

CA INTER-DIRECT TAX RTP FOR MAY - 2018

MY DEAR AND BELOVED FRIENDS ,

- You be feeling very tense. This tension is created by the institute to develop more capabilities in you, so that you are prepared for the future challenges.
- It is said that the maximum development of the world took place during two world wars. Because it is only during challenges that our mind becomes creative and our capabilities increase.

“Please Remember Your next 25 days of power pack revision will decide the result”

“Also remember this is not just a exam, it is your investment for whole life”

- All the amendments given in RTP of ICAI are not relevant for IPC examinations, We have done the relevant amendments during the class, however again I again given amendments notes to all of you
- Please allot reasonable time to all papers because at least 40 marks required in each paper for qualifying exams.
- As per past records, 20-25% students were failed due to not obtained 40 marks in a paper but average scored more than 50%

Face the examination with confidence

Having prepared well for the examination, it is also important that you approach the examination with a positive attitude. Do keep in mind the following points to score well in this paper –

- Answer the questions with due emphasis on provisions**– Support your answers/conclusions with proper legal provisions. Answers should be based on relevant legal provisions rather than a mere common sense and/or guess work.
- Supplement your computation with Working Notes** - Give complete working notes while solving computational problems. For example, if you are computing taxable HRA while calculating salary income, the working note should specify the three limits and the corresponding figures, the least of which would be exempt under section 10(13A). The balance HRA would be taxable and taken to the main computation sheet.
- Try to quote relevant section numbers** – Quoting section numbers would definitely add value to your answers. However, it is better not to quote than to misquote a section number.
- State your assumptions/views clearly** - The provisions of income-tax law are subject to different interpretations, and hence there is a possibility of alternate views in the tax treatment of a particular item of income or expense or loss or deduction. As a student, you should state your view/assumption clearly and proceed to answer the question on that basis.
- Avoid using short forms** – Use of short forms like AO, ITO, IT Act, etc. should be avoided. Write the full names of the statutes, like, “Income-tax Act, 1961”.
- Present your answers well** - Underline important points and section references as and when you answer each question. Also, make sure that your handwriting is neat and legible. Answer all parts of a question one after the other. Do not answer different parts of the same question at different places

Before the examination day

“This is the most important day”

Keep in mind that the person who starts early always stays ahead. So don't get relaxed. Don't think you have two days and you will work slowly. Don't unduly stick to one topic.

Allocate time for each and every topic before starting the revision and don't at all exceed those limits. U will have **approx. 42 hrs** for tax paper after cost & fm. Following should be a tentative time plan for revision:

S.NO	Chapter Name	Tentative Time
1	GST	15 hrs
2	Salary	3 Hrs
3	Capital Gain	3 Hrs
4	PGBP	6 Hrs
5	Deduction	2 Hrs
7	House Property	1 Hrs
6	Basic & Residential	1 Hrs
7	Other topics	4 Hrs
8	Most Imp: EYE SCAN OF ALL Q IN PM	5 Hrs (including RTP)
9	Total	40-42 Hrs

Don't try to recall the things; just try to read the topic. Just keep on reading, don't think whether you will be able to recall or not in the examination all. You will be definitely able to recall the topics provided you have gone through that topic before examination day.

Don't at all compromise on your sleep. If you are fresh than you will solve even the most difficult questions.

If you are not then **GOD HELP YOU**. So, please, take proper sleep and not only in this paper but in all the papers.

In the examination- feel in your heart I am with u

- Don't rush to attempt the question paper. First go through the entire question paper and select your best and shortest possible question. (5-7 min.)
- Even in the most difficult papers, there are always few question which are very easy. If you once start doing easy question, your confidence boosts up and you are able to do even the difficult ones. Therefore, instead getting demoralized from difficult question, try to search for the easier ones.
- Allocate time for each question and don't exceed the limits. Answer all questions. Ensure that you plan your time well during the examination.
- Don't leave numerical question for the end, try to attempt them somewhere in the middle.
- And finally friends, it is said that great battles are always won at the end. You still have lot of time. If you work with regularity and discipline than your success is definite. Relax and work hard.

Do not hesitate, Feel free to Contact me anytime, if you think I could be of any Help on any matter.

“Always pray for your grand success” , Best wishes.

PAST YEAR'S EXAMINATION QUESTIONS (THEORY)

Question 1: Explain how contributions to political parties are deductible in the hands of corporate and non-corporate assesses under the Income tax law.

Answer: Deduction in respect of contributions given by companies to political parties Section 80GGB

In computing the total income of an assessee, being an **Indian company**, there shall be deducted any sum contributed by it, in the previous year to any political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

Deduction in respect of contributions given by any person to political parties Section 80GGC

In computing the total income of an assessee, being any person, except local authority and every artificial juridical person wholly or partly funded by the Government, there shall be deducted any amount of contribution made by him, in the previous year, to a political party or an electoral trust.

No deduction shall be allowed under this section in respect of any sum contributed by way of cash.

Question 2: Briefly explain provisions of section 80U of the Income-tax Act, 1961, in respect of deduction available on permanent physical disability.

Answer: Deduction under section 80U in case of a person with disability

(i) This section is applicable to a **resident individual**, who, at any time during the previous year, is certified by the medical authority to be a person with disability.

(ii) A deduction of **75,000** in respect of person with disability and **1,25,000** in respect of a person with severe disability is allowable under this section.

(ii) The benefit of deduction under this section has also been extended to persons suffering from autism, cerebral palsy and multiple disabilities.

Question 3: Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961?

Answer: As per explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

Question 4: In whose hands the income from an asset is chargeable to tax in the case of transfer which is not revocable during the life time of the beneficiary/transferee?

Answer: As per section 62, clubbing provisions are not attracted, if there is a transfer of asset which is not revocable during the life time of the transferee, the income from the transferred asset is not includable in the total income of the transferor provided the transferor derives no direct or indirect benefit from such income.

Question 5: Mr. X has transferred through a duly registered document the income arising from a godown, to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Answer: As per Section 60 of the Act, where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be charged in the hands of Mr. X.

Question 6: List any 5 instances where the tax deductible at source in terms of section 194A will not apply.

Answer: The provisions of section 194A will not apply in the following cases where the –

- (1) Interest is paid by a firm to a partner of the firm;
- (2) Interest paid to any Banking Company or any Financial Corporation or Life Insurance Corporation of India or Unit Trust of India or any Associations or Bodies notified by the Central Government;
- (3) Interest paid by a co-operative society to their member;
- (4) Interest income credited or paid by the Central Government under any provision of the Income-tax Act, the Wealth-tax Act etc.;

(5) Income paid in relation to a Zero Coupon Bond.

Question 7: Explain the consequences of not deducting tax and paying to Govt. account under section 201 of the Income Tax Act, 1961.

Answer: If any person has failed to deduct tax at source, interest shall be charged @ **1% p.m. or part of a month** for the period of delay. E.g. ABC Ltd. has made on payment on 03.01.2016 but tax was deducted at source on 02.02.2016, in this case interest shall be charged @ 1% for one month.

2. If person has deducted tax at source but payment was not given within the time allowed under section 200, interest shall be charged @ **1.5% p.m. or part of a month** from date of deducting tax at source upto the date of depositing the amount.

Question 8: State the concessions granted to transport operators in the context of deduction of tax at sources under section 194-C.

Answer: No deduction is required to be made from any sum credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the contractor furnishes his permanent account number (PAN) to the person paying or crediting such sum.

Question 9: Explain the difference between tax deduction at source and tax collection at source.

Answer: **Tax deduction at source** means any tax which has been deducted while paying sum to someone. Persons responsible for making payment of income covered by the scheme of tax deduction are required to be deducting tax at source at the prescribed rates. Tax so deducted should be deposited within the prescribed time. Tax is always deducted on expense and not supply of goods.

