

Inter – Taxation

Time Allowed – 1.5 hours

50 marks

2. Part I comprises Multiple Choice Questions (MCQs)

3. Part II comprises questions which require descriptive type answers.

Section A – Income Tax

Part 1

1. Answer: (b)

Explanation: As per section 64(1)(iv), when an asset is transferred to a spouse without adequate consideration, any income generated from such asset is clubbed with the income of the transferor (Mr. Arvind). Hence, the interest of ₹ 56,000 on the fixed deposit is taxable in the hands of Mr. Arvind.

2. Answer: (a)

Explanation: As per the **clubbing provisions**, if the gifted amount is used to start a business and the **business**, then the **PGBP will be clubbed if gifted amount is included in opening capital**. Since Mrs. Kavya started catering business and invested gifted amount for starting the business so gifted money included in opening capital and profit going to be clubbed in hands of Mr. Arvind.

3. Answer: (b)

Explanation: As per **section 64(1A)**, any income earned by a **minor child** is clubbed in the hands of the **higher-earning parent** (Mr. Arvind, in this case). **Exemption under section 10(32) of ₹1,500 can not be claimed**, since Arvind **opted 115BAC**.

4. Answer: (c)

Explanation:

- Salary after standard deduction = ₹ 9,50,000
- Interest income from FD Clubbing of = ₹ 56,000
- Short-Term Capital Gains from minor child's mutual funds = ₹ 18,000
- PGBP Income of wife Clubbed 80,000
- Total Taxable Income = ₹ 9,50,000 + ₹ 56,000 + ₹ 18,000 + 80,000 = ₹ 11,04,000

5. Answer: (d) It will not be clubbed

Explanation: As per **Section 64(1A) of the Income Tax Act**, income of a **minor child** is generally clubbed with the **higher-earning parent's income**. However, an **exception applies** if the minor earns income from **manual work, skill, talent, or specialized knowledge**. Since Aditya earned ₹50,000 from a **special talent competition**, this income will not be clubbed and will be taxable in his own hands.

6. Answer: (b) ₹ 3,00,000 or actual remuneration paid, whichever is lower

Explanation:

As per **Section 40(b) of the Income Tax Act, 1961**, in case of a **partnership firm** having a **book profit of ₹ 0 or a loss**, the **maximum deduction** allowed for **remuneration paid to partners** is **₹ 3,00,000 or actual remuneration paid, whichever is lower**. If the firm has **book profits**, then the deduction is **90% of the first ₹ 6,00,000 of book profit or ₹ 3,00,000, whichever is higher**, plus **60% of the remaining book profit**.

7. Answer (b) Kotak Bank will need to deduct TDS at the rate of 2% in excess of 1 crore cash withdrawal.

Explanation:

As per **Section 194N** of the **Income Tax Act, 1961**, if an individual withdraws cash **exceeding ₹1 crore** in a financial year from a bank, **TDS will be applicable on the excess withdrawal** as follows:

- **If the person has filed income tax returns for any of the three preceding years:**
 - **2% TDS on cash withdrawals exceeding ₹1 crore in a financial year.**
- **If the person has NOT filed income tax returns for any of the three preceding years:**
 - **5% TDS on cash withdrawals exceeding ₹20 lakh in a financial year.**

In this case:

- **Mr. Amit has filed his ITR regularly, so the 2% TDS rate applies.**
- **However, his total cash withdrawal = ₹1.50 Cr + ₹1 Cr = ₹2.50 Cr.**
- **TDS is applicable on the amount exceeding ₹1 crore i.e., ₹1.50 Cr.**
- **TDS = 2% of ₹1.50 Cr = ₹3 lakh.**

8. Answer (A) As per Explanation 1 to Section 43(1) of the Income Tax Act, 1961, when a personal asset is introduced into business, depreciation is to be calculated on the original purchase cost, NOT the market value. $50,000 \times 40\% = 20,000$

Descriptive

Question 1

1. Computation of total income of Mr. Ashish for A.Y. 2025-26

	Particulars	Rs.	Rs.	Rs.
	<u>Income from business or profession</u>			
	Excess of income over expenditure		39,43,000	
	<i>Add: Items debited but not allowable while computing business income</i>			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee/not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of “relative” for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Ashish’s sister-in-law]	Nil		
	- Employees’ Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. 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 employees contribution to EPF for February 2025 is deposited after the due date under the relevant Act, deduction would not be available]	10,000		
	- 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. Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business	80,000		

