B	On or before 15 th March	An eligible assessee in respect of eligible business (Section 44AD) or eligible profession (Section 44ADA) shall pay the whole amount of advance tax on or before 15 th March of the relevant previous year.

Note: Any payment of advance tax made on or before 31st March shall also be treated as advance tax paid during the previous year.

Question 18

CS Exec. June 2019

Who is liable to pay advance tax? Who are exempted from payment of Advance Tax? **2 Marks**

Answer:



As per section 208 of the Income-tax Act, 1961, advance tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee during that year, as computed in accordance with the provisions of this Chapter, is ₹ 10,000 or more.

The provision of advance tax liability shall not apply to an individual resident in India, who does not have any income chargeable under the head "Profits and Gains of Business or Profession"; and is of the age of sixty year or more at any time during the previous year.

Question 19

CS Exec. June 2009

What are the provisions regarding Deduction of Tax at Source in case of Winnings from Lottery?

2 Marks**Answer:**

1. Section 194B.
2. The person who is responsible to pay income to any resident or domestic company by way of winnings from lottery or crossword puzzles or card game exceeding ₹ 10,000 shall at the time of payment, deduct TDS.
3. The TDS for Financial Year 2023-24 (Assessment Year 2024-25) is @ 30%.

Question 20

CS Exec. Dec 2012

Write a short note on Consequences of failure to Deduct Tax at Source.

2 Marks**Answer:**

Consequences of failure to Deduct Tax at Source:

Any person who is liable to deduct tax at source fails to deduct fully or partly tax and/or fails to deposit the same within stipulated time, he shall be deemed to be an assessee in default. Consequently, he shall be liable to pay penalty under section 221, which is simple interest as follows:

- (a) Simple interest @1% for every month or part of a month from due date of TDS to actual date of TDS.
- (b) Simple Interest @1.5% for every month or part of a month from the date of TDS to the date on which such tax is actually paid.

Moderate**Question 1**

PYQ Nov 22, MTP April'23

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2021-22:

- (i) S and Co. Ltd. paid 25,000 to one of its directors as sitting fees on 02-02- 2022.
- (ii) 2,20,000 paid to Mr. Mohan, a resident individual, on 28 -02-2022 by the State of Haryana on compulsory acquisition of his urban land.
- (iii) Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of 12 crores



in the previous year 2020-21. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2021-22 on various dates is 80 lakhs which are as under:

10-06-2021	25,00,000
20-08-2021	27,00,000
12-10-2021	28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2022 80 lakhs. Mr. Agarwal's turnover for the financial year 2020-21 is ₹ 20 crores. 6 Marks

Answer

I. Tax @10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of 25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director. The amount of tax to be deducted at source = ₹ 25,000 × 10% = ₹ 2,500

II. There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed 2,50,000.

III. Since Mr. Purushotham's turnover for F.Y.2020-21 exceeds ₹10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2021-22, he is liable to deduct tax@0.1% on 30 lakhs (being the sum exceeding ₹50 lakhs), at the time of credit or payment, whichever is earlier.

On 10.6.21= Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2021 since the purchases made till that date has not exceeded the threshold of 50 lakhs and TDS provisions u/s 194Q was effective from 1.7.2021)

On 20.8.2021 = 0.1% of ₹2 lakhs (amount exceeding ₹50 lakhs) = ₹200

On 12.10.2021 = 0.1% of ₹28 lakhs = ₹2,800.

Question 2

PYQ Nov 19

What are the clarifications given by CBDT with respect to section 206C(1F) relating to following issues:

(i) Whether TCS on sale of motor vehicle is applicable only to luxury car?

(ii) Whether TCS is applicable on each sale or aggregate value of sale of motor vehicle, exceeding ₹10 lakhs?

(iii) Whether TCS is applicable in case of an individual?

(iv) Whether TCS on sale of motor vehicle is at retail level also or only by manufacturer to distributor or dealer?

4 Marks

Answer:

(i) No, as per section 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding ₹10 lakhs.

(ii) Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ₹10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.



(iii) The term "seller" includes inter alia, an individual who is liable to audit as per the provisions of section 44AB during the financial year immediately preceding the financial year in which the motor vehicle is sold. Thus, an individual shall be liable for collection of tax at source on sale of motor vehicle by him.

(iv) TCS on sale of motor vehicle is applicable on all transactions of retail sales only. Accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Question 3

PYQ Nov 20

Briefly explain the provisions relating to tax deduction at source on cash withdrawal under section 194N of the Income-tax Act, 1961.

4 Marks

Answer:

(1) Section 194N, inserted with effect from 1.9.2019, requires that every person, being

- a banking company
- a co-operative society engaged in carrying on the business of banking or
- a post office

who is responsible for paying any sum or aggregate of sums in cash exceeding ` 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source @2% of sum exceeding ` 1 crore.

(2) This deduction is to be made at the time of payment of such sum.

(3) Liability to deduct tax at source under section 194N shall not be applicable to any payment made to -

- the Government
- any banking company or co-operative society engaged in carrying on the business of banking or a post-office
- any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking
- any white label ATM operator of a banking company or co-operative society engaged in carrying on the business of banking
- such other person or class of persons notified by the Central Government in consultation with the RBI.

Question 4

RTP May '18

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2017-18:

(v) Income of 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.

(vi) Income from other sources ₹2,70,000.

(vii) Tax deducted at source ₹25,000.

(viii) Advance tax paid ₹1,03,000 during the P.Y. 2017-18. Return of income filed on 11-12-2018. Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income



would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case.

Answer:

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

Particulars	₹
Tax on total income of 10,80,000 [Business income of 8,10,000 + Income from other sources of ₹2,70,000]	1,36,500
Add: Education cess and SHEC@3% (4% as per amendment)	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹1,03,000 paid is less than ₹1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2018 to 11th December, 2018, being the date of processing of return. Interest under section 234B@1% per month or part of a month for 9 months on 13,900 [i.e., difference between assessed tax of ₹1,16,960 and advance tax of 1,03,000 paid, being ₹13,960 which is rounded off to 13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

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

Since Mr. Sachal's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2018-19, in his case, is 30.09.2018. Mr. Sachal has filed his return on 11.12.2018 i.e., interest under section 234A will be payable for 3 months (from 1.10.2018 to 11.12.2018) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., 13,960 rounded off to 13,900 under Rule 119A of Income-tax Rules, 1962.

Interest u/s 234A = ₹13,900 × 1% × 3 = ₹417

Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2018 and his total income exceeds 5 lakhs, a fee of ₹5,000 will be payable by him.

All figures have been changed as EC & SHEC is taken at 4 %.



Question 5

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act in respect of the following payments:

- (i) ₹51,000 paid to Mr. A, a resident individual as interest income on compensation awarded by the Motor Accidents Claims Tribunal by a transport company.
- (ii) Ms. Asha deposited ₹35,00,000 @10% p.a. on 1.7.2021 with ABC Cooperative bank limited.
- (iii) Mr. Naresh won ₹15,00,000 in Kon Banega Crorepati Mr. Avinash deposited ₹2,00,000 @11% p.a. on 1.5.2021 for half year with Hike Investment LLP.

8 Marks**Answer:**

(i) Tax has to be deducted at source by the transport company @10% under section 194A on payment of ₹51,000 made to Mr. A, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company, since the interest paid exceeds the specified threshold of ₹50,000. Tax to be deducted = ₹51,000 × 10% = ₹5,100

(ii) Tax has to be deducted at source by the ABC Co-operative Bank @10% under section 194A on interest of ₹2,62,500 [35,00,000 × 10% p.a. × 9/12] on deposits made by Ms. Asha, since the same exceeds the specified threshold of 40,000. Tax to be deducted = 2,62,500 × 10% = ₹26,250

(iii) Tax has to be deducted @30% under section 194B on payment of ₹15,00,000 made to Mr. Naresh for winnings in Kon Banega Crorepati. Tax to be deducted = ₹15,00,000 × 30% = ₹4,50,000

(iv) Tax has to be deducted at source by Hike Investment LLP @10% under section 194A on interest of ₹11,000 [₹2,00,000 × 11% × 6/12] on deposits made by Mr. Avinash, since the same exceeds the specified threshold of ₹5,000. Tax to be deducted = ₹11,000 × 10% = ₹1,100.

Question 6**MTP March'18**

Explain the concept of TCS. Also, list the persons specifically excluded from the definition of buyer, consequent to which tax collection at source under section 206C (1) is not required on sale of timber and other forest produce to such persons.

6 Marks**Answer:**

TCS is tax collection at source. Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. Moreover, person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is also responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding 10 lakhs, tax collection at source is required at the time of receipt of sale consideration. Buyer is a person who obtains in any sale, by way of auction, tender, or any other mode, goods including timber and other forest produce but does not include -



(A) A public sector company, the Central Government, a State Government, and an embassy, a high commission, legation, commission, consulate and the trade representation, of a foreign State and a club, or

(B) A buyer in the retail sale of such goods purchased by him for personal consumption.

Question 7

MTP March 19

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2021-22:

(1) Payment of ₹27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2021 for contribution of articles in relation to the sport of cricket.

(2) Payment made by a company to Mr. Ram, sub-contractor, ₹3,00,000 with outstanding balance of ₹1,20,000 shown in the books as on 31-03-2022.

(3) Winning from the horse race ₹1,50,000 paid to Mr. Shyam, an Indian resident.

(4) 2,00,000 paid to Mr. A, a resident individual, on 22-02-2022 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

4 Marks

Answer:

(1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @ 20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @ 4% on TDS should also be added. Therefore, tax to be deducted = ₹27,000 × 20.80% = 5,616.

(2) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is ₹4,20,000, tax is deductible @ 1% on 4,20,000. Tax to be deducted = 4,20,000 × 1% = 4,200

(3) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹10,000. The rate of deduction of tax at source is 30%. Hence, tax to be deducted = 1,50,000 × 30% = ₹45,000.

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

Question 8

MTP Oct'21

Mr. Jay is having total income of ₹6,90,000 during the P.Y. 2020-21 consisting of Income from business of ₹40,000, lottery winnings (gross) ₹5,60,000, income by way of salary



(computed) ₹1,20,000 and loss from house property 30,000. Compute his tax liability and advance tax obligations for A.Y. 2021-22.

4 Marks

Answer:

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2021-22

Particulars	RS
Income from salary (computed) 1,20,000	
Less: Set-off loss from house property (30,000)	90,000
Loss from house property 30,000	
Less: Set-off against salary income (30,000)	-
Income from business	40,000
Lottery winning	5,60,00 0
Total Income	6,90,00 0
Tax liability	
Tax @30% on lottery income	1,68,00 0
Tax on other income of ₹1,30,000 (Nil, since it does not exceed the basic exemption limit of ₹2,50,000)	-
	1,68,000
Add: Health and education cess@4%	6,720
Total tax liability	1,74,720
Less: TDS on lottery income under section 194B	1,68,000
Net tax payable	6,720
<i>Since tax payable for the P.Y. 2020-21 is less than ₹10,000, Mr. Jay is not liable to pay advance tax.</i>	

Question 9

MTP Oct'19

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2018- 19:

- (i) Rs. 2,00,000 paid to Mr. Aarav, a resident individual, on 18-05-2018 by the State of Bihar on compulsory acquisition of his urban land.
- (ii) Payment of Rs. 2,00,000 to Mr. Rakesh a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN.

4 Marks

Answer:

(i) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000. In the given case, there is no liability to deduct tax at source as the payment made to Mr. Aarav does not exceed Rs. 2,50,000

(ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;



(3) He furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Rakesh has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on Rs. 2,00,000, since the same exceeds the threshold limit of Rs. 1,00,000. Tax deducted at source = Rs. 40,000 (Rs. 2,00,000 x 20%)

Question 10

MTP April'19

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2018- 19:

(i) On 1.6.2018, Mr. Gyaneshwar made three nine-month fixed deposits of ₹1 lakh each carrying interest@9% with Laxmi Nagar Branch, Mayur Vihar Branch and Rohini Branch of ABC Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2019.

(ii) Sky TV, a television channel, made payment of ₹70 lakhs to a production house ABC Ltd. for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Sky T V. **4 Marks**

Answer:

(i) ABC Bank has to deduct tax at source@10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs. 20,250 [$1,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of 10,000 Since ABC Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs. 20,250 exceeds the threshold limit of Rs. 10,000, tax has to be deducted@10% under section 194A. Tax to be deducted = Rs. 20,250 x 10% = Rs. 2,025

(As per amendment w.e.f 1.4.2019 the threshold limit is Rs. 40,000 if paid by a Bank. In case of Bank opting for CBS, the Limit of Rs. 40,000 will not be per branch but per bank). Hence the revised Answer would be that TDS will not be applicable.

(ii) In this case, since the programme is produced by the production house ABC Ltd. as per the specifications given by Sky TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹70 lakhs made by Sky TV to the production house ABC Ltd. would be subject to tax deduction at source under section 194C. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 2% if the payment is made to a person other than an individual or HUF. Therefore, tax to be deducted = Rs.70 lakhs x 2% = Rs.1,40,000.

Question 11

MTP Mar'18

Examine the applicability of tax deduction at source provisions, the rates and amount of tax deduction in the following cases for the A.Y. 2018-19

(i) Ramesh gave a building on sub-lease to Mac Ltd. with effect from 1st July, 2017 on a rent of ₹15,000 per month. The company also took on the hire machinery from Ramesh with



effect from 1st November, 2017 on hire charges of ₹10,000 per month. The rent of building and hire charges of machinery for the year ended 2017-18 were credited by the company to the account of Ramesh in its books of account on 31-3-2018.

(ii) 2,45,000 paid to Mr. X on 1-2-2018 by Karnataka State Government on compulsory acquisition of his urban land. 4 Marks

Answer:

I. TDS on rent for building and machinery: Tax is deductible on rent under section 194-I, if the aggregate amount of rental income paid or credited to a person exceeds 1,80,000. Rent includes payment for use of, inter alia, building and machinery. The aggregate payment made by Mac Ltd. to Ramesh towards rent in P.Y. 2017-18 is 1,85,000 (i.e., 1,35,000 for building and 50,000 for machinery). Hence, Mac Ltd. has to deduct tax @10% on rent paid for building and tax @2% on rent paid for machinery. Tax to be deducted = ₹14,500 (i.e., $1,35,000 \times 10\% = 13,500 + 50,000 \times 2\% = 1,000$)

II. TDS on compensation for compulsory acquisition: Tax is deductible at source @10% under section 194LA, where payment is made to a resident as compensation or enhanced compensation on compulsory acquisition of any immovable property (other than agricultural land). However, no tax deduction is required if the aggregate payments in a year does not exceed ₹2,50,000. Therefore, no tax is required to be deducted at source on payment of ₹2,45,000 to Mr. X, since the aggregate payment does not exceed 2,50,000.

Question 12

MTP Mar'22

Examine TDS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS is required to be deducted:

(i) Mrinal & Sons, a LLP withdrew from its bank account 40 lakhs by cash on 1.5.2021, 35 lakhs on 7.9.2021 and 55 lakhs on 28.2.2022. The purpose of withdrawal from bank was for buying agricultural produce, from farmers/ agriculturist, being raw material required for manufacture of finished products by it. Mrinal & Sons regularly files its return of income before the due date.

(ii) Mr. Mukesh, aged 75 years, holds $6\frac{1}{2}$ Gold Bonds, 1977 of 2,50,000 and 7% Gold Bonds of 3,50,000. He received interest on these bonds on 31.1.2022. 4 Marks

Answer:

(i) Mrinal & Sons has withdrawn aggregate cash of 1.30 crores during the previous year 2021-22. Since aggregate amount cash withdrawals exceed 1 crore, bank is required deducted tax at source @2% on the amount exceeding 1 crore i.e., 30 lakhs though he withdraws the same for buying agricultural produce from farmers, agriculturists, being raw material required for manufacture of finished products by it. TDS = 2% of 30 lakhs = 60,000

(ii) Tax @10% under section 193 is to be deducted on interest on $6\frac{1}{2}$ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Mukesh i.e., 6,00,000 exceed 10,000.

Interest on $6\frac{1}{2}$ Gold Bonds, 1977 = $2,50,000 \times 6.5\% = 16,250$ Interest on 7% Gold Bonds

1980 = $3,50,000 \times 7\% = 24,500$ Tax to be deducted at source = $40,750 \times 10\% = 4,075$



Question 13

PYQ Dec '21, MTP March'23

State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2022- 23 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) Mr. Amar has paid 6,00,000 on 15.10.2022 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of 3 crores during the previous year 2022-23.
- (ii) Mr. Ramu, a salaried individual, has paid rent of 60,000 per month to Mr. Shiv Kumar from 1st July, 2022 to 31st March, 2023. Mr. Shiv Kumar has not furnished his Permanent Account Number.

4 Marks**Answer:****TDS implications**

(i) The arrangement between Mr. Amar, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of 6 lakh paid by Mr. Amar to the cold storage company. Accordingly, tax has to be deducted @2% on 6 lakh. TDS u/s 194C = 2% x 6 lakh = 12,000

(ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 5% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2023), since the rent paid by him exceeds 50,000 p.m. Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 5%. However, the same cannot exceed 60,000, being rent for March, 2023. TDS u/s 194-IB = 60,000 (60,000 x 9) x 20% = 1,08,000, but restricted to 60,000, being rent for March, 2023.

Question 14

RTP Nov'18

Shurya Bank Ltd., a banking company to which the Banking Regulations Act, 1949 applies, has paid interest of ₹7,000 to Mr. Bhuwan, a resident Indian, from its Lucknow branch and ₹8,000 from Kanpur branch. If the bank has not adopted core banking solutions, is tax required to be deducted at source from such interest payments made on 31 -3-2018? Examine the provisions of the Income Tax Act, 1961 in this regard. Will your Answer be different if the bank has adopted core banking solutions?

Answer:

Tax is deductible @10% under section 194A in respect of interest credited or paid by a banking company, if the same exceeds ₹10,000. This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of ₹10,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank. Therefore, if Shurya Bank Ltd. has not adopted core banking solutions, it need not deduct



tax on interest of ₹7,000 and ₹8,000 paid by its Lucknow Branch and Kanpur Branch, respectively, to Mr. Bhuwan, since the interest paid by each branch does not exceed ₹10,000.

However, if Shaurya Bank Ltd. has adopted core banking solutions, it has to deduct tax at source @10% on ₹15,000 (₹7,000 + ₹8,000) under section 194A, since the aggregate interest paid by its Lucknow and Kanpur branches exceed ₹10,000.

(As per amendment w.e.f 1.4.2019 the threshold limit is Rs. 40,000 if paid by a Bank. In case of Bank opting for CBS, the Limit of Rs. 40,000 will not be per branch but per bank). Hence the revised Answer would be that TDS will not be applicable.

Question 15

RTP Nov'18

Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2017-18

Estimated tax liability for the financial year 2017-18	85,000
Tax deducted at source for this year	15,000

(i) Would your Answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?

(ii) What would be your Answer if, instead of section 44AD, he is eligible for and has opted for presumptive tax provisions under section 44AE?

Answer:

Determination of Advance Tax Liability of Mr. Shikhar

Particulars	RS
Estimated tax liability for the financial year 2017-18	85,000
Less: Tax deducted at source	15,000
Tax payable	70,000

Due Date of installment	Amount payable	RS
On or before 15th June, 2017	Not less than 15% of advance tax liability	10,500
On or before 15th September, 2017	Not less than 45% of advance tax liability less amount paid in earlier installment	21,000 (31,500, being 45% of 70,000 - 10,500)
On or before 15th December, 2017	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	21,000 (52,500, being 60% of 70,000 - 31,500)
On or before 15th March, 2018	Whole of the advance tax liability less amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹70,000 - ₹52,500)

Question 16

PYQ Nov'22

Ms. Priya, aged 61 years, has total income of ₹7,50,000, including income from profession, for A.Y. 2022-23, and has paid advance tax of ₹10,000 on 13.12.2021. She has filed her



return of income on 15.06.2022. Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any, by Ms. Priya. 4 Marks

Answer:

Self assessment tax payable [It is assumed Ms. Priya is not opting for section 115BAC] [See Note and Alternative thereto]	
Tax on 7,50,000	RS
Upto 3,00,000	Nil
3,00,001 - 5,00,000 @5%	10,000
5,00,001 - 7,50,000 @20%	50,000
	60,000
Add: Health and education cess @4%	2,400
	62,400
Less: Advance tax	10,000
Tax payable	52,400
Add: Interest under section 234A [Interest under section 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2022 which is before the due date of filing return of income]	-
Add: Interest under section 234B would be levied on 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to 1,572	1,572
Add: Interest under section 234C	2,747

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest 100, ignoring fraction)	Period	Interest @ 1%
15 th June 2021	15%	9,300 [15% of 62,400]	3 months	279
15 th September 2021	45%	28,000 [45% of 62,400]	3 months	840
15 th December 2021	75%	36,800 [(75% of 62,400) - 10,000]	3 months	1104
15 th March 2022	100%	52,400	1 month	524

Total interest under section 234C	2,747
Self assessment tax payable and interest thereon	56,719
Self assessment tax payable and interest thereon (rounded off)	56,720

Note - The question does not mention that Ms. Priya has opted for section 115BAC, in which case the total income given therein would be as per the regular provisions of the Act. The main solution has been worked out accordingly as per the regular provisions of the Act.

Since there is no mention of Chapter VI-A or other deductions claimed by her, it is possible to assume that she has not claimed any such deduction, in which case, it would be beneficial for



her to opt for section 115BAC. Based on the assumption that she has opted for section 115BAC and the total income given in the question reflects the computation accordingly, the alternative answer would be as follows:

Self assessment tax payable [It is assumed Ms. Priya is not opting for section 115BAC] [See Note and Alternative thereto]	
Tax on 7,50,000	RS
Upto 2,50,000 [not eligible for higher basic exemption limit]	Nil
2,50,001 - 5,00,000 @5%	12,500
5,00,001 - 7,50,000 @10%	25,000
	37,500
Add: Health and education cess @4%	1,500
	39,000
Less: Advance tax	10,000
Tax payable	29,000
Add: Interest under section 234A [Interest under section 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2022 which is before the due date of filing return of income]	-
Add: Interest under section 234B would be levied on 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to 1,572	870
Add: Interest under section 234C	1,565

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹100, ignoring fraction)	Period	Interest @ 1%
15 th June 2021	15%	5,800 [15% of 39,000]	3 months	174
15 th September 2021	45%	17,500 [45% of 39,000]	3 months	525
15 th December 2021	75%	19,200 [(75% of 39,000) - 10,000]	3 months	576
15 th March 2022	100%	29,000	1 month	290

Total interest under section 234C	1,565
Self assessment tax payable and interest thereon	31,435
Self assessment tax payable and interest thereon (rounded off)	31,440

Question 17

CS Exec. Dec 2018

State the rate of tax deductible or collectible at source under the provisions of the Income-tax Act, 1961 in respect of the following transactions:

- Sale of scrap by a manufacturing company for ₹ 2 lakhs;
- Sale of motor car by an authorized dealer and the price of car is ₹ 8,90,000.



- (iii) Monthly rent paid by a partnership firm to a resident partner ₹ 1,90,000.
 (iv) Commission paid by a company for purchase of machine to agent X & Co. ₹ 10,000.
 (v) Interest paid by Lalwani & Co. (firm) to Ravi (a resident) ₹ 7,000.

5 Marks

Answer:

- (i) On sale of scrap, Tax is collectible at source 'TCS' @ 1% u/s 206C of the Income-tax Act, 1961.
 (ii) Sale of Motor Car is liable for Tax Collection at Source (TCS) only when sale consideration exceeds ₹ 10 Lakhs. In this case the sale consideration is ₹ 8.90 Lakhs and therefore no TCS is attracted.
 (iii) In case Partnership Firm pays rent exceeding ₹ 1.80 Lakhs, it is liable for tax deduction u/s 194-I of the Income-tax Act, 1961 @10% irrespective of the fact that the payment is made to partner or outsider. In the present situation the payment made is ₹ 1,90,000 that exceeds the threshold limit ₹ 1,80,000, therefore TDS provision u/s 194-I of the Income-tax Act, 1961 is attracted and is liable for TDS @10%.
 (iv) As per section 194H of the Income-tax Act, 1961 commission paid by a company is liable for tax deduction when the commission payments exceed ₹ 15,000. As the payment made i.e. ₹ 10,000 is below the threshold limit i.e. ₹ 15,000, TDS provision contained in section 194H of the Income Tax Act, 1961 is not attracted.
 (v) Interest paid by the partnership firm exceeding ₹ 5,000 is liable for TDS @10% u/s 194A of the Income-tax Act, 1961. Therefore, interest paid by Lalwani & Company (Firm) to Ravi (A Resident) ₹ 7,000 is liable for tax deduction at source TDS as the payment exceeds the threshold limit.

Question 18

CS Exec. Dec 2023

Examine the applicability of tax deduction at source provision, the rate and amount of TDS in the independent following cases for the assessment year 2024-25 under the Income-tax Act, 1961. Assume

that all payments are made to residents:

- (a) Payment made by a company to Shanti Lal, sub-contractor, ₹ 3,50,000 with outstanding balance of ₹ 1,50,000 shown in the books as on 31st March, 2024.
 (b) Fee Paid on 1st January, 2024 to Dr. Bhanawat by Kishan (HUF) ₹ 40,000 for surgery performed on a member of the family.
 (c) Dhanpal wished to purchase a residential house costing ₹ 60,00,000 from Priya. The house is situated at Mumbai. Both the buyers as well as the sellers are residents in India.
 (d) Arun has paid ₹ 5,00,000 on 12th October, 2023 to Cool Cold Storage Private Limited for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits and vegetable in India having turnover of ₹ 4 crore during the previous year 2023-24.
 (e) Ravi, a salaried individual, has paid rent of ₹ 65,000 per month to Rajiv from 1st August, 2023 to 31st March, 2024. Rajiv has not furnished his Permanent Account Number.

5 Marks

Answer:

- (a) Under section 194C, the company has to deduct tax at source (TDS)@1% on ₹ 5,00,000 amounting to ₹ 5,000.
 (b) Fees paid to doctor by HUF for Surgery performed on a member of HUF is not



subject to TDS.

(c) TDS is applicable on actually performed transactions. In the instant case, it is only wish. Hence TDS does not arise.

(d) Under section 194C, TDS is applicable @2% on ₹ 5,00,000 amounting to ₹ 10,000.

(e) Under section 194-IB, TDS is applicable @20% on ₹ 5,20,000, due to not furnishing of Permanent Account Number, amounting to ₹ 1,04,000.

Difficulty

Question 1

PYQ May 23

Answer the following:

(A) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2022, XYZ Ltd., an Indian company manufacturer of electric cars gave her a brand-new car having fair market value of ₹6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.

(B) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him: ₹25,00,000/- on 10th August, 2022 and ₹30,00,000 on 22nd November, 2022. Determine the amount of tax to be deducted/ collected at source, if any.

Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.

(C) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.

7 Marks

Answer:

(i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax@10% of the value of such benefit or perquisite, if the same exceeds ₹ 20,000. However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R. Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.



(ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes. In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹50 lakhs during the P.Y.2022-23. Accordingly, ₹2,75,000, being 5% of ₹55,00,000 [₹25,00,000 + ₹30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ` 1 crore in P.Y. 2021-22], she is not required to deduct tax at source under section 194C. In such case also, she is required to deducted tax at source of ` 2,75,000 under section 194M.

Note - In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds ` 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds ` 1 crore but does not exceed ` 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds ` 1 crore but does not exceed ` 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds ` 1 crore.

Alternative answer - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2021-22, she would be required to deduct tax at source @1% under section 194C amounting to ` 55,000 (since payment is made to Mr. Suresh, an individual) of ` 55,00,000.

(iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source @2% on ` 7,20,000 [` 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ` 60,000 paid every month exceeds the threshold of ` 30,000. Therefore, nationalised bank is required to deduct tax at source of ` 1,200 per month amounting to ` 14,400 for the year.

Question 2

PYQ July 21

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents

S. NO.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2020- 21 (Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2020 for reconstruction of his	52,50,000



		residential house in Arunachal Pradesh	
(B)	Mr. Rahul, a wholesale trader of spices whose turnover was ₹5 crores F.Y. 2019-20	Contract payment for construction of office go down during January to March 2021 to Mr. Achilles, an individual	50,00,000
(C)	Mr. Golu, an individual carrying garment trading business with turnover of ₹95 lakhs in F.Y. 2019-2020	Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2020	1,20,000
(D)	XYZ Urban Cooperative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹1.2 crores during Financial Year 2020-21. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

8 Marks

Answer:

(i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹50,00,000. Therefore, TDS u/s 194M would be = ₹52,50,000 × 5% = ₹2,62,500.

(ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2019-20, being the financial year immediately preceding F.Y.2020-21 in which such sum is paid, exceeds ₹1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual. However, since payment is made during the period 14.05.2020 and 31.3.2021, tax is to be deducted at the reduced rate of 0.75%. Therefore, TDS u/s 194C would be = ₹50,00,000 × 0.75% = ₹37,500

(iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹50 lakhs

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2020 -21 since his turnover from his business does not exceed ₹1 crore during the P.Y. 2019-20. Further, Mr. Golu is also not required to deduct tax at source u/s 194 M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹50 lakhs during the P.Y. 2020-21.



(iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ` 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹1 crore (₹1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y.2020-21, the bank is required deduct tax at source @ 2% of such sum. Therefore, TDS u/s 194N would be = ₹20,00,000 × 2% = ₹40,000.

Question 3

RTP May '21, MTP Sep '23, MTP1 Sept' 24

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

(i) Mr. Kunal received a sum of ₹10,20,000 on 28.02.2021 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) Indian Bank sanctioned and disbursed a loan of ₹12 crores to B Ltd. on 31-12- 2020. B Ltd. paid a sum of ₹1,20,000 as service fee to Indian Bank for processing the loan application.

(iii) Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2020 to February, 2021) at Mumbai where he pays a monthly house rent of ₹32,000 for those five months, totalling to ₹1,60,000. Rent is paid by him on the first day of the relevant month.

(b) Mr. Subhash engaged in the business of trading of electrical appliances. His turnover for F.Y. 2019-20 and F.Y. 2020-21 was ₹12 crore and 9.5 crore, respectively. During the previous year, XYZ Ltd. placed order for purchase of electric appliances for ₹55 lakhs on 01.08.2020. He again placed order for 35 lakhs on 01.11.2020. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.

8 Marks**Answer:****(a) TDS implications**

(i) On pre-mature withdrawal from EPF No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% under section 194-IB on ₹1,60,000 (being rent for 5 months from October 2020 to February 2021) from the rent of ₹32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹50,000.