Tax collection at source arises on the part of the seller. Certain specified goods when sold must be subjected to tax collection at source and taxes collected thereon must be remitted into government's accounts as done in the case of TDS. As per section 206C, rate of collection of tax at source shall be

<i>Sl. No.</i>	<i>Nature of goods</i>	<i>Percentage</i>
(1)	(2)	(3)
(i)	Alcoholic Liquor for human consumption	One per cent
(ii)	Tendu leaves	Five per cent
(iii)	Timber obtained under a forest lease	Two and one-half per cent
(iv)	Timber obtained by any mode other than under a forest lease	Two and one-half per cent
(v)	Any other forest produce not being timber or tendu leaves	Two and one-half per cent
(vi)	Scrap	One per cent
(vii)	Parking lot	Two per cent
(viii)	Toll plaza	Two per cent
(ix)	Mining and quarrying	Two per cent
(x)	Minerals, being coal or lignite or iron ore	One per cent

Question 10: Briefly explain the provisions of section 197 in respect of obtaining certificate for deduction of tax at a lower rate.

Answer: The assessee can make an application to the Assessing Officer for deduction of tax at a lower rate or for non-deduction of tax.

If the Assessing Officer is satisfied that the total income of the recipient justifies the deduction of income-tax at lower rates or no deduction of income-tax, as the case may be, he may give to the assessee a certificate to this effect.

Question 11: Discuss in brief the provisions relating to set off and carry forward of losses in speculation business.

Answer: (i) The loss of a speculation business of any assessment year is allowed to be set off only against the profits and gains of another speculation business in the same assessment year.

(ii) The speculation loss not set-off in the same assessment year, is allowed to be carried forward to subsequent years and set-off only against income of any speculation business.

(iii) The loss in speculation business can be carried forward only for a **maximum period of 4 years from the end of the relevant assessment year** in respect of which the loss was computed.

Question 12: How is advance salary taxed in the hands of an employee? Is the tax treatment same for loan or advance against salary?

Answer: Advance Salary: Advance salary is taxable when it is received by the employee, irrespective of the fact whether it is due or not.

It may so happen that when advance salary is included and charged in a particular previous year, the rate of tax at which the employee is assessed may be higher than the normal rate of tax to which he would have been assessed.

Loan or Advance against Salary: Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the loan amount cannot be brought to tax as salary of the employee.

Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted against his salary over a specified time period. It cannot be taxed as salary.

Question 13: Explain the provision regarding the taxability of limited liability partnership under the Income-Tax Act, 1961.

Answer: Taxability of limited liability partnerships (LLPs) under the Income-tax Act, 1961

(i) The taxation scheme of LLPs in the Income-tax Act, 1961 is on the same lines as applicable for general partnerships, i.e. tax liability would be attracted in the hands of the LLP and tax exemption would be available to the partners.

Therefore, the same tax treatment would be applicable for both general partnerships and LLPs.

(ii) The rate of income-tax applicable to LLPs is the same as the rate applicable for firms i.e. 30% of total income.

(iii) The provisions of section 40(b) requiring payment of remuneration only to working partner in accordance with the terms of the partnership deed for a period commencing on or after the date of the partnership deed, would apply to LLPs as well. Further, disallowance of interest in excess of 12% per annum and salary exceeding the prescribed limits would also be applicable in the case of LLPs.

(iv) However, whereas a partnership firm can opt for presumptive taxation scheme under section 44AD, an LLP cannot opt for such scheme.

Question 14: What are the conditions to be satisfied for the allowability of expenditure under section 37 of the Income-tax Act, 1961?

Answer: The following conditions are to be fulfilled for the allowability of expenditure under section 37

(1) The expenditure should not be of the nature described in section 30 to 36;

(2) It should not be in the nature of personal expenditure of the assessee;

(3) It should have been incurred by the assessee during the previous year.

(4) The expenditure should have been laid out or expended wholly or exclusively for the purposes of the business or profession.

(5) It should not be in the nature of a capital expenditure.

(6) It should not have been incurred for any purpose which is an offence or which is prohibited by law.

Question 15: Tax deducted at source on salary paid to employees not remitted till the 'due date' for filing the return prescribed in section 139. Is the expenditure to be disallowed under section 40a(ia)?

Answer: The salary expenditure is allowable while computing the income of the employer even though TDS has not been deposited within the due date under section 139(1). The disallowance under section 40(a)(ia) will not apply for non-deduction of tax at source from income chargeable under the head "Salaries".

Question 16: State the concessions granted to transport operators from 1st October, 2009 onwards in the context of cash payments under section 40A(3).

Answer: Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft.

This limit of Rs.10,000 has been raised to Rs. 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to Rs. 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft, without attracting disallowance under section 40A(3).

Question 17: Depreciation is allowed only when it is claimed.

Answer: The statement is false. According to section 32, depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating business income, whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income.

Question 18: List six items of expenses which otherwise are deductible shall be disallowed, unless payments are actually made within the due date for furnishing the return of income under Section 139(1). When can the deduction be claimed, if paid after the said date?

Answer: Section 43B provides that the following expenses shall not be allowed as deduction unless the payments are actually made within the due date for furnishing the return of income under section 139(1):

- (i) Any tax, duty, cess or fees under any law in force.
- (ii) Employer's contribution to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of the employees;
- (iii) Any bonus or commission paid to employees;
- (iv) Any interest on any loan borrowings from any public financial institution or State financial corporation or State industrial investment corporation.
- (v) Interest on loans and advances from a scheduled bank;
- (vi) Any sum paid as an employer in lieu of earned leave at the credit of his employee.

In case the payment is made after the due date of filing of return of income, deduction can be claimed only in the year of actual payment.

Question 19: Discuss the tax implication arising consequent to conversion of a Capital Asset into stock-in-trade of business and its subsequent sale.

Answer: Capital Gains in case of conversion of capital assets into Stock-In-Trade Section 45(2)

The profits or gains arising from the transfer by way of conversion by the owner of a capital asset into stock-in-trade of a business carried on by him shall be chargeable to income-tax as his income of the previous year in which such stock-in-trade is sold or otherwise transferred by him and, for the purposes of section 48, the fair market value of the asset on the date of such conversion or treatment shall be deemed to be the full value of the consideration.

Question 20: Explain the concept of reverse mortgage and discuss its tax implications.

Answer: Reverse Mortgage Scheme and its tax implications

- (i) The Reverse Mortgage scheme is for the benefit of an individual, who own a residential house property.
- (ii) The individual can continue to live in the house and receive regular income, without the botheration of having to pay back the loan.

(ii) The borrower can use the loan amount for renovation and extension of residential property, family's medical and emergency expenditure etc., amongst others. However, he cannot use the amount for speculative or trading purposes.

(iii) Section 47 clarifies that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to a transfer for the purpose of capital gains.

(iv) Section 10(43) provides that any amount received by an individual as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.

Question 21: What are the circumstances under which the Assessing Officer can make reference to the Valuation Officer u/s 55A of the Income Tax Act, 1961?

Answer: Reference to Valuation Officer: With a view to ascertaining the fair market value of a capital asset, the Assessing Officer may refer valuation of the capital asset to the Valuation Officer, in the following cases:

(1) Where the value of the asset, as claimed by the assessee, is in accordance with the estimate made by the registered valuer but the Assessing Officer is of the opinion that the value so claimed is at variance with its fair market value.

(2) Where the Assessing Officer is of the opinion that the fair market value of the asset exceeds the value of the asset as claimed by the assessee by more than 15% of the value of the asset as so claimed or by more than Rs. 25,000.

(3) Where the Assessing Officer is of opinion that, having regard to the nature of the asset and relevant circumstances, it is necessary to make a reference to the Valuation Officer.

Question 22: Discuss the taxability of agricultural income under the Income Tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?