	Particulars	Rs.	Rs.	Rs.
	income]			
	- Commission to Ms. Anjaleen without deduction of tax at source – [Mr. Ashish would be liable to deduct tax at source on commission since his gross receipts from profession exceeded Rs. 50 lakhs during F.Y.2023-24. Since commission has been paid without deduction of tax at source, hence 30% of Rs. 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.2025-26]	7,500		
	- Depreciation as per books of account	90,000		
	- Purchase of Furniture [not allowable, since it is a capital expenditure]	<u>48,000</u>		
			<u>2,55,500</u>	
			41,98,500	
	Less: Depreciation as per Income-tax Rules			
	- On Professional Books [Rs. 90,000 x 40%]	36,000		
	- On Computers [Rs. 35,000 x 40%]	14,000		
	- On Furniture [Rs.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 Rs.10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, Rs. 18,000 and Rs. 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture]	1,900		

	Particulars	Rs.	Rs.	Rs.
	- On Car [Rs. 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Ashish, i.e., Rs. 3,35,000]	<u>50,250</u>	<u>1,02,150</u>	
			40,96,350	
	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		
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	<u>21,000</u>	<u>1,01,000</u>	
				39,95,350
II	<u>Income from other sources</u>			
	Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3rd Year)		<u>21,000</u>	
				<u>41,000</u>
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A			
	<u>Deduction under section 80C</u>			
	Contribution to PPF	1,00,000		
	Interest on NSC (3rd Year) (Reinvested)	<u>21,000</u>	1,21,000	
	<u>Deduction under section 80D</u>			
	Medical expenses for the treatment of father [Since Mr. Ashish'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 Rs. 50,000]		50,000	
	<u>Deduction under section 80TTA</u>			
	Interest on savings bank account to the extent of Rs. 10,000		<u>10,000</u>	<u>1,81,000</u>
	Total income			<u>38,55,350</u>
				<u>0</u>

Computation of tax liability of Mr. Ashish for A.Y.2025-26

Particulars	Rs.	Rs.
Tax on total income of Rs. 38,55,350		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000[@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000[@20% of Rs. 5 lakh]	1,00,000	
Rs. 10,00,001- Rs. 38,55,350 [@30% of Rs. 28,55,350]	<u>8,56,605</u>	
		9,69,105
Add: Health and education cess@4%		<u>38,764</u>
Tax liability		<u>10,07,869</u>
Tax liability (rounded off)		10,07,870

Question 2 (a)

Computation of Taxable Salary in Hands of Mr. Rahul for PY 24-25 AY 25-26

Particular	Amount	Amount
Basic Salary		9,50,000
Dearness Allowance [9,50,000 x 12%]		1,14,000
Gratuity Received	25,00,000	
Less: Exempt u/s 10(10)	<u>15,34,615</u>	9,65,385
15/26 x 1,06,400 x 25 years		
[Salary = Basic + DA (Both)]		
Leave Salary Received	12,00,000	
Less: Exempt u/s 10(10AA)		
(i) Leave Credit x Avg Salary p.m.	12,79,460	
(25 months – 12 months)		
13 months x 98,420 [Basic + DA(in terms)]		
(ii) 10 months x Avg Salary p.m.	9,84,200	
(iii) Actual Amount Received	12,00,000	
(iv) Max. 25,00,000	<u>25,00,000</u>	
	<u>9,84,200</u>	2,15,800
Commuted Pension Received	4,50,000	
Less: Exempt u/s 10(10A)	<u>1,50,000</u>	3,00,000
Total Pension x 1/3		
4,50,000 x 1/3		
Gross Salary		25,45,185
Less: Deduction u/s 16		75,000
Net Taxable salary		24,70,185

Question 2 (b)**Computation of capital gain in the hands of Mrs Parul for the Assessment Year 2025-26**

	₹	₹
Actual sale consideration	86,00,000	
Value adopted for stamp duty [SDV] Since SDV is not more than 110% so consideration is treated as FVOC]	80,00,000	
Full Value of Consideration		86,00,000
Less: - Brokerage paid on transfer		86,000
Net sale consideration		85,14,000
Less: - Cost of acquisition [Index not allowed as asset transfer on or after 23/7/24]		1,10,000
Long term capital gain		84,04,000
Less: - Exemption under section 54EC (But restricted to ₹ 50,00,000)		50,00,000
Taxable Long term capital gain		34,04,000