(b) As per section 206(1H), tax is required to be collected at source @0.1% (@0.075%, if payment is received during the period between 14.5.2020 to 31.3.2021) on the sale consideration exceeding ₹50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds ₹10 crore during the financial year immediately preceding the financial year in which sale of goods is carried out. Since, section 206C(1H) is applicable w.e.f.1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of ₹50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Since the threshold of ₹50 lakhs is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under section 206C(1H) shall be computed from 1st April, 2020. Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding ₹50 lakhs, TCS is required to be collected at source @0.075%, on amount of 35 lakhs, being the amount of consideration received after 01.10.2020.

Question 4

RTP May 19

Mr. Narayan is engaged in the retail business of groceries. During the previous year 2018-19 his turnover was ₹1.65 crores. Out of this, receipt of ₹1.30 crore represents online transactions and 35 lakhs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax?

Answer:

Computation of advance tax liability in the hands of Mr. Narayan opting for presumptive taxation scheme under section 44AD

Particulars	RS
As per section 211, an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year. Thus, Mr. Narayan is required to pay advance tax by 15th of March 2019. However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during that financial year on or before 15th March.	
The advance tax liability is computed as follows -	
Business Income	
8% of ₹35,00,000	2,80,000
6% of ₹1,30,00,000	7,80,000
	10,60,000
In respect of the amount of turnover received by account payee cheque/bank draft or use of ECS through a bank account, the assessee can declare 6% (instead of 8%) of such turnover as presumptive income under section 44AD.	



Since Mr. Narayan does not have any other income during the previous year 2018-19, business income would be the total income.		
Tax liability		
Upto ₹2,50,000	Nil	
2,50,001 to 5,00,000 @5%	12,500	
5,00,001 to 10,00,000 @20%	1,00,000	
Above 10,00,001 @30%	18,000	1,30,500
Add: Health and Education cess @ 4%		5,220
Total Tax Payable		1,35,720
Mr. Narayan is required pay ₹1,35,720 as minimum amount of advance tax by 15th March 2019.		

Question 5

MTP May'20

Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2020

- (a) State Bank of India pays Rs.50,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (b) Karan, a part time director of ABC Pvt. Ltd. was paid an amount of Rs. 1,75,000 as fees which was actually in the nature of commission on sales for the period 1.6.2019 to 30.9.2019.
- (c) Fee paid on 1.11.2019 to Dr. Kashyap by Varun (HUF) Rs. 5,00,000 for surgery performed on a member of his family.
- (d) Payment of Rs. 1,50,000 made to John Cena, an American wrestler, by an Indian newspaper agency on 1.8.2019 for contribution of articles in relation to the spot of wrestling. 7 Marks

Answer:

a. Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding Rs.2,40,000 p.a., is applicable to all persons except individuals and HUFs whose turnover/gross receipts do not exceed the monetary limits specified under 44AB(a)/(b). Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source. Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

b. Section 194J provides for deduction of tax at source @10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under section 194J @10% by ABC Pvt. Ltd. on the commission of Rs.1,75,000 paid to Karan, a part-time director. The tax deductible under section 194J would be Rs. 17,500, being 10% of Rs.1,75,000.

c. As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed Rs. 1 crore or Rs. 50 lakhs, as the case may be, in the financial



year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds Rs. 50 lakhs during the financial year. In the given case, the fees for professional service to Dr. Kashyap is paid on 1.11.2019 for personal purpose, therefore, section 194 M would have been applicable if the payment or aggregate of payments exceeded Rs. 50 lakhs in the P.Y.2019-20. However, since the payment does not exceed Rs. 50 lakhs in this case, there is no liability to deduct tax at source under section 194M.

d. Section 194E provides that the person responsible for paying of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @20%. Further, since, John Cena, an American wrestler, is a non-resident, Health and education ches @4% on TDS should also be added. Therefore, tax to be deducted = Rs. 1,50,0000 × 20.80% = Rs. 31,200.

Question 6

MTP April'21, PYQ May '19

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

(i) Ms. Sarla received a sum of Rs. 92,000 on 30th September 2020 towards maturity proceeds of LIC taken on 1st October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.

(ii) Mr. Rohit transferred a residential house property to Mr. Arun for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.

(iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2020-21:

(1) Rs. 22,000 towards fee for professional services

(2) Rs. 18,000 towards royalty.

(iv) Payment of Rs. 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.

(v) ABC Private Limited pays Rs. 12,000 to Ms. Deepika, its director, on 1.5.2020 towards sitting fee which is not taxable u/s 192.

(vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call center. On 18-03-2021, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2021 by Jigar Limited.

(vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

Answer:

7 Marks

VG Sir



(i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

(ii) **On payment of sale consideration for purchase of residential house property** - Since the sale consideration of house property is less than Rs. 50 lakhs, Mr. Arun is not required to deduct tax at source u/s 194-IA, irrespective of the fact that the stamp duty value is more than the sale consideration as well as the threshold limit of Rs. 50 lakhs.

(iii) **On payment of fee for professional services and royalty** - Under section 194J, the threshold limit of Rs. 30,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold Rs. 30,000 specified thereunder.

(iv) **On payment for purchase of bag according to specifications** - As per section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b). Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for 'sale' and not a works contract.

(v) **On payment of sitting fees to the director** - ABC Private Limited is required to deduct tax at source @10% on sitting fees of Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a 1 In the alternative, an individual can be treated as not ordinarily resident if she is nonresident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2020-21 and never visited India earlier director of a company.

(vi) **On payment of call center service charges** - Since Rashi Limited is engaged only in the business of operation of call center, Jigar Limited is required deduct tax at source@1.5% on the amount of Rs. 70,000 u/s 194J on 18.3.2021 i.e., at the time of credit of call center service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2021.

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



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

Question 7

MTP Oct'18

Examine the applicability of TDS provisions, if any, to be deducted in the following cases:

- (i) ABC Ltd. paid Rs. 19,000 to one of its directors as sitting fees on 1-01-2018.
- (ii) Payment made by a firm to a sub-contractor, Mr. Y, Rs.3,00,000 with outstanding balance of Rs.1,20,000 shown in the books as on 31-03-2018.
- (iii) Fee paid to Dr. Khanna by Mr. A (HUF) Rs. 40,000 for surgery performed on a member of the family.

6 Marks

Answer:

(i) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 up to which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director. Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of Rs. 19,000 paid by ABC Ltd. to its director.

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

(iii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year. However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax at source is not attracted.

Therefore, in the given case, even if Mr. A (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Khanna is paid for a personal purpose i.e. the surgery of a member of the family.

Question 8

RTP May 20

Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2019. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2018-19 as under:

- (i) Retail Toy business, whose turnover is 185 lakhs [received 90 lakhs by Account payee cheque, 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.



- (ii) Income from other sources ₹3,05,000.
 (iii) Tax deducted at source ₹55,000.
 (iv) Advance tax paid ₹1,45,000 on 14-3-2019.
 (v) Calculate the interest payable under section 234B of the income-tax Act, 1961.

Answer:

Computation of interest payable under section 234B by Mr. Chandra Prakash

Particulars	RS
Tax on total income of 15,05,000 [Business income of 12,00,000 (See Note below) + Income from other sources of 3,05,000]	2,64,000
Add: Health and Education cess @4%	10,560
Tax on total income	2,74,560
Less: Tax deducted at source	55,000
Assessed Tax	2,19,560
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2019	1,45,000
Interest under section 234B is leviable since advance tax of 1,45,000 paid is less than 1,97,604, being 90% of assessed tax	
Number of months from 1st April, 2019 to 15th December, 2019, being the date of payment of self-assessment tax	
Interest under section 234B@1% per month or part of a month for 9 months on 74,500 [i.e., difference between assessed tax of 2,19,560 and advance tax of 1,45,000 paid being 74,560 which is rounded off to 74,500] Interest under section 234B rounded off	6,705
	6,710

Note: The presumptive income computed under section 44AD would be 12 lakhs, being 8% of 45 lakhs and 6% of 140 lakhs.

Rounded off under Rule 119A of Income-tax Rules, 1962

Question 9

RTP Nov 22

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2021 and charged 8 crores for the lease. ABC Co. Ltd. sold coal for 2 crores to Mah Power Ltd., another Indian company, during the previous year 2021-22. Maha Power Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2020-21 amounted to 11 crores and 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any?

Answer:

Section 206C(1C) provides for collection of tax @2% by every person who grants a lease in any



mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Government of Madhya Pradesh is required to collect tax at source of ₹16,00,000, being 2% on 8 crores, being the charges for lease of coal mine.

Under section 206C (1), seller of certain goods, inter alia, coal is required to collect tax from the buyers @1%. However, no collection would be made under section 206C(1), in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power.

In the present case, ABC Co. Ltd. is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd. since Mahapower Ltd. has furnished a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power.

As per section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered under section 206C(1). In case of goods which are covered under section 206C(1) but exempted under section 206C(1A), tax will not be collectible under either section 206C(1) or section 206C(1H).

Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding 50 lakhs in any previous year, to deduct tax @0.1% of such sum exceeding 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C [except under section 206C(1H)]. Buyer means a person whose turnover from the business carried on by him exceeds 10 crores during the financial year preceding the financial year in which goods are purchased.

In this case, since Mahapower Ltd.'s turnover for P.Y. 2020 -21 exceeds 10 crores, it is a buyer as per section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd., the provisions of section 194Q would apply and Mahapower Ltd. is required to deduct tax of 15,000 under section 194Q, being 0.1% of 1.5 crores, being the sum exceeding 50 lakhs.

Question 10

PYQ Jan'21

Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.

- (i) On 1.5.2019, Mr. Brines made three fixed deposits of nine months each of ` 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2020.
- (ii) Mr. Marwah, aged 80 years, holds 6½% Gold Bonds, 1977 of ` 2,00,000 and 7% Gold Bonds 1980 of ₹3,00,000. He received yearly interest on these bonds on 28.02.2020.
- (iii) M/s AG Pvt. Ltd. took a loan of ` 50,00,000 from Mr. Haridas. It credited interest of ₹79,000 payable to Mr. Haridas during the previous year 2019- 20. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2018- 19 and 2019-20.



(iv) Mr. Prabhakar is due to receive ` 6 lakh on 31.3.2020 towards maturity proceeds of LIC policy taken on 1.4.2016, for which the sum assured is ` 5 lakhs and the annual premium is ` 1,40,000.

8 Marks

Answer:

(i) CBZ Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ` 60,750 [$3,00,000 \times 9\% \times 3 \times 9/12$], which exceeds the threshold limit of ` 40,000. Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered. Tax to be deducted at source = ` $60,750 \times 10\% = ` 6,0751$

(ii) Tax @10% under section 193 is to be deducted on interest on $6\frac{1}{2}$ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., ` 5,00,000 exceed ` 10,000. Interest on $6\frac{1}{2}$ Gold Bonds, 1977 = ` $2,00,000 \times 6.5\% = ` 13,000$ Interest on 7% Gold Bonds 1980 = ` $3,00,000 \times 7\% = ` 21,000$ Tax to be deducted at source = ` $34,000 \times 10\% = ` 3,400$

(iii) M/s AG Pvt. Ltd. has to deduct tax at source @10% under section 194A, since the interest on loan payable is ` 79,000 which exceeds the threshold limit of ` 5,000. M/s AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2018-19 and 2019-20. Tax to be deducted at source = ` $79,000 \times 10\% = ` 7,900$

(iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ` 6 lakhs due on 31.3.2020 are not exempt under section 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ` 40,000 [$` 6,00,000$, being maturity proceeds - ` 5,60,000, being the amount of insurance premium paid. Tax to be deducted at source = ` $40,000 \times 5\% = ` 2,000$ Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as $81,000 [3,00,000 \times 9\% \times 3]$ and the tax to be deducted thereon would be $81,000 \times 10\% = 8,100$.

Question 11

PYQ Nov'19

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

(i) Mr. Tendon received a sum of ` 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) A sum of ` 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).

(iii) Ms. Kabul won a lucky draw prize of ` 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.



(iv) Finance Bank Ltd. sanctioned and disbursed a loan of ` 10 crores to Borrower Ltd. on 31-3-2019. Borrower Ltd. paid a sum of ` 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.

(v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2018 to February, 2019) at Hyderabad where he pays a monthly house rent of ` 52,000 for those three months, totaling to ` 1,56,000. Rent is paid by him on the first day of the relevant month.

7 Marks

Answer:

TDS implications

(i) On pre-mature withdrawal from EPF No tax is deductible under section 192A even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On credit of interest on recurring deposit by a banking company Since the interest on recurring deposit credited to the account of Mr. Hasan, a senior citizen, does not exceed ` 50,000 in the P.Y.2018-19, no tax is deductible at source under section 194A.

(iii) On payment of prize winnings of ` 21,000 Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of ` 21,000 payable to the customer, since the winnings exceed ` 10,000.

(iv) On payment of service fee to bank Even though service fee is included in the definition of "interest" as defined under section 2(28A), no tax is deductible at source under section 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.

(v) On payment of rent exceeding ` 50,000 by a salaried individual Mr. Ashok, a salaried individual, is liable to deduct tax at source @5% under section 194-IB on ` 1,56,000 (being rent for 3 months from December 2018 to February 2019) from the rent of ` 52,000 payable on 1st February, 2019, since the monthly rent exceeds ` 50,000.

Question 12

PYP May'22, MTP Oct '23

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2022-23.

(i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2022 by sum of ₹4,90,000 for the sale of product R, made during the month February, 2022. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹60,000 directly to XY on 21st February, 2022.

(ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth



₹26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges. ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2021-22 as under

BILL NO.	DATE	AMOUNT
1	30-04-2021	27,000
57	30-06-2021	25,000
105	30-09-2021	28,000
151	30-12-2021	32,000

6 Marks

Answer:

(i) AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O on 5,50,000 (i.e., 4,90,000 credited on 28.2.2022 plus deemed payment of 60,000 on 21.2.2022, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2022 is facilitated by AB Ltd. through its e-commerce platform. Hence, TDS u/s 194O = 1% on 5,50,000 = 5,500

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

Alternate Answer:

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

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

(iii) In this case, the individual contract payments (through the bills dated 30.4.2021, 30.6.2021 and 30.9.2021) made by ABC LLP to XYZ does not exceed ₹30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2021-22 exceeds ₹1,00,000 (on account of the last payment of ₹32,000, due on 30.12.2021, taking the total from ₹80,000 to ₹1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹1,12,000. Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹1,12,000, from the last payment of ₹32,000 on 30.12.2021. Hence, TDS u/s 194C = ₹2,240



Multiple Choice Questions

Question 1

RTP Nov '23

XYZ Ltd. is engaged in the manufacture of mobile phones with a brand name "JUST SAY". There are five dealers in Delhi and Mumbai to sell "JUST SAY" mobile phones. A Ltd., a dealer in Delhi, receives two mobile phones and X Ltd., a dealer in Mumbai, receives one mobile phone from XYZ Ltd. in January, 2023 on achieving the sales target in the third quarter of 2022-23. The manufacturing cost of each such mobile phone is ₹ 15,000 while the MRP is ₹ 25,000. The price charged from the customers for such mobile phone is after providing 22% discount on MRP. Is XYZ Ltd. liable to deduct tax at source before giving mobile phones to A Ltd. and X Ltd.? And if yes, how much?

- (a) Yes; ₹ 3,900 from A Ltd. and No TDS from X Ltd.
 (b) Yes; ₹ 3,000 from A Ltd. and No TDS from X Ltd.
 (c) Yes; ₹ 5,000 from A Ltd. and ₹ 2,500 from X Ltd.
 (d) Yes; ₹ 3,900 from A Ltd. and ₹ 1,950 from X Ltd

Question 2

RTP May '21

Dr. Sargun, maintained two bank A/c's, one current A/c with Canara Bank for her profession and a Saving Bank A/c with State Bank of India. The following are the details of her withdrawals from these A/c during the previous year 2020-21:

Date of withdrawals	Canara Bank	State Bank of India
25.04.2020	25,00,000	--
27.04.2020	--	15,50,000
31.08.2020	29,00,000	--
01.09.2020	14,20,000	--
05.09.2020	--	14,00,000
07.10.2020	18,21,000	--
11.12.2020	26,23,000	--
12.02.2021	7,56,000	--
25.03.2021	--	16,13,000

She furnished her return of income for the A.Y. 2020-21 and A.Y. 2019-20 on or before the time limit prescribed u/s 139(1). However, for the A.Y. 2018-19 and A.Y. 2017-18, she has furnished her return of income belatedly. Is any tax deductible at source u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank and SBI Bank? If yes, at what rate and what amount?

- (a) TDS is deductible at source on ₹ 33,79,000 @ 5% by Canara Bank and no tax is deductible by SBI.
 (b) TDS is deductible at source on ₹ 20,20,000 @ 5% by Canara Bank and no tax is deductible by SBI.
 (c) TDS is deductible at source on ₹ 20,20,000 @ 2% by Canara Bank and no tax is deductible by SBI.
 (d) TDS is deductible at source on ₹ 75,00,000 @ 5% and on ₹ 20,20,000 @ 2% by Canara Bank and tax is deductible at source @5% on ₹25,63,000 by SBI.



Question 3

RTP Nov'20

An amount of ₹ 40,000 was paid to Mr. X on 1.7.2019 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2020, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2020. The interest chargeable under section 201(1A) would be:

- (a) ₹ 1,080
 (b) ₹ 860
 (c) ₹ 1,620
 (d) ₹ 840

Question 4

MTP March'19

A, a resident individual, is engaged in the business of money lending. For the purpose of lending money to various persons, A borrows money from other persons. As a part of his business, A took a loan from B of an amount of Rs.10 lacs. B is a non-resident. On the said loan, A paid an amount of Rs.1 lac as interest during the P.Y. 2018-19 to B in India. A did not deduct tax at source while crediting/paying the interest amount to B. A is of the view that the amount of Rs.1 lac shall be allowed to him as a deduction under the Income-tax Act, 1961.

Whether A's view is correct?

- a) Correct, interest expenses incurred for business are allowed as deduction u/s 36(1)(iii).
 b) Incorrect, as tax at source has not been deducted by A on the interest amount, full amount of interest of Rs.1 lac shall be disallowed in A.Y. 2019-20.
 c) Incorrect, as tax at source has not been deducted by A on the interest amount, amount of interest of Rs. 30,000 shall be disallowed in A.Y. 2019-20.
 d) Correct, interest expenses incurred for business are allowed as deduction u/s 37(1).

Question 5

MTP March '23

An amount of ₹ 60,000 was paid to Mr. Samar on 1.7.2022 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 75,000 was due to Mr. Samar on 28.02.2023, from which tax @10% (amounting to ₹ 13,500) on the entire amount of ₹ 1,35,000 was deducted and the net amount was paid on the same day to Mr. Samar. However, this tax of ₹ 13,500 was deposited only on 22.6.2023. The interest chargeable under section 201(1A) would be:

- a) ₹ 480
 b) ₹ 1,290
 c) ₹ 1,260
 d) ₹ 810

Question 6

MTP April 22

Mr. Kumar made the following cash withdrawals during the P.Y.2021-22 -

Date	Amount	From
1.6.2021	₹ 70 lakhs	Canara Bank
1.7.2021	₹ 45 lakhs	HDFC
1.8.2021	₹ 50 lakhs	Canara Bank
1.9.2021	₹ 15 lakhs	HDFC
1.10.2021	₹ 60 lakhs	Repc Bank (Co-operative Bank)
1.11.2021	₹ 10 lakhs	SBI
1.12.2021	₹ 10 lakhs	Repc Bank



2.1.2022	₹ 15 lakhs	HDFC
10.1.2022	₹ 15 lakhs	HDFC
20.1.2022	₹ 20 lakhs	Repco Bank
1.2.2022	₹ 15 lakhs	Repco Bank
10.2.2022	₹ 75 lakhs	SBI
20.2.2022	₹ 15 lakhs	HDFC
1.3.2022	₹ 15 lakhs	SBI

Which of the above banks are required to deduct tax at source on cash withdrawals made by Mr. Kumar in the P.Y.2021-22 if he regularly files his return of income?

- Canara Bank & HDFC
- HDFC, SBI & Repco
- HDFC, Repco & Canara Bank
- HDFC & Repco

Question 7

MTP Oct'19

Which of the following details/evidences are required to be furnished by an employee to his/her employer in respect of deduction of interest under the head "Income from house property", when the employer is estimating the total income of the employee for the purpose of tax deduction at source u/s 192?

- Amount of Interest payable or paid
 - Rate of interest payable or paid
 - Name of the lender
 - Address of the lender
 - PAN of the lender
 - TAN of the lender
- (i), (iii), (v)
 - (i), (iii), (iv), (v)
 - (ii), (iv), (v), (vi)
 - (i), (ii)

Question 8

MTP May'20

Mr. Ram acquired a house property at Chennai from Mr. Satyam, a resident, for a consideration of Rs.85 lakhs, on 23.8.2019. On the same day, Mr. Ram made two separate transactions, thereby acquiring an urban plot in Gwalior from Mr. VI pun for a sum of Rs.50 lakhs and rural agricultural land from Mr. Danish for a consideration of Rs.75 lakhs. Which of the following statements are correct?

- No tax deduction at source is required in respect of any of the three payments.
- TDS@1% is attracted on all the three payments.
- TDS@1% on Rs.85 lakhs and Rs.50 lakhs are attracted. No TDS on payment of Rs.75 lakhs for acquisition of rural agricultural land
- TDS@1% on Rs.85 lakhs is attracted. No TDS on payments of Rs.50 lakhs and Rs.75 lakhs.



Question 9

MTP March'21

TPR & Co., a partnership firm selling its product X through the digital facility provided by MKY Limited (an E-commerce operator). MKY Limited has credited in its books of account, the account of TPR & Co. on 31st January, 2021 by sum of Rs. 4,80,000 for the sale of product X made during the month of January 2021. Out of Rs. 4,80,000, it made payment for Rs. 4,00,300 on 3rd February, 2021. Further, Mr. Pawn, who purchased the product X through the facility provided by MKY Limited, has made the payment of sum of Rs. 40,000 directly to TPR & Co. on 15th January, 2021. Which statement is correct regarding requirement of deduction of tax at source by MKY Limited?

- No tax is required to be deducted at source.
- MKY Limited is required to deduct tax at source Rs. 4,800 under section 194C.
- MKY Limited is required to deduct tax at source Rs. 3,900 under section 194O.
- MKY Limited is required to deduct tax at source Rs. 5,200 under section 194O.

Question 10

MTP Oct'21

While deciding liability of an individual to deduct tax on payment of fees for professional services, which of the following is immaterial -

- Amount paid to professional
- Turnover of financial year immediately preceding financial year in which payment made
- Turnover of financial year in which payment is made
- Amount of fees for professional services

Question 11

MTP Nov'21

Mr. Prakash is employed with XYZ Ltd. from 05.11.2017. He resigned on 31.03.2022 and also withdrew a sum of Rs. 55,000, being the accumulated balance of employer's contribution in his EPF Account, on the same date. The tax would be deducted -

- Rs. 500 u/s 192
- Rs. 5,500 u/s 192
- Rs. 4,125 u/s 192A
- Rs. 5,500 u/s 192A

Question 12

MTP Oct'20

Mr. Ajay Sadhu, proprietor of M/s Blue Bird Enterprises having turnover of ₹ 65 lakhs and not subject to tax audit under the Income-tax Act, 1961 during P.Y. 2018-19, has received two bills for payment. The first bill is for ₹ 42,00,000 from Vijay Associates, an advocate and property dealer firm, for his daughter's hearing and ₹ 21,00,000 from same Vijay Associates for brokerage service provided in relation to purchase of one property. Both bills were raised on 21-12-2019 but payment were made in instalments. 1st Instalment of ₹ 5,00,000 as advance was payment on 15 11-2019, 2nd Instalment of ₹ 45,00,000. On 25-03-2020 and balance amount ₹ 13,00,000 on 11-05-2020. Determine the TDS liability for Mr. Ajay Sadhu, if any, for A.Y. 2020-21?

- ₹ 2,50,000
- ₹ 3,15,000
- ₹ 65,000
- Nil



Question 13

MTP May'20

Mr. A has two bank accounts maintained with ICICI Bank and HDFC Bank. From 01.09.2019 till 31.03.2020, Mr. A withdrew the following amounts as cash from both the said accounts; HDFC Bank: Rs.50 Lakh ICICI Bank: Rs.120 Lakh Compute the amount of tax to be deducted at source u/s 194N by HDFC Bank and ICICI Bank, respectively, while making payment in cash to Mr. A.

- Rs.1,00,000 and Rs.2,40,000
- Nil and Rs. 40,000
- Nil and Rs.2,40,000
- Rs. 50,000 and Rs.1,20,000

Question 14

MTP Mar'22

Mr. Jai, a resident Indian aged 60 years, won ₹ 9 lakhs and Mr. Veeru, resident Indian aged 55 years, won ₹ 8 lakhs from lotteries. Tax deductible at source under section 194B was duly deducted. Assuming that this is the only source of income of Mr. Jai and Mr. Veeru for A.Y.2022 -23, are Mr. Jai and Mr. Veeru liable to pay advance tax for that year?

- No, Mr. Jai and Mr. Veeru are not liable to pay advance tax
- Yes, Mr. Jai and Mr. Veeru are liable to pay advance tax
- Mr. Jai is liable to pay advance tax but Mr. Veeru is not liable to pay advance tax
- Mr. Veeru is liable to pay advance tax but Mr. Jai is not liable to pay advance tax

Question 15

MTP Oct'22

Mr. Harish is an interior decorator declaring profits under 44ADA in the P.Y.2021-22 and the earlier previous years. Mr. Harish has to pay brokerage of ₹ 15 lakhs to Mr. Patel, a broker, to buy a residential house, and ₹ 50 lakhs to Mr. Suresh, a contractor for reconstruction of the residential house. Are TDS provisions attracted in the hands of Mr. Harish in respect of the above transactions?

- No; TDS provisions are not attracted in the hands of Mr. Harish in respect of payments to Mr. Patel and Mr. Suresh
- Yes; Mr. Harish has to deduct tax from payment to Mr. Patel and Mr. Suresh
- Mr. Harish does not have to deduct tax on payment to Mr. Patel but has to deduct tax from payment to Mr. Suresh
- Mr. Harish does not have to deduct tax on payment to Mr. Suresh but has to deduct tax from payment to Mr. Patel.

Question 16

MTP Mar'21

Mr. Vyas, aged 80, is a retired government employee. On 15th April 2020, he received the maturity amount of his LIC policy amounting to Rs. 3,50,000. This policy was taken by Mr. Vyas on 1st April 2013 on which the sum assured was Rs. 3,00,000 and the annual premium was Rs. 40,000. His other income comprised of pension amounting to Rs. 85,000. Mr. Vyas furnishes a declaration in Form 15H for non-deduction of tax at source to the insurance company stating that his net tax liability for the year is NIL.

Choose the correct statement from below:

- The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of Rs. 3,500 under section 194DA.



- b) The claim by Vyas is right and insurance company is not required to deduct tax at source.
- c) The insurance company has to deduct tax under section 194DA since declaration in Form 15H cannot be made for tax deduction under section 194DA.
- d) The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of Rs. 1,000 under section 194DA.

Question 17

MTP April'19

Mr. Kabir (a non-resident and aged 70 years) is a retired person, earning rental income of Rs. 45,000 per month from a property located in Mumbai. He is residing in Canada. Apart from rental income, he does not have any other source of income. Is he liable to pay advance tax in India?

- a) Yes, he is liable to pay advance tax in India as he is a non-resident and his tax liability in India exceeds Rs. 10,000.
- b) No, he is not liable to pay advance tax in India as his tax liability in India is less than Rs. 10,000.
- c) No, he is not liable to pay advance tax in India as he is a senior citizen and has no income chargeable
- d) under the head "Profits and gains of business or profession".
- e) Both (b) and (c)

Question 18

RTP May'20

Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2018. He is resident in India during F.Y. 2018-19 and earned salary income of ₹5 lacs (computed). During the year, he earned ₹ 7 lacs from winning of lotteries. Compute his advance tax liability for A.Y. 2019-20:

- a) ₹ 2,20,000 + Cess ₹ 8,800 = ₹2,28,800, being the tax payable on total income of ₹12 lacs
- b) ₹ 2,10,000 + Cess ₹ 8,400 = ₹2,18,400, being the tax payable on lottery income of ₹7 lacs
- c) ₹ 10,000 + Cess ₹400 = ₹ 20,400, being the tax payable on salary income, since tax would have been deducted at source from lottery income.
- d) Nil

Question 19

RTP Nov'20

Mr. Nihar maintains a Savings A/c and a Current A/c in Mera Bank Ltd. The details of withdrawals on various dates during the previous year 2019 -20 are as follows:

Date of Cash withdrawal	Saving Account	Current account
05.04.2019	15,00,000	-
10.05.2019	-	22,00,000
25.06.2019	20,00,000	-
17.07.2019	-	5,00,000
28.10.2019	35,00,000	-
10.11.2019	-	38,00,000
12.12.2019	25,00,000	-

Is Mera Bank Limited required to deduct tax at source on the withdrawals made by Mr. Nihar during the previous year 2019-20? If yes, what would the amount of tax deducted at source?

- a) No, TDS is not required to be deducted as the aggregate cash withdrawal on or after 1.9.2019 does not exceed ₹ 1 crore



- b) No, TDS is not required to be deducted as the cash withdrawal does not exceed ₹ 1 crore neither in saving account nor in current account
- c) TDS of ₹ 60,000 is required to be deducted.
- d) TDS of ₹ 1,20,000 is required to be deducted.

Question 20

RTP Nov'22

Mrs. Kajal, the General Manager of M/s Gold Ltd. was paid a salary ₹ 4,50,000 per month. The above salary includes non-monetary perquisite of ₹ 50,000 per month. As per the terms of employment, tax on non-monetary perquisite is to be borne by M/s Gold Ltd. Mrs. Kajal's contribution towards PPF is ₹ 1,50,000. What would be the amount of tax to be deducted by M/s Gold Ltd. from the salary of Mrs. Kajal if she intimated M/s Gold Ltd. to opt for provisions of section 115BAC for A.Y. 2022-23?

- a) ₹ 13,80,427
- b) ₹ 15,52,980
- c) ₹ 12,54,936
- d) ₹ 13,88,970

Question 21

RTP May'24

Mr. Sunil took an education loan of Rs. 8 lakhs on 1.7.2023 from State Bank of India, Mumbai, for his son's MBA from University of Oxford, UK and remitted the said amount through the same bank, which is an authorised dealer, under the Liberalised Remittance Scheme of RBI (LRS). He, further, remitted Rs. 2 lakhs on 15.10.2023 to his son for his personal expenditure, out of his personal savings, through Bank of India, Mumbai which is also an authorised dealer, under LRS. Mr. Sunil also remitted Rs. 6 lakhs on 28.3.2024, out of his personal savings, under LRS through Union Bank of India, Mumbai, for his sister's medical treatment in London.