Answer: Under section 10(1), any agricultural income in India is fully exempt from income tax but if the agricultural income is from outside India, it is chargeable to tax.

Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)

If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non-agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (2,50,000 / 3,00,000 / 5,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration
5. If Agricultural income is upto 5,000, or non-agricultural income is upto the limit not chargeable to tax (2,50,000/3,00,000/5,00,000), partial integration is not applicable.
6. Partial integration is not applicable in case of a partnership firm or a company.

Question 23: Briefly discuss the provisions relating to payment of advance tax in case of capital gains and casual income.

Solution: Payment of advance tax in case of capital gains and casual income

(1) Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles etc.

(2) Since it is not possible for the assessee to estimate his capital gains, income from lotteries, etc., it has been provided that if any such income arises after the due date for any installment, then, the entire amount of tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining installments of advance tax which are due.

(3) Where no such installment is due, the entire tax should be paid by 31st March of the relevant financial year.

(4) If the entire tax liability is so paid, no interest liability under section 234C would arise for deferment of advance tax,

Note: In case of casual income (winnings from lotteries, crossword puzzles, card games, gambling, betting, races including horse races etc.), the entire tax liability is fully deductible at source @ 30% under section 194B and 194BB. Therefore, advance tax liability would arise only in respect of the education cess and secondary and higher education cess element of such tax, if the same, along with tax liability in respect of other income, if any, is 10,000 or more.

Question 24: Interest is chargeable under section 234A for delay or default in furnishing return of income. Discuss briefly.

Answer: Interest for default in furnishing return of Income (Section 234A): If any person has not paid the amount of income tax till the last date of filing the return of income, such person has to pay interest under section 234A @ 1% per month or part of the month for the period of delay beyond the last date of filing the return of income.

Question 25: Enlist the installments of advance tax and due dates thereon in case of companies as well as non companies

Answer. Advance tax shall be payable by companies/non companies as per the following schedule of installments:

Four installments

Due date of installment	Amount payable
On or before the 15 th June	Not less than 15% of tax payable
On or before the 15 th September	Not less than 45% of tax payable
On or before the 15 th December	Not less than 75% of tax payable
On or before the 15 th March	The whole amount of tax payable

Question 26: Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income Tax Act, 1961.

Answer: Unrealised Rent [Explanation to Section 23(1) read with Rule 4]

- While computing gross annual value of a let out property, the unrealized rent is to be deducted from actual rent received or receivable.
- The unrealized rent is deductible only on the fulfilment of the conditions prescribed under Rule 4.
- If the unrealized rent is subsequently recovered, it is taxable under section 25A, in the year in which it is recovered and the deduction @ 30% is allowed from unrealized rent so recovered.

PRACTICAL QUESTIONS FOR REVISION

Question 1: Mr. Alok 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 Mumbai port on 6th June, 2016. From the following details for the P.Y.2016-17, determine the residential status of Mr. Alok for AY.2017-18, assuming that his stay in India in the last 4 previous years (preceding P.Y.2016-17) is 400 days and last seven previous years (preceding P.Y.2016-17) is 750 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Alok	6 th June, 2016
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Alok	9 th December, 2016

Solution:

Principles	1. U/s 6(1), any person who stays in India for a period of 182 days or more, during the Relevant Previous Year is for that year.	
	2. For a Member of the Crew of Foreign-bound Ship leaving India Ship leaving India, to determine the period of Stay in India, the following period shall not be included	
	Period Beginning from	Period ending to
	Date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage	Date entered into Continuous Discharge Certificate in respect of the signing off by that individual from the ship in respect of such voyage.
Analysis	Period of Exclusion from Stay in India = From 06.06.2016 to 09.12.2016 = 187 days [25+31+31+30+31+30+9]	
Conclusion	Mr. Alok's period of stay in India during the P.Y.2016 -17 would be 178 days [i.e., 365 days - 187 days]. Since his period of stay in India during the P.Y.2016-17 is less than 182 days, he is a non-resident for A.Y.2017-18.	

The above voyage is a Eligible Voyage as the Ship is engaged in the carriage of freight in international traffic having originated from a port in India, and has as its destination any port outside India (Mumbai Port to Singapore Port).

Note - Since the residential status of Mr. Alok is "non-resident" for A.Y.2017-18 consequent to his number of days of stay in P.Y.2016-17 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

Question 2: ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2016 in compliance with RBI guidelines to look after its day today business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2017-18.

Solution: Section 6(3) has been substituted by the Finance Act, 2016 with effect from A.Y.2017-18 to provide that a company would be resident in India in any previous year, if-

- i) It is an Indian company; or
- ii) Its place of effective management, in that year, is in India.

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y.2016-17 only if its place of effective management, in that year, is in India.

Explanation to section 6(3) defines "place of effective management" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

In the case of ABC Inc., its place of effective management for P.Y.2016-17 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.

ABC Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management. Hence, ABC Inc., being a foreign company is a non-resident for A.Y.2017 - 18, since its place of effective management is outside India in the P.Y.2016 - 17

Question 3: A Ltd. a domestic company, declared dividend of 170 lakh for the year F.Y.2015-16 and distributed the same on 10.7.2016. Mr. X, holding 10% in A Ltd., receives dividend of Rs. 17 lakh in July, 2016. Mr. Y, holding 5% shares in A Ltd. receives dividend of 8.50 lakh. Discuss the tax implications in the hands of Mr. X and Mr. Y, assuming that X and Mr. Y have not received dividend from any other domestic company during the year.

Answer:

- i) The dividend of 170 lakh declared and distributed in the P.Y.2016-17 is subject to dividend distribution tax in the hands of a ltd., a domestic company.
- ii) In the hands of Mr. X, dividend received up to 10 lakh would be exempt under section 10(34). 7 lakh, being dividend received in excess of 10 lakh, would be taxable@10% as per section 115BBDA. Such dividend would not be exempt under section 10(34). Therefore, tax payable by Mr. X on dividend of 7 lakh under section 115BBDA would be 72,100 [i.e., 10% of 7 lakh +cess @3%].
- iii) In the hands of Mr. Y, the entire dividend of 8.50 lakh received would be exempt under section 10(34), since only dividend received in excess of 10 lakh would be taxable under section 115BBDA.

Question 4 : Mr. Anand sold his residential house property in March, 2016. In June, 2016, he recovered rent of Rs. 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2010 to March 2012. He could not realize two month rent of Rs. 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2012-13.

Further, he had let out his property from April, 2012 to February, 2016 to Mr. Satish. In April, 2014, he had increased the rent from 12,000 to 15,000 per month and the same was a subject matter of dispute. In September, 2016, the matter was finally settled and Mr. Anand received 69,000 as arrears of rent for the period April 2014 to February, 2016.

Would the recovery of unrealized rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Solution: Since the unrealized rent was recovered in the P.Y.2016-17, the same would be taxable in the A.Y.2017 -18 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2016-17, and hence the same would be taxable in the A.Y.2017-18 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealized rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2017-18.

Computation of income from house property of Mr. Anand for A.Y.2017-18		
Particulars		
i)	Unrealized rent recovered	10,000
ii)	Arrears of rent received	69,000
		79,000
Less:	Deduction @ 30%	23,700
Income from house property		55,300

Question 5: XYZ Ltd. is engaged in construction of residential flats One building consisting of 25 residential apartments was constructed and completion certificate was obtained on 15-07-2016. Out of 25 residential apartments 5 apartments remained unsold up to 31-03-2019. The expected rent of each apartment is 30,000 per month. You are required to determine Income from House property for A Y 2018-19 and AY 2019-20.

Solution: As per provisions of Section 23(5), where the house property consisting of any building and land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period up to one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.