Question 3 (a)**Computation of Gross Total Income of Mr. X for A.Y. 2025-26**

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of Rs. 2,58,000 to the extent of Rs. 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)	
	(2,58,000)	
Loss upto Rs. 2 lakhs can be set off against income from salary.		
Balance loss of Rs. 58,000 from house property has to be carried forward to A.Y.2026-27.		
Profits and gains from business or profession		
Profits from Speculative business – 2	46,000	
Less: Loss of Rs. 74,000 from speculation business - 1 set off to the extent of profits of Rs. 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than	(46,000)	
		-

Particulars	Amount	Amount
profit and gains of another speculation business. Hence, the balance loss of Rs. 28,000 from speculative business has to be carried forward to A.Y.2026-27.		
Profits from textile business	18,000	
Less: Loss from cosmetic business of Rs. 22,000 set off against profits from textile business to the extent of Rs. 18,000 as per section 70(1).	(18,000)	-
Balance loss of Rs. 4,000 from cosmetic business has to be carried forward to A.Y.2026-27, since the same cannot be set-off against salary income.		
Capital Gains		
Long term capital gain from sale of property	15,400	
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 Rs. 16,000 set off against long- term capital gains to the extent of Rs. 15,400 as per section 74(1).	(15,400)	-
Balance short term capital loss of Rs. 600 has to be carry forward to A.Y.2026-27		
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 Rs. 14,600 has to be carried forward to A.Y.2026-27]	<u>Nil</u>	
Gross Total Income		<u>80,000</u> <u>1,02,000</u>

Question 3 (b)

Under section 44AD, for eligible business, where the amount or aggregate turnover of the amounts received during the previous year, in cash, does not exceed 5% of the total turnover or gross receipts, a threshold limit of ₹ 3,00,00,000 will apply.

Since his cash receipts during the previous year does not exceed 5% of the total turnover i.e., 4.52% and His total turnover for the financial year 2024-2025 is below ₹ 3,00,00,000, i.e., ₹ 2,99,00,000, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

Realized by cash ₹ 13,50,000 during the previous year @ 8% = ₹ 1,08,000

Realized balance ₹ 2,85,50,000 through prescribed electronic modes on or before the due date for filing the return specified in section 139(1) @ 6% = ₹ 17,13,000
Income from retail trade, applying the presumptive tax provisions under section 44AD = ₹ 18,21,000.

Question 4 (a)

Computation of total income of Mr Ram for the for the Assessment Year 2025-26

		Regular provision ₹		Section 115 BAC ₹	
(i)	Income from House Property (let out)				
	Rent Received [65,000 x 12 months]	7,80,000		7,80,000	
	Less: - Standard deduction u/s 24	2,34,000		2,34,000	
	Less: - Interest on loan	2,10,000		2,10,000	
			3,36,000		3,36,000
	Income from House Property (Self-Occupied)				
	Rent Received	Nil		Nil	
	Less: - Interest on loan	2,00,000	(2,00,000)	Nil	Nil
	Income from House Property		1,36,000		3,36,000
(ii)	Income from Business				
	Income from Ram Enterprises (computed)		9,60,000		9,60,000
	Gross total income		10,96,000		12,96,000
	Less: - Deductions under Chapter VI-A				
	Deduction under section 80C				
	Housing loan principal repaid		1,50,000		Not eligible
	Total Taxable Income		9,46,000		12,96,000
	Tax liability		1,01,700		99,200
	Add: Health & Education cess @ 4%		4,068		3,968
	Tax and cess payable		1,05,768		1,03,168
In the instant case, tax liability under default tax regime under section 115BAC is lower, hence it is advisable to Mr Ram should opt <u>default taxation regime</u> of section 115BAC.					

Question 4 (b)

An individual is required to furnish a return of income under section 139(1) if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income-tax.

Computation of total income of Mr. Hari for A.Y. 2025-26

Particulars	Rs.
Income from other sources	
Interest earned from Non-resident (External) Account Rs. 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	48,000
<i>Less:</i> 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.2025-26, is less than the basic exemption limit of Rs. 2,50,000, he is not required to file return of income for A.Y.2025-26.

However, if he has incurred expenditure exceeding Rs. 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 Rs. 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2024-25, he has to mandatorily file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).