Mr. Sunil has furnished undertaking containing the details of earlier remittance to Bank of India and Union Bank of India. What is the amount of tax to be collected from Mr. Sunil in respect of the remittance of amounts to his son and sister?

- (a) TCS@0.5% of Rs. 1 lakh in respect of remittance for son's education; @5% of Rs. 2 lakhs in respect of remittance for son's personal expenditure and 5% of Rs. 6 lakhs in respect of remittance for sister's medical treatment.
- (b) TCS@0.5% of Rs. 1 lakh in respect of remittance for son's education; @20% of Rs. 2 lakhs in respect of remittance for son's personal expenditure and 5% of Rs. 6 lakhs in respect of remittance for sister's medical treatment.
- (c) TCS@0.5% of Rs. 1 lakh in respect of remittance for son's education; no TCS in respect of remittance for son's personal expenditure and sister's medical treatment since each transaction is of less than Rs. 7 lakhs.
- (d) TCS@0.5% of Rs. 1 lakh in respect of remittance for son's education; @5% of Rs. 1 lakh in respect of remittance for sister's medical treatment.

Question 22

CS Exec.

Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 31.3.2024, towards maturity proceeds of LIC policy taken on 1.4.2020, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000. Mr. Z, a resident, is due to receive ₹ 95,000 on 1.10.2023 towards maturity proceeds of LIC policy taken on 1.10.2014 for which the sum assured is ₹ 90,000 and the annual premium is ₹ 10,000.



- (a) Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. X and Mr. Z
- (b) Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. X
- (c) Tax is required to be deducted on income comprised in maturity proceeds payable to Mr. Z
- (d) No tax is required to be deducted on income comprised in maturity proceeds payable to either Mr. X or Mr. Z

Question 23**CS Exec.**

ABC Ltd. wants 400 customized backpacks which will be distributed by the company to its employees on the annual event. ABC Ltd. hires a local vendor for this task and ABC Ltd. informs the local vendor about its specifications for the backpacks. The local vendor procures its own raw material and supplies the required backpacks to the Company. He charges ₹1,00,000 for the backpacks from ABC Ltd. While making payment to the vendor, at what rate ABC Ltd. is required to deduct tax at source?

- (a) 1%
- (b) 2%
- (c) 10%
- (d) No tax is required to be deducted at source.

Question 24**CS Exec.**

Mr. X, a resident Indian, wins ₹ 10,000 in a lottery. Which of the statement is true?

- (a) Tax is deductible u/s 194B@30%
- (b) Tax is deductible u/s 194B@ 30.9%
- (c) No tax is deductible at source
- (d) None of the above

Question 25**CS Exec.**

The person responsible for paying any income by way of winnings from lottery an amount exceeding ₹ 10,000, shall deduct -

- (A) TDS @ 30.9%
- (B) No TDS
- (C) TDS @ 31.2%
- (D) TDS @ 30%

Question 26**CS Exec.**

Pradip acquired an urban land from Chitra for ₹ 70 lakh on 10th October, 2021. At what rate, tax is deductible at source in respect of such transaction?

- (A) 2%
- (B) 5%
- (C) 1%
- (D) 3%

Question 27**CS Exec.**

Where the advance tax paid on or before March, 2022 is less than 100% of the tax due on the total income declared in the return of income, as reduced by tax deducted at source, the assessee shall be making payment of interest on the amount of shortfall on the returned income so declared at the rate of _____ per month for the period of delay.



- (A) 2%
 (B) 1%
 (C) Nil
 (D) 1.5%

Question 28**CMA Inter**

Mr. Ramesh has filed his income-tax return for AY 2020-21 after due date on August 10, 2020. His total income tax liability is Rs. 50,000. However, he has paid Rs. 5,000 as self-assessment tax and amount of tax deducted on such income is Rs. 5,000. Calculate interest u/s 234A.

- a) Rs. 500
 b) Rs. 400
 c) Rs. 1,000
 d) Rs. 800

Question 29**CMA Inter**

Where self-assessment tax paid by assessee falls shorts of aggregate amount of tax, interest and late filing fee, then the amount of tax paid shall be adjusted

- a) First against tax and thereafter towards interest
 b) First against interest and thereafter towards tax and balance if any, shall be adjusted towards late filing fee
 c) First against late filing fee and thereafter towards interest and balance, in any, shall be adjusted towards tax
 d) None of the above

Answers

1	2	3	4	5	6	7	8	9	10
a	c	b	b	b	c	b	c	c	c
11	12	13	14	15	16	17	18	19	20
d	b	b	a	a	b	b	d	d	a
21	22	23	24	25	26	27	28	29	
b	b	d	c	d	c	b	b	b	



Chapter 8: Provisions for Filing Return of Income and Self-Assessment

Descriptive Questions

Easy

Question 1

MTP March'18, PYQ May '22

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

1. Belated return filed under section 139(4).
2. Return already revised once under section 139(5).
3. Return of loss filed under section 139(3).

3 Marks

Answer:

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

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

Question 2

MTP April'21, PYQ May '19, MTP Sept'24

1. What is the fee for default in furnishing return of income u/s 234F?
2. To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply?

4 Marks

Answer:

1. Fee for default in furnishing return of income u/s 234F

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

2. Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply



The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

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

Question 3

MTP April'19

Who are the persons authorized to verify return of income in the case of following persons:

- Local authority
- Firm, having no managing partner.

2 Marks

Answer:

Return of income to be verified by whom

	Person	Return of income to be verified by
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor

Question 4

MTP March'19, Oct'21

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

3 Marks

Answer:

- True:** Section 139A (2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 5

MTP Oct'18

Specify the persons who are authorized to verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of:

- Political party;
- Local authority;
- Association of persons, and
- Limited Liability Partnership (LLP).

4 Marks

Answer:



The following persons (mentioned in Column III below) are authorised as per section 140, to verify the return of income filed under section 139:

I	II	III
(I)	Political party	Chief Executive Officer of such party (whether known as secretary or by any other designation).
(ii)	Local authority	Principal Officer thereof.
(iii)	Association of Persons	Any member of the association or the principal officer thereof.
(iv)	LLP	Designated partner, or Any partner,
		- where the designated partner is not able to verify the return for any unavoidable reason;
		- where there is no designated partner or any other person prescribed for this purpose can verify the return. (as per amendment)

Question 6

MTP March 22, RTP May '19

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

3 Marks**Answer:**

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

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

Question 7

MTP Nov'21

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

4 Marks

S.No.	Transaction
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2020-21 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit



Answer:

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse.	No, since the amount paid does not exceed Rs. 50,000 in the F.Y.2023-24.
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds Rs. 50,000
3.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds Rs. 50,000

Question 8

MTP Sep'22, PYQ Jul'21

Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date. **4 Marks**

Answer:

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1). As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head "Capital Gains",
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and
- loss from specified business.

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head "Income from house property" and
- Unabsorbed depreciation.

Question 9

MTP March '23

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

- i. What are the consequences if defect is not rectified within the time allowed?
- ii. Specify the remedies available if not rectified within time allowed by the



Assessing Officer?

Answer:

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

Question 10

RTP May '23

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

S.No.	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

Answer:

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

Question 11

RTP Nov '23

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

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

Answer:



Person authorized to verify return of income

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

Question 12

PYQ Nov'19

Elaborate the conditions, non-fulfilment of which would render a return of income filed by an assessed not maintaining regular books of accounts, defective. **4 Marks**

Answer:

Where regular books of account are not maintained by the assessee, the return should be accompanied by

- (i) a statement indicating -
 - (1) the amount of turnover or gross receipts,
 - (2) gross profit,
 - (3) expenses; and
 - (4) net profit of the business or profession;
- (ii) the basis on which such amounts mentioned in (I) above have been computed,
- (iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.

Note: The above answer is based on the provisions of section 139(9) of the Income-tax Act, 1961. However, since returns are now required to be e-filed, many of the details need to be incorporated as part of the relevant return form itself.

Question 13

PYQ May'19

Discuss the provisions of section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the Assessing Officer. **4 Marks**

Answer:

Persons who are mandatorily required to apply for PAN as per section 139A (1)	
(i)	Every person whose total income or the total income of any other person in respect of which he is assessable under the Income-tax Act, 1961 during any previous year exceeds the basic exemption limit
(ii)	Every person carrying on business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakh in any previous year



(iii)	Every person, being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year
(iv)	Every person who is the managing director, director, partner, trustee, author, founder, karat, chief executive officer, principal officer or office bearer of the person referred to in (iii) above or any person competent to act on behalf of the person referred to in (iii) above.

Question 14

PYQ Nov'18

Explain the quantum of late fees under section 234F for delay in furnishing return of income within the prescribed time limit under section 139(1) for A.Y. 2024-25. **3 Marks**

Answer:

Quantum of late fee for delay in furnishing return of Income Late fee under section 234F is attracted where a person, who is required to furnish a return of income under section 139, fails to do so within the time limit prescribed under section 139(1).

Quantum of Late Fee	Circumstances
₹ 5,000	If the return is furnished on or before the 31st December of the assessment year;
₹ 10,000	In any other case

However, if the total income of the person does not exceed ₹ 5 lakhs, the fee payable shall not exceed ₹ 1,000

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

Question 15

Mr. Sitaram is engaged in the business of trading of cement having turnover of ₹ 10 crores during the financial year 2023-24. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income? **4 Marks**

Answer 35

Since Mr. Sitaram's turnover from business of trading of cement is ₹ 10 crores which exceeds ₹ 1 crore, being the threshold limit for tax audit under section 44AB, he is subjected to tax audit. Accordingly, Mr. Sitaram, is required to furnish the following particulars along with his return of income -

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



Question 16

PYQ May'22

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

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

4 Marks

Answer:

- (i) Where the Assessing Officer considers that the return of income furnished by the assessee is defective,
 - he may intimate the defect to the assessee and
 - give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.

The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.

- (ii) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.

- (iii) The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

Question 17

PYQ Nov '22

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

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

4 Marks

Answer:

Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before 31st March, 2022. Since, Mr. A fail to link his Aadhar number with PAN on or before 31.3.2022, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2022, he would be liable to pay fee of ₹ 1,000 as per section 234H.

Yes, the following are the exceptions -

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

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;



- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India

Question 18

CS Execu. Dec. '10

Write short note on consequences of failure to file return of loss.

3 Marks**Answer:**

Under section 139(3) if return of loss is not filed by an assessee, the following losses cannot be carried forward:

- (a) Business loss (Ordinary and Speculative both)
- (b) Capital Loss
- (c) Loss from activity of owning and maintaining race horses.

Question 19

CS Execu. Dec. '12

Mentioned the due dates for filing of return of income for different categories of assessees.

Answer:

Under section 139(1) following are due dates for filing return of income for different categories of assessees:

When the assessee is required to furnish a report under section 92E pertaining to international or specified domestic transactions.	30 th November
A company and a non-corporate assessee, not having international or specified domestic transactions.	31 st October
When accounts of the assessee are required to be audited or where assessee is a partner in a firm whose accounts are required to be audited.	31 st October
In all other cases.	31 st July

Moderate**Question 1**

MTP March'21, RTP Nov '21 & Nov '19

Mr. Praveen, due to inadvertent reasons, failed to file his income-tax return for the assessment year 2024-25 on or before the due date of filing such return of income.

Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?

What are the consequences of non-filing the return within the due date under section 139(1)?

4 Marks**Answer:**

If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

- (i) before **three months prior** to the end of the relevant assessment year; or



(ii) before the completion of the assessment, whichever is earlier. *(As per amendment before 31st December of the relevant Assessment Year)*

The last date for filing return of income for A.Y.2024-25, therefore, is ~~31st March 2025~~ **31st December, 2024**. Thereafter, Mr. Praveen cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: ~~Fee of Rs. 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1) but filed on or before 31st December of the assessment year and Rs. 10,000 would be the fee payable under section 234F where the return is furnished after 31st December of the assessment year. However, such fee cannot exceed Rs. 1,000, if the total income does not exceed Rs. 5,00,000.~~

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

Question 2

MTP Oct'20

Mr. Varun filed return on 30th September, 2024 related to Assessment Year 2024-25. In the month of October 2024, his tax consultant found that the interest on fixed deposit was omitted in the tax return.

(i) What is the time limit for filing a belated return?

(ii) Can Mr. Varun file a revised return?

Justify the above with the relevant provisions under section 139.

Assume that the due date for furnishing return of income was 31st July, 2024 and the assessment was not completed till the month of October 2024. **4 Marks**

Answer:

(i) As per section 139(4), a belated return for any previous year may be furnished at any time -

(a) Before **three months prior to** the end of the relevant assessment year; or

(b) before the completion of the assessment, whichever is earlier.

For assessment year 2024-25, the belated return has to be furnished before ~~31st March 2025~~ **31st December 2024** or before completion of assessment, whichever is earlier.

(As per amendment from AY 2021-22 onwards a belated/revised return can be filed by 31st December of the relevant assessment year).



(ii) As per section 139(5), if any person, having furnished a return within the due date or a belated return, discovers any omission or any wrong statement therein, he may furnish a revised return at any time -

- Before **three months prior** to the end of the relevant assessment year or
- before the completion of assessment, whichever is earlier.

Since Mr. Varun has filed his return after 31.7.2024, being the due date under section 139(1) in his case, but before ~~31.3.2025~~ **31.12.2024**/completion of assessment, the said return is a belated return under section 139(4).

Thus, in the present case, Mr. Varun can file a revised return, since he has found an omission in the belated return filed by him for A.Y.2024-25 and assessment is yet to be completed and assessment year has not elapsed as of October, 2024.

Question 3 **PYQ May'18, MTP May'20, Oct'19 & Aug '18, MTP Sep '23**

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhar Number under section 139AA of the Act. **4/5 Marks**

Answer:

Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

- in the application form for allotment of Permanent Account Number (PAN)
- in the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

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

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him. Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.

(As per amendment if a person fails to intimate the Aadhar Number, PAN allotted to such person should be made inoperative after the notified date.)

Question 4 **MTP Oct'18**

Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? **4 Marks**

Answer:



A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein; the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A (2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A (3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation can be carried forward even if return of loss has not been filed as required under section 139(3).

A return of loss has to be filed by the Assessee in his own interest and the non-receipt of a notice from the AO requiring him to file the return cannot be a valid excuse under any circumstances for the non-filing of such return.

Question 5

MTP Aug'18

Pertaining to the following transactions, what is the minimum amount above which quoting Permanent Account Number is mandatory?

- (i) Opening a demat account with a depository
- (ii) Purchase of bank draft from a banking company
- (iii) Payment for purchase of any foreign currency at any one time.
- (iv) Payment to a company for acquiring debentures issued by it.
- (v) Payment as life insurance premium to an insurer.

5 Marks

Answer:

Monetary limit for mandatory quoting of PAN

	Transaction	Amount above which quoting of PAN is mandatory
(I)	Opening a demat account with a depository.	All such transactions (There is no minimum amount)
(ii)	Purchase of bank draft from a banking company	Payment in cash of an amount exceeding Rs. 50,000 during any one day
(iii)	Payment for purchase of any foreign currency at any one time	Payment in cash of an amount exceeding Rs. 50,000
(iv)	Payment to a company for acquiring debentures issued by it	Amount exceeding Rs. 50,000.



(v)	Payment as life insurance premium to an insurer	Amount aggregating to more than Rs. 50,000 in a financial year
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Question 6

MTP April 22, MTP Sept'24

What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default? 4 Marks

Answer:

If a person, who has been allotted PAN as on 1.7.2017 and is required to intimate his Aadhar number under section 139AA(2), has failed to intimate the same on or before 31.3.2022, the PAN of such person would become inoperative immediately after 31.3.2022 **and he would be liable to for payment of fee in accordance with 234H read with rule 114(5A) i.e. Rs 1000** for the purpose of furnishing, intimating or quoting under the Income-tax Act, 1961.

Where a person, whose PAN has become inoperative, is required to furnish, intimate or quote his PAN under the Act, it shall be deemed that he has not furnished, intimated or quoted the PAN, as the case may be, in accordance with the provisions of the Act and he would be liable for all the consequences under the Act for not furnishing, intimating or quoting the PAN.

~~Where a person, who is required to intimate his Aadhar Number under section 139AA(2), fails to do so on or before the notified date i.e., 31.3.2022, he shall be liable to pay such fee, as may be prescribed, at the time of making intimation under section 139AA(2) after 31.3.2022.~~

~~However, such fee shall not exceed ₹ 1,000.~~

Question 7

MTP April 22, RTP May '20

Mr. Rakesh has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2023-24 on 22.10.2024. The due date for filing the return for Mr. Rajesh was 31st July, 2024 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Rakesh.

- (ii) Loss from the business carried on by him as a proprietor: ₹ 10,80,000 (computed)
- (iii) Unabsorbed Depreciation: ₹ 2,00,000 (computed)
- (iv) Loss from House property: ₹ 2,50,000 (computed).

3 Marks**Answer:**

Mr. Rakesh has furnished his return of income for A.Y.2024-25 on 22.10.2024, i.e., after the due date specified under section 139(1) i.e., 31st July 2024. Hence, the return is a belated return under section 139(4). As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, inter alia, business loss but does not include loss from house property and unabsorbed depreciation. Accordingly, business loss of ₹ 10,80,000 of Mr. Rakesh for A.Y. 2024-25, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2025-26.



However, the loss of ₹ 2,50,000 from house property and unabsorbed depreciation of ₹ 2,00,000 pertaining to A.Y.2024-25, can be carried forward to A.Y.2025-26 for set-off, even though Mr. Rakesh has filed the return of loss for A.Y.2024-25 belatedly.

Question 8

MTP Oct'22

State any three conditions when a person is required to furnish Income-tax return in the prescribed form & manner on or before the due date even if such person (other than a company or a firm) is not otherwise required to furnish a return u/s 139(1). **3 Marks**

Answer:

Conditions when a person is required to furnish return of income on or before the due date even if he is otherwise not required to furnish return under section 139(1)

Any person, other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person

- (i) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
- (ii) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or
- (iii) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity; or
- (iv) fulfils such other prescribed conditions.

Rule 12AA provides that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner -

- a) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- b) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- c) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more.

- d) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.



Question 9

MTP April '23

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

(i) as on 31.3.2026

(ii) as on 28.2.2027

(iii) as on 31.5.2027

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return.

3 Marks

Answer:

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

Accordingly, Mr. X can furnish updated return for A.Y. 2024-25 as on 31.3.2026 and on 28.2.2027. However, he cannot furnish such return as on 31.5.2027, since such date falls after 31.3.2027.

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

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

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

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

(ii) 28.2.2027 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

Question 10

RTP May '18

Ms. Geetha submits her return of income on 29-09-2024 for A.Y 2024-25 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 01-02-2025, she realized that she had not claimed deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid for her mother. She wants to revise her return of income. Can she do so? Examine. Would your answer be different if she discovered this omission on 02-04-2025?

Answer:

Since Ms. Geetha has income only under the heads "Salaries", "Income from house property" and "Income from other sources", she does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961. Therefore, the due date of filing return for A.Y.2024-25 under section 139(1), in her case, is 31st July, 2024. Since Ms. Geetha had submitted her return only on 29.9.2024, the said return is a belated return under section 139(4).



As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, a belated return under section 139(4) can also be revised. Therefore, Ms. Geetha **cannot revise the return of income filed by her under section 139(4) in February 2025, to claim deduction under section 80D, since the time limit for filing a revised return is upto 31st December, 2024.** ~~can revise the return of income filed by her under section 139(4) in February 2019, to claim deduction under section 80D, since the time limit for filing a revised return is upto the end of the relevant assessment year, which is 31.03.2019.~~ However, she cannot revise return had she discovered this omission only on 02-04-2025, since it is beyond 31.12.2024.

Question 11

RTP Nov '18

Mr. Atharv filed his return of income on 30th September, 2024 related to Assessment Year 2024-25. In the month of October 2024, his tax consultant found that the interest on fixed deposit was omitted in the tax return. Can Mr. Atharv file a revised return?

Assume that the due date for furnishing return of income in his case, was 31st July, 2024 and the assessment was not completed till the month of October 2024.

Answer:

As per section 139(5), if any person, having furnished a return under section 139(1), within the due date or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time -

- (a) before **three months prior to** the end of the relevant assessment year or
- (b) before the completion of assessment, whichever is earlier.

For assessment year 2024-25, the belated return has to be furnished before 31st Decemeber 2024 or before completion of assessment, whichever is earlier.

Since Mr. Atharv has filed his return after 31.7.2024, being the due date of filing return of income under section 139(1) in his case, but before **31.12.2024** (completion of assessment), the said return is a belated return. Thus, in the present case, Mr. Atharv can file a revised return, since he has found an omission in the belated return filed by him for A.Y.2024-25 and assessment is yet to be completed and **31.12.2024**, being the end of A.Y.2024- 25 has not elapsed.

Question 12

RTP May '22

Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2015. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long-term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long-term capital gain is taxable. She does not have any source of income in India during the P.Y. 2021-22. Is she required to furnish her return of income? If yes, can she furnish a belated return?

Answer:



An individual whose total income without giving effect to, inter alia, section 54EC exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2024.

Every person, being a resident other than not ordinarily resident in India, would be required to file a return of income or loss for the previous year, even if his total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2024-25 since she has been staying in India since the year 2015. Total income of Mrs. Shivani without giving effect to, inter alia, section 54EC is ₹ 2 lakhs, which is below the basic exemption limit. However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2024-25 on or before 31.07.2024.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2024, at any time before the -

- (ii) three months prior to the end of the relevant assessment year i.e., 31.12.2024; or
- (iii) completion of the assessment whichever is earlier.

Question 13

RTP Nov'22

Mr. Vikas, a resident in India aged 80 years, is having a house property in Mumbai. He has let out the house property to ABC Ltd. for a rent of ₹ 50,000 per month from 1.4.2023. He does not have any other source of income. Is Mr. Vikas required to file his return of income for A.Y. 2024-25. If yes, why?

Answer:

An individual whose total income exceeds the maximum amount not chargeable to tax i.e., ₹ 5,00,000 in this case since Mr. Vikas is of 80 years, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2024.

Clause (iv) of seventh proviso to section 139(1) provides that a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if the person fulfills such other conditions as may be prescribed.

Accordingly, vide Notification no. 3/2022 dated 21.4.2022, the CBDT inserted Rule 12AB which prescribes, inter alia, that in case of resident individual who is aged 60 years or more at any time during the relevant P.Y. is required to file his return of income if the aggregate of tax deducted at source and tax collected at source, in his case, during the P.Y. is ₹ 50,000 or more.

In this case, Mr. Vikas's total income would comprise of only income from house property from let out of house property in Mumbai. His total income would be ₹ 4,20,000 [₹ 6,00,000 - 30% under section 24(a)], which is below the basic exemption limit of ₹ 5,00,000.

ABC Ltd. is required to deduct tax at source u/s 194-I @10% of ₹ 6,00,000. Tax deductible would be ₹ 60,000. Since tax deducted at source in case of Mr. Vikas is more than ₹ 50,000, he has to furnish



his return of income for A.Y. 2024-25 on or before 31.07.2024, even though his total income is below the basic exemption limit of ₹ 5,00,000.

Note - It is assumed that Mr. Vikas has neither made an application to the Assessing Officer u/s 197 nor furnished declaration to ABC Ltd. u/s 197A for non-deduction of tax. In case, he has obtained the certificate u/s 197 or furnished declaration to ABC Ltd. u/s 197A, no tax would have been deducted by ABC Ltd. on rental income. Consequently, Mr. Vikas would not be required to file his return of income.

Question 14

PYQ Jan'21

Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to F.Y. 2023-24.

- Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI stipulations - ₹ 3,55,000
- Interest on savings bank account maintained with State Bank of India - ₹ 8,000
- Interest on Fixed Deposits with Punjab National Bank - ₹ 40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the Assessment Year 2024-25.

What will be your answer, if he has incurred ₹ 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada? **4 Marks**

Answer:

a. An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000.

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

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 3,55,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account as per RBI stipulations]	NIL
Interest on savings bank account	8,000
Interest on fixed deposit with Punjab National Bank	40,000
Gross Total Income	48000
Less: Deduction u/s 80TTA (Interest on saving bank account)	8,000
Total Income	40,000

Since the total income of Mr. Hari for A.Y.2024-25, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for A.Y.2024-25.



However, if he has incurred expenditure exceeding ₹ 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of ₹ 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2023-24, he has to mandatorily file his return of income for A.Y. 2024 -25 on or before the due date under section 139(1).

Question 15

PYQ Nov'18

Every person is required to file a return of income on or before due date in the prescribed form and manner as per section 139(1). What is the meaning of due date of filing Income-tax Returns for different categories of assesses as per section 139(1) of the Income-tax Act 1961? **4 Marks**

Answer:

Due date' for filing of return of income as per section 139(1):

- (i) 30th September (**As per amendment 31st October**) of the assessment year, where the assessee, other than an assessed referred to in (ii) below, is -
- a company,
 - a person (other than a company) whose accounts are required to be audited under the Income- tax Act, 1961 or any other law in force; or
 - a working partner of a firm whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force.
- (ii) 30th November of the assessment year in case of an assessee including partners of a firm being such assessee who is required to furnish report referred to in section 92E. (As per amendment)
- (iii) 31st July of the assessment year, in the case of any other assessee.

~~Note: In the case of an assessed who is required to furnish a report referred to in section 92E, the due date for filing return of income is 30th November of the assessment year.~~

Question 16

PYQ May'23

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished. **4 Marks**

Answer:

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

Circumstances in which updated return cannot be furnished

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

- an updated return has been furnished by him for the relevant assessment year
- any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- he is such person or belongs to such class of persons, as may be notified by the CBDT.
- an updated return is a loss return



Question 17

State whether quoting of PAN in the following transactions is mandatory or not, as per provisions of Income-tax Act, 1961 for Assessment Year 2024-25 :

- (1) A makes payment to Hotel Radisson Ahmedabad of ₹ 50,000 against the bill raised by the Hotel.
- (2) Abhishek, in a single transaction makes contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- (3) Payment to Mutual Funds of ₹ 70,000 for purchase of its units.

Your answers must be supported with reasons. **3 Marks**

Answer:

1. **PAN is not required to be quoted:** Mr. A is not required to quote his PAN while making payment of ₹ 50,000 to Hotel Radisson, Ahmedabad since such payment does not exceed ₹ 50,000.
2. **PAN is mandatorily required to be quoted:** Mr. Abhishek is required to quote his PAN while making contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since the amount of the transaction exceeds ₹ 1,00,000.
3. **PAN is required to be quoted:** PAN is mandatorily required to be quoted while making payment of ₹70,000 to Mutual Funds for purchase of its units, since payment exceeds ₹ 50,000.

Question 18

CS Execu. June 2019

Briefly mention the concept of Self-Assessment Tax u/s 140A of the Income-tax Act, 1961 and its components. **3 Marks**

Answer:

Self-Assessment Tax u/s 140A of the Income-tax Act, 1961: Where any tax is payable on the basis of any return required to be furnished under section 139 of the Income-tax Act, 1961, after taking into account:

1. The amount of tax, if any, already paid under any provision of this Act;
2. Any tax deducted or collected at source;
3. Any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;
4. Any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section; and
5. Any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD,

The assessee shall be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, before furnishing the return and the return shall be accompanied by proof of payment of such tax interest and fee.



Where the amount paid by the assessee under this sub-section falls short of the aggregate of the tax interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter towards the interest payable as aforesaid and the balance, if any, shall be adjusted towards the tax payable.

Question 19

CS Execu. June'19

Explain the quantum of late fees under section 234F for delay in furnishing return of income within the prescribed time limit under section 139(1) for Assessment Year 2024-25. **3 Marks**

Answer:

Late fee under section 234F is attracted where a person, who is required to furnish a return of income under section 139 of the Income-tax Act, 1961, fails to do so within the time limit prescribed under section 139(1).

1. A fee of ₹ 5,000 shall be payable, if the return is furnished after due date.
2. However, in a case where total income does not exceed ₹ 5 lakhs, the fee amount shall not exceed ₹ 1,000.

Difficulty**Question 1**

MTP April'19

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

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

Return of income filed on 11-12-2024. Calculate the interest payable under section 234B of the Income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. Assume that 115BAC is not opted. **5 Marks**

Answer:

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

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



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

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

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

Interest under section 234A

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

Fee for late filing of return under section 234F

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

(As per amendment If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.) Since Mr. Sailesh has furnished his return of income after the due and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000 will be payable by him.

Question 2

PYQ July'21

In the following cases relating to P.Y.2023-24, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y.2024-25 in each of the following independent situations:

4 Marks



- (i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- (ii) Mrs. Archana was born in Germany and married in India. Her residential status under section 6(6) of the Income-tax Act, 1961 is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country.
- (iii) Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

Answer:

- (ii) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2024-25 on or before the due date under section 139(1).
- (iii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the previous year on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India. In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of "capital asset" as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for A.Y. 2024-25 on account of owning a car for personal purposes in Germany.

Note - "Asset" for the purpose of the fourth proviso to section 139(1) has not been specifically defined in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, requires details of foreign assets for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes "any other capital assets outside India". Car used for personal purposes is not a capital asset as it is a "personal effect". Hence, it is not included in the meaning of "asset" for the purpose of the fourth proviso to section 139(1). The above answer is based on the view taken regarding the ambit of the term "asset", based on the list of assets detailed in the relevant schedule of the income-tax return forms.

Alternative view - On the plain reading of the fourth proviso to section 139(1) and the general meaning attributable to the word "asset", it is possible to take a view that Mrs. Archana is required to file her return of income as she owns an asset, i.e., a car in Germany. Accordingly, due credit may also be given to the candidates who have answered on this basis.



- (iv) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the P.Y.2023-24 towards consumption of electricity, he has to file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).

Question 3

PYQ May'18

Indicate the three situations where the return of income has to be compulsorily filed u/s 139(1) of the Income-tax Act, 1961.

6 Marks

Answer:

Situations where Return of Income has to be compulsorily filed under section 139(1)

- (ii) Companies and firms (whether having profit or loss or nil income);
- (iii) a person, being a resident other than not ordinarily resident, who holds, as beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India, or is a beneficiary of any asset (including any financial interest in any entity) whether or not having income chargeable to tax;
- (iv) Individuals, HUFs, AOPs or BOIs and artificial juridical persons whose total income before giving effect to the provisions of section 10(38) and Chapter VI-A deductions and sections 54, 54B, 54D, 54EC or 54F (inserted as per amendment) exceeds the basic exemption limit.