Particulars	(Amount in lakhs)
Total amount of deduction claimed and allowed in respect of such asset under Section 35AD	150
Less: Depreciation eligible under Section 32 in respect of such asset [WN]	44.75
Deemed profits under Section 35AD	105.25

Cost of asset	100
Less: Depreciation eligible under Section 32 (including additional depreciation) for FY 2015-16	35
WDV	65
Less: Depreciation eligible under Section 32 for FY 2016-17	9.75
WDV as on 01-04-2017	55.25
Deduction admissible on account of depreciation for FY 2015-16 and 2016-17	44.75

Question 8: A partnership firm consisting of three partners X, Y, and Z is engaged in the profession of accountancy. Gross Receipts of the profession for the year ended 31st March, 2018 amounts to 48 lakh. Bad debts written off in the books are 75,000. Interest at 12% p.a. is provided to partner, Z on his capital of 6 lakh as authorized by the partnership deed.

The firm had business loss of ₹ 50,000 and unabsorbed depreciation of ₹ 1,50,000 carried forward from assessment year 2017-18. The firm opts for presumptive taxation under section 44ADA for assessment year 2018-17. Compute the Total income of the firm for assessment year 2018-19.

Solution: Computation of income of the firm chargeable under the head "Profits and Gains of business or profession"

Particulars		(Amount in Rs.)
Presumptive income under section 44ADA (50% of 48 lakh)	[WN-1]	24,00,000
Less: Interest @ 12% to Z (12% of 6 lakh)	[WN-2]	Nil
Less: Brought forward loss under section 72	[WN-3]	50,000
PGBP/Total Income		23,50,000

- (i) A partnership firm falls within the definition of "eligible assessee" under section 44ADA. In this case, since the receipts of the profession of the firm does not exceed 50 lakhs, and therefore, the firm is eligible to opt for presumptive taxation under section 44ADA. Hence, 50% of the gross receipts would be deemed to be the Profits and of Business or Profession of the firm.
- (ii) Section 44ADA, all deductions allowable under sections 30 to 38 shall be deemed to have been allowed. Accordingly, no deduction shall be allowed for bad debts since the same is deductible under section 36(1)(vii) and unabsorbed depreciation since the same is deductible under section 32(2). No deduction shall be allowed for interest on capital paid to partners.
- (iii) Further, business loss of P.Y. 2016-17 can be set-off against current year professional income as per Section 72.

Question 9: Mr. Paresh purchased a house property on 14th Nov., 2015 for 10,00,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 2017 and received an advance of 25,000. However, since Mr. B did not remit the balance amount, Mr. Paresh forfeited the advance. Finally, the house was sold by Mr. Paresh to Mr. Sanjay on 15-03-2018 for a consideration of ₹ 21,00,000. Discuss tax implications of such transaction in hands of Paresh.

Solution: Section 56(2)(ix) provides for the taxability of any sum of money, received as an advance or otherwise on or after 1-04-2014 in the course of negotiations for transfer of a capital asset shall be chargeable to income-tax under the head 'income from other sources' if such sum is forfeited and the negotiations do not result in transfer of such capital asset. The sum so taxable will not be reduced from cost of acquisition to compute capital gains on transfer of such asset.

Hence, the sum of 25,000 received as advance and forfeited by Mr. Paresh shall be taxable as his Income from other Sources in assessment year 2018-19.

Since the house property is held for more than 24 months immediately preceding the date of transfer, it will be regarded as long term capital asset. The capital gains shall be computed as under:

Computation of capital gains of Mr. Paresh for AY 2018-19

Particulars	(Amount in Rs.)
Full value of consideration	21,00,000
Less: Indexed Cost of acquisition [$10,00,000 \times 272 \div 254$] [WN]	10,70,866
Long-term capital gains	10,29,134

Working Note: The advance money forfeited by Paresh shall not be reduced since the same is taken into account while computing Income from other sources under Section 56(2)(ix).

Question 10: Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31-3-2018:

(i) Pension receives (Net of TDS)	6,27,000
(ii) Short-term capital gains (from sale of listed shares)	65,000
(iii) Long-term capital gains (from sale of listed shares)	1,24,000
(iv) Interest on fixed deposit from bank	1,60,000
(v) Pertaining to consultancy services provided by him:	
Gross receipts	12,60,000
Expenses:	
Rent for premises	1,44,000
Salary of P.A.	1,20,000
Stenographer's salary	1,00,000
Business Development expenditure	91,000
Conveyance	3,00,000
(vi) Contribution to PPF	1,10,000
(vii) Premium on life insurance policy taken on 10-1-2018 (sum assured Rs. 5,00,000)	60,000
(viii) Mediclaim Insurance Premium for self (paid otherwise than by cash)	27,000
Preventive health checkup expenses (in cash)	6,000
(ix) Donation given in cash to a charitable trust registered under Section 12AA (eligible for deduction u/s 80G) of the Income-tax Act, 1961.	14,000
(x) Interest received from Post Office Saving A/c.	18,000

Additional information:

- ✓ TDS from pension 25,000
- ✓ 1/4th of conveyance expenses are estimated for personal use.

Compute the total income of the assessee for the assessment year 2018-19, under proper heads of income. Listed share were sold in recognized stock exchange. Ignore the provisions of Section 44ADA.

Ans. Computation of total income of Mr. Vinod Kumar for A.Y. 2018-19

(Amounts in Rs)

Income under the head Salary:		
Pension receives (Net of TDS)	6,27,000	
Add: TDS from pension	25,000	6,52,000
Profits and gains of business or profession:		
Gross receipts	12,60,000	
Less: Rent for premises	1,44,000	
Salary of P.A.	1,20,000	
Stenographer's salary	1,00,000	
Business Development expenditure	91,000	
Conveyance	2,25,000	
	[WN-1]	
Capital Gains:		
Short-term capital gains (from sale of listed shares)	65,000	
Long term capital gains (from sale of listed shares)	[WN-2] Exempt	
Income from Other Sources:		
Interest on fixed deposit from bank	1,60,000	
Interest received from Post Office Saving A/c. 18,000 - Rs. 3,500]	[WN-3] 14,500	1,74,500
Gross Total Income		14,71,500

Less: Deduction u/s 80C –			
Contribution to PPF		1,10,000	
Premium on life insurance policy taken on 10-1-2018 (sum assured Rs.5,00,000)	[WN-4]	50,000	
Amount of deduction under Section 80C cannot exceed Rs. 1,50,000		1,60,000	1,50,000
Deduction u/s 80D:			
Mediclaim Insurance Premium for self (paid otherwise than by cash)		27,000	
Preventive health checkup expenses (in cash)	[WN-5]	6,000	
		33,000	30,000
Deduction u/s 80TTA (Interest received from post office saving bank account)	[WN-3]		10,000
Deduction u/s 80G (Donation in cash exceeding Rs.2,000 is not eligible for deduction)			Nil
Total Income (rounded off)			12,81,500

Working Notes:

- (1) Since $\frac{1}{4}$ th of the conveyance expenses is estimated for personal use, hence, the same shall not be allowed under Section 37(1). Therefore, allowable conveyance expenses is $\frac{3}{4}$ th of Rs. 3,00,000 = Rs. 2,25,000.
- (2) Long-term capital gains from sale of listed shares is exempt from tax u/s 10(38), since the transaction is routed through recognised stock exchange.
- (3) Interest on Post Office Saving Bank Account is exempt from tax u/s 10(15) upto Rs. 3,500. As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, a deduction of Rs. 10,000 is allowable from the gross total income of Mr. Vinod Kumar, though the interest from savings bank account after exemption u/s 10(15) is Rs. 14,500.
- (4) Deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01-04-2012. Thus, 10% of Rs. 5,00,000 = Rs. 50,000 shall be eligible for deduction u/s 80C.
- (5) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to Rs. 30,000. Further, deduction up to Rs. 5,000 in aggregate (within the monetary limits of Rs. 30,000) shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Hence, maximum Rs. 30,000 shall be eligible in the above case.