Question 4

PYQ Dec '21, MTP Oct '23

Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the assessment year 2024-25 before due date prescribed under section 139(1). Advise Mr. Kailash as a tax consultant.

What are the consequences for non-filing of return of Income within the due date under section 139(1)?

4 Marks

Answer:

Consequences for non-filing return of income within the due date under section 139(1) Interest under section 234A

interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

Fee under section 234F

Late fee of

- ₹ 5,000 would be payable under section 234F, if the return of income is not filed before the due date specified in section 139(1) and
- ₹ 10,000 would be the fee payable under section 234F where the return is furnished after 31st December, 2024.

However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000. Carry forward and set-off of certain losses not permissible

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- business loss, speculation business loss, loss from specified business,
- loss under the head "Capital Gains"; and
- loss from the activity of owning and maintaining race horses.



Multiple Choice Questions

Question 1

MTP Oct'21

Mr. Kumar, aged 62 years' resident and ordinarily resident, is a retired employee with a monthly pension of ₹ 15,000. He has no other source of income. He has a house property in Bhatinda and his only son is living in London and has a house over there. He met with an accident and died and thereby leaving the house at London in the name of his father, Mr. Kumar. Mr. Kumar seeks your advice, as to whether he is required to file his income-tax return u/s 139?

- (a) Yes, he is mandatorily required to file his income-tax return as he is a resident and ordinarily resident in India and has asset located outside India
 (b) No, he is not required to file return of income as his income is below basic exemption limit
 (c) Yes, he is required to file his return of income as his income exceeds basic exemption limit
 (d) No, he is not required to file his return of income as he is a senior citizen and retired employee

Question 2

MTP Oct'20

Ms. Dilar who is not required to furnish return u/s 139(1) as his gross total income itself is less than basic exemption limit, has incurred expenditure of ₹ 2,00,000 for her daughter for travel to U.S.A. during P.Y. 2023-24. Is she required to file return for A.Y. 2020-21? If yes, what is the due date?

- (a) Yes; 31st July, 2024
 (b) Yes; 30th September, 2024
 (c) Yes; 31st August, 2024
 (d) No, she is not required to file return of income for A.Y. 2024-25

Question 3

MTP March'19

Which of the following is not a consequence of late filing of return?

- a) Levy of interest under section 234A
 b) Loss (other than loss under the head "Income from house property") cannot be carried forward
 c) No deduction under Chapter VI-A under the heading „B“ - Deduction in respect of certain payments
 d) All of the above



Question 4

MTP Sep'22

Mr. Laxman, born on 1.4.1962, has a gross total income of ₹ 2,85,000 for A.Y.2024-25 comprising of his salary income. He does not claim any deduction under Chapter VI-A. He pays electricity bills of ₹ 10,000 per month. He made a visit to Canada along with his wife for a month in January, 2024 for which he incurred to and fro flight charges of ₹ 1.20 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to ₹ 70,000 was met by his son residing in Canada. Is Mr. Laxman required to file return of income for A.Y.2024-25, and if so, why?

- No, Laxman is not required to file his return of income Yes, Laxman is required to file his return of income, since his gross total income/total income
- exceeds the basic exemption limit
- Yes, Laxman is required to file his return of income since he pays electricity bills of ₹ 10,000 per month, which exceeds the prescribed annual threshold
- Yes, Laxman is required to file his return of income since he has incurred foreign travel expenditure exceeding ₹ 1 lakh

Question 5

RTP Nov '20

Mr. Dinesh, a resident in India, has gross total income of ₹ 2,30,000 comprising of interest on saving A/c and rental income during the previous year 2023-24. He incurred expenditure of ₹ 2,00,000 for his son for a study tour to Europe. Whether he is required to file return of income for the assessment year 2024-25? If yes, what is the due date?

- Yes, 31st July of A.Y
- Yes, 30th September of A.Y
- Yes, 31st October of A.Y
- No, he is not required to file return of income

Question 6

RTP Nov '19

Arun's gross total income of P.Y. 2023-24 is ₹ 2,45,000. He deposits ₹ 45,000 in PPF. He pays electricity bills aggregating to ₹ 1.20 lakhs in the P.Y.2023-24. Which of the statements is correct?

- Arun is not required to file his return of income u/s 139(1) for P.Y. 2023-24, since his total income before giving effect to deduction under section 80C does not exceed the basic exemption limit.
- Arun is not required to file his return of income u/s 139(1) for P.Y. 2023-24, since his electricity bills do not exceed ₹ 2,00,000 for the P.Y.2023-24.
- Arun is not required to file his return of income u/s 139(1) for P.Y. 2023-24, since neither his total income before giving effect to deduction under section 80C exceeds the basic exemption limit nor his electricity bills exceed ₹ 2 lakh for the P.Y.2023-24.
- Arun is required to file his return of income u/s 139(1) for P.Y. 2023-24, since his electricity bills exceed ₹1 lakh for the P.Y.2023-24.



Question 7

RTP May 20

Mr. Pawan is engaged in the business of roasting and grinding coffee beans. During F.Y. 2023-24, his total income is ₹ 4.5 lacs. Mr. Pawan filed its return of income for A.Y. 2024-25 on 3rd March, 2025. Compute fee payable for default in furnishing in return of income for PQ & Associates for A.Y. 2024-25:

- (a) ₹ 5,000
 (b) Not exceeding ₹ 1,000
 (c) ₹ 10,000
 (d) No fees payable as total income is below ₹ 5,00,000

Question 8

RTP Nov '23

Mr. Sunil has filed his return of loss for A.Y. 2024-25 on 31.7.2024 and received a total refund of ₹ 44,500. On 15.9.2024, he would like to furnish his updated return of income for additional income. In case he furnished his updated return of income for additional income, he would be liable to pay ₹ 57,000 towards tax and ₹ 6,700 towards interest for additional income to be reported in updated return. Compute the additional income-tax payable by Mr. Sunil at the time of filing his updated return.

- (a) ₹ 27,050
 (b) ₹ 15,925
 (c) ₹ 14,250
 (d) ₹ 31,850

Question 9

CS Execu.

The due date specified u/s 139(1) for filing the return of income in case of companies engaged in international transactions and who have to furnish a report u/s 92E is :

- (A) 31st July
 (B) 31st August
 (C) 30th September
 (D) 30th November

Question 10

CS Execu.

Anil made following transaction for the year ended 31st March, 2023:

- (a) acquired immovable property for ₹ 6 lakh;
 (b) made a term deposit (TDR) of ₹ 30,000 in a bank;
 (c) paid ₹ 75,000 to a hotel for his birthday party and
 (d) deposited ₹ 45,000 cash in his Savings Bank (SB) account.

Quoting of PAN is mandatory in which of these transactions:

- (A) Purchase of immovable property
 (B) TDR with bank and deposit of cash in bank
 (C) Payment to hotel for birthday party
 (D) All the three above in A, B & C



<p>Question 11 <u>CS Execu.</u></p> <p>Any person who has not filed the return within the time allowed under section 139(1) may file a belated return:</p> <p>(A) At any time before the end of the relevant previous year (B) At any time before the end of the relevant assessment year (C) Before the completion of assessment (D) At any time before the end of the relevant assessment year or before the completion of the assessment whichever is earlier</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 12 <u>CS Execu.</u></p> <p>Mandatory filing of return of income by individuals will apply when the total income before deduction under the following section exceeds the basic limit chargeable to tax.</p> <p>(A) Deduction under Chapter VI-A (B) Deduction under section 35 (C) Deduction under section 86 (D) Deduction under section 37</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 13 <u>CS Execu.</u></p> <p>An apparent error in the assessment order passed u/s 143(3) dated 15.11.2022 was noticed by the assessee in February, 2023.</p> <p>The time limit for seeking rectification of mistake is available up to:</p> <p>(A) 31.3.2027 (B) 31.3.2026 (C) 31.3.2023 (D) 31.3.2024</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 14 <u>CS Execu.</u></p> <p>If there is an apparent error in the intimation dated 11th June, 2021 issued u/s 143(1), the time-limit for filing application for rectification u/s 154 is available up to -</p> <p>(A) 31st March, 2025 (B) 31st March, 2026 (C) 31st March, 2022 (D) 31st October, 2021</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Question 15 <u>CS Execu.</u></p> <p>Zeet & Co. is a partnership firm whose turnover for the previous year 2022-23 was ₹ 220 lakhs. The 'due date' for filing the return of income of the firm is:</p> <p>(A) 31st July, 2023 (B) 30th September, 2023 (C) 30th November, 2023 (D) 31st March, 2023</p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

Answers

1	2	3	4	5	6	7	8	9	10
a	d	c	c	d	d	b	a	d	c
11	12	13	14	15					
d	a	a	b	b					



Chapter 9: Computation of Total Income & Tax Payable

Descriptive Questions

Question 1

MTP Oct'21, PYP Nov'20

Mr. Rakesh, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2024

- (i) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2023 is ₹ 2,30,000.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2023-24. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.
- (iii) He also sold his vacant land on 10.11.2023 for ₹13 lakhs. The stamp duty value of land at the time of transfer was ₹ 19.35 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 5 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.75 lakhs. He had incurred registration expenses of ₹ 20,000 at that time. The cost of inflation index for the year 2023-24 and 2001-02 are 348 and 100 respectively.
- (iv) Received ₹ 40,000 as interest on saving bank deposits.
- (v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floors are of equal size.
- (vi) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.
- (vii) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child. You are required to compute the total income and tax liability of Mr. Rakesh under normal provisions as well as under section 115BAC for the A.Y. 2024-25. Ignore AMT provisions.

(The stamp duty value of land has been changed from Rs 17 lakhs to Rs. 19.35 Lakhs to keep the essence of the question)

14 Marks

Answer:



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

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		59,400	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit			25,00,000
II	Capital Gains			
I	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Higher of stamp duty value of ₹ 19.35 lakhs and Actual consideration of ₹ 13 lakhs, since stamp duty value exceeds actual consideration by more than 10%]		19,35,000	
	Less: Indexed Cost of acquisition [₹ 5,00,000 × 301 348/100]		17,40,000	1,95,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 1.75 lakhs + ₹ 0.20 lakhs = ₹ 1.95 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 5 lakhs			
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		40,000	
				2,88,000
	Gross Total Income			31,21,600



Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y.2023-24, being the 3rd year of operations]			17,50,000
[Profits of the SEZ x Export Turnover/Total Turnover] x 100%			
[₹ 25 lakhs x ₹ 140 lakhs/ ₹ 200 lakhs x 100%]			
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)	28,000		
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Rakesh	39,000		
Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Rakesh	-	67,000	
Deduction under section 80QQB		1,90,000	
Royalty [₹ 2,88,000 x 15/18 = ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus ₹ 40,000 expenses already allowed as deduction while computing royalty income]			
Deduction under section 80TTA		10,000	
Interest on savings bank account, restricted to ₹ 10,000			
			2,67,000
			11,04,600

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

Particulars	₹	₹
Tax on total income of ₹ 11,04,600		
Tax on LTCG of ₹ 1,95,000@20%		39,000
Tax on remaining total income of 9,09,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹ 9,09,600[@20% of ₹ 4,09,600]	81,920	94,420
		1,33,420
Add: Health and education cess@4%		5,337
Total tax liability		1,38,757
Tax liability (rounded off)		1,38,760



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

Particulars	₹
Gross total Income as per regular provisions of the Act	31,21,600
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	31,21,600
Tax on total income of ₹ 31,21,600	
Tax on LTCG of ₹ 1,95,000@20%	39,000
Tax on remaining total income of 29,26,600	
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	
₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	
Above ₹ 15,00,000 @30% = 4,27,980	5,77,980
	6,16,980
Add: Health and education cess@4%	24,679
Total tax liability	6,41,659
Tax liability (rounded off)	6,41,660
Since tax liability as per section 115BAC is higher than the tax liability under normal provisions of the Act, it is beneficial for Mr. Rakesh not to exercise option under section 115BAC.	

Question 2

MTP Nov'21, MTP Mar'22

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

Trading and Profit and Loss Account of Mr. Suresh

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



To Interest paid on late filing of GST	3,845	By Rent received	7,20,000
To Income-tax paid for FY 2022-23	3,45,000	By Income-tax Refund	19,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,55,815		
	1,03,21,660		1,03,21,660

The following additional information is provided by him:

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

14 Marks

Answer:

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

Particulars	Rs.	Rs.	Rs.
Income from house property			
Annual value (rent received has been taken as annual value, due to absence of information relating to expected rent in the Question)		7,20,000	
Less: Deduction u/s 24(a)			
30% of Annual Value		2,16,000	5,04,000
Profits and gains of business or profession			



Net profit as per profit and loss account		73,55,815	
Add: Expenses/Payments debited to profit and loss account but not allowed			
- Depreciation as per books of account	1,82,000		
Fee for late filing of income-tax return for A.Y. 2023- 24 - disallowed	1,000		
Salary paid to an accountant in cash exceeding Rs. 10,000 - disallowed under section 40A(3)	30,000		
- Interest paid to NBFC on loan which is used for personal purposes (Rs. 1,15,000 × 2,00,000/ 10,00,000) - not allowed as per section 37	23,000		
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of Rs. 92,000 under section 40(a)(ia) [Since Mr. Suresh's turnover for the immediately preceding previous year i.e., P.Y. 2022-23 exceeds Rs. 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non-deduction of tax at source]	27,600		
-Income-tax paid for F.Y. 2022-23	3,45,000		
-Interest paid on late filing of GST, allowed, since it is not for infraction of law but is compensatory in nature.	Nil		
-Advertisement expenses towards an advertisement in a souvenir published by local political party [under section 37(2B)]	25,000	6,33,600	
Add: Undervaluation of Closing stock		55,000	
		80,44,415	
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account			
-Dividend from Indian companies (taxable under the head "Income from other sources")	17,20,000		
-Interest on FDs (Net of taxes) (Gross income taxable under the head "Income from other sources")	1,11,000		
- Rent received (taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	19,000	25,70,000	
		54,74,415	



Less: Depreciation as per Income-tax Rules		2,20,000	52,54,415
Income from Other Sources			
Dividend from Indian companies		17,20,000	
Interest on fixed deposits (Rs. 1,11,000 x 100/92.5, since tax was deducted at source @7.5%)		1,20,000	

Interest on income-tax refund		2,500	18,42,500
Gross Total Income			76,00,915
Less: Deduction under Chapter VI-A			
Section 80D			
Health insurance premium paid for self, spouse and his children allowable as deduction to the extent Rs. 25000		25,000	
Section 80GGC			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		Nil	25,000
Total Income			75,75,915
Total Income (Rounded Off)			75,75,920

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

Particulars		Rs.
Up to Rs. 2,50,000	Nil	
Rs. 2,50,001 - Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 - Rs.10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	20,85,276
Rs. 10,00,001 above [i.e., Rs. 65,75,920 @30%]	19,72,776	
		20,85,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000		2,08,528
		22,93,804
Add: Health and Education cess@4%		91,752
Tax Liability		23,85,556
Less: Advance tax		9,00,000
Tax deducted at source on interest on FDs under section 194A		9,000
Tax payable		14,76,556
Tax payable (rounded off)		14,76,560



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

Particulars	Rs.
Gross total Income as per regular provisions of the Act	76,00,915
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	76,00,915
Total Income as per section 115BAC (rounded off)	76,00,920
Tax on total income of 76,00,920	19,80,276
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	
Above ₹ 15,00,000 @30% (61,00,920 @ 30%) 18,30,276	
	19,80,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000	1,98,028
	21,78,304
Add: Health and education cess@4%	87,132
Total tax liability	22,65,436
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs under section 194A	9,000
Tax payable	13,56,436
Tax payable (rounded off)	13,56,440
Since tax liability as per section 115BAC is lower than the tax liability under normal provisions of the Act, it is beneficial for Mr. Suresh to exercise option under section 115BAC. He has to exercise this option on or before the due date of furnishing the return of income. Further, he is having income from business or profession during the P.Y.2020- 21, if he opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.	

Question 3

MTP April'21, PYP May '19

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

- (i) Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 10,000 per month (Part of salary for retirement benefits), House rent allowance Rs. 4,000 per month and rent paid for house in Chennai is Rs. 7,000 per month.



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

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

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

14 Marks

Answer:

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

Particulars	Rs.	Rs.
Salaries		
Basic Salary = Rs. 51,000 × 12	6,12,000	
Dearness Allowance (DA) = Rs. 10,000 × 12	1,20,000	
House Rent Allowance (HRA) = Rs. 4,000 × 12 Rs. 48,000		
Less: Least of the following exempt u/s 10(13A) Rs. 10,800	37,200	
(i) HRA actually received = Rs. 4,000 × 12 = Rs. 48,000		
(ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 × 12) (-) Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic Salary + DA))] = Rs. 10,800		
(iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [Rs. 46,000 × 9, being the higher of actual rent received and fair rent]	4,14,000	
Less: Municipal tax paid during the P.Y. 2023-24	27,000	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	
		2,70,900
Capital Gains		



Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	Nil	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000
Income from Other Sources		
Dividend received from ABC Ltd., an Indian company	9,00,000	
Less: Exempt under section 10(34), since dividend distribution tax has been paid on such dividend	9,00,000	
(as per amendment dividend is taxable in the hands of shareholder)		Nil
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 × 100/70]	30,000	
		9,45,000
Gross Total Income		21,35,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son Rs. 31,000, restricted to Rs 25,000	25,000	
Section 80TTA		
Interest on saving bank account with SBI	10,000	
		1,85,000
Total Income		19,50,100

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 19,50,100		
Tax on long-term capital gains of Rs. 2,00,000@20% u/s 112	40,000	
Tax on lottery income of Rs. 30,000 @30% u/s 115BB	9,000	
Tax on other income of Rs. 17,20,100 [Rs. 10,50,100 - Rs. 2,00,000, capital gains - Rs. 30,000, lottery income]		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 - Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 - Rs. 10,00,000 [i.e., Rs. 5,00,100@20%]	1,00,000	
Rs. 10,00,001 -Rs.17,20,100 [i.e., Rs. 7,20,100@30%]	2,16,030	
		3,77,530
Add: Health and education cess@4%		15,101
Tax liability		3,92,631
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [Rs. 4,14,000 × 10%]	41,400	



TDS on Dividend (Rs. 9,00,000*10%)	90,000	1,40,400
Tax Payable		2,52,231
Tax Payable (rounded off)		2,52,230

Question 4

MTP April'21

Deepak is retired Government Officer, aged 65 years, resides in Hyderabad, derived following income:

	Rs.
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Deepak for the assessment year 2024-25 from the following particulars:

- Life insurance premium paid by cheque Rs. 22,500 for insurance of his life. The insurance policy was taken on 08-09-2018 and the sum assured is Rs. 2,00,000.
- Premium of Rs. 26,000 paid by cheque for health insurance of self and his wife.
- Paid interest of Rs. 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of Rs. 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

3 Marks**Answer:****Computation of total income of Mr. Deepak for A.Y.2024-25**

Particulars	Rs.	Rs.
Income under the head "Salaries"		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia) Lower of Rs. 50,000 or actual salary/pension	50,000	6,10,000
Income from Other Sources		
Interest from bank on fixed deposit (Gross)		55,000
Gross Total Income		6,65,000
Less: Deduction under Chapter VI-A Deduction under section 80C LIC premium of Rs. 22,500 (restricted to 10% of Rs. 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)	20,000	
Deduction under section 80D Premium for health insurance for self and his wife paid by cheque, allowed upto Rs. 50,000 since Mr. Deepak is a senior citizen	26,000	
Deduction under section 80E Interest on loan taken from bank for MBA course pursued by his daughter	6,500	
Deduction under section 80G Donation to an approved institution for promoting family planning not allowed since the amount exceeding Rs. 2,000 is paid in cash	Nil	



Deduction under section 80TTB		
Interest on fixed deposit with bank allowable as deduction upto Rs. 50,000, since Mr. Deepak is a senior citizen	50,000	1,02,500
Total Income		5,62,500

Question 5

RTP May'19, PYP May'18 MTP March'21

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

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Opening Balance (01-04-2023)		Staff salary and bonus to clerks	17,50,000
Cash & Bank	80,000	Other general and administrative expenses	22,00,000
Fee from legal services	49,60,000	Office rent	1,48,000
Motor car loan from SBI @12% p.a. interest	5,00,000	Life Insurance Premium (Sum Assured Rs. 5,00,000]	49,000
Sale receipts of 5,800 listed equity shares (sold on 31st March 2024)	5,95,000	Motor car (Acquired in January 2024 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2023 (annual publications)	80,000
		Computer acquired on 1-11-2023 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31-03-2024)	
		Cash & Bank	61,000
	61,35,000		61,35,000

Other information:

- Listed equity shares on which STT was paid were acquired in August 2016 for Rs. 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was Rs. 75 per share and Rs. 85 per share, respectively.
- Motor car was put to use for both official and personal purposes. 1/ 3rd of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2023-24.



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

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

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

(iv) He earned Rs. 1,20,000 in share speculation business and lost Rs. 1,80,000 in commodity speculation business.

(v) Mr. Alok received a gift of Rs. 21,000 each from four of his family friends.

(vi) He contributed Rs. 1,21,000 to PM Cares Fund by way of bank draft.

(vii) He donated to a registered political party Rs. 3,50,000 by way of cheque.

(viii) He follows cash system of accounting.

(ix) Cost Inflation Index : F.Y. 2016-17 - 264; F.Y. 2018-19 - 280; F.Y. 2023-24 - 348

Assume Mr. Alok is not willing to opt for the provisions of section 115BAC.

10 Marks

Answer:

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

Particulars	Rs.	Rs.	Rs.
Income from house property			
Gross annual value ¹ (Rs. 35,000 x 12)		4,20,000	
Less: Municipal taxes paid by Mr. Alok		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,23,540	
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
			86,760
Profits and gains of business or profession			
Income from profession			
Fees from legal services		49,60,000	
Less: Expenses allowable as deduction			
-Staff salary and bonus	17,50,000		
-Other general and administrative expenses	22,00,000		
-Office rent	1,48,000		
-Motor car maintenance (Rs. 72,000 x 2/3)	48,000		
- Car loan interest - not allowable, since Mr. Alok follows cash system of accounting and no interest is paid during the previous year)	-	41,46,000	
		8,14,000	
Less: Depreciation u/s 32			
-Motor car Rs. 9,50,000 x 15% x 50% x 2/3, being put to use	47,500		



for less than 180 days			
-Books being annual publications [Rs. 80,000 x 40%]	32,000		
Computer @40% of Rs. 52,000 x 50%, since the same is put to use for less than 180 days	10,400	89,900	
		7,24,100	
For the P.Y. 2023-24, the gross receipts of Mr. Alok is Rs. 49,60,000. Since, it does not exceed Rs. 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA. In such case, his professional income would be Rs. 24,80,000, being 50% of Rs. 49,60,000 It is more beneficial for Mr. Alok to declare profit of Rs. 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB			
Income from share speculation business	1,20,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of Rs.60,000 from commodity speculation business to be carried forward to A.Y. 2025-26	1,20,000	Nil	7,24,100
Capital Gains Long-term capital gains on sale of 5800 listed shares Sale consideration		5,95,000	
Less: Cost of acquisition is higher of		4,35,000	
- Cost of acquisition	1,21,800		
- Lower of Rs. 4,35,000 (Rs. 75 x 5800), being fair market value as on 31.1.2018 and Rs. 5,95,000, being full value of consideration on transfer	4,35,000		1,60,000
Income from other sources Cash Gift of Rs. 84,000 i.e., Rs. 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds Rs. 50,000			84,000
Gross Total Income			10,54,860
Less: Deductions under Chapter VI-A Section 80C			
Life insurance premium	49,000		
Repayment of housing loan	1,80,000		
PPF subscription	1,50,000		
	3,79,000		
Restricted to Rs. 1,50,000		1,50,000	
Section 80G			



Contribution to PM Cares Fund (100% of Rs. 1,21,000) by way of bank draft Section 80GGC		1,21,000	
Donation to registered political party made by way of cheque		3,50,000	
			6,21,000
Total Income			4,33,860
Tax liability			
Tax @10% under section 112A on long-term capital gains exceeding Rs. 1,00,000 i.e., Rs. 60,000			6,000
Tax @5% on Rs. 23,860 [Rs. 2,73,860 (total income excluding LTCG u/s 112A) - Rs. 2,50,000, being basic exemption limit			1,193
			7,193
Less: Rebate u/s 87A [Since the total income does not exceed Rs. 5 lakhs. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			1,193
			6,000
Add: Health and Education cess@4%			240
Tax liability			6,240

Question 6

RTP May'19, PYP May'18 MTP March'21

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

Basic salary ₹ 25,000 p.m.

DA (50% of it is meant for retirement benefits)

50% Basic Pay Own contribution to

Recognized Provident Fund (R.P.F.)

₹ 30,000 Employer's contribution to

R.P.F. 20% of basic salary Interest credited in the R.P.F account@15% p.a.,

₹ 15,000

Arrears of rent received from XYZ Limited ₹ 75,000

Received interest ₹ 10,000 from Axis Bank Savings account during the year, and interest of ₹ 12,040 (gross) from the debentures of M/s. Coal India Ltd.

He made payment through cheque ₹ 15,370 towards premium on Life insurance policies and ₹ 22,500 for Mediclaim Insurance Policy for his major dependent daughter.

He had contributed ₹ 1,196 pm towards Atal Pension Yojana and ₹ 5,000 pm towards Sukanya Sannidhi account.

XYZ Limited has taken residential house of Mr. Raj as Company's guest house and later purchased from him in the year 2020 at market value for ₹ 75 lakhs. Purchase cost was only ₹ 10 lakhs in April, 2008.

During August, 2023, Mr. Raj had sold his gold chain and a diamond ring for ₹ 3,99,000 which he had purchased in April, 2008 for ₹ 1,13,000.



Donation of ₹ 11,000 to Prime Minister's National Relief Fund were given during the year by way of cheque. (CII for 2008-09:113, 2019-20: 289, 2023-24: 348)(MTP 14 Marks, Oct'20)

(The full value of consideration of diamond ring has been changed from Rs 3,40,000 lakhs to Rs. 3,99,000 Lakhs to keep the essence of the question)

Answer:

Computation of Total Income and tax payable by Mr. Raj for the A.Y.2024-25

Particulars		₹	₹
Income from Salaries			
Basic Salary (₹ 25,000 x 12)			3,00,000
Dearness Allowance (₹ 3,00,000 x 50%)			1,50,000
Employer's contribution to recognized provident fund:			
Actual contribution [20% of ₹ 3,00,000]		60,000	
Less: Exempt [12% of ₹ 3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)]		45,000	15,000
Interest credited in recognized provident fund account@15% p.a.		15,000	
Less: Exempt up to 9.5% p.a.		9,500	5,500
Income from house property			4,70,500
Arrears of rent [Taxable under section 25A, even if Mr. Raj is no longer the owner of house property]		75,000	
Less: 30% of arrears of rent		22,500	52,500
Capital gain on sale of guest house:			
As the sale was made in the year 2020, the capital gain does not relate to assessment year 2024-25.			Nil
Capital Gain on jewelers [Long term, since the capital assets are held for more than 36 months]			
Full value of consideration		3,99,000	
Less: Indexed cost of acquisition [₹ 1,13,000 x 348/113]		3,48,000	51,000
Income from Other Sources			
Interest from savings bank account		10,000	
Interest on debentures		12,040	22,040
Gross total Income			5,96,040
Less: Deductions under Chapter VI-A			
Section 80C			
Own contribution to RPF	30,000		
LIC premium [It is assumed that premium does not exceed 10%/20% of sum assured, as the case may be]	15,370		
Deposit in Sukanya Samridhi Scheme [₹ 5,000 x 12]	60,000	1,05,370	
Section 80CCD(1B)			
Contribution to Atal Pension Yojana, a notified pension scheme		14,352	
Section 80D - Mediclaim Insurance for major dependent daughter		22,500	
Section 80G - Donation to PM National Relief Fund [100%]		11,000	



Section 80TTA - Interest on savings bank account (allowed in full Up to ₹ 10,000)		10,000	1,63,222
Total Income			4,32,818
Total Income (rounded off)			4,32,820
Tax Liability			
Tax on Long-term Capital Gains @20% of ₹ 51,000		10,200	
Tax on balance income of ₹ 3,81,820		6,591	16,791
Less: Rebate under section 87A would be lower of ₹12,500 or tax liability, since the total income does not exceed ₹ 5,00,000			12,500
			4,291
Add: Health and Education cess @4%			172
Tax liability			4,463
Less: TDS on interest on debenture			1,204
Tax payable			3,259
Tax payable (Rounded off)			3,260

Question 7

MTP Oct'19

Dr. Saxena (56 years), a resident individual furnished the following information for the previous year 2023-24.

Income and Expenditure A/c

To	Rs.	By	Rs.
Salary to staff	3,78,000	Consultation fees	51,85,000
Cost of medicine	36,35,000	Cost of medicines recovered	7,85,000
Rent	66,000	Stock of medicine	25,000
Administrative cost	11,98,000	Interest on Post Office MIS	86,400
Advance tax	1,40,000	Interest on Time Deposit with bank (Net of TDS)	27,000
Membership fees	5,000	Rent received	20,000
Depreciation on apparatus	42,500	Winning from lotteries (Net of TDS)	7,000
Net profit	6,70,900		
	61,35,400		61,35,400

Other Information

(i) Depreciation as per Income-tax Rules, 1962 to be computed as follows:

(ii) WDV as on 1.4.2013 Rs.3,00,000

Rate of depreciation @ 15%

(iii) Cost of administration includes Rs. 3,000 paid for municipal tax for the house let out to a tenant.

(i) Cost of lottery tickets amounting to Rs. 350 has not been debited to Income and Expenditure account.

(ii) He received salary of Rs. 1,50,000 and commission of Rs. 50,000 from a nursing home in which Dr. (Mrs.) Saxena is also an equal partner. No TDS was deducted.

(iii) He received fees of Rs. 50,000 from University of Chennai as lecturer.

(iv) Received pension of Rs. 84,000 against Life insurance cum pension plan from LIC

(v) He paid lump sum payment of Rs. 1,05,000 by cheque as Mediclaim insurance premium for 3 years term for self and his wife medical treatment.



- (vi) He paid LIC premium of Rs. 80,000 for his own life against a policy taken on 01.12.2017. Sum assured is Rs. 10,00,000
- (vii) He has deposited Rs. 1,20,000 in PPF
- (viii) He purchased 300 shares in C Ltd. on 12.1.2017 at a cost of Rs.2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is Rs.1,800. He sold all the shares of C Ltd. on 15.7.2023 for Rs.3,200. You are required to compute the total income and tax payable thereon by Dr. Saxena for the assessment year 2024-25. Assumed that he does not opt for 115BAC. **14 Marks**

Answer:

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

Particulars	Rs.	Rs.
Income from House Property (Note 1)		11,900
Profits and gains of business or profession (Note 2)		8,71,000
Income from other sources (Note 3)		2,60,400
Long-term capital gain under section 112A [The cost of acquisition of equity shares of C Ltd. would be Rs. 2,500, being higher of actual cost i.e., Rs. 2,500 and Rs. 1,800 (being the lower of FMV of Rs. 1,800 as on 31.1.2018 and actual sale consideration of Rs. 3,200). Accordingly, the long-term capital gains would be Rs. 2,10,000 i.e., [(Rs. 3,200 - Rs. 2,500) x 300].		2,10,000
Gross Total income		13,53,300
Less: Deductions under Chapter VIA		
(i) Deduction under section 80C		
Investment in PPF	1,20,000	
Life insurance premium paid [Fully allowable since it does not exceed 10% of sum assured]	80,000	
	2,00,000	
Deduction restricted to	1,50,000	
(ii) Deduction under section 80D		
Medical insurance premium for self and his wife, pertaining to the previous year 2023-24 is Rs. 35,000, being 1/3rd of Rs. 1,05,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000	1,75,000
Total income		11,78,300
Components of Total Income		
Special income :		
Long-term capital gains under section 112A		2,10,000
Winning from lotteries (chargeable at special rate @ 30% under section 115BB)		10,000
Normal income		9,58,300
Computation of Tax		11,78,300



Tax on long-term capital gains under section 112A @10% in excess of Rs. 1,00,000		11,000
Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (Rs. 9,58,300)		
Up to Rs. 2,50,000	NIL	
Rs. 2,50,001-Rs. 5,00,000 @ 5%	12,500	
Rs. 4,58,300 (Rs. 5,00,001 - Rs. 9,58,300) @ 20%	91,660	1,04,160
Income tax payable		1,18,160
Add: Health & Education cuss @4%		4,726
Total Tax Payable		1,22,886
Less: Tax deducted at source		
From Interest	3,000	
From lottery income	3,000	6,000
		1,16,886
Less : Advance tax paid		1,40,000
Net Tax Refundable		(23,114)
Net Tax Refundable (rounded off)		(23,110)

Notes:**1. Computation of Income from House Property**

Particulars	Rs.
Gross Annual Value - Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	3,000
Net Annual Value (NAV)	17,000
Less : Statutory deduction under section 24 @ 30% of NAV	5,100
Income from House Property	11,900

2. Computation of Profits and gains of business or profession

Particulars	Rs.	Rs.
Net Profit as per Income & Expenditure Account		6,70,900
Add : Depreciation charged	42,500	
Municipal Taxes paid	3,000	
Advance Tax (See Note-4)	1,40,000	1,85,500
Less: Rent received	20,000	8,56,400
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income-tax Act, 1961	45,000	1,85,400
Salary from Nursing Home as partner	1,50,000	6,71,000
Commission from Nursing home as partner	50,000	2,00,000
Income from business		8,71,000



3. Computation of Income from Other Sources

Particulars	Rs.
Interest Post Office MIS	86,400
Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross) (See Note 7)	10,000
Fees from University of Chennai	50,000
Pension from LIC	84,000
Income from Other Sources	2,60,400

Advance Tax is not allowable as deduction.

1. Depreciation of Apparatus :

	Rs.
WDV as on 1.4.2023	3,00,000
Depreciation @15%	45,000
WDV as on 01.4.2024	2,55,000

2. Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.
3. As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being Rs. 350, cannot be allowed as deduction from income from winnings of lotteries. Pension from LIC is taxable as Income from other sources

Question 8

RTP May '18 MTP April'19

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

- (i) He is a working partner in ASC & Co. He has received the following amounts from the firm:
Interest on capital at 15% : Rs.3,00,000

Salary as working partner (at 1% of firm's sales) (allowed fully to the firm) : Rs.90,000

- (ii) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarized form) is as under:

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



To Net profit	4,32,000		
	13,79,000		13,79,000

Details of assets:

Particulars	Rs.
Opening WDV of assets are as under: Car	3,00,000
Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	
Purchased on 15.9.2023 by cash in single payment	2,00,000
Purchased on 12.12.2023 by account payee cheque	3,00,000
Second hand machinery purchased on 30.4.2023 by bearer cheque in single payment	1,25,000

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

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

Details of his Savings and Investments are as under:

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

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

14 Marks

Answer:

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

Particulars	Rs.	Rs.
Income from house property		
Arrears of rent received in respect of the Bangalore house taxable under section 25A [Note 1]	75,000	
Less: Deduction @ 30%	22,500	52,500
Profits and gains of business or profession		
(a) Own business [Note 3]		6,32,500
(b) Income from partnership firm [Note 2]		
Interest on capital	2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]		
Salary of working partner (Since the same has been		



fully allowed as deduction in the hands of the firm)		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		55,000	79,000
Gross Total Income			10,94,000
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assesses. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs.2,00,000.	20,000		
Contribution to PPF	70,000	90,000	
Section 80D			
Mediclaime premium for mother, a senior citizen	52,000		
(qualifies for deduction, even though the mother is not dependent on the assesses, subject to a maximum of Rs.50,000)		50,000	
Section 80TTB			
Interest on bank FD	55,000		
(subject to a maximum of Rs.50,000)		50,000	1,90,000
Total Income			9,04,000

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

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

Notes:

- As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assesses is the owner of the house property.
- The income by way of interest on capital and salary of Mr. Ashwin from the firm, ASC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, Rs.3,30,000 [i.e., Rs.90,000 (salary) + Rs.2,40,000 (interest@12%)] should be included in his business income.



(3) Computation of income from own business

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	49,500	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,33,500
		2,98,500
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs.50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds Rs.10,000	15,000	5,20,000
		8,18,500
Less: Depreciation (See Working Note below)		1,86,000
Income from business		6,32,500
of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 30.4.2023 and on new machinery purchased on 15.9.2023 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]		
Depreciation @ 7.5% on Rs.3,00,000	22,500	
Total normal depreciation on machinery (A)	1,20,00	
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation (B)		
New machinery		
Used for less than 180 days = 10% of Rs.3,00,000	30,000	
Total permissible depreciation on machinery (A) + (B)		1,50,00
Depreciation allowable under section 32		1,86,00

Question 9

MTPMarch'19

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

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



Transport allowance Rs.22,000

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

- (i) Laptop for Rs.20,000 (Acquired in September, 2022 for Rs.1,20,000)
- (ii) Car 1800 cc for Rs.3,20,000 (purchased in April, 2021 for Rs.8,50,000)

He also owns a residential house, let out for a monthly rent of Rs.15,000. The fair rental value of the property for the let out period is Rs.1,50,000. The house was self -occupied by him from 1st January, 2024 to 31st March, 2024. He has taken a loan from bank of Rs.20 lacs for the construction of the property, and has repaid Rs.1,05,000 (including interest Rs.40,000) during the year.

(iii) Mr. Satish sold equity shares of different Indian companies on 14 th March, 2024:

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

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

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

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

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

14 Marks

Answer:

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

Particulars	Rs.
Income from salaries [Working Note (1)]	9,66,000
Income from house property [Working Note (2)]	1,00,000
Capital gain [(Working Note 3)]	
Long-term capital gains	5,970
Short-term capital gains	2,490
Income from other sources: Interest on income-tax refund	750
Gross Total Income	10,75,210
Less: Deduction under Chapter VIA	
Deduction under section 80C	
-Public Provident Fund	1,30,000
5 years Term deposit (not allowed as deduction in the name of minor son)	-
-Repayment of housing loan (principal)	65,000



Restricted to	1,95,000	1,50,000
Deduction under section 80D [Working Note (4)]		25,000
Total Income		9,00,210

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

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

Working Notes:

(1) Income from salaries

Particulars	Rs.	Rs.
Basic Salary		5,40,000
HRA (computed)		1,80,000
Transport allowance		22,000
Perquisites (relating to sale of movable assets by employer)		
Laptop		
Cost [September, 2022]	1,20,000	
Less: Depreciation at 50% for one completed year	60,000	
WDV [September, 2023]	60,000	
Less: Amount paid to the employer	20,000	
Perquisite value of laptop (A)	40,000	
Car		
Cost [April, 2021]	8,50,000	
Less: Depreciation for the 1st year (April,22 to March,23) @ 20% of WDV	1,70,000	
WDV [April, 2022]	6,80,000	
Less: Depreciation for the 2nd year (April,23 to March,24) @ 20% of WDV	1,36,000	
WDV [April, 2023]	5,44,000	
Less: Amount paid to the employer	3,20,000	
Perquisite value of car (B)	2,24,000	
Perquisite value (A) + (B)		2,64,000
Gross Salary		10,06,000
Less: Standard Deduction under section 16(ia) (as per amendment Rs. 50,000)		40,000
		50,000
Income chargeable under the head "Salaries"		9,56,000

(2) Income from house property

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



benefit of taking the annual value as „Nil“ would be available only if the house is self-occupied for the whole year.

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

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

Note:

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

(3) Income chargeable as "Capital Gains"

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

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

Since, the long term capital gain do not exceed Rs.1 lakh, the same would be exempt under section 112A. Shares in B Ltd.

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



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

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

(4) Deduction under section 80D

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

Question 10

MTP Oct'18

Dr. K.P Singh, a resident individual aged 45 years, furnishes you the following information:
Income and Expenditure Account for the year ended 31st March 2024

Particulars	Rs.	Particulars	Rs.
To Medicines consumed	42,42,000	By Fee receipts	59,47,500
To Staff salary	11,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian companies	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net Income	3,46,000		
	59,83,500		59,83,500

- Rent paid includes rent for his residential accommodation of Rs. 40,000 (paid by cheque) at Bangalore.
- Hospital equipment's (eligible for depreciation @15%) 01.04.2023 Opening WDV Rs.5,00,000 07.12.2023 Acquire by A/c payee cheque (Cost) Rs.2,00,000
- Medicines consumed include medicines (cost) Rs. 10,000 used for Dr. K.P. Singh's family.
- Rent received - relates to a property situated at Mumbai (Gross Annual Value). The municipal tax of Rs. 2,000 paid in November, 2023 has been included in the "administrative expenses".
- He received Rs. 5,000 per month as salary from Full Cure Hospital. This has not been included in the "fee receipts" credited to income and expenditure account.
- He sold a vacant site in July, 2023 for Rs.9,18,142. It was inherited by him from his father in July, 2004. The site was acquired by his father in December, 1990 for Rs.1,50,000. Fair market value of vacant site on 01.04.2001 is Rs. 2,50,000

(Cost inflation index for F.Y 2001-02: 100; 2004-05: 113, 2017-18:272, 2023-24: 348)

You are required to compute the total income and tax payable by Dr. K.P. Singh for the Assessment Year 2024-25. Assumed that sec 115BAC is not opted.

(The consideration has been changed from Rs 7,50,000 to Rs.9,18,142 to keep the essence of the question)

10 Marks

Answer:



Computation of total income of Dr. K.P. Singh for the previous year ended 31.03.2024

Particulars	Rs.	Rs.
Income from Salaries		
Salary received @ Rs.5,000 per month	60,000	
Less: Standard deduction of lower of salary or Rs. 50,000 (as per amendment)	(50,000)	10,000
Income from house property		
Gross Annual Value (Rent is taken as GAV in the absence of any other information)	27,000	
Less: Municipal tax	2,000	
Net Annual Value	25,000	
Less: Deduction under section 24 @30%	7,500	17,500
Income from business or profession		
Net income as per Income & Expenditure Account	3,46,000	
Add: Rent paid for residence	40,000	
Medicines consumed - personal use	10,000	
Municipal tax relating to let out property included in administrative expenses - disallowed	2,000	
	3,98,000	
Less: Depreciation (Note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies	9,000	2,72,000
Capital Gains (Long term capital gains since held form more than 24 months)		
Sale consideration	9,18,142	
Less: Indexed cost acquisition (Rs.2,50,000 x 348/113) (Note 3)	7,69,912	1,48,230
Income from other sources		
Dividend from Indian companies (as per amendment it is taxable in the hands of shareholder)	9,000	
Less: Exempt under section 10(34)	9,000	9,000
Gross Total income		4,56,730
Less: Deduction under Chapter VIA		
Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following		
(i)25% of total income = 25% of Rs3,08,500(See Note 1)	77,125	
(ii)Excess of rent paid over 10% of total income (Rs.40,000 - Rs. 30,850)	9,150	
(iii)Rs.5,000 per month	60,000	
Least of the above		9,150
Total Income		4,47,580



Computation of tax liability of Dr. K.P. Singh for the Assessment Year 2024-25

Particulars	Rs.
Tax on long term capital gains 20% of Rs.1,48,230	29,646
Tax on other income of Rs.2,99,350 [Rs. 4,47,580 - Rs. 1,48,230]	2,468
	32,114
Add: EC & HSEC @ 4% (as per amendment)	1285
Tax liability	33,399
Rebate u/s 87A (as per amendment maximum upto 12500 is exempt)	(12,500)
Tax liability	20,899

Notes:

- Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI -A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = Rs.4,56,730 - Rs.1,48,230 = Rs.3,08,500
- Depreciation on plant & machinery

	Rs.
On opening WDV of Rs.5,00,000 @15%	75,000
On equipment acquired Rs.2,00,000 @7.5% (50% thereon, since acquired in December, 2023)	15,000
	90,000

- Since the property was acquired by Dr. K.P. Singh through inheritance, the cost of acquisition to him would be the cost of acquisition to the previous owner. As per section 55(2)(b), Cost of acquisition to the previous owner would be the higher of cost of acquisition to the previous owner i.e., Rs.1,50,000 or Fair Market Value of the capital asset on 01.04.2001 i.e., Rs. 2,50,000. However, indexation will be from the year in which the assessed (i.e., Dr. K.P. Singh in this case) first held the asset i.e. F.Y. 2004-05.

Alternative view: In the case of CIT v. Manjula J. Shah 16 Taxman 42 (Bom.), the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

As per this view, this indexed cost of acquisition of the vacant site would be Rs.6,80,000.

Question 11

MTP Oct'18

From the following details furnished by Mrs. Heena, a finance manager of AB Ltd., Delhi, compute the gross total income for the Assessment Year 2024-25.

Particulars	Amount (Rs.)
Salary including Dearness Allowance (Dearness Allowance forms part of salary for retirement benefits)	6,50,000
Conveyance allowance of Rs.900 p.m.	10,800



Children education allowance	Rs.500 p.m. for two children
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mrs. Heena	82,000
Computer (cost Rs.35,000) kept by the employer in the residence of Mrs. Heena from 01.07.2023	
Contribution to recognized provident fund	15 % of salary including D.A.

Heena purchased a flat in a co-operative housing society in Rohini, Delhi for self occupation for Rs.35,00,000 in April 2020, which was financed by a loan from State Bank of India of Rs.20,00,000 @11% interest and her own savings of Rs.5,00,000 and a deposit of Rs.10,00,000 from Bank of Baroda, to whom she let out her another house in Dwarka, Delhi on lease for ten years. The rent payable by Bank of Baroda is Rs. 35,000 per month. Other relevant particulars are given below:

- Municipal taxes paid by Heena for her flat in Rohini are Rs. 15,000 per annum and for her house in Dwarka are Rs. 12,000 per annum.
- Principal loan amount outstanding as on 01-04-2023 was Rs.18,50,000.
- She also paid Rs. 7,000 towards insurance of both the houses.
- Mrs. Heena's son is studying in a school run by the employer company throughout the financial year 2023-

24. The education facility was provided free of cost. The cost of such education in similar school is Rs.2,500 per month.

- Heena also received gifts of Rs.45,000 each from her two friends during the financial year 2023-24.

10 Marks

Answer:

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

Particulars	Rs.	Rs.
Salaries		
Salary including dearness allowance		6,50,000
Bonus		50,000
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of Rs.6,50,000)		19,500
Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit).		Nil
Children education allowance (Rs.500 x 12)	6,000	
Less: Exempt under section 10(14) (Rs.100 x 2 x 12)	2,400	3,600
Value of perquisites:		
(i) Salary of servant [Rule 3(3)]		48,000
(ii) Free gas, electricity and water [Rule 3(4)]		82,000



Cost of free education provided by employer (Rs. 2,500 × 12) is fully taxable, since the cost of education exceeds Rs.1,000 per month [Rule 3(5)].		30,000
(iv) Computer provided in the residence of employee by the employer- not chargeable to tax [Rule 3(7)(vii)]	Nil	
		8,83,100
Less: Standard Deduction upto Rs. 50,000 (as per amendment)		50,000
Income chargeable under the head "Salaries"		8,33,100
Income from house property		
Let-out property (At Dwarka)		
Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (Rs.35,000 × 12)	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Deduction under section 24(a): 30% of NAV* (A)	1,22,400	
(A)	2,85,600	
Self-occupied property (At Rohini)		
Net Annual Value (NAV) [Since the property is self-occupied]	Nil	
Less: Deduction under section 24(b)	(2,00,000)	
Interest on loan from State Bank of India @11% of Rs.18,50,000 = Rs.2,03,500 restricted to		
(B)	(2,00,000)	
Income from house property [A - B]		85,600
Income from Other Sources		
Gift received from two friends [taxable under section 56(2)(x)] since the aggregate amount received during the year exceeds Rs.50,000 (Rs.45,000 × 2)		90,000
Gross Total Income		10,08,700

* No separate deduction is allowable in respect of insurance.

Question 12

MTP Aug'18

Dr. Kumar is running a clinic in Delhi. His Income and Expenditure account for the financial year ended 31-03-2024 is given below:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Staff salary	4,30,000	By Fee receipts	12,63,600
To Consumables	14,750	By Dividend from an Indian Company	15,000
To Medicine consumed	3,69,800	By Winning from lotteries (Net of TDS)	28,000
To Depreciation	91,000	By Income-tax refund	2,750
To Administrative expenses	1,51,000	By Honorarium for lectures at seminars	24,000
To Rent of clinic	20,000		
To Donation to Prime Minister's National Children's Fund	5,000		
To Excess of income over expenditure	2,51,800		
Total	13,33,30	Total	13,33,350



Other Information:

- (1) Depreciation in respect of all assets has been computed at Rs. 50,000 as per Income-tax Rules, 1962
 - (2) Medicines consumed include cost of medicine for self and family of Rs. 25,000 and for treating poor patients of Rs. 24,000 from whom he did not charge any fee either
 - (3) Salary includes Rs. 15,000 paid in cash to a computer specialist who computerized his patient's data in October, 2013.
 - (4) Donation to Prime Minister's National Children's Fund has been made by way of a crossed cheque.
 - (5) He has paid a sum of Rs. 25,000 for Life Insurance Policy (Sum assured Rs. 2,00,000) of himself, which was taken on 1-07-2012.
 - (6) He has sold a land in August, 2013 for Rs. 12,00,000, the stamp duty value of which was Rs. 17,04,000 on that date. The land was acquired by him in May, 2001 for Rs. 4,00,000.
 - (7) He has paid Rs. 4,000 for purchase of lottery tickets, which has not been debited to Income and Expenditure account.
 - (8) He also contributed Rs. 1,20,000 towards Public Provident Fund.
 - (9) Dr. Kumar also paid interest of Rs. 10,000 on loan taken for higher education of his daughter.
- You are required to compute the total income and tax payable by Dr. Kumar for the Assessment Year 2024-25. Cost Inflation Index: F.Y. 2001-2002 - 100, F.Y. 2017-18 - 272, FY 2023-24- 348. Assume that 115BAC is not opted.

(The stamp duty value of land has been changed from Rs 14 lakhs to Rs. 17.04 Lakhs to keep the essence of the question) 10 Marks

Answer:

Computation of Total income of Dr. Kumar for the Assessment Year 2024-25

Particulars	Rs.
Profits and gains of business or profession (Working Note 1)	2,68,050
Capital Gains (Working Note 2)	3,12,000
Income from other sources (Working Note 3)	79,000
Gross Total Income	6,59,050
Less: Deduction under Chapter VI-A (Working Note 4)	1,55,000
Total Income	5,04,050

Computation of tax liability of Dr. Kumar for the Assessment Year 2024-25

Particulars	Rs.
Tax on winnings from lotteries [Rs. 40,000 @ 30%]	12,000
Tax on long term capital gains 20% of Rs. 2,14,050, being Rs. 3,12,000 - unexhausted basic exemption limit of Rs. 97,950 [i.e., Rs. 2,50,000 - (Rs. 2,68,050 + Rs. 39,000 - Rs. 1,55,000)] (As Tax on Balance Income)	42,810
	54,810
Add: Education cess@2% and secondary and higher education cess@1%	1,554
Add: EC & HSEC @ 4% (as per amendment)	2,193
Total tax liability	57,003



Less: Tax deducted at source	12,000
Net tax liability	45,003
Net tax liability (rounded off)	45,000

Working Notes:**1. Computation of income under the head "Profits and gains of business or profession"**

Particulars	Rs.	Rs.
Net income as per Income and Expenditure Account		,800
Add: Expenditure debited to Income and Expenditure Account but to be disallowed		
Depreciation (Rs. 91,000 - Rs. 50,000)	41,000	
Medicine consumed for self and family (disallowed under section 37, being expenditure of personal nature) Medicine consumed for treating poor patients from whom fees was not charged is an allowable expense, since the same is incurred in the course of carrying on medical profession.	25,000	
	-	
Cash payment of salary disallowed under section 40A(3), since the same is in excess of Rs. 10,000	15,000	
Donation to Prime Minister's National Children's Fund (not allowable as deduction while computing income from profession)	5,000	86,000
Less: Income credited to Income and Expenditure Account but not chargeable to income-tax or not chargeable under this head		3,37,800
Dividend from Indian company	15,000	
Winning from lotteries (taxable under the head "Income from other sources")	28,000	
Income-tax refund (Not taxable)	2,750	
Honorarium for giving lectures at seminars (taxable under the head "Income from other sources")	24,000	69,750
Income from profession		2,68,050

Computation of income under the head "Capital Gains"

Particulars	Rs.	Rs.
Sale consideration	12,00,000	
Valuation as per Stamp Valuation Authority	17,04,000	
(Value to be taken is the higher of the actual sale consideration or valuation adopted for stamp duty purpose as per section 50C) (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)		
Full value of consideration		17,04,000



Less: Indexed cost of acquisition (Rs. 4,00,000 × 348/100)		13,92,000
Long term Capital gains (Since Land was held from more than 24 months)		3,12,000

Computation of income under the head "Income from Other Sources"

Particulars	Rs.	Rs.
Dividend from Indian company [Exempt u/s 10(34)] (taxable in hands of shareholder as per amendment)		15,000
Honorarium for giving lectures at seminars		24,000
Winning from lotteries (Net)	28,000	
Add: TDS @30% (Rs. 28,000 × 30/70)	12,000	40,000
Income from other sources		79,000

Note: As per section 58(4), no expense or deduction is allowable in respect of winning from lotteries.

Computation of deduction under Chapter VI-A

Section	Particulars	Rs.
80C	Life Insurance Premium [Rs. 25,000 restricted to 10% of Rs. 2,00,000 (i.e. sum assured) since the policy is issued on or after 1.4.2012]	20,000
	Contribution to Public Provident Fund	1,20,000
		1,40,000
80E	Interest on loan taken for higher education of daughter	10,000
80G	Donation to Prime Minister's National Children's Fund [100% deduction allowable, since it is made by a mode other than cash]	5,000
	Total deduction under Chapter VI-A	1,55,000

Question 13

MTP Aug'18

From the following information of Ms. Kareena, born on 16th August, 1975, an Indian resident, you are required to compute total income and tax payable by Ms. Kareena for the Assessment Year 2024-25.

Particulars	Rs.
Long-term capital gains on sale of house	1,50,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	50,000
Loss from house property	3,50,000
Interest from saving account in post office	15,000
Prize winning from a T.V. show (Gross)	20,000
Business income	5,50,000
Net agricultural income	1,10,000
LIC premium for self and husband	70,000
Tuition fees to University for full time education of her daughter	50,000

7 Marks



Answer:

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

Particulars	Rs.	Rs.
Profits and gains from business or profession		
Business income	5,50,000	
Less: Loss from house property of Rs. 3,50,000 to be restricted to Rs. 2,00,000 by virtue of section 71(3A) [Note 2]	2,00,000	3,50,000
Capital Gains		
Long term capital gains on sale of house	1,50,000	
Short term capital gains on sale of shares in B Pvt. Ltd	50,000	2,00,000
Income from other sources		31,500
Interest from saving account in post office	15,000	
Less: Exempt under section 10(15) to the extent of Rs. 3,500	3,500	
	11,500	
Prize winnings from a T.V. show	20,000	
Gross Total Income		5,81,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium for self and husband	70,000	
Tuition fees to University for full time education	50,000	
Deduction under section 80TTA - Interest on saving account in post office	1,20,000	
	10,000	1,30,000
Total Income		4,51,500

Computation of tax payable by Ms. Kareena for the A.Y.2024-25

	Particulars	Rs.	Rs.
	Step 1		43,075
	Agricultural income and Non-agricultural income (Rs. 1,10,000 + Rs. 4,51,500)	5,61,500	
	Tax on the above income		
(i)	Tax on long-term capital gain of Rs. 1,50,000 @ 20%	30,000	
(ii)	Tax on winnings of Rs. 20,000 from a T.V. show @ 30%	6,000	
(iii)	Tax on balance income of Rs. 3,91,500	7,075	
	Total tax on Rs. 5,61,500		43,075
	Step 2	3,60,000	
	Basic exemption limit to agricultural income (Rs. 2,50,000 + Rs. 1,10,000)		
	35B Tax on Rs. 3,60,000		5,500
	Step 3		
	Tax on non-agricultural income (Tax under step 1 - Tax under step 2) (Rs. 43,075 - Rs. 5,500)		37,575



Add: Education cess @ 2%	751
Add: Secondary and higher education cess @ 1%	376
Add: EC & HSEC @ 4% (as per amendment)	1503
Tax payable by Ms. Kareena	39,078
Tax payable (Rounded off)	39,070

Notes:

- Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.
- The balance loss of Rs. 1,50,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

Question 14

MTP March'18

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

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

Mr. Rajan also furnishes the following additional information:

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

The land was acquired in August 2021 for ₹ 1,10,000 from his friend.

- Rent paid includes ₹ 50,000 paid towards rent for his residence in Nagpur and ₹ 10,000 for hiring a Maruti Van for business purpose.
- Municipal tax includes ₹ 10,000 paid as tenant.



- (x) Paid premium on life insurance policy taken for his handicapped daughter ₹ 50,000 (suffering from disability mentioned in section 80U). The policy was taken on 01-04-2016 and the minimum sum assured is ₹ 3,00,000.
- (xi) Interest shown in the Profit & Loss A/c, paid on loan borrowed for his own business purposes. It includes ₹ 10,000 payable to a non-resident on which tax has not been deducted.
- Compute the total income of Mr. Rajan for the Assessment Year 2024-25. **10 Marks**

Answer:

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

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

Working Notes:

i. Computation of income under the head "Income from House Property"

Particulars	₹
Let-out portion - 50%	
Gross Annual Value (Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)	1,50,000
Less: Municipal taxes paid in respect of let out portion [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as tenant)]	13,000
Net Annual Value (NAV)	1,37,000
Less: Deduction under section 24@30% of NAV	41,100
Income from House Property	95,900

(ii) Computation of income under the head "Profits and gains of business or profession"

Particulars	₹	₹
Net profit as per Profit and Loss account		1,10,350
Add: Expenses debited to profit and loss account but not allowable or to be considered separately		
(i) Fire Insurance [50% of ₹ 15,000, disallowed since relating to let-out portions of house property owned by him]	7,500	
(ii) Income-tax [disallowed as per section 40(a)(ii)]	30,000	
(iii) Household expenses [Personal expenses are disallowed by virtue of section 37]	50,000	



(iv) Contribution to IIT, Mumbai for approved scientific research programmer to be considered separately	1,00,000	
(v) Municipal Taxes paid as tenant [Personal expenses are disallowed by virtue of section 37]	10,000	
(v) Municipal Taxes paid in respect of let-out portions [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as a tenant) disallowed since incurred for personal purposes]	13,000	
(vi) Investment in NSC (Deduction allowed under section 80C)	10,000	
(vii) Interest payable to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	10,000	
(viii) Rent paid for his residence [Personal expenses not allowed as deduction as per section 37]	50,000	
		2,80,500
Less: Weighted deduction@150% for contribution to IIT, Mumbai for scientific research programmer approved under section 35(2AA) [₹ 1,00,000 × 150%] <i>Deduction reduced to 100 % as per amendment</i>		3,90,850
		1,50,000
		1,00,000
		2,90,850
Less: Income credited to Profit & Loss Account but not taxable under this head:		
(i) Cash gifts	51,000	
(ii) Interest on debentures	6,750	57,750
Profits and gains from business and profession		2,33,100

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

Particulars	₹	₹
Capital gains		
Actual Sale consideration	1,50,000	
Value adopted by Stamp Valuation Authority	2,80,000	
Gross Sale consideration		2,80,000
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C] (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)		
Less: Cost of acquisition		1,10,000
Short term capital gain [Since vacant land is held by Mr. Rajan for not more than 24 months]		1,70,000



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

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

Computation of deduction under Chapter VI-A

Particulars	₹	₹
Deduction under section 80C		
Investment in NSC	10,000	
LIC Premium paid ₹ 50,000 [deduction restricted to 15% of ₹ 3,00,000, being the capital sum assured, since the policy was taken after 31.3.2013 to insure the life of his disabled daughter]	45,000	55,000
Deduction under section 80GG [Since Mr. Rajan is staying in a rented premise in Nagpur itself, he would		

not be eligible for deduction under section 80GG as he owns a house in Nagpur which he has let out.		NIL 55,000
Deduction under Chapter VI-A		

Question 15

MTP March'18

Mrs. Sushma, born on 1st April, 1958 furnishes the following information for the year ended 31-03-2024:

Particulars	₹
Long-term capital gains on sale of shares in XYZ Pvt. Ltd.	2,00,000
Short-term capital gains on sale of house property	30,000
Dividend income from ABC Ltd, an Indian company	11,50,000
Business Income	3,20,000
Salary	2,40,000
Lottery winning (Gross)	2,20,000
Net agricultural income	60,000
Mrs. Sushma has paid the following:	
LIC premium of self	40,000
LIC premium of husband	20,000
Deposit in Tax Saver Deposit with PNB Bank in the name of major son	25,000

Compute the tax payable by Mrs. Sushma for the Assessment Year 2024-25.