Question 11: Mrs. Ann provides the following information for the Financial year ending 31-03-2018. Compute her total income and tax payable thereon for assessment year 2018-19 as per Income-tax Act, 1961.

Income/Receipts:

- (1) Salary from M/s. Prominent Technologies, - Rs. 60,000 per month (Joined from 1st March, 2017).
- (2) She is in receipt of HRA. Rs. 15,000 per month and also educational allowance of Rs. 1,500 per month for all the three of her children.
- (3) She bought a truck on 01-08-2017 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income tax purpose, that she is earning net income of Rs. 11,000 per month from this business.
- (4) She received Rs. 8,500 as interest on Post Office Savings Bank Account.
- (5) She received Rs. 25,000 as interest from Company Deposits.
- (6) Amounts withdrawn from National Savings Scheme (Principal Rs.10,000 & Interest Rs. 25,000)

Expenses/Payments:

- (1) Interest payable to bank Rs. 1,000 per month on loan for the purchase of truck.
- (2) Total interest paid to bank for loan borrowed for investing in company deposits is Rs. 5,000.
- (3) Rent paid for residence is Rs. 18,000 per month.
- (4) Tuition fees paid for the year 2017-18 for her three children is Rs. 50,000, Rs. 30,000 and Rs. 20,000 respectively, to educational institution situated in India.
- (5) Medical insurance premium for her and for her husband is Rs. 30,000 (paid by cheque) and Rs. 25,000 (paid by cash) respectively.
- (6) She has deposited during the year, in 5 year Post office Recurring Deposit Scheme Rs. 20,000.

Answer Computation of total income and tax liability of Mrs. Ann (Amount in Rs)

Basic Salary (Rs. 60,000 x 12)			7,20,000
HRA (Rs. 15,000 x 12)		1,80,000	
Less: Exempt u/s 10(13A)	[WN-1]	1,44,000	36,000
Education Allowance (Rs. 1,500 x 12)		18,000	
Less: Exempt u/s 10(14) (Rs. 100 x 12 x 2)		2,400	15,600
Income from Salary			7,71,600
Profits and gains from business or profession			
Income from the business of letting on hire of Truck	[WN-2]		88,000
Income from Other Sources:			
Interest on Post office Saving bank account		8,500	
Less: Exemption under Section 10(15)(i)		3,500	
Balance Interest		5,000	
Interest from National Savings scheme		25,000	
Interest on Company deposit		25,000	
		55,000	
Less: Deduction u / s 57 (Interest paid for making investment in company deposit)		5,000	50,000
Gross Total Income			9,09,600
Less: Deductions under Chapter VI-A			
Deduction u/s 80C	[WN-3]	80,000	
Deduction u/s 80D	[WN-3]	25,000	
Deduction under Section 80TTA [Interest on Post office saving bank account subject to maximum of Rs. 10,000]		5,000	1,10,000
Total Income			7,99,600
Tax on total income			72,420
Add: EC & SHEC @ 3%			2,173
Tax payable (rounded off)			74,590

Working Notes:

- (1) HRA is exempt to the extent of the least of the following under section 10(13A) -
 - (a) 50% of salary (assumed to be in Mumbai) i.e. 50% of Rs. 7,20,000 = Rs. 3,60,000;
 - (b) Excess of rent paid over 10% of salary = Rs. 2,16,000 - Rs. 72,000 = Rs. 1,44,000;
 - (c) Actual HRA received = Rs. 15,000 x 12 = Rs. 1,80,000.
 Least of the above i.e. Rs. 1,44,000 is exempt under section 10(13A).
- (2) In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each vehicle will be deemed to be Rs. 7,500 for every month or part of the month during which the vehicle is owned by the assessee during the previous year. If, however, the assessee declares a higher amount, such amount will be considered as income. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed from such declared income. [Section 44AE]

Actual income = Rs. 11,000 x 8 = Rs. 88,000.

- (3) Deductions u/s 80C and Section 80D:

Tuition fees paid for two of his children (most favourable to Mrs. Ann) [5 year Post office recurring deposit do not qualify for deduction u/s 80C].	80,000
Medical Insurance Premium for self paid in cheque qualifies for deduction subject to	25,000

maximum of Rs. 25,000. [Health insurance premium paid for her husband in cash do not qualify for deduction u/s 80D]

Question 12: Dr. Shuba is medical practitioner. Her age is 64 as on 1st January 2018. The receipts and payments account of 2017-18 of her is as under:

To	Rs.	By	Rs
Balance B/f	50,000	Purchase of commercial vehicle before 30 Sept.	4,00,000
Receipts from sale of Medicine	52,50,000	Drawing	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sept.	50,000
Lectures	5,000	Instalment of loan paid (including interest Rs.22,333)	1,21,000
Family pension	2,80,000	Medical insurance premium	72,000
Saving bank interest	1,000	Instalment of housing loan (Principal component Rs. 48,000)	1,08,000
Loan from bank	3,00,000	Advance tax paid	20,000
Share from HUF	50,000	Purchase of medicine	50,47,000
Agriculture income	1,00,000	Payment for medical journal	5,000
Income from lottery (net after deduction of TDS @ 30%)	35,000	Vehicle expenses	50,000
		Balance C/F:	48,000
Total	63,21,000	Total	63,21,000

Other relevant information is as under

- She resides in her own house which was constructed in 1998 with a loan from LIC Housing of Rs. 10,00,000 out of which Rs. 6,00,000 was still due. She got it refinanced from SBI on 1st April 2017 at the rate of 10%. One fourth portion of the house is used for clinic purposes.
- She invested in term deposit Rs. 1,50,000 in Bank of Baroda on 1st July 2017 for a period of 5 years in the name of her minor daughter at 9% interest p.a.
- She purchased a commercial vehicle on 1st July 2017 at Rs. 4,00,000. A loan of Rs. 3,00,000 was taken to buy the van at 8% interest. One fourth use of vehicle is estimated to be personal.
- She paid medical insurance premium for herself of Rs. 36,000 and for mother Rs. 36,000. Her mother is dependents on her.
- She got her share from HUF's income of Rs. 50,000. Compute the total income of the assessee for assessment year 2018-19.

Ans.

Computation of total income of Dr. Shuba (Amounts in Rs)

Income from house property:		
Annual value of self-occupied house	NIL	
Less: Interest on loan (Rs. 45,000, being 3/4 th of Rs. 60,000) (subject to maximum of Rs. 30,000 since house was constructed before 01-04-1999)	-30,000	-30,000
Income from profession:		
Sale of medicine	52,50,000	
Add: Consultation fees	- 50,000	
Add: Visiting fee	2,00,000	
Less: Expenses -		
Medicine purchased	-50,47,000	
Medical journal	-5,000	
Depreciation on Surgical instruments (15% of Rs. 50,000)	-7,500	
Depreciation on motor vehicle [3/4 th of 15% of Rs. 4,00,000]	-45,000	
Vehicle expenses [Rs.50,000 x 3/4 th]	-37,500	
Interest on loan 22,333 x 3/4 th	-16,750	
Interest on housing loan [WN 2]	-15,000	3,26,250
Income from other sources :		
Family Pension [Rs. 2,80,000 - Deduction @ 1/3 of the pension or Rs.		