6 Marks

Answer:



Computation of tax payable by Mrs. Sushma for the A.Y. 2024-25

Particulars	₹	₹
Step 1		
Agricultural income and Non-agricultural income (₹ 60,000+₹ 20,50,000) [For computation of non-agricultural income, see Working Note below]	21,10,000	
Tax on the above income		
(i) Tax on long-term capital gain of ₹ 2,00,000 @ 20%	40,000	
(ii) Tax on dividend of ₹ 1,50,000 @ 10% (taxable as per normal slab rates as per amendments)	15,000	
(ii) Tax on winning from lotteries ₹ 2,20,000 @ 30%	66,000	
(iv) Tax on remaining income of ₹ 16,90,000 (₹ 16,30,000 +₹ 60,000) at normal slab rate i.e., 1,12,500 plus 6,90,000 @ 30%	3,19,500	4,23,000
Total tax on ₹ 11,60,000		4,23,000
Step 2		
Basic exemption limit to agricultural income (₹ 3,00,000 +₹ 60,000)	3,60,000	
Tax on ₹ 3,60,000		3,000
Step 3		
Tax on non-agricultural income (Tax under step 1 - Tax under step 2) (₹ 1,49,000 - ₹ 3,000)		4,20,000
Add: Education cess @ 2%		2,920
Add: Secondary and higher education cess @ 1%		1,460
Add: EC & HSEC @ 4%		16,800
Tax payable by Mrs. Sushma		1,50,380

Working Note:

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

Particulars	₹	₹
Business income		3,20,000
Salary (Less standard deduction of Rs 50,000 as per amendment) (2,40,000-50,000)		1,90,000
Dividend income [See Note 2]		11,50,000
Long term capital gains on sale of shares in XYZ Pvt. Ltd.		2,00,000
Short term capital gains on sale of house property		30,000
Lottery winning (Gross)		2,20,000
Gross Total Income		21,10,000
Less: Deduction under section 80C		
Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Total Income		20,50,000



Notes:

- Mrs. Sushma born on 1st April, 1958, turns 66 years of age on 31.03.2024. Therefore, she is a senior citizen for the P.Y. 2023-24 and is entitled to the higher basic exemption limit of ₹ 3,00,000.
- Dividend received from ABC Ltd, an Indian Company, up to ₹ 10,00,000 is exempt under section 10(34). ₹ 1,50,000, being dividend received in excess of ₹ 10,00,000 would be taxable @10% as per section 115BBDA. No deduction is allowable in respect of any expenditure or allowance against such income.

As per amendment dividend is fully taxable at normal slab rates

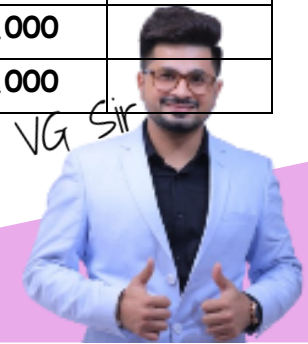
- Short-term capital gains on sale of house property are taxable at normal rates.
- Tax saver deposit in the name of major son does not qualify for deduction under section 80C.

Question 16

RTP Nov'20

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

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from BAC & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2023-24 including interest of ₹ 1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop (For two half years; payment for one half year made on 12.7.2023 and for the other on 31.12.2023)	7,000	
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2023) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2023 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2018. He received arrears of rent in respect of the said property in October, 2023.		1,35,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	



(xii)	Health insurance premium paid by way of A/c payee cheque for self	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

Assume Mr. Neeraj does not want to opt for the provisions of section 115BAC. (Same concept different figures)

14 Marks

Answer:

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

Particulars		₹	₹
Income from house property			
Arrears of rent (taxable under section 25A even if Mr. Neeraj is not the owner of the house property in the P.Y.2023-24)		1,35,000	
Less: Deduction@30%		40,500	94,500
Profits and gains of business or profession			
Income from wholesale business			
Net profit as per books		6,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction			
- Depreciation as per books		34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return of income (₹ 7,000/2)		3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000		22,000	
- 20% of car expenses for personal use		8,000	
		7,27,500	
Less: Depreciation allowable (Note 1)		1,96,800	
Income from firm		5,30,700	
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	7,50,700
Income from other sources			69,700
Interest on bank fixed deposit (Gross) [₹49,500 x 100/90]		55,000	
Interest on saving bank account		13,300	
Interest on income-tax refund		1,400	
Gross total income			9,14,900
Less: Deduction under Chapter VIA (Note 3)			2,65,000
Total Income			6,49,900



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

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

Notes:

Depreciation allowable under the Income-tax Rules, 1962

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

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

(2) Deduction under Chapter VI-A

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



Interest on deposits in case of senior citizen, restricted to		50,000
Total deduction		2,65,000

Question 17

MTP April 22

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

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

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

- (ii) Mr. Sonu had another house in Delhi. During financial year 2017-18, he had transferred the said house to Ms. Varsha, daughter of his brother without any consideration. House would go back to Mr. Sonu after the life time of Ms. Varsha. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Sonu. Rent received by Ms. Varsha during the previous year 2023-24 from such house property is ₹ 6,50,000.
- (iii) Mr. and Mrs. Sonu forms a partnership firm with equal share in profits. Mr. Sonu transferred a fixed deposit of ₹ 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹ 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Sonu at the end of the year.
- (iv) Mr. Sonu holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the life time of Chandni. Dividend received by Ms. Chandni during the previous year 2023-24 is ₹ 10,00,000.
- (v) Mr. Sonu has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.
- (vi) Other income of Mr. Sonu includes
- Interest from saving bank account of ₹ 2,00,000
 - Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
 - Income from betting of ₹ 34,000
 - Income from card games of ₹ 46,000
 - Loss on maintenance of race horses of ₹14,600

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

Answer:

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

Particulars	Amount (₹)	Amount (₹)
Income from house property		
House ¹ [Self-occupied]		



Net annual value	-	
Less: Interest on loan [up to ₹2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value ¹ [₹50,000 × 12]	6,00,000	
Less: Municipal taxes	-	
Net annual value	6,00,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,80,000	
(b) Interest on loan	3,00,000	1,20,000
House in Delhi [Since Mr. Sonu receives direct or indirect benefit from income arising to his brother's daughter, Ms. Varsha, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Sonu as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Varsha]		
Gross Annual Value ²	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
Profits and gains from business or profession		3,75,000
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains ³ . Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹15,000 ⁴ . Balance short term capital loss of ₹ 1,000 to be carry forward to A.Y.2025-26	15,000	-
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Sonu as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
Gross Total Income		17,30,000



Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		15,70,000

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

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

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

Question 18

MTP Nov 21

Mr. Vikas holds shares carrying 33% voting power in Kaya Ltd. Mrs. Rinky is working as accountant in Kaya Ltd. getting income from salary (computed) of Rs. 4,60,000 without any qualification in accountancy. Mr. Vikas also receives Rs. 35,000 as interest on securities. Mrs. Rinky owns a house property which she has let out. Rent received from tenants is Rs. 6,000 p.m. Compute the gross total income of Mr. Vikas and Mrs. Rinky for the A.Y. 2024-25. **4 Marks**

Answer:

Since Mrs. Rinky is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. Vikas

Particulars	Rs.
Income from Salary of Mrs. Rinky (Computed)	4,60,000
Income from other sources	
- Interest on securities	35,000
	4,95,000

Computation of gross total income of Mrs. Rinky

Particulars	Rs.	Rs.
Income from Salary [clubbed in the hands of Mr. Vikas]		Nil
Income from house property		
Gross Annual Value [Rs. 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of Rs. 72,000	21,600	



- Interest on loan	-	50,400
Gross total income		50,400

Question 19

MTP March '23 & April '19)

Mr. Sonu, General Manager of Akon Ltd., Delhi, furnishes the following particulars for the financial year 2023-24:

- Salary ₹ 46,000 per month
- Value of medical facility in a hospital maintained by the company ₹ 7,000
- Rent free accommodation owned by the company
- Housing loan of ₹ 6,00,000 given on 01.04.2019 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2023 in respect of housing loan is 10%.
- Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Sonu ₹ 4,750.
- A four seater dining table was provided to Mr. Sonu at his residence. This was purchased by the company on 1.5.2020 for ₹ 60,000 and sold to Mr. Sonu on 1.8.2023 for ₹ 30,000.
- 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. Sonu.

A Maruti Suzuki car which was purchased by the company on 16.7.2021 for ₹ 2,50,000 was sold to Mr. Sonu on 14.7.2023 for ₹ 80,000.

❖ Other income received by the assessee during the previous year 2023-24:

	Particulars	₹
(a)	Interest on Fixed Deposits with a company	5,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	3,000

- Contribution to LIC towards premium under section 80CCC ₹ 1,00,000 Deposit in PPF Account made during the year 2023-24 ₹ 40,000

Compute the taxable income of Mr. Sonu for the Assessment year 2024-25 assuming he is not opting for section 115BAC.

7 Marks

Answer:

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

	Particulars	₹	₹
(a)	Income from Salaries (See Working Note below)		6,85,200
(b)	Income from Other Sources		
	(i) Interest on fixed deposit with a company	5,000	
	(ii) Income from specified mutual fund	3,000	
	(iii) Interest on Fixed Deposit received by minor daughter (₹ 3,000 - ₹ 1500)	1,500	9,500
	Gross total income		6,94,700
	Less: Deductions under Chapter VI-A		



	Section 80C - PPF	40,000	
	Section 80CCC	1,00,000	1,40,000
Total Income			5,54,700

Working Note:**Computation of salary income of Mr. Sonu for the A.Y. 2024-25**

Particulars		₹
Salary [₹ 46,000 × 12]		5,52,000
Medical facility [in the hospital maintained by the company is exempt]		—
Rent free accommodation		
15% 10% of salary is taxable (i.e. ₹ 5,52,000 × 10% as per Rule 3(1)) (As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)		55,200
Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] - Perquisite value would be 10% as reduced by actual rate of interest charged i.e. [10% - 6% = 4% × ₹ 6,00,000]		24,000
Gift given on the occasion of wedding anniversary ₹ 4,750 is exempt, since its value is less than ₹ 5,000		-
Use of dining table for 4 months		
[₹ 60,000 × 10 / 100 × 4 / 12]		2,000
Perquisite on sale of dining table		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 3 years	18,000	
Written Down Value	42,000	
Less: Amount paid by the assessee	30,000	12,000
Purchase through credit card - not being a privilege but covered by section 17(2)(iv)		10,000
Perquisite on sale of car		
Original cost of car	2,50,000	
Less: Depreciation from 16.7.2020 to 15.7.2021 @ 20%	50,000	
	2,00,000	
Less: Depreciation from 16.7.2021 to 15.7.2022 @ 20%	40,000	
Value as on 14.07.2023- being the date of sale to employee	1,60,000	
Less: Amount received from the assessee on 14.07.2023	80,000	80,000
Gross Salary		7,35,200
Less: Standard deduction under section 16(ia)		50,000
Taxable Salary		6,85,200



Note:

Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case the third year of use of car is completed on 15.7.2023 whereas the car was sold to the employee on 14.7.2023. The solution worked out above provides for wear and tear for only two years.

Question 20

MTP Sep'22 PYP Dec'21

Mr. Kamal, a resident and ordinarily resident aged 58 years, is engaged in the business of manufacturing of steel. He is subject to tax audit under section 44AB of Income-tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2024

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	6,45,000	By Gross Profit	88,45,000
To Salaries & wages	30,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	11,25,000	By Winning from lottery (Net of TDS @ 30%)	47,250
To Depreciation	9,25,500		
To Professional fees	4,05,000		
To Rent, rates & taxes	4,20,000		
To Travelling & conveyance	2,10,000		
To Net Profit	23,61,750		
Total	90,92,250	Total	90,92,250

Explanatory information:

- (i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 3,30,000 and Closing stock of ₹ 4,38,000 was shown.
- (ii) Salaries & wages include following items:
 - (a) Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD for an employee Mr. Ganesh who has withdrawn basic salary of ₹ 4,00,000 and Dearness allowance is 40% of basic salary.
50% of Dearness allowance forms part of the salary.
 - (b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 3,50,000 was paid to them on 1st January, 2024.
 - (iii) Interest on loan includes interest paid @ 15% per annum on loan of ₹ 18,00,000 which was taken from State Bank of India on 01.07.2023 for purchase of new electric car of ₹ 20,00,000. The car is used for personal purpose.
 - (iv) Depreciation allowable as per Income-tax Rules, 1962 is ₹ 5,50,000 but during the calculation of such depreciation following addition was not considered:
Motor car purchased for ₹ 3,50,000 for supply of finished goods to dealers on 25-09-2023.
 - (v) An asset was purchased for ₹ 7,00,000 on 17-11-2022 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-10-2023 for a consideration of ₹ 9,00,000.



Other information:

A plot of Industrial land which was used by Mr. Kamal for business purpose for last 10 years was compulsorily acquired by Central Government on 07.10.2023. The compensation of ₹ 15,63,525 was received on 27.01.2022. Such property was purchased by him on 08.10.2006 for ₹ 2,50,000. He has purchased another plot of industrial land on 15.04.2024 for ₹ 7,00,000. Government has also paid ₹ 1,05,000 as interest on such compensation on 28.02.2024. Cost Inflation Indices: FY 2021-22: 317, FY 2006- 07: 122, FY 2023-24-384

Compute the total income and tax liability of Mr. Kamal for the assessment year 2024-25 assuming that he has not opted for the provisions of section 115BAC. () (Same concept different chapters) *(The value of consideration has been changed from Rs 15,00,000 to Rs. 15,63,525 to keep the essence of the question)* **14 Mark**

Answer:

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

Particulars	₹	₹	₹
Income from business or profession			
Net Profit		23,61,750	
Add: Items debited but not allowable/item not credited but taxable while computing business income			
- Employer's contribution to NPS in excess of 10% of salary - Employer's contribution to the extent of 10% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., ₹ 32,000 [₹ 80,000, being 20% of ₹ 4,00,000 less ₹ 48,000 being 10% of ₹ 4,80,000 (₹ 4,00,000 + 20% of ₹ 4,00,000)] has to be added back.	32,000		
- VRS expenditure - 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to Profit and Loss A/c, 4/5th has to be added back [₹ 3,50,000 x 4/5].	2,80,000		
- Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, ₹ 2,02,500 [₹ 18,00,000 x 15% x 9/12] has to be added back, since the same forms part of interest on loan debited to profit and loss account.	2,02,500		
- Sale proceeds of asset acquired for conducting scientific research taxable as business income under section 41(3) in the year of sale to the extent of lower of ₹ 7,00,000 (being the deduction allowed u/s 35) and ₹ 9,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (₹ 9,00,000 + ₹ 7,00,000) over the capital expenditure incurred of ₹ 7,00,000	7,00,000		



- Undervaluation of stock [(₹ 4,38,000 - ₹ 3,30,000) x 10/90]	12,000		
Note: Alternatively, undervaluation of closing stock i.e., ₹ 48,667 can be added back and under valuation of opening stock i.e., ₹ 36,667 can be reduced from net profits.			
- Depreciation as per books of A/c	9,25,500		
		21,52,000	
		45,13,750	
Less: Depreciation as per Income-tax Rules	5,50,000		
Depreciation on Motor car purchased for supply of finished goods [₹ 3,50,000 x 15%]	52,500		
		6,02,500	
		39,11,250	
Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income			
-Profit on sale of asset of scientific research[Taxable under the head "Capital Gains"]	2,00,000		
- Winning from lottery [Taxable under the head "Income from other sources"]	47,250		
		2,47,250	
			36,64,000
Capital Gain			
Short-term capital gains			
Sale of asset acquired for conducting scientific research			
Sales consideration	9,00,000		
Less: Cost of acquisition	7,00,000		
Short- term capital gain		2,00,000	
Long-term capital gains			
Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5)			
Compensation received	15,63,55		
Less: Indexed cost of acquisition [₹ 2,50,000 x 348/122]	7,13,115		
Long-term capital gain [since such plot is held for more than 24 months]	8,50,410		
Less: Exemption u/s 54D			
- Acquisition of industrial plot within 3 years			
Acquisition of industrial plot within 3 years	7,00,000		



		1,50,410	3,50,410
Income from other sources			
Winning from lottery [$\text{₹ } 47,250 \times 100/70$]		67,500	
Interest on enhanced compensation	1,05,000		
Less: 50% of enhanced compensation	52,500		
Gross Total Income		52,500	1,20,000
Less: Deduction under Chapter VI-A			41,34,410
Deduction under section 80EEB			
Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of			1,50,000
Total Income			39,84,40

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

Particulars	₹	₹
Tax on long-term capital gains @20% of ₹ 1,50,410		30,082
Tax on winning from lottery @30% of ₹ 67,500		20,250
Tax on total income (excluding LTCG and winning from lottery) of ₹ 37,66,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 37,66,500 [@30% of ₹ 27,66,500]	8,29,950	
		9,42,450
		9,92,782
Add: Health and education cess@4%		39,711
Tax liability		10,32,493
Tax liability (rounded off)		10,32,490

Question 21

MTP April '23, RTP May'22

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

- (i) Depreciation ₹ 15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- (iv) Dividend income from Indian companies ₹ 15,00,000 Additional information -
 - (i) Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2023 which was put to use on 1.1.2024. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules.



- (ii) Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2023 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2024 has been paid on 31.3.2024 and the same has been debited to profit and loss account. Interest is charged by the bank on monthly basis.
- (iii) Advance tax paid during the year is ₹ 17,50,000
- (iv) Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
- (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.
- (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2023, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Rishabh for the A.Y. 2024-25, in the manner so that he can make maximum tax savings. **14 Marks**

Answer:

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

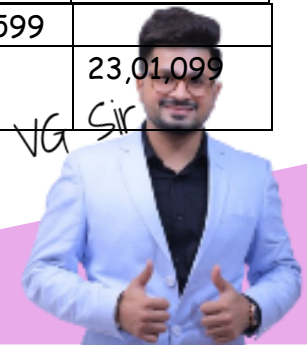
Particulars	₹	₹	₹
I			
Income from business or profession			
Net profit as per profit and loss account		82,45,000	
Add: Items of expenditure not allowable while computing business income			
(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,53,125 [$₹ 50,00,000 \times 10.5\% \times 3.5/12$] has to be added back, since the same is debited to the profit and loss account]	1,53,125		
(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	5,00,000	6,53,125	
Less: Items of income to be treated separately under the respective head of income	15,550	88,98,125	
(i) Income-tax refund including interest on refund of ₹ 4,550			
(ii) Dividend from Indian companies	15,00,000		
(ii) Short term capital gains on transfer of listed equity shares	10,00,000	25,15,550	
		63,82,575	
Less: Depreciation on interest on loan capitalized to plant and machinery			



	₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized Normal depreciation @15% x 50% on such interest	11,484		
	Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2023-24, it is eligible for 50% of the rate of depreciation]	15,313	26,797	
				63,55,778
II	Capital Gains			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	Income from Other Sources			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		15,00,000	15,04,550
	Gross Total Income			88,60,328
	Less: Deductions under Chapter VI-A - Deduction under section 80C		40,000	
	Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured] - Deduction under section 80D		25,000	65,000
	Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]			
	Total Income			87,95,328
	Total Income (Rounded off)			87,95,330

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

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



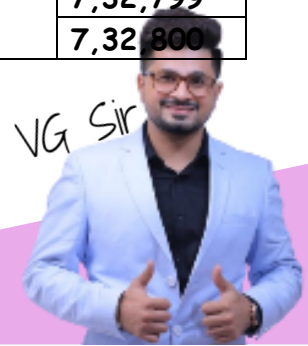
		2,30,110
		25,31,209
Add: Health and education cess@4%		1,01,248
Total tax liability		26,32,457
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		7,82,457
Tax payable (rounded off)		7,82,460

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

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

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 95,25,640		
Tax on STCG of ₹ 10,00,000@15% u/s 111A		1,50,000
Tax on remaining total income of ₹ 85,25,640		
Upto ₹ 2,50,000 ₹ 3,00,000	Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%] 15,000	15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%] 45,000	45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @30% [[₹70,25,640@30%]	21,07,692	
		22,57,692
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,25,769
		24,83,461
Add: Health and education cess@4%		99,338
Total tax liability		25,82,799
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		7,32,799
Tax payable (rounded off)		7,32,800



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

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

Question 22

MTP Sep '23

Mr. Rohit, working as Finance Manager in ABC Ltd., Kanpur, retired from the company on 31.10.2023 at the age of 60. The following amounts were received from the employer from 1st April, 2023 to 31st October, 2023:

Basic Salary ₹ 30,000 p.m.

Dearness Allowance ₹ 20,000 p.m. (40% reckoned for superannuation benefits)

Ex-gratia (lump sum) ₹ 65,000

In addition to the above -

- (i) The company had taken on lease a residential house at Kanpur, paying a lease rent of ₹ 9,000 p.m. Mr. Rohit, who was paying to the company ₹ 6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2023.
- (ii) The company had also provided to Mr. Rohit a cooking range and micro-wave oven owned by it. The original cost of these assets was ₹ 40,000 and the written down value as on 1.4.2023 was ₹ 22,000.
- (iii) Mr. Rohit has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2023-24. The education facility was provided free of cost. The cost of such education in a similar school is ₹ 1,800 p.m.
- (iv) The employer-company was contributing ₹ 7,000 p.m. to Central Government Pension Scheme. Mr. Rohit contributed an equal amount.
- (v) Professional tax paid by the employer ₹ 2,400.
- (vi) Subsequent to his retirement, Mr. Rohit started his own business on 15-11-2023. The results of the said business from 15.11.2023 to 31.3.2024 were:
 - A. Business loss (excluding current depreciation) ₹ 90,000
 - B. Current year's depreciation ₹ 60,000
- (vii) Mr. Rohit won a prize in a TV game show. He received a sum of ₹ 2,10,000 after deduction of tax at source to the tune of ₹ 90,000.
- (viii) Mr. Rohit furnishes the under-mentioned data relating to savings, investments and out-goings:
 - A. Life insurance premium, with a private insurance company ₹ 30,000 for his son and ₹ 20,000 for his married daughter.
 - B. Medical insurance premium of ₹ 22,000 for himself and ₹ 26,000 for his mother (aged 82), paid by credit card. His mother is however not dependent on him.

You are required to compute the total income of Mr. Rohit (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2024-25. Assume Mr. Rohit does not opt for the provisions of under section 115BAC.

14 Marks

Answer:



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

Particulars		₹	₹
Basic salary (₹ 30,000 × 7)		2,10,000	
Dearness Allowance (₹ 20,000 × 7)		1,40,000	
Ex-gratia		65,000	
Employers' contribution to Central Government Pension Scheme (₹ 7,000 × 7)		49,000	
Professional tax paid by employer		2,400	
Concessional accommodation (See Notes 1 & 2)		7,650	NIL
Value of furniture (See Note 3)		2,333	
Value of concessional educational facility (₹ 1,800 × 7) (See Note 4)		12,600	
Gross salary		4,88,983	
Less: Standard deduction under section 16(ia)	50,000		
Professional tax under section 16(iii)	2,400	52,400	
Net salary			4,28,933
Income from other sources			
Winnings from TV Game Show (₹ 2,10,000 + ₹ 90,000)			3,00,000
Gross Total Income			7,36,583
Less: Deductions under Chapter VI-A			
Deduction under section 80C			
Life insurance premium (₹ 30,000 + ₹ 20,000)		50,000	
Deduction under section 80CCD(1) (See Notes 5)			
Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of ₹ 2,66,000 (₹ 30,000 + ₹ 8,000) × 7]		26,600	
Total deduction under section 80C & 80CCD(1)		76,600	
Additional employee's contribution to pension scheme [49,000 - 26,600] [Section 80CCD(1B)]		22,400	1,73,600
Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD(2)]		26,600	
Deduction under section 80D (See Note 6)			
Medical insurance premium (₹ 22,000 + ₹ 26,000)		48,000	
Total Income (See Notes 7 & 8)			5,55,333
Total income (rounded off)			5,55,330

Computation of tax payable by Mr. Rohit for the A.Y. 2023-24

Particulars	₹
Tax @ 30% on winnings of ₹ 3,00,000 from game show	90,000
Tax on balance income of ₹ 2,55,333 (The basic exemption limit of ₹ 3,00,000 is applicable since Mr. Rohit is of the age of 60 years during the P.Y. 2024-25)	Nil
	90,000
Add: Health and Education cess @ 4%	3,600
Total Tax Liability	93,600
Less: TDS	90,000
Net Tax Payable	3,600



Notes:

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. ₹ 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be ₹ 3,31,000 [i.e., (₹ 30,000 + ₹ 8,000) × 7 + 65,000].
- (2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. ₹ 63,000, being 9,000 × 7) and 15% **10%** of salary [i.e., ₹ 49,650, being 15% **10%** of ₹ 3,31,000]. This value (i.e. ₹ 49,650 ₹ 33,100) would be reduced by the rent paid by the employee (i.e., ₹ 42,000, being 6,000 × 7).

The value of concessional accommodation is ₹ 7,650 **NIL** [i.e. ₹ 33,100 - ₹ 42,000].

(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)

- (3) The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to ₹ 2,333 [i.e. 10% of 40,000 × 7/12].

Therefore, the value of furnished accommodation will be ₹ 9,983 (₹ 7,650 + ₹ 2,333) provided to the employee.

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.

- (4) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of ₹ 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be ₹ 12,600 (i.e. ₹ 1,800 × 7).

Note - An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 5,600. The gross salary in that case shall be ₹ 4,81,983 and net salary would be ₹ 4,29,583. The total income and tax liability shall accordingly vary.

- (5) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE. Also, the deduction under section 80CCD(1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. The balance ₹ 22,400 (₹49,000 - 26,600) can be claimed as deduction under section 80CCD(1B).

- (6) The deduction for medical insurance premium of ₹ 26,000 paid for mother is allowable in full under section 80D, as the maximum limit is ₹ 50,000, since his mother is a senior citizen. Therefore, the total deduction under section 80D would be ₹ 22,000 (for self) + ₹ 26,000 (for mother) = ₹ 48,000.

- (7) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.

- (8) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. Even depreciation cannot be set-off against salary income. Therefore, **both**



business loss and current depreciation cannot be set-off against salary income.

- (9) Deduction under section 80GG has not been provided in respect of rent paid by Mr. Rohit to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

Question 23

PYP Nov'18 RTP May '20

You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the assessment year 2024-25. She furnishes the following particulars relating to the year ended 31-3-2024:

(i) Winnings from a TV Game show (Net)	77,000
(ii) Gift received from Father's brother	85,000
(iii) Gift received from Archita, her close friend	80,000
(iv) Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@15% p.a.)	4,50,000
(v) Rent received for a vacant plot of land (Net)	3,03,300
(vi) Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2024.	2,85,000
(vii) Amount received under Keyman Insurance Policy	4,35,000
(viii) Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000
(ix) Donation given in cash to a charitable trust registered u/s 12AA	22,000
(x) She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom	5,20,000
(xi) Public Provident Fund paid in the name of her minor daughter	1,25,000
(xii) Interest credited in the said PPF account during the year	50,900
(xiii) Share of profits received from TVA & Co., a partnership firm	1,50,000

Computation should be made under proper heads of income. Assumed that 115BAC is not opted. (Same concepts different figures)

10 Marks

Answer:

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

Particulars	₹	₹
Income from house property		
Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]	2,85,000	
Less: 30% of arrears of rent	85,500	1,99,500
Profits and gains of business or profession		
Interest on capital @12%, being the maximum allowable interest [₹ 4,50,000/15% × 12%] assuming interest@12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	3,60,000	
Share of profit from TVA & Co., a firm [Exempt]	-	



Amount received under Keyman Insurance Policy	4,35,000	7,95,000
Income from other sources		
Winning from a TV Game show (Gross) [$\text{₹ } 77,000 \times 100 / (100 - 30)$]	1,10,000	
Gift received from father's brother would be exempt, since father's brother falls within the definition of relative	-	
Gift received from her close friend would be taxable, since it exceeds ₹ 50,000	80,000	
Rent received for a vacant plot of land [$\text{₹ } 3,03,300 / 90 \times 100$]	3,37,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India]	5,20,000	
Interest credited in PPF account [Exempt]	-	13,57,000
Gross Total Income		23,51,500
Less: Deductions under Chapter VI-A		
Section 80C		
PPF subscription in the name of minor daughter	1,25,000	
Section 80G		
Donation of ₹ 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of ₹ 2,000	-	1,25,000
Total Income		22,26,500

Computation of tax liability of Ms. Radhika for A.Y. 2024-25

Particulars		₹	₹
Tax on winnings of ₹ 1,10,000 from TV game show @30%			33,000
Tax on balance income of ₹ 21,16,500			
Up to ₹ 2,50,000		Nil	
₹ 2,50,001 - ₹ 5,00,000@5%		12,500	
₹ 5,00,001 - ₹ 10,00,000@20%		1,00,000	
₹ 10,00,001 - ₹ 21,16,500@30%		3,34,950	4,47,450
			4,80,450
Add: Health and Education cess@4%			19,218
Tax liability			4,99,668
Less: TDS			
Under section 194-I	33,700		
Under section 194B	33,000		66,700
Tax payable			4,32,968
Tax payable (rounded off)			4,32,970

Question 24

RTP Nov '21 MTP Oct '23

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



- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 3,34,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both these floors are of equal size
- (ii) As per interest certificate from ICICI bank, he paid ₹ 1,80,000 as interest and ₹ 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2017.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 45 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2023-24. Out of 20 employees, 12 were employed on 1st May 2023 on monthly emoluments of ₹ 18,000 and remaining were employed on 1st August 2023 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 45,000 as interest on saving bank deposits and fixed deposits respectively.
- (vi) He also sold his vacant land on 01.12.2023 for ₹ 13 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. This land was acquired by him on 15.9.1997 for ₹ 2.80 lakhs. He had incurred registration expenses of ₹ 12,000 at that time. The cost of inflation index for the financial year 2023-24 and 2001-02 are 348 and 100 respectively.
- (vii) He paid insurance premium of ₹ 49,000 towards life insurance policy of his son, who is not dependent on him.

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

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

14 Marks

Answer:

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

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		3,34,000	
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [₹ 30,000/2]		15,000	
	Net Annual Value (NAV)		3,19,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 3,19,000	95,700		
	(b) Interest on housing loan [₹ 1,80,000/2]	90,000	1,85,700	
	Self-occupied portion [Ground Floor]		1,33,300	



	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan		90,000	
	Income from house property [₹ 1,33,300 - ₹ 90,000]		(90,000)	43,300
II	Profits and gains of business or profession			
	Income from SEZ unit			45,00,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Actual consideration of ₹ 14,88,000, since stamp duty value of ₹ 15 lakhs does not exceed actual consideration by more than 10%]		14,88,000	
	Less: Indexed Cost of acquisition [₹ 4,00,000 × 348/100]		13,92,000	96,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.			
IV	Income from Other Sources			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		45,000	75,000
	Gross Total Income			47,14,300
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2023-24 being the 3rd year of operations]			13,50,000
	[Profits of the SEZ × Export Turnover/Total Turnover] × 100%			
	[₹ 45 lakhs × ₹ 120 lakhs/ ₹ 400 lakhs × 100%]			
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Repayment of principal amount of housing loan	95,000		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj	49,000	1,44,000	
	Deduction under section 80JJAA		9,43,200	
	30% of the employee cost of the new employees employed during the P.Y. 2023-24 allowable as deduction [30% of ₹ 31,44,000 [₹ 23,76,000 (12 × 18,000 × 11) + ₹ 7,68,000 (8 × 12,000 × 8)]			



Deduction under section 80TTA Interest on savings bank account, restricted to ₹ 10,000		10,000	10,97,200
Total income			22,67,100

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

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

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

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

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

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

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

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		47,14,300
Add: Interest on borrowing in respect of self-occupied house property not allowable as deduction as per section 115BAC		96,000



Gross Total Income as per section 115BAC		48,04,300
Less: Deduction under section 80JJAA		
30% of the employee cost of the new employees employed during the P.Y. 2020-21 allowable as deduction [30% of ₹ 31,44,000 [₹ 23,76,000 (12 × 18,000 × 11) + ₹ 7,68,000 (8 × 12,000 × 8)]	9,43,200	
No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA		9,43,200
Total income		38,61,100

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 38,61,100		
Tax on LTCG of ₹ 96,000@20%		19,200
Tax on remaining total income of ₹ 37,65,100		
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	Nil	
₹ ₹ 3,00,000 - ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹ 6,00,001 - ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000	
₹ 9,00,001 - ₹ 12,00,000 [₹3,00,000 @ 15%]	45,000	
₹ 12,00,001 - ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @30%	6,79,530	8,29,530
		8,48,730
Add: Health and education cess@4%		33,949
Total tax liability		8,82,679
Tax liability (rounded off)		8,82,680

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

Question 25

RTP Nov '21 MTP Oct '23

Compute total income and tax liability thereon of Mr. Raghav for the A.Y. 2024-25 from the following details:

Mr. Raghav (aged, 61 years) working in a private company from last 10 years. His salary details for the financial year 2023-24 are:

- | | |
|---|---------------|
| (i) Basic Salary | 1,70,000 p.m. |
| (ii) Dearness Allowance (forms part of retirement benefits) | 80,000 p.m. |
| (iii) Commission | 32,000 p.m. |
| (iv) Transport Allowance | 5,000 p.m. |
| (v) Medical Reimbursement | 40,000 |

Mr. Raghav resigned from the services on 30th November, 2023 after completing 10 years and



5 months of service. He was paid gratuity of ₹ 25 lakhs on his retirement. He is not covered under the Payment of Gratuity Act, 1972. He started business of hiring of goods vehicle, purchased 4 small goods vehicles on 10th December, 2023 and 4 heavy vehicles having gross weight of 20 MTs each on 1st January, 2024. He did not maintain books of accounts for the business of hiring of goods vehicle. Mr. Shiv pal, his very close friend gifted him ₹ 2 lakhs to purchase the vehicles.

He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid up share capital of company as on 31st March, 2023 was ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1st October, 2016.

He sold all these shares on 30th April, 2023 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Raghav has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.

On 12.2.2024, interest of fixed deposits of ₹ 90,000 credited to his SBI Bank. On 30.4.2023, ₹ 5,500 and on 30.12.2023, ₹ 8,500 credited to interest on saving bank A/c with SBI Bank.

He deposited ₹ 1,10,000 in PPF A/c. He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2023-24. The policy was taken in April 2014 and sum assured was ₹ 3,00,000. He also made payment of ₹ 25,000 towards L.I.C. pension fund and premium of ₹ 40,000 towards Mediclaim policy for self and ₹ 20,000 for his wife. All the payment he made by A/c payee cheque.

There was no change in salary of Mr. Raghav from last two years. He does not opt to pay tax as per section 115BAC. (RTP May 21)

(Interest on FD has been changed from Rs. 92,500 to Rs. 90,000 to keep the essence of the question)

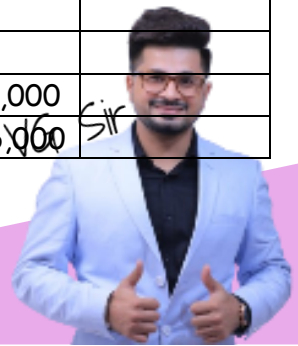
Cost inflation Index is:

Financial Year	Cost Inflation Index
2013-14	220
2020-21	301
2023-24	348

Answer:

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

Particulars		₹	₹
Salaries			
Basic Salary = 1,70,000 × 8		13,60,000	
Dearness Allowance = 80,000 × 8		6,40,000	
Commission = 32,000 × 8		2,56,000	
Transport Allowance = 5,000 × 8		40,000	
Medical reimbursement [Fully taxable]		40,000	
Gratuity - Amount received	25,00,000		
Less: Least of the following exempt u/s 10(10)			
(i) Actual Gratuity received ₹ 25,00,000			
(ii) $\frac{1}{2}$ month's salary for every year of completed service [$\frac{1}{2} \times 2,50,000$ (Basic salary plus DA) + × 10] = ₹ 12,50,000			
(iii) Notified limit of ₹ 20,00,000			
Least of the above is exempt	12,50,000	12,50,000	
Gross Salary		35,86,000	



Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		50,000	
Net Salary			35,36,000
Profits and gains of business or profession			
Income from business of hiring goods vehicle			
Other than heavy goods vehicles = 4 x (₹ 7,500 p.m.) x (4 months)		1,20,000	
Heavy goods vehicles = 4 x (20 MTs x ₹ 1,000 per MT) x (3 months)		2,40,000	
Capital Gains			3,60,000
On transfer of 60,000 shares (2,00,000 x 30%)			
Sales consideration [60,000 x ₹ 60 per share]		36,00,000	
Less: Cost of acquisition, higher of -		30,00,000	
- Actual cost [60,000 x ₹ 40 per share]	24,00,000		
Lower of FMV on 31.1.2018 [60,000 x 50]	30,00,000		
Actual sales consideration [60,000 x 60]	36,00,000		
Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)			6,00,000
Income from Other Sources			
Gift from friend taxable u/s 56(2)(x) since the same exceeds ₹ 50,000. It is fully taxable		2,00,000	
Interest on Saving A/c with SBI Bank		14,000	
Interest on Fixed deposits with SBI Bank		1,00,000	
[Since interest is credited after deduction of at source @ 10% as the amount of interest exceeds ₹ 50,000, amount included in the total income need to be grossed up (₹ 90,000 x 100/90)](The same has been amended to 10%)			
		3,14,000	
Gross Total Income			48,10,000
Less: Deduction under Chapter VI-A			
Section 80C			
Deposits in PPF A/c		1,10,000	
Life Insurance premium [fully deductible, since, in respect of a policy taken before 1.4.2012, the actual premium paid (₹ 20,000) or 20% of the sum assured (₹ 3,00,000 x 20% = ₹ 60,000), whichever is lower, has to be deducted]		20,000	
		1,30,000	
Section 80CCC			
Payment to LIC Pension Fund		25,000	
		1,55,000	
Restricted to ₹ 1,50,000, being the maximum allowable deduction			1,50,000
Section 80D			



Medical insurance premium for self and spouse ₹ 60,000, allowable to the extent of ₹ 50,000, since Mr. Raghav is a senior citizen		50,000	
Section 80TTB			
Deduction in respect of interest on fixed deposits and saving bank allowable as deduction under section 80TTB, since Mr. Raghav is a senior citizen, to the extent of ₹ 50,000			50,000
Total Income			45,60,000

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

Particulars	₹	₹
Tax on total income of ₹ 45,60,000		
Tax on long-term capital gains of ₹ 6,00,000 arising from transfer of listed shares @10% under section 112A after deducting ₹ 1 lakh.		50,000
Tax on other income of ₹ 39,60,000 [₹ 45,60,000 - ₹ 6,00,000 capital gains]		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 5,00,000 [i.e., ₹ 3,00,000@5%]	10,000	
₹ 5,00,001 - ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 - ₹ 39,60,000 [i.e., ₹ 29,60,000@30%]	8,88,000	9,98,000
		10,48,000
Add: Health and Education cess@4%		41,920
Tax liability		10,89,920

Question 26

RTP May '23

Mr. Suresh has a sole proprietor manufacturing unit. On 1st April, 2023, he owns Plant A and Plant B (rate of depreciation 15%). Depreciated value of the block on 1st April, 2023 is ₹ 10,00,000. Plant B is transferred on 15th October, 2023 for ₹ 19,00,000. Expenditure on transfer of Plant B is ₹ 20,000. Plant C (rate of depreciation 15%) is purchased on 10th March, 2024 for ₹ 22,00,000. However, Plant C is put to use on 2nd September, 2024 Business income of Mr. Suresh before claiming any depreciation is ₹ 11,00,000.

On 1st March, 2024, Mr. Suresh transfers 900 equity shares in A Ltd. (unlisted) for ₹ 23,50,000. Mr. Suresh does not own any residential house property. These shares were purchased on 2nd April, 2015 for ₹ 2,00,000. To avail of the benefit of exemption under different sections, he made the following investments on 1st May, 2024.

- A residential house property at Kolkata: ₹ 19,00,000 (out of which stamp duty expenditure is ₹ 30,000).
- NHAI bonds: ₹ 3,00,000.

Find out the gross total income of Mr. Suresh for the A.Y. 2024-25. CII - F.Y. 2023-24: 348; F.Y. 2022-23: 331; F.Y. 2015-16:254

Answer:

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

Particulars	Amount (₹)	Amount (₹)
Profits and gains of business or profession		
Business income before depreciation		11,00,000
Depreciated value of the block on April 1, 2023	10,00,000	



Add: "Actual cost" of Plant C acquired on March 10, 2024	22,00,000	
Less: Sale Consideration of Plant B	19,00,000	
Written down value on March 31, 2024	13,00,000	
Normal depreciation (not available as Plant C is not put to use during the P.Y. 2023-24)	Nil	
Additional depreciation (not available as Plant C is not put to use during the P.Y. 2023-24)	Nil	
Capital Gains		
Long term capital gain on transfer of unlisted equity shares [Since shares were held for more than 24 months]		
Sale consideration	23,50,000	
Less: Indexed Cost of Acquisition $[2,00,000 \times 348/254]$	2,74,016	
Less: Exemption under section 54EC	Nil	20,75,984
[Deduction under section 54EC is allowable only in respect of long term capital gain on transfer of land and building]		
Exemption under section 54F	16,78,455	16,89,278
$[20,89,370 \times 19,00,000/23,50,000]$		
		3,97,529
Gross Total Income		14,97,529

Question 27

RTP May '23

Mr. Kamal, a resident individual aged 48 years, is working at a senior management position in a private bank since past 20 years. During the previous year 2023-24, he received the following emoluments from the employer:

- Basic Salary ₹ 3,50,000 per month.
- Client entertainment reimbursement of ₹ 20,000 per month out of which he submitted bills for ₹ 2,00,000 for the relevant year.
- Leave travel allowance of ₹ 4,00,000 per annum. He took a trip to Goa with his spouse and two children in December 2023, for which plane boarding tickets of ₹ 1,00,000 and hotel bookings of ₹ 3,00,000 were submitted to the employer.
- Performance bonus amounting to 20% of annual basic salary.
- He is eligible to take a staff housing loan up to ₹ 20,00,000 at a concessional rate of 2.5% p.a. He availed a housing loan of ₹ 15,00,000 out of the same on 1st June 2023. No repayment of loan has been made during the F.Y. 2023-24. The lending rate of SBI as on 1.4.2023 for housing loan may be taken as 8% p.a.
- The Bank also allotted 1,500 sweat equity shares to Mr. Kamal in May 2023 at the rate of ₹ 1,300 per share. The Fair market value of the share was ₹ 1,500 per share on the date of exercise of option by Mr. Kamal. He sold all the shares for ₹ 2,100 per share on 31.03.2024 on recognized stock exchange. Assume Securities transaction tax has been paid.

The following transactions were made by Mr. Kamal during the previous year 2023-24:

- He earned rental income of ₹ 35,000 per month from a 3 BHK residential flat situated at Delhi. He purchased the said flat for ₹ 45 Lakhs in June, 2022 using the housing loan availed from the employer and his own savings. It was let out from July, 2023. Municipal taxes of ₹ 12,000 for F.Y. 2023-24 was paid by Mr. Kamal.



- (b) He invested ₹ 30,00,000 in RBI Floating Rate Savings Bonds on 1st September 2023 earning an interest of 7% p.a. Interest is credited half yearly on 1st January and 1st July every year. (Assume receipt basis for taxation)
- (c) He also paid LIC premium of ₹ 15,000 for self, ₹ 20,000 for wife and ₹ 30,000 for dependent father, aged 75 years. Medical insurance premium paid on the health of dependent brother and major dependent son amounted to ₹ 5,000 (paid by cheque) and ₹ 10,000 (paid in cash), respectively.
- (d) In December 2023, he earned dividend income of ₹ 5,00,000 (gross) on shares of the bank held by him.

You are required to compute his total income and tax liability for the assessment year 2024-25, clearly showing all workings. (Ignore section 115BAC provisions)

Answer:

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

Particulars		Amount (₹)	Amount (₹)
I	Income from salaries		
	Basic Salary [₹ 3,50,000 × 12]	42,00,000	
	Client entertainment reimbursement [₹ 2,40,000 - ₹ 2,00,000]	40,000	
	Leave Travel Allowance [₹ 4,00,000 - ₹ 1,00,000]	3,00,000	
	[Note 1]		
	Performance Bonus (20% of Basic Salary)	8,40,000	
	Interest on Housing loan [₹ 15,00,000 × (8% - 2.5%) × 10/12]	68,750	
	Sweat Equity allotted by the employer (₹ 1,500 - ₹ 1,300) × 1,500	3,00,000	
	Gross Salary	57,48,750	
	Less: Standard deduction	50,000	
	Taxable Salary		56,98,750
II	Income from house property	3,15,000	
	Gross Annual Value under section 23(1) [Rent received for 9 months has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent] [₹35,000 × 9]		
	Less: Municipal taxes paid [Paid by Mr. Kamal]	12,000	
	Net Annual Value (NAV)	3,03,000	
	Less: Deduction u/s 24		
	(a) @30% of NAV	90,900	
	(b) Interest on borrowed capital [15,00,000 × 2.5% × 10/12]	31,250	
			1,80,850
III	Capital gains		9,00,000
	STCG on sale of sweat equity shares [1,500 × (₹ 2,100 - ₹ 1,500)]		
IV	Income from other sources		



Dividend Income	5,00,000	
Interest on RBI bonds [₹ 30,00,000 X 7% X 4/12]	70,000	5,70,000
Gross total Income		73,49,600
Less: Deduction under Chapter VI-A Deduction u/s 80C for LIC premium paid for self and wife [Note 2]	35,000	
Deduction u/s 80 D [Note 3]	Nil	35,000
Total Income		73,14,600

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

Particulars	Amount (₹)	Amount (₹)
Tax on STCG u/s 111A @15% on ₹ 9,00,000		1,35,000
Tax on other income of ₹ 64,14,600		
Up to ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹ 64,14,600 @30%	16,24,380	17,36,880
		18,71,880
Add: Surcharge@10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,87,188
		20,59,068
Add: Health and Education cess @ 4%		82,363
Tax Liability		21,41,431
Tax Liability (Rounded off)		21,41,430

Notes:

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

Question 28

(RTP Nov '23 PYP Nov'19)

Mrs. Kashish, a resident individual, aged 62 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Kashish for the year ending 31.3.2024 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	7,20,000	By Consultation Fees	74,28,000
To Administrative Exp.	11,64,000	By Salary received from True Care Hospitals (P) Ltd.	10,80,000
To Rent of clinic	5,76,000	By Rental Income from House Property	2,40,000
To Conveyance Expenses	1,44,000	By Dividend from Foreign Companies (gross)	60,000
To Power & Fuel	1,44,000		



To Interest on Housing Loan	2,20,000		
To Interest on Education Loan for son	1,56,000		
To Amount paid to scientific research association approved & Notified under section 35	1,50,000		
To net profit	55,34,000		
Total	88,08,000	Total	88,08,000

(i). She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay ₹ 85,000 p.m.

Transport ₹ 5,000 p.m.

Allowance Total ₹ 90,000 p.m.

Further, during P.Y. 2023-24, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 1,60,000 for a similar treatment to unrelated patients.

(ii). She owns a residential house. The reconstruction of the house was started on 01-04-2023 and was completed on 30-09-2023. After reconstruction, ground floor of the house is self-occupied by her while first floor has been rented out since 1.10.2023. Both the floors are of equal area. The monthly rent is ₹ 40,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 25 lakhs for reconstruction on 01-04-2023. Interest on housing loan for the period 01-04-2023 to 30-09-2023 was ₹ 1,20,000 and for the period 01-10-2023 to 31-03-2024 was ₹ 1,00,000. During the year, she also paid municipal taxes for the F.Y. 2022-23 ₹ 5,000 and for F.Y. 2023-24 ₹ 5,000.

Other information:

(a) Conveyance expenses include a sum of ₹ 48,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice versa in relation to her employment.

(b) Power & fuel expenses include a sum of ₹ 10,000 incurred for generator fuel for providing power back-up to the tenant.

(c) Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for her house.

(d) Clinic equipment' details are:

opening W.D.V. of clinic equipment as on 01-04-2023 was ₹ 5,00,000 and fresh purchase made on 28-08-2023 is ₹ 75,000 which was paid in cash.

(e) She also paid tuition fee of ₹ 40,000 for her grand-daughter, which has been debited to her Capital A/c.

(f) She availed a loan of ₹ 25,00,000 from bank for higher education of her son. She repaid principal of ₹ 3,00,000 and interest of ₹ 1,56,000 during P.Y. 2023-24.

You are required to compute the total income and tax liability of Mrs. Kashish for the A.Y. 2024-25

14 Marks

Answer:



Computation of total income and tax liability of Mrs. Kashish for A.Y. 2024-25

	Particulars	₹	₹	₹
I	Income from Salaries:			
	Basic Pay (₹ 85,000 × 12)		10,20,000	
	Transport Allowance (₹ 5,000 × 12) [Fully taxable]		60,000	
	Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite]		Nil	
	Gross Salary		10,80,000	
	Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000	
				10,30,000
II	Income from House Property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV = ₹ 40,000 p.m. × 6 months]		2,40,000	
	Less: Municipal taxes paid by her in the P.Y. 2023-24 pertaining to let out portion [(₹ 5,000 + ₹ 5,000)/2], allowable since it is paid during the year, even if it relates to earlier years		5,000	
	Net Annual Value (NAV)		2,35,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,35,000	70,500		
	(b) Interest on housing loan [(₹ 1,20,000 (+) ₹ 1,00,000)/2]	1,10,000	1,80,500	
			54,500	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	Less: Deduction u/s 24			
	Interest on housing loan for reconstruction			
	₹ 1,10,000 [(₹ 1,20,000 + ₹ 1,00,000)/2] restricted to	30,000	(30,000)	
				24,500
III	Profits and gains of business or profession			
	Net profit as per Income and Expenditure account		55,34,000	
	Less: Items of income to be treated separately under the respective head of income			
	(i) Salary received from True Care Hospitals (P) Ltd.	10,80,000		
	(ii) Rent from house property	2,40,000		
	(iii) Dividend from foreign companies (gross)	60,000		
			13,80,000	
			41,54,000	
	Less: Allowable expenditure			
	• Depreciation on Clinic equipment's			
	On Opening WDV ₹ 5,00,000 @15%	75,000		



	On additions during the year ₹ 75,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost.	Nil	75,000	
			40,79,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on housing loan for reconstruction of residential house	2,20,000		
	(ii) Interest on education loan for son	1,56,000		
	(iii) Conveyance expenses in relation to her employment with True Care Hospitals debited to Income and Expenditure A/c, not allowed	48,000		
	(iv) Power and fuel expenses incurred for providing power back up to tenant not deductible	10,000		
	(v) Municipal tax paid relating to residential house included in administrative expenses, not deductible	10,000	4,44,000	45,23,000
	Income from Other Sources			
	Power back up charges from tenant (₹ 3,000 p.m. x 6 months)	18,000		
	Less: Actual expenditure incurred for providing power back up	10,000	8,000	
	Dividend from foreign companies		60,000	68,000
	Gross Total Income			56,45,500
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C - Tuition fee paid for grand child is not allowable		Nil	
IV	Deduction under section 80E - Interest on loan taken for higher education of her son is deductible [principal repayment is not deductible]		1,56,000	1,56,000
	Total income			54,89,500

Computation of tax liability of Mrs. Kashish for A.Y.2024-25

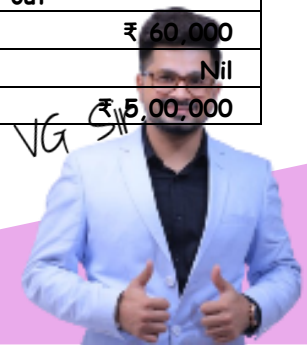
Particulars	₹	₹
Tax on total income of ₹ 54,89,500		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 5,00,000 [@5% of ₹ 2 lakhs]	10,000	
₹ 5,00,000 - ₹ 10,00,000 [@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,000 - ₹ 54,89,500 [@30% of ₹ 44,89,500]	13,46,850	
		14,56,850
Add: Surcharge @10% [Since the total income > ₹ 50 lakhs but ≤ ₹ 1 crore]		1,45,685
		16,02,535
Add: Health and education cess @4%		64,101
Tax liability		16,66,636
Tax liability (rounded off)		16,66,640

Question 29

PYP Jan'21

- (a) During the previous year 2023-24, following transactions took place in respect of Mr. Raghav who is 56 years old.
- (b) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under -

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000



Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000
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- (a) Mr. Raghav had a house in Delhi. During financial year 2013-14, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2023-24 from such house property is ₹ 5,50,000.
- (b) Mr. Raghav receives following income from M/s M Pvt. Ltd. during P.Y. 2023-24:
- Interest on Debentures of ₹ 7,50,000; and
 - Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2024 is as under - Equity shares Preference shares:

Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kashan (brother of Mrs. Raghav)	98%	75%

- (c) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.
- (d) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Gaetani, daughter of his servant. The transfer is irrevocable for the life time of Gaetani. Dividend received by Ms. Gaetani during the previous year 2023-24 is ₹ 13,00,000.
- (e) Other income of Mr. Raghav includes
- (f) Interest from saving bank account of ₹ 2,00,000
- (g) Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

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

8 Marks

Answer:

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

Particulars	Amount (₹)	Amount (₹)
Salary		Nil
[Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		
Income from house property		
House 1 [Self-occupied]		
Net annual value	-	
Less: Interest on loan [up to ₹2,00,000]	2,00,000	(2,00,000)
House 2 [Let out]		
Gross annual value7 [₹60,000 × 12]	7,20,000	
Less: Municipal taxes	-	



Net annual value	7,20,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	2,16,000	
(b) Interest on loan	5,00,000	4,000
House in Delhi [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamica's]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	3,85,000
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
Dividend on preference shares exceeding ₹ 10,00,000 taxable	3,00,000	
	13,00,000	
under section 115BBDA [Taxable in the hands of Mr. Raghav as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares] (As per amendment dividend is fully taxable in the hands of the shareholder)		
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable, since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative as per section 56(2)]		
	75,000	23,25,000
Gross Total Income		25,14,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		23,54,000

⁷ Rent receivable has been taken as the gross annual value in the absence of other information
⁸ Rent receivable has been taken as the gross annual value in the absence of other information

Question 30

PYP Jan'21

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31.03.2024, you are requested to compute his total income and tax liability under normal as well as special provisions (AMT), if any, applicable to him for the Assessment Year 2024-25.



- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2017-18. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.
- (iii) He received royalty of ₹ 2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2023 is ₹ 2,30,000.
- (iv) Received, 40,000 as interest on saving bank deposits.
- (v) Received ₹ 47,000 as share of profit from an AOP where all the members are individual and which had paid the tax by normal rates of income tax.
- (vi) He also sold his vacant land on 10.11.2023 for ₹ 10 lakhs. The stamp duty value of land at the time of transfer was ₹ 17.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.80 lakhs. He had incurred registration expenses of ₹ 10,000 at that time. The cost of inflation index for the year 2023-24 and 2001-02 are 384 and 100 respectively.
- (vii) He paid the following amounts, out of his taxable income:
- (a) Insurance premium of ₹ 39,000 paid on life insurance policy of son, who is not dependent on him.
- (b) Insurance premium of ₹ 48,000 on policy of his dependent father,
- (c) Tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child. Assume that 115BAC is not opted. (PYP 14 Marks, Nov'20)(Same concept fewer adjustments different figures MTP 14 Marks Oct'21)

(The stamp duty value of land has been changed from Rs 14 lakhs to Rs. 17.80 Lakhs to keep the essence of the question)

Answer:

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

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		59,400	
	Self-occupied portion [Ground Floor]		1,38,600	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]		-	1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit		25,00,00	



	Share income from AOP (since AOP has paid tax at normal rates, share income from AOP will be included in computation of total income of a member as per section 862)		47,000	25,47,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Higher of stamp duty value of ₹ 17.80 lakhs and Actual consideration of ₹ 10 lakhs, since stamp duty value exceeds actual consideration by more than 5% (10% as per amendment)]	17,80,000		
	Less: Indexed Cost of acquisition [₹ 4,00,000 × 384/100]	15,36,000	2,44,000	
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 1.80 lakhs + ₹ 0.10 lakhs = ₹ 1.90 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4 lakhs			
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		40,000	

			2,88,000
	Gross Total Income		32,17,600
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2019-20 being the 3rd year of operations]		17,50,000
	[Profits of the SEZ × Export Turnover/Total Turnover] × 100%		
	[₹ 25 lakhs × ₹ 140 lakhs/ ₹ 200 lakhs × 100%]		
	Less: Deduction under Chapter VI-A		
	Deduction under section 80C		
	Tuition fee paid for maximum of two children is allowable (₹ 14,000 × 2)	28,000	
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Ganesh	39,000	
	Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Ganesh		67,000
	Deduction under section 80QQB		1,90,000
	Royalty [₹ 2,88,000 × 15/18 = ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus 40,000 expenses already allowed as deduction while computing royalty income]		
	Deduction under section 80TTA		10,000
	Interest on savings bank account, restricted to ₹ 10,000		2,67,000
	Total income		12,00,600



It is assumed that the ground floor and first floor are of equal area

Since the total income of Mr. Ganesh, who is a member of the AOP, exceeds the basic exemption limit, the AOP should be taxable at maximum marginal rate and not at normal rates, in which case share income of a member would be exempt. This adjustment as well as rebate u/s 110 read with 86 is not within the scope of syllabus of this paper and hence, the same has not been considered in the given solution.

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

Particulars	₹	₹
Tax on total income of ₹ 12,00,600		
Tax on LTCG of ₹ 2,44,000@20%		48,800
Tax on remaining total income of 9,56,600		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 - ₹ 9,56,600[@20% of ₹ 4,56,600]	91,320	1,03,820
		1,52,620
Add: Health and education cess@4%		6,105
Total tax liability		1,58,725
Tax liability (rounded off)		1,58,730

³ Deduction u/s 80C has been worked out assuming that insurance premium of Rs. 48,000 paid on policy of dependent father as given in point (vii)(b) is LIC premium, which is not allowable as deduction. However, if it is assumed that the insurance premium is in respect of health insurance, the whole amount of Rs. 48,000 is allowable as deduction u/s 80D.

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

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	12,00,600
Add: Deduction u/s 10AA	17,50,000
Deduction u/s 80QQB	1,90,000
	31,40,600
AMT@18.5%	5,81,011
Add: HEC@4%	23,240
AMT liability	6,04,251
AMT liability (rounded off)	6,04,250
Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 31,40,600 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹ 6,04,250.	



Question 31

Mrs. Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the previous year 2022-23 was 250 lakhs and in the current previous year 2023-24, it is ₹ 600 lakhs. The net profit as per the profit and loss account as on 31-03-2024 is ₹ 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2023 -24.

(i) Depreciation has not been debited to profit and loss account. The details of the plant & machinery employed in the business are given as under:

Date	PARTICULARS	AMOUNT
01-04-2023	Opening written down value of machinery used for manufacturing purpose	4,75,000
03-07-2023	New machinery purchased during the year, payment made by an account pay cheque.	7,25,000
10-03-2024	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

Received subsidy of 20% on new machine purchased on 03-07-2023 during the previous year under technology upgradation fund Scheme from the Central Government.

- (i) She paid a job charges for the value addition on the fabrics ₹ 90,000 without deduction of tax to job worker by an account payee cheque.
- (ii) Commission paid to one agent allowed as deduction in earlier assessment year amounting ₹ 50,000, has now been received back during previous year 2023-24, from the agent due to settlement with commission agent.
- (iii) ₹ 25,000 paid to creditor for goods in cash.
- (iv) Incurred loss of ₹ 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.
- (v) Interest received amounting ₹ 2,00,000, duly authorised by partnership deed of M/s Ramji textiles @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.
- (vi) She Received ₹ 60,000 by pre-mature withdrawals from deposit including interest ₹ 5,000, in post office time deposit, eligible for deduction under Section 80C.
- (vii) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2023 for ₹ 5,00,000, which was acquired for ₹ 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹ 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2023-24:384)
- (viii) She received a gold coin (bullion) worth ₹ 55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2023-24.
- (ix) She incurred long term loss from sale of share of the Indian company. (The STT is paid on the sale and purchase of the shares) ₹ 75,000.
- (x) She deposited a sum of ₹ 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.
- (xi) She purchased the new residential house during the previous year and paid stamp duty and registration fee ₹ 1,55,000 to get transfer the property in her name.

You are required to compute the total income and tax payable by Mrs. Nisha for the assessment year 2024-25. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary.