15,000, whichever is lower i.e. Rs. 15,000]	2,65,000	
Lecture fees	5,000	
Savings bank interest	1,000	
Interest on bank FD in the name of minor daughter [Rs. 1,50,000 x 9% x 9/12] - Clubbing of Income u/s 64 (Less: Exemption u/s 10(32) in respect of income of minor daughter) (Rs. 10,125 - Rs. 1,500)	8,625	
Winnings from lottery - Gross 35,000 - 70%]	50,000	3,29,625
Gross Total Income		6,25,875
Less: Deduction u/s 80C for repayment of housing loan - Deduction allowed only for property assessed under "Income from House Property"	-36,000	
Deduction u/s 80D for Medical insurance Premium - Self (Rs. 36,000 restricted to Rs. 30,000) +		
Mother (Senior Citizen, Rs. 36,000 restricted to Rs. 30,000)	-60,000	
Saving bank interest - Eligible for deduction u/s 80TTA	-1,000	-97,000
Total income (rounded off)		5,28,880

Working Notes:

- (1) Since the residential house was constructed before 01-04-1999, the deduction for interest is restricted to Rs. 30,000.
- (2) Since 1/4th portion of house is used for business purposes, therefore, 1/4th share of interest paid is deductible while computing business income.
- (3) Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
- (4) Term deposit of Rs. 1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be Rs. 36,000 (i.e. 3/4th of Rs. 48,000).
- (5) Depreciation @ 15% has been provided on surgical instruments. It is also possible to assume that the surgical instruments mentioned in the question are life-saving medical equipment (for example, surgical laser) and therefore, eligible for depreciation @ 40%

Question 13: Computation of total income and tax liability: The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31-3-2018 (Amounts in Rs.)

Income from Salaries	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
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)	1,10,000
Loss from card games	32,000
Income from betting	45,000
Life Insurance Premium paid	1,20,000

Compute the total income and show the items eligible for carry forward.

Ans. Computation of total income (Amounts in Rs.)

Income from Salaries:		
Salaries computed	2,20,000	
Less: Loss from house property	1,50,000	70,000
Income from house property:		
Loss from house property	1,90,000	
Less: Set-off against Long Term Capital Gains (Since LTCG is chargeable to tax @ 20% and from which no deduction under Chapter VI-A is available, therefore loss from house property has been set-off against LTCG.	40,000	
Less: Set-off against salary income	1,50,000	-

Profits and gains of business or profession:		
Loss from cloth business	2,40,000	
Less: Income from speculation business (Normal business loss can be set-off against speculation business income).	30,000	
Less: Balance business loss of Rs. 2,10,000 set-off against long-term capital gains. [WN-1]	2,10,000	
Loss from specified business covered by Section 35AD [WN-2]	-	-
Capital Gains:		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of loss of cloth business	2,10,000	
Less: Set-off of Loss from house property	40,000	-
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid) [WN-3]	-	-
Income from other sources:		
Loss from card games [WN-4]	-	-
Income from betting [WN-5]		45,000
Gross Total Income		1,15,000
Less: Deduction u/s 80C for Life Insurance Premium [WN-6]		70,000
Total Income (comprising of income from betting)		45,000
Tax on Total Income @ 30%		13,500
Less: Tax rebate under Section 87A [100% of tax or Rs. 2,500 whichever is less]		2,500
Balance Tax		11,000
Add: EC and SHEC @ 3%		330
Tax payable (rounded off)		11,330

Working Notes:

- (1) Business loss cannot be set off against salary income. However, the balance business loss of Rs. 2,10,000 (Rs. 2,40,000 - Rs. 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs. 2,50,000 from sale of urban land.
- (2) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.
- (3) Long-term capital gains from sale of listed shares in a recognized stock exchange is exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares cannot be set-off against long-term capital gains from sale of urban land.
- (4) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (5) 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.
- (6) No deduction under Chapter VI-A can be allowed from income from betting, hence deduction restricted to salary income of Rs. 70,000.

Question 14: Mr. Pankaj, aged 60 years, who retired from the services of the Central Government on 30-6-2017, furnishes particulars of his income and other details as under:

- (1) Salary @ Rs. 6,000 p.m.
- (2) Pension @ Rs. 3,000 p.m. for July 2017 to Nov. 2017.
- (3) On 1-12-2017, he got 1/3rd of his pension commuted for Rs. 1,20,000.
- (4) A house plot at Ernakulam sold on 1-2-2018 for Rs. 5,00,000 had been purchased by him on 3-11-1980 for Rs. 10,000. The stamp valuation authority had assessed the value of said house plot at Rs. 6,00,000 which was neither disputed by the buyer nor by him. The value of this house plot as on 1-4-2001 was Rs. 60,000 (The cost inflation index for the year 2017-2018 is 272).

- (5) Received interest on bank FDRs of Rs. 72,500, dividend on mutual fund units of Rs. 15,000 and interest on maturity of NSC of Rs. 50,000 out of which an amount of Rs. 40,000 was already disclosed by him on accrual basis in the returns up to assessment year 2017-18.
- (6) Investment in purchase of NSC for Rs. 90,000 and payment for mediclaim insurance for self and wife of Rs. 12,500. Made investment in Tax Magnum units of Mutual Fund of SBI of Rs. 80,000.

Compute the total income of Mr. Pankaj for assessment year 2018-19.

In the event of Mr. Pankaj being ready to make appropriate investment for availing exemption in respect of capital gain arising from sale of house plot, what will be the amount to be invested and the period within which the same should be invested –

- (a) If he wishes to avail exemption under section 54F by constructing a new residential house;
- (b) If he wants to avail exemption under section 54EC.

Ans. **Computation of total income of Mr. Pankaj (Amount in Rs)**

Income from salaries:		
Basic salary (Rs. 6,000 x 3)	18,000	
Pension for 5 months from July, 2017 to Nov. 2017 (Rs. 3,000 x 5)	15,000	
Pension for 4 month from Dec., 2017 to March, 2018 (Rs. 2,000 x 4)	8,000	
Commuted value of pension	Exempt	41,000
Long-term capital gains:		
Full value of consideration	6,00,000	
Less: Indexed cost of acquisition (Rs. 60,000 x 272 ÷ 100)	1,63,200	4,36,800
Income from other sources :		
FDR Interest Rs. 72,500 (gross)	72,500	
NSC Interest 50,000 - (Interest already disclosed in earlier years Rs. 40,000)]	10,000	
Dividend on mutual fund units (Exempt u/s 10(35))	Exempt	82,500
Gross Total Income		5,60,300
Less: Deduction u/s 80C (NSC Rs. 90,000 + Unit of SBI Mutual Fund Rs. 80,000 : Maximum Rs. 1,50,000)		1,50,000
Less: Deduction u/s 80D for medical insurance premium paid		12,500
Total Income (rounded off)		3,97,800

Investment in approved modes:

(a) **Section 54F (by constructing a new house):** In order to avail exemption under section 54F, the assessee should construct a residential house within three years from the date of transfer of house plot. To avail the maximum exemption, the entire net consideration of Rs. 6,00,000 received from sale of house plot should be invested. If only part of the net consideration is invested, then proportionate exemption of long term capital gains would be available i.e. –

$$\text{Long term capital gain} = \frac{\text{Amount invested in new residential house}}{\text{Net sale consideration}}$$

(b) **Section 54EC :** In order to avail maximum exemption under section 54EC, the assessee should invest the entire long-term capital gain arising from transfer of the house plot, i.e. 4,36,800, within 6 months from the date of sale of house plot, in bonds of National Highways Authority of India (NHAI) or Rural Electrification Corporation Ltd.' (RECL). If only part of the capital gain is invested, then the exemption would be restricted to the amount invested in such bonds.

Question 15: The broad break-up of tax and allied details of Mrs. Rinku, born on 30th March, 1943 are as under (amounts in Rs.):

Long-term capital gains on sale of house	2,00,000
Short-term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winning from a T.V. show	20,000
Business income	4,00,000
Net agricultural income	40,000
Mrs. Rinku has paid the following:	
LIC premium of self	40,000
LIC premium of husband	20,000
Premium for annuity contract with LIC in the name of her husband	25,000

Repayment of housing loan principal (loan taken by her son dependent on her) 30,000
 Compute the tax payable by Mrs. Rinku.