(The sale value of bracelet has been changed from Rs 5,00,000 to Rs. 5,22,990 to keep the essence of the question)

14 Marks V.G. Sir



Answer:

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

Particulars	₹	₹	₹
I. Income from business or profession			
Net Profit as per profit and loss account		5,61,000	
Add: Items not credited but taxable while computing business income			
- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2023-24 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]	50,000		
- Interest on capital from partnership firm [₹2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]	1,60,000		
		2,10,000	
		7,71,000	
Less: Items not debited but allowable while computing business income			
- Job charges without deduction of tax [₹ 90,000 - 30% of ₹ 90,000] [Mrs. Nisha's turnover for the P.Y. 2022-23 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia). Remaining job charges paid would be allowable as deduction while computing business income	63,000		
- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash by virtue of section 40A(3)]	-		
	63,000		
	7,08,000		
Less: Depreciation as per Income-tax Rules			
Opening WDV of machinery	4,75,000		



	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2023-24 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost(₹7,25,000 - ₹ 1,45,000).	5,80,000			
		10,55,000			
	Less: Sale proceeds	75,000			
	WDV as on 31.3.2024 before depreciation for P.Y. 2023- 24	9,80,000			
	depreciation @ 15% on 9,80,000		1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000		1,16,000		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y. 2023- 24, depreciation and additional depreciation will be allowed in full)			2,63,000	
				4,45,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.			1,17,500	
					3,27,500
II	Capital Gains				
	Long term capital gain on sale of gold bracelet since it is held for more than 36 months		5,22,990		
	Sales consideration				
	Less: Cost of acquisition (40,000 × 348/113)		1,23,186		
	Less: Cost of improvement (50,000 × 348/129)		1,34,884		
	Long- term capital gain on sale of gold bracelet			2,64,920	



	<p>Note - In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the Question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case exemption u/s 54F would be ₹ 2,64,920 × 1,55,000/5,00,000 = ₹ 82,125. Accordingly, long term capital gain would be ₹ 1,07,795 (instead of ₹ 1,89,920). In such a case, Rebate u/s 87A would be ₹ 5,060 (instead of ₹ 12,500) and tax liability of Mrs. Nisha would be Nil (instead of ₹ 9,340).</p>			
	<p>Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70.</p>		75,000	
				1,89,920
iii	Income from Other Sources			
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]		55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha]		60,000	1,15,000
	Gross Total Income			6,32,420
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to		1,50,000	
	Deduction under section 80DD			
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]		1,25,000	



					2,75,000
	Total Income				3,57,420

Computation of tax liability of Mrs. Nisha for A.Y. 2024-25

Particulars	₹
Tax on long-term capital gains @20% on ₹ 1,07,420 [₹ 1,89,920 - ₹ 82,500, being unexhausted basic exemption limit (₹ 2,50,000 - ₹1,67,500)]	21,484
Tax on other income of ₹ 1,67,500 [₹ 3,57,420 - ₹ 1,89,920, being LTCG], being lower than the basic exemption limit	Nil
	21,484
Less: Rebate u/s 87A [Tax payable or ₹12,500, whichever is less]	12,500
	8,984
Add: Health and education cess@4%	359
Tax liability	9,343
Tax liability (rounded off)	9,340

Note - The last two lines in the first para of the Question reads as follows-

"The net profit as per the profit and loss account as on 31.3.2024 is ₹ 5,61,000. **She provides the following additional information those were not considered while making the profit and loss account for the previous year 2023-24**"

Items (i) to (xiii) are listed thereunder.

On a plain reading of the above sentences, it appears that none of the expenditures/receipts in (i) to (xiii) were considered while making the profit and loss account. The above solution has been prepared accordingly.

Alternatively, it is possible to interpret the last sentence (**bold underlined above**) to mean that as far as items (iii) and (v) are concerned, wherein disallowance of expenditure is attracted u/s 40(a)(ia) and 40A(3), respectively, such disallowances (and not the expenditure itself) were not considered while making the profit and loss account of the previous year 2023-24. If so interpreted, then, for item (iii), instead of reducing

₹ 63,000, ₹ 27,000 has to be added back. Likewise for item (v), ₹ 25,000 has to be added back. In such a case, profits and gains from business and profession, Gross Total Income, Total Income and Tax Payable would change accordingly. An alternate solution based on this interpretation has been worked out as follows:

Alternate solution

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

	Particulars	₹	₹	₹
I.	Income from business or profession		5,61,000	
	Net Profit as per profit and loss account			
	Add: Items not credited but taxable while computing business income			



- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2023-24 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]		50,000		
- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]		1,60,000		
			2,10,000	
			7,71,000	
Add: Disallowances not considered while computing business income				
- Job charges without deduction of tax [30% of ₹ 90,000] [Mrs. Nisha's turnover for the P.Y. 2022-23 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia).		27,000		
- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash as per section 40A(3)]		25,000		
			52,000	
			8,23,000	
Less: Depreciation as per Income-tax Rules				
Opening WDV of machinery	4,75,000			
Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2021-22 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost (₹ 7,25,000 - ₹ 1,45,000).	5,80,000			
	10,55,000			
Less: Sale proceeds	75,000			
WDV as on 31.3.2024 before depreciation for P.Y. 2023-24	10,55,000			
Less: Sale proceeds	75,000			



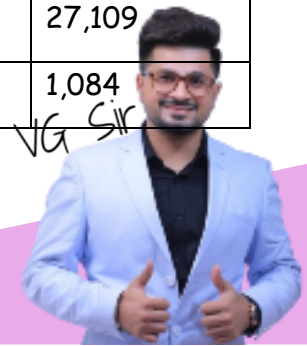
	WDV as on 31.3.2024 before depreciation for P.Y. 2023-24	9,80,000			
	Depreciation @15% on ₹ 9,80,000		1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000		1,16,000		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y.2023-24, depreciation and additional depreciation will be allowed in full)			2,63,000	
				5,60,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.			1,17,500	
					4,42,500
II	Capital Gains				
	Long term capital gain on sale of gold bracelet since it is held for more than 36 months Sales consideration		5,22,990		
			1,12,212		
	Less: Cost of acquisition (40,000 × 348/113)		1,23,186		
	Less: Cost of improvement (50,000 × 348/129)		1,34,884		
	Long- term capital gain on sale of gold bracelet			2,64,920	
	Note - In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the Question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case, exemption u/s 54F would be ₹2,64,920 × 1,55,000/5,00,000 = ₹ 82,125. Accordingly, long term capital gain would be ₹1,07,795 (instead of ₹ 1,89,920). In such a case, Rebate u/s 87A would remain as ₹12,500 and tax liability of Mrs. Nisha would be ₹ 11,111, before rounding off (instead of ₹ 28,193).				



	Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70			75,000	
					1,89,920
III	Income from Other Sources				
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]			55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawn from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha			60,000	1,15,000
	Gross Total Income				7,47,420
	Less: Deduction under Chapter VI-A				
	Deduction under section 80C				
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to			1,50,000	
	Deduction under section 80DD				
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]			1,25,000	2,75,000
	Total Income				4,72,420

Computation of tax payable by Mrs. Nisha for A.Y. 2024-25

Particulars	₹
Tax on long-term capital gains @20% on ₹1,89,920	37,984
Tax on other income of ₹ 2,82,500 [₹ 4,72,420 - ₹ 1,89,920, being LTCG] - 5% of ₹ 32,500 (₹ 2,82,500 - basic exemption limit ₹ 2,50,000)	1,625
	39,609
Less: Rebate u/s 87A [Tax payable or ₹ 12,500, whichever is less]	12,500
	27,109
Add: Health and education cess@4%	1,084



Tax Payable	28,193
Tax Payable (rounded off)	28,190

Question 32

PYP May'22

Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2023-24:

- Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- Cash gift of ₹ 21,000 each from his four friends.
- Land at Jaipur on 1st July, 2023 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for ₹ 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @400 each on 19th June, 2023 the fair market value of which was ₹ 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June, 2023. Further, on 1st November, 2023, Mr. Lalit took possession of his residential house 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 ₹ 24 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st March, 2024, he sold the plot of land at Jaipur for ₹ 8 lakh. The value of the cost inflation index is 100 and 317 for the previous year 2001 -02 and 2021-22 respectively.

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

8 Marks**Answer:****Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2024-25**

Particulars	₹
(i) Motor car is not included in the definition of "property" for the purpose of section 56(2)(x), hence, value of the same is not taxable, even though it is received without any consideration.	-
(ii) Cash gift is taxable under section 56(2)(x) [since the aggregate of ₹ 84,000 (₹ 21,000 x 4) exceeds ₹ 50,000]	84,000
(iii) Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv) Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares of ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset. ¹	-
(v) Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the	4,00,000



	difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000
Income taxable under the head "Income from other sources"		12,09,000

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

Particulars	₹
Capital gains on sale of land at Jaipur	
Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)]	6,00,000
Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	2,00,000
Capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
FMV of assets distributed	1,50,000
Cash	50,000
	2,00,000
Less: Deemed dividend under section 2(22)(c)	1,25,000
Full value of consideration for computing capital gains	75,000

¹ Since Mr. Lalit is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. Lalit.

Note -

- (i) As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.
- (ii) As per section 56(1)(i), dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u/s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares².

² Alternatively, as per the tutorials given on the website of the Income-tax department, if shares are held for trading purposes, then the dividend income would be taxable under the head "Profits and gains of business or profession".

Question 33

PYP May'22

From the following particulars furnished by Mr. Suresh, aged 53 years, a resident Indian for the previous year ended March 31, 2024, you are requested to compute his total income and tax payable for the Assessment Year 2024-25. (Assuming he does not opt for the Section 115BAC):

- (i) He sold his vacant land on 09.12.2023 for ₹ 15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was ₹ 19 lakhs. The fair market value of the land as on 1st April, 2001 was ₹ 6 lakhs (SDV is ₹ 5,00,000). This land was acquired by him on 05.08.1996 for ₹ 3.40 lakhs. He had incurred registration expenses of ₹ 15,000 at that time. The cost of inflation index for the year 2021-22 and 2001-02 are 317 and 100, respectively.



- (ii) He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹ 300 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfils all the conditions of Section 10AA of the Income-tax Act, 1961. Profit from this industrial undertaking is ₹ 30 lakhs.
- (iii) He has income of ₹ 10,000 from crossword puzzles and ₹ 15,000 gross interest from bank fixed deposit.
- (iv) Tuition fees of ₹ 36,000 for his three children to a school. The fees being ₹ 12,000 p.a. per child.

(The stamp duty value of land has been changed from Rs 19 lakhs to Rs. 20.55 Lakhs to keep the essence of the question) 6 Marks

Answer:

Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2024 -25

Particulars		Amount (₹)	Amount (₹)
Profits and gains from business or profession			
Profit from SEZ undertaking			30,00,000
Capital Gains			
Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset]			
As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration		20,55,000	
Less: Indexed cost of acquisition [₹ 5,00,000 × 348/100]		17,40,000	
Cost of acquisition, being higher of - Actual cost (₹ 3,40,000 + ₹ 15,000) - lower of FMV of ₹ 6,00,000 and stamp duty value of ₹ 5,00,000 as on 1.4.2001	₹ ₹ ₹	3,55,000 5,00,000	3,15,000
Income from other sources			
Income from crossword puzzles		10,000	
Interest on fixed deposit		15,000	
			25,000
Gross Total Income			33,40,000
Less: Deductions under Chapter VI-A			
Under section 80C - Tuition fees of two children			24,000
Less: Deduction under section 10AA (₹ 30,00,000 × 120 lakhs/300 lakhs) × 100 %, being 3rd year of operation			12,00,000
Total Income			21,16,000
Computation of Tax payable on total income under the regular provisions of the Income-tax Act, 1961			
Tax on LTCG @ 20% of ₹ 3,15,000			63,000
Tax on income from crossword puzzles @30% of ₹ 10,000			3,000



Tax on remaining amount of ₹ 17,91,000 [₹ 2,37,300 (30% of ₹ 7,91,000) + ₹ 1,12,500]			3,49,800
			4,15,800
Add: Health and education cess @4%			16,632
Tax Payable under the regular provisions of the Act			4,32,432
Tax Payable under the regular provisions of the Act (rounded off)			4,32,430

Computation of Adjusted Total Income and Alternate Minimum Tax (AMT) payable

Particulars	Amount (₹)
Total Income computed under the regular provisions of the Act	21,16,000
Add: Deduction u/s 10AA	12,00,000
Adjusted Total Income	33,16,000
Since Adjusted Total Income exceeds ₹ 20 lakhs, the provisions of Alternate Minimum Tax (AMT) are attracted in this case	
Alternate Minimum Tax@18.5%	6,13,460
Add: Health and Education cess@4%	24,538
AMT	6,37,998
AMT (rounded off)	6,38,000
Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 33,16,000 shall be deemed as the total income and tax is leviable@18.5% thereof plus cess@4%. Therefore, his tax liability would be ₹ 6,38,000. However, he would be entitled to AMT credit of ₹ 2,05,570 (₹ 6,38,000 - ₹4,32,430)	

Question 34

PYP Nov'20

Mr. Muktesh born on 14.1964 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. Analyze 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. **9 Marks**

Answer:

Computation of total income of Mr. Muktesh for A.Y.2024-25 [As per the original return filed by him]



(I)	Salaries (Computed)		7,30,000
(ii)	Income from Other Sources		
	Interest on savings bank account	12,700	
	Interest on fixed deposits	43,000	55,700
			7,85,700
Less: Deductions under Chapter VI-A			
(I)	Deduction u/s 80C	1,50,000	
(ii)	Deduction u/s 80D	25,000	
(iii)	Deduction u/s 80TTA	10,000	1,85,000
Total Income			6,00,700

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

	₹
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	Nil

Need for filing revised return - Analysis Computation of Total Income of Mr. Muktesh for the A.Y. 2024- 51 [As per the Revised Return]

Since Mr. Muktesh's birthday falls on 1.4.2023, he would be treated as having completed 60 years of age in the P.Y.2023-24, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of up-to ₹ 50,000 u/s 80TTB (instead of ₹ 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of ₹ 3,00,000 in the P.Y.2023-24 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to ensure 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 31.3.2025 **31.12.2024 (As per amendment from AY 2024-25 onwards a belated/revised return can be filed by 31st December of the relevant assessment year)** 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 -

	Particulars		₹	₹
(I)	Salaries (Computed)			7,30,000
(ii)	Income from Other Sources			
	Interest on savings bank account		12,700	
	Interest on fixed deposits		43,000	55,700
	Gross Total Income			7,85,700
Less: Deductions under Chapter VI-A				
(I)	Deduction u/s 80C		1,50,000	
(ii)	Deduction u/s 80D			



	Medical insurance premium for self and spouse		38,000		
	Preventive health check-up for self (allowable even if paid in cash)		1,500		
	Fully allowed as it is within 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	
(iii)	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. Muktesh for A.Y.2024-25 [As per the Revised Return]

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

Therefore, Mr. Muktesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31.3.2025 **31.12.2024 (As per amendment from AY 2021-22 it is 31st December of the relevant AY)** 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.



Question 35

Mr. X, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2020. Details of his income for the previous year 2023-24, are as follows:

- (i) Basic salary : ₹ 3,80,000
- (ii) Dearness allowance : ₹ 1,20,000 (40% forms part of pay for retirement benefits)
- (iii) Both Mr. X and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.
- (iv) Gift received by X's minor son on his birthday from friend: ₹ 70,000. (No other gift is received by him during the previous year 2023-24)
- (vii) During the year 2016-17, Mr. X gifted a sum of ₹ 6,00,000 to Mrs. X. She started a business by introducing such amount as her capital. On 1st April, 2023, her total investments in business was ₹ 10,00,000. During the previous year 2023-24, she has loss from such business ₹ 1,30,000
- (viii) Mr. X deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2024. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.
- (xiv) He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid ₹ 15,000 as interest on such loan which includes ₹ 5,000 for the financial year 2023-24.

Determine the total income of Mr. X for the assessment year 2024-25. Ignore provisions under section 115BAC.

6 Marks

Answer:

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

Particulars	Amount ₹	Amount ₹
Salaries		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of ₹ 3,80,000	76,000	
	5,76,000	
Less: Standard deduction	50,000	
[₹ 50,000 or ₹ 5,76,000, whichever is lower]		
		5,26,000
Profits and gains of business or profession		
Where the amount gifted by Mr. X (₹ 6 lakh, in this case) is invested by Mrs. X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2023 to the total investment in the business (₹ 10 lakh) would be included in the income of Mr. X [loss of ₹ 1,30,000 × 6/10]	(78,000)	
Income from other sources		



All income of the minor son would be included in the income of the parent Mr. X, since his income is higher than the income of Mrs. X (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being amount of gift received by minor son during the P.Y.2023-24, would be included in the income of Mr. X as the amount of gift exceeds ₹ 50,000.	70,000	
Less: Exemption in respect of income of minor child included in Mr. X's income	1,500	
	68,500	
Less: Business loss of ₹ 78,000 set-off to the extent of	68,500	
(Balance business loss of ₹ 9,500 to be carried forward to the next year, since the same cannot be set-off against salary income)		
		Nil
Gross Total Income		5,26,000
Less: Deductions under Chapter VI-A		
Under section 80C - deposit in Sukanya Samridhi Account	70,000	
Under section 80CCC - Contribution to LIC Annuity Plan	40,000	
Under section 80CCD(1) - Employee contribution to NPS (₹ 76,000 - ₹ 50,000 deduction claimed u/s 80CCD(1B)], since it is lower than ₹ 42,800, being 10% of salary (₹ 3,80,000 + ₹ 48,000)	26,000	
Allowable in full, since less than ₹1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
Under section 80CCD(1B) - Employee contribution to NPS	50,000	
Under section 80CCD(2) - Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% x (₹ 3,80,000 + ₹ 48,000)	59,920	
Under section 80E - Interest paid on loan taken for higher education	15,000	2,60,920
Total Income		2,65,080

Notes - The following assumptions have been made while solving the question -

- Loan is taken from a financial institution or approved charitable institution, and hence, interest paid on such loan qualifies for deduction under section 80E.
- The question mentions that gift of ₹ 6 lakhs is given by Mr. X to Mrs. X during the P.Y.2016-17. However, the date of investment in business is not given. It has been assumed that it was invested between 2.4.2022 to 1.4.2023 for solving the problem, in the absence of other information in the question.

Question 36

PYP Dec '21

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2024 is as under:

	Expenditure	Amount (₹)		Income	Amount (₹)
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To	Employees' Remuneration	15,00,000	By	Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To	Office & Administrative Expenses	5,00,000	By	Interest on Savings Bank Account	25,000
To	Rates and Taxes	15,000	By	Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To	Interest Expenses	80,000	By	Rent Received	2,40,000
To	Office Rent	2,40,000			
To	Insurance Premium	72,000			
To	Professional Fees	2,00,000			
To	Depreciation on Computers	1,20,000			
To	Excess of Income over Expenditure	36,97,500			
		64,24,500			64,24,500

The following details relates to F.Y. 2023-24:

- (i) Employees' Remuneration includes a sum of ₹ 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.
- (ii) Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of ₹ 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence cum-office. Other particulars of the house are:
Municipal Valuation - ₹ 3,60,000 p.a. Fair Rent - ₹ 4,20,000 p.a.
Standard Rent under Rent Control Act - ₹ 4,00,000 p.a.
- (iii) Rates and taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.
- (iv) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2010-11. Neither the loan nor the interest was paid till the due date of filing the return of income.
- (v) Based on the actual rent received for Unit-1, Mr. Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.
- (vi) The expense on insurance premium of ₹ 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1st July, 2023 to 30th June, 2026 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
- (vii) The expenses on professional fees paid includes a sum of ₹ 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.



(viii) There was only one block containing computers which came into existence only on 2nd April, 2023 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% in the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.

(ix) Mr. Bhasin has also taken a loan of ₹ 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2023-24, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2024-25 under regular provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him. **14 Marks**

Answer:

Computation of total income and tax payable by Mr. Bhasin for A.Y. 2024-25

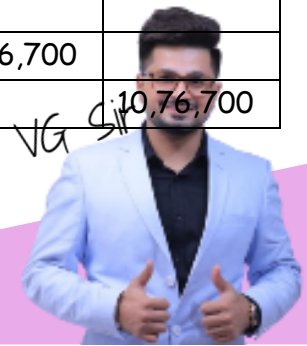
	Particulars	₹	₹	₹
I	Income from Salaries Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		50,000	2,50,000
I	Income from house property			
I	Let out portion (Unit 1 - 50% area) Gross Annual Value [Higher of expected rent of ₹ 2,00,000 and actual rent of ₹ 2,40,000 (₹ 20,000 × 12)] [Expected rent is higher of municipal value of ₹ 1,80,000 (3,60,000 × 50%) and fair rent of ₹ 2,10,000 (₹ 4,20,000 × 50%), restricted to standard rent of ₹ 2,00,000 (₹ 4,00,000 × 50%)]	2,40,000		
	Less: Municipal taxes paid for let out portion (₹ 10,000 × 50%)	5,000		
	Net Annual Value (NAV)	2,35,000		
	Less: Deduction under section 24			
	(a) 30% of NAV	70,500		
	(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 × 50%) (allowed on accrual basis)	40,000		
	Income from let out portion		1,24,500	
	Self-occupied (Unit 2 - 25%) [Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]			



	Gross Annual Value	Nil		
	Less: Municipal taxes [not allowed for self occupied property]	Nil		
	Net Annual Value	Nil		
	Less: Deduction under section 24(b) Interest on loan for construction of house, ₹ 80,000 x 50% x 1/2 (allowable on accrual basis)	20,000		
	Loss from self-occupied portion		(20,000)	
	[Loss from self-occupied portion can be set off against income from let out portion]			1,04,500
III	Profits and gains from business and profession			
	Excess of income over expenditure		36,97,500	
	Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction			
	Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]	-		
	Municipal taxes attributable to let out and self occupied portions not allowable [₹ 10,000 x 75%]	7,500		
	Interest on capital borrowed for construction of house attributable to let out and self occupied portion not allowable [₹ 80,000 x 75%]	60,000		
	Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of ₹ 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000		
	Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000		
	Insurance premium [Personal expenditure not allowable]	72,000		
	Professional fees to Mr. Raunak without deducting TDS [₹ 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds ₹ 50 lakhs during the P.Y. 2022-23. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2023-24]	30,000		
	Depreciation as per books	1,20,000	5,49,500	
			42,47,000	



	Less: Income credited to Income & Expenditure A/c but not taxable as business income Interest on savings bank account [taxable under the head "Income from other sources"]	25,000		
	Winnings from lottery [taxable under the head "Income from other sources"]	99,500		
	Rent received [taxable under the head "Income from house property"]	2,40,000	3,64,500 38,82,500	
	Less: Depreciation allowable [2,00,000 (₹1,60,000, being new laptops + ₹ 40,000, being printers) × 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2023-24. Printers and scanners for ₹ 40,000 are eligible for higher depreciation of 40%]		80,000	38,02,500
IV	Income from Other Sources Interest on savings bank account		25,000	
	Winnings from Lottery [No expenditure or allowance is allowed from lottery income]		1,00,000 ¹	
				1,25,000
	Gross Total Income			42,82,000
	Less: Deduction under Chapter VI-A Deduction under section 80D Medical insurance premium [₹ 72,000 × 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]		18,000	
	Deduction under section 80E Interest on loan taken from a nationalised bank for higher education of son		40,000	
	Deduction under section 80TTA			
	Interest on saving bank account to the extent of		10,000	68,000
	Total Income			42,14,000
	Tax Payable On lottery income [30% of ₹ 1,00,000]		30,000	
	On other income of ₹ 41,14,000 Upto ₹ 2,50,000	Nil		
	₹ 2,50,000 @5% [₹ 2,50,000 - ₹ 5,00,000]	12,500		
	₹ 5,00,000 @20% [₹ 5,00,000 - ₹ 10,00,000]	1,00,000		
	₹ 31,14,000 @30% [₹ 10,00,000 - ₹ 41,14,000]	9,34,200		
			10,46,700	
				10,76,700



Less: HEC@4%			43,068
Tax liability			11,19,768
Less: TDS on lottery winnings @30% u/s 194B			30,000
Tax payable			10,89,768
Tax payable (rounded off)			10,89,770

Question 37

PYP May '23

Mr. Bhagat, an individual aged 50 years, set up a unit in Special Economic Zone (SEZ) in F.Y. 2018-19 for the production of computers. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During F.Y. 2022-23, he set up a hospital in a district of Maharashtra with 110 beds for patients. It fulfils all the conditions of section 35AD. Capital expenditure in respect of the said hospital amounted to ₹ 65 lakhs (comprising of cost of land ₹ 15 lakhs and the balance was the cost of construction of building). The hospital became operational with effect from 1st April, 2023 and the expenditure of ₹ 65 lakhs was capitalized in the books of accounts on that date. Relevant details for F.Y. 2023-24 are as follows:

Particulars	Amount (₹ in lakhs)
Profit of unit located in SEZ	36
Export sales of SEZ unit	75
Domestic sales of SEZ unit	25
Profit from operation of hospital facility (before considering deduction under Section 35AD)	90

Compute the income-tax (including AMT under section 115JC and AMT credit, if any, under section 115JEE) payable by Mr. Bhagat for A.Y. 2024-25 under regular provisions of the Income-tax Act i.e. ignoring the provisions of section 115BAC. Ignore marginal relief, if any. **7 Marks**

Answer

Computation of total income and tax payable of Mr. Bhagat for A.Y. 2024-25 (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession Profit from unit in SEZ		36,00,000
Profit from operation of hospital	90,00,000	
Less: Deduction u/s 35AD In this case, since the capital expenditure of ₹ 50 lakhs (i.e., ₹ 65 lakhs - ₹ 15 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2021-22 and capitalized in the books of account on 1.4.2023, being the date when the hospital became operational, the said amount would be eligible for deduction under section 35AD.	50,00,000	
Business income from hospital chargeable to tax		40,00,000
Gross Total Income		76,00,000
Less: Deduction u/s 10AA		13,50,000



Profit of SEZ unit x Export turnover of SEZ unit x 50% Total turnover of SEZ unit 75,00,000 = ₹ 36,00,000 x 1,00,00,000 x 50% = ₹ 27,00,000 x 50% = ₹ 13,50,000 Deduction would be 50% of eligible profits, since P.Y.2022-23 is the 6 th year of operation		
Total Income		62,50,000
Computation of tax payable (under the regular provisions of the Act)	₹	
Tax on ₹ 62,50,000 [₹ 1,12,500 plus 30% of ₹ 52,50,000]		16,87,500
Add: Surcharge @10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,68,750
		18,56,250
Add: Health and Education cess@4%		74,250
Total tax payable		19,30,500

Computation of adjusted total income of Mr. Bhagat for levy of Alternate Minimum Tax

		₹
Total Income (computed above as per regular provisions of income tax)		62,50,000
Add: Deduction under section 10AA		13,50,000
		76,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation under section 32 On building @10% of ₹ 50 lakhs	5,00,000	45,00,000
Adjusted Total Income		1,21,00,000
Alternate Minimum Tax@18.5%		22,38,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore but does not exceed ₹ 2 crores)		3,35,775
		25,74,275
Add: Health and education cess@4%		1,02,971
		26,77,246
Tax liability u/s 115JC (rounded off)		26,77,250
Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax payable as per section 115JC is ₹ 26,77,250. AMT Credit to be carried forward under section 115JEE Tax liability under section 115JC	26,77,250	
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500	
		7,46,750

Question 38

PYP Dec '21

Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹ 27,00,000 and standard rent of ₹ 29,80,000. Market rent of similar property is ₹ 30,00,000. Annual rent was ₹ 40,00,000 which includes ₹ 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is ₹ 2,40,000) remains vacant for



4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

Municipal taxes of ₹ 4,00,000 for the financial year 2023-24 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2012-23 paid during the year of ₹ 1,40,000 which includes interest on arrears of ₹ 25,000.

Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash. Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.

Compute the total income of Mr. Ravi for the assessment year 2024-25 assuming that Mr. Ravi has not opted for the provisions under section 115BAC. **6 Marks**

Answer:

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

Particulars		Amount (₹)	Amount (₹)
Income from house property			
Gross Annual Value			
Expected rent ₹ 29,80,000 [Higher of Municipal Value of ₹ 27,00,000 p.a. and Fair Rent of ₹ 30,00,000 p.a., but restricted to Standard Rent of ₹ 29,80,000 p.a.]			
Actual rent ₹ 29,40,000 [₹ 30,00,000, being annual rent for house property less rent of ₹ 60,000 (₹ 2,40,000 × 4/12 × 3/4) due to vacancy]			
Gross Annual Value		29,40,000	
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of ₹ 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent. Less: Municipal taxes actually paid during the year: [₹ 4,00,000 - rebate of ₹ 40,000] = ₹ 3,60,000 [₹ 1,40,000 arrears - ₹ 25,000 interest] = ₹ 1,15,000		4,75,000	
Net Annual Value		24,65,000	
Less: Deduction from Net Annual Value			
30% of Net Annual Value		7,39,500	
Income from Other Sources/Profits and gains from business or profession			17,25,500
Rent for amenities		10,00,000	
Less: Loss due to vacancy [₹ 2,40,000 × 4/12 × ¼]		20,000	
Less: Expenditure in respect thereof		9,80,000	
- Lift maintenance expenses [excluding cash payment of ₹ 30,000 disallowed] = ₹ 2,40,000 - ₹ 30,000	2,10,000		
- Salary to staff [₹ 88,000 × 1/4, being the proportion pertaining to amenities]	22,000	2,32,000	
			7,48,000
Total Income			24,73,500



“If You Think You Can, Then You Can Do Anything”

- by VG Sir

- FCA, B.com & CCTP
- Faculty for
 - CA Intermediate - Direct Tax & Indirect Tax
- Qualified as Chartered Accountant at the age of 20
- Started teaching Taxation Laws in 2014 to CS students. Now regarded as the “TAXATION KING”
- Makes difficult subject like Tax, simple to understand and teaches in a joyous environment
- Plays multiple roles as a Teacher, Guide, Mentor, Motivator, Big Brother & Friend to his students. He focuses upon overall development of the student
- In 2019, sir was the speaker of JoshTalk and shared his journey of becoming a CA. The video received more than 1.4 million views till date

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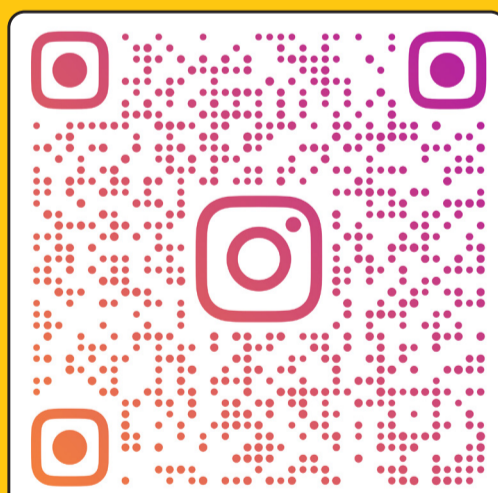
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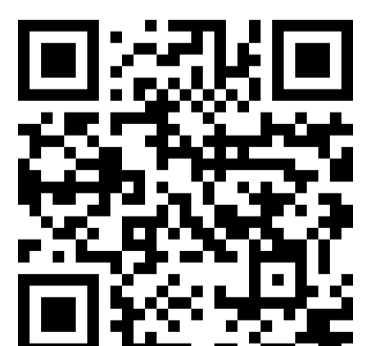
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