Ans. **Computation of total income of Mrs. Rinku (amounts in Rs)**

Business income	4,00,000
Long term capital gains on sale of house	2,00,000
Short term capital gains on sale of shares in B Pvt. Ltd.	30,000
Prize winnings from a T.V. show	20,000
Gross Total Income	6,50,000
Less: Deduction u/s 80C (Life insurance premium on self and husband)	60,000
Total Income (rounded off)	5,90,000

Computation of tax payable by Mrs. Rinku (amounts in Rs.):

Tax on incomes taxable at special rates: Tax on LTCG i.e. Rs. 2,00,000 @ 20%	40,000
Tax on game show winnings i.e. Rs. 20,000 @ 30%	6,000
Tax on balance income: Balance income including agricultural income (Rs. 3,70,000 + Rs. 40,000)	5,500
Less: Tax on agricultural income + basic exemption (Rs. 40,000 + Rs. 3,00,000)	-2,000
Tax payable	49,500
Add- EC and SHEC @ 3%	1,485
Tax liability (rounded off)	50,990

Working Notes:

- Short-term capital gains on sale of shares in B Pvt. Ltd. is taxable at normal rates.
- Premium for annuity contract with LIC in husband's name and repayment of housing loan taken by dependent son are not eligible for deduction under section 80C.

Question 16: Shri Madan (age 67 years) gifted a building owned by him to his son's wife Smt. Hema on 01-10-2017. The building fetched a rental income of Rs. 10,000 per month throughout the year. Municipal tax for the first half-year of Rs. 5,000 was paid in June 2017 and the municipal tax for the second half- year was not paid till 30-09-2018.

Incomes of Shri Madan and Smt. Hema other than income from house property are given below:

Name	Business income	Capital gain	Other sources
Shri. Madan	1,00,000	50,000 (long-term)	1,50,000
Smt. Hema	(75,000)	2,00,000 (short-term)	50,000

Note: Capital gain does not relate to gain from shares and securities.

Compute the total income of Shri. Madan and Smt. Hema taking into account income from property given above and also compute their income-tax liability for the assessment year 2018-19.

Ans: Computation of property income and total income and tax liability (amounts in Rs.)

Income from House Property:	Madan (Rs.)	Hema (Rs.)
	Period	Period
	01-04-2017	01-10-2017
	to 30-09-2017	to 31-03-2018
Rent from Building @ 10,000 p.m. (GAV)	60,000	60,000
Less: Municipal Taxes	5,000	-
Net Annual Value (NAV)	55,000	60,000
Less: Standard deduction @ 30% of NAV	16,500	18,000
Income from Building House Property	38,500	42,000
Computation of Total Income :		
Income from House property	80,500	-
Business Income	1,00,000	-75,000
Long term Capital Gains	50,000	-
Short-term Capital Gains	-	2,00,000
Other Sources	1,50,000	50,000

Total Income (rounded off)	3,80,500	1,75,000
Computation of tax liability :		
Tax liability : Tax on LTCG in case of Madan @ 20%	10,000	-
Income-tax on Balance Normal Income (Madan is senior citizen hence eligible for basic exemption limit of Rs. 3,00,000)	1,525	Nil
Total Income-tax	11,525	Nil
Add: EC and SHEC @ 3%	346	Nil
Tax payable (rounded off)	11,870	Nil

Working Notes:

- (1) Municipal tax for second half-year was not paid till 31-03-2018, hence the same shall not be allowed as deduction.
- (2) As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual.

Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01-10-2017 is includible in the hands of Shri Madan.

Question 17: Computation of total income and tax liability:

- 1) Smt. Savita Rani, born on 01-07-1934, is a Deputy Manger in a company in Mumbai. She is getting a monthly salary and D.A. of Rs. 45,000 and Rs. 12,000 respectively. She also gets a house rent allowance of Rs. 6,000 p.m. She is a member of recognised P.F. wherein she contributes 15% of her salary & one-half of DA. Her employer also contributes an equal amount.
- 2) She is living in the house of her minor son in Mumbai.
- 3) Dining previous year 2017-18, her minor son has earned an income of Rs. 30,000 (computed) from a house property, which has been transferred to him by her without consideration a few years back.
- 4) During the previous year 2017-18, she sold Government of India Capital Indexed Bonds for Rs. 2,50,000 on 30-9-2017, which she had purchased on 1-7-2003 for Rs. 80,000.
- 5) Her employer give her an interest free loan of Rs. 1,50,000 on 1-10-2017 to one of her son's wife for the purchase of an Alto Maruti Car. Nothing has been repaid to the company towards the loan. The SBI lending rate is taken to be 8% p.a.
- 6) During the previous year 2017-18 she paid Rs. 15,000 by cheque to GIC towards medical insurance premium of her dependant mother.

Compute taxable income and tax liability of Mrs. Savita Rani.

Ans. Computation of taxable income & tax liability of Smt. Savita Rani (amount in Rs.)

Income from Salary:		
Basic Salary (Rs. 45,000 x 12)	5,40,000	
Dearness Allowance (Rs.12,000 x 12)	1,44,000	
House Rent Allowance (Rs. 6,000 x 12) [WN-1]	72,000	
Employer's contribution in excess of 12% of salary [WN- 2]	18,360	
Perquisite in respect of interest free loan (Rs. 1,50,000 x 8% x 6 ÷ 12)	6,000	7,80,360
Income from House Property :		
Savita Rani is deemed owner of the house [WN-3]		30,000
Capital gains:		
Sale Proceeds	2,50,000	
Less: Indexed cost of acquisition (Rs. 80,000 x 272 ÷ 109)	1,99,633	50,367
Gross total income		8,60,727
Less: Deduction u/s 80C (in respect of RPF Contribution)	91,800	
Deduction u/s 80D (Medi-claim)	15,000	1,06,800
Total Income (rounded off)		7,53,930

Computation of tax liability on total income (Amounts in Rs.):

Tax on Long term capital gain being lower of -		
(i) 20% of Rs.50,370	10,074	
(ii) 10% of (Rs. 2,50,000 - Rs. 80,000) (without benefit of indexation)	17,000	10,074

Add: Tax on other income of Rs. 7,03,560 (basic exemption limit is Rs. 5 lakhs)		40,712
Total tax		50,786
Add: EC & SHEC @ 3%		1,524
Tax payable (rounded off)		52,310

Working Notes:

- (1) Since Mrs. Savita resides in the house of her minor son and no rent is paid by her, hence HRA will not be exempt.
- (2) Salary (for RPF) = Basic salary + Dearness allowance (to the extent it forms part of retirement benefits) = 45,000 + (50% of Rs. 12,000) = Rs. 51,000 per month or Rs. 6,12,000 p.a.
Employer's contribution to RPF = 15% of Rs. 6,12,000 = Rs.91,800; exempt = Rs. 73,440. Hence, taxable contribution = Rs. (91,800 - 73,440) = Rs. 18,360.
- (3) As per Section 27, any property transferred to the minor child without adequate consideration would be deemed to be the property of the assessee. Therefore, the income from house property of Rs. 30,000 (computed) is to be assessed in the hands of Smt. Savita Rani.

Question 18: Mr. Rajesh is serving in a public limited company as General Manager (Finance). His total emoluments for the year ended 31st March, 2018 are as follows:

Particulars	Rs.
Basic Salary	5,40,000
HRA (Computed)	1,80,000
Transport allowance	22,000

Apart from the above, his employer has sold the following assets to him on 1st January 2018:

- Laptop computer for Rs. 20,000 (acquired in September, 2016 for Rs. 1,20,000).
- Car 1800 cc for Rs. 3,20,000 (purchased in April, 2015 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, 2018 to 31st March, 2018. He has taken a loan 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.

Mr. Rajesh sold shares of different Indian companies on 14th April, 2017 :

Name	Sales Value (per share)	Purchases Price (per share)	Acquired on	No. of shares
A Ltd.	Rs. 150	Rs.120	2nd May, 2011	200
B Ltd.	Rs.82	Rs. 65	16th April, 2016	125

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.75% on the gross consideration. He received I.T. refund of Rs. 5,750 (including interest Rs. 750) relating to the Assessment Year 2012-13. Compute the total income of Mr. Rajesh.

Ans. Computation of Total income of Mr. Rajesh (amount in Rs)

Income under the head salary	[WN-1]	9,86,800
Income from house property	[WN-2]	1,00,000
Capital gains : Short-term capital gains	[WN-3]	2,115
Income from other sources : Interest on I.T. Refund		750
Gross Total Income		10,89,665
Less: Deduction under Chapter VIA -		
Deduction under section 80C : Repayment of housing loan (principal)	[WN-4]	-65,000
Total Income (rounded off)		10,24,670

Working Notes:

- (1) Income under the head salary (amount in Rs)

Basic salary		5,40,000
HRA (computed)		1,80,000
Transport Allowance	22,000	

Less: Exempt u/s 10(14) (Rs. 1,600 x 12)	19,200	2,800	
Transfer of laptop [Note-A]		40,000	
Transfer of car [Note-B]		2,24,000	9,86,800

Notes:

(A) Value of perquisite in respect of sale of laptop is as follows (amount in Rs.) -

Actual cost of laptop	1,20,000
Less: Depreciation at @ 50% for one completed year	60,000
Value for the purpose of computing perquisite	60,000
Less: Amount paid to the employer	20,000
Value of perquisite	40,000

(B) Value of perquisite in respect of sale of car is as follows (amount in Rs.) –

Actual cost of the car	8,50,000
Less: Deprecation @ 20% on W.D.V. basis for 1st completed year	1,70,000
	6,80,000
Less: Deprecation @ 20% on W.D.V. basis for 2nd completed year	1,36,000
Value for the purpose of computing perquisite	5,44,000
Less: Amount paid to the employer	3,20,000
Value of perquisite	2,24,000

(2) Income under the head house property (amount in Rs.):

Fair Rent (Rs. 1,50,000 x 12 ÷ 9)	2,00,000		
Actual rent received	1,35,000		
Gross Annual Value (Higher of the above two)		2,00,000	
Less: Municipal tax paid		Nil	
Net Annual Value (NAV)		2,00,000	
Less: Deduction u/s 24			
Statutory deduction @ 30%	60,000		
Interest on loan for construction of property	40,000	1,00,000	1,00,000

(3) **Income chargeable as "Capital Gains" :**

Long term capital gain : Section 10(38) exempts long-term capital gain on sale of equity shares of a company, if such transaction is chargeable to securities transaction tax. Since Mr. Rajesh has held shares of A Ltd. for more than 12 months, the gains arising from sale of such shares is a long-term capital gain, which is exempt under section 10(38), since securities transaction tax has been paid on such sale.

Short-term capital gains from sale of shares :	
Sales consideration from sale of shares of B Ltd. (125 ÷ Rs. 82)	10,250
Less: Expenses on Transfer -	
Brokerage @ 0.1% (Rs. 10,250 x 0.1%) - STT not deductible	10
Cost of shares (125 x Rs. 65)	8,125
Short-term Capital Gains	2,115

(4) It is presumed that the housing loan has been taken from a borrower approved under section 80C (for example bank) for the purpose of availing deduction under that section.

Question 19: Mr. Ashok owns a property consisting of two block of identical size. The first block is used for business purposes. The other block has been let out from 01-04-2017 to his cousin for Rs. 10,000 p.m. The cost of construction of each block is Rs. 5 lakhs (fully met from bank loan), rate of interest on bank loan is 10% p.a. the construction was completed on 31-03-2017. During the year ended 31-03-2018, he had to pay a penal interest of Rs. 2,000 in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was Rs. 42,000. Principal repayment for each block was Rs. 23,000. An identical block in same neighborhood fetches a rent of Rs. 15,000 per month. Municipal tax paid in respect of each block was Rs. 12,000.

Following are the additional information provided:

The income from business prior to adjustment towards depreciation on any asset is Rs. 6,20,000. He follows mercantile system of accounting.

Depreciation on equipments used for business is Rs. 30,000.

On 23-3-2018, he sold shares of B Ltd., listed shares in BSE, for Rs. 2,30,000. The shares had been purchased 10 months back for Rs. 1,80,000. Security transaction tax paid may be taken as Rs. 220.

Brought forward business loss of a business discontinued on 12-1-2017 is Rs. 80,000. This loss has been determined in pursuance of a return of income filed in time and the current year is the seventh year.

The following payments were effected by him during the year:-

- (i) LIP of Rs. 20,000 on his life and Rs. 12,000 of his son aged 22, engaged as a software engineer and drawing of salary of Rs. 25,000 p.m.
- (ii) Mediclaim premium of Rs. 6,000 for himself and Rs. 5,000 for above son. The premiums were paid by cheque. You are required to compute the total income and the tax payable.

The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 1-4-2017, as the bank had waived the same.

Ans. Computation of total income of Mr. Ashok

Particulars	Rs.	Rs.	Rs.
Income from house property: [WN-1]			
House block 1 used for business, hence NAV = Nil		Nil	
House block 2 let out (higher of fair rent & rent receivable) (Rs. 15,000 x 12)		1,80,000	
Less: Municipal tax paid		12,000	
Net Annual Value (NAV)		1,68,000	
Less: Deductions under section 24 -			
(i) Standard deduction @ 30% of NAV	50,400		
(ii) Interest on Bank loan (10% of Rs. 5,00,000)	50,000	1,00,400	67,600
Profits & Gains of Business or Profession: [WN-2]			
Income prior to adjustment for depreciation		6,20,000	
Less: Depreciation on equipments	-30,000		
Depreciation on building (10% on Rs. 5,00,000)	-50,000	-80,000	
Business Income:		5,40,000	
Less: Set-off of brought forward business loss [WN-3]		80,000	4,60,000
Capital Gains: [WN-4]			
Short term Capital gains from sale of listed shares:			
Full value of consideration		2,30,000	
Less: Cost of acquisition		1,80,000	50,000
Gross Total Income (GTI)			5,77,600
Less: Deductions under Chapter VI-A [WN-5]			
Deduction u/s 80D (for self)		6,000	
Deduction u/s 80C [Life insurance premium of self and son Rs. 20,000 + Rs. 12,000 + repayment of housing loan Rs. 23,000]		55,000	61,000
Total Income (rounded off)			5,16,600
Tax u/s 111A on STCG @ 15% of Rs. 50,000 + Tax on other income Rs. 4,66,600			18,330
Add: EC & SHEC @ 3%			550
Total tax Payable (rounded off)			18,880

Working Notes:

(1) Income from house property:

- (a) The annual value of the house property which is used for business would not fall under the head "Income from house property". Therefore, the annual value of the first block is not chargeable to tax under the head "Income from house property". However, depreciation thereon @ 10% has been claimed while computing the income from business.
- (b) As regards the second block, the sum for which the property may be reasonably expected to be let is Rs. 15,000 per month. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e., Rs. 15,000 p.m.) or the actual rent received (Rs. 10,000 p.m.). Hence, the GAV of the second block is Rs. 1,80,000 (i.e., Rs. 15,000 p.m.)

- (c) Under section 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the second block is Rs. 50,000 (i.e., 10% of Rs. 5 lakhs), which is allowable as deduction under section 24(b).
- (2) Profits and gains of business or profession: Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the first block is Rs.50,000 (being 10% of Rs. 5,00,000) and depreciation on equipments used for business is Rs. 30,000. Hence, the depreciation allowable during the year is Rs. 80,000.
- (3) Set off of business loss : As per Section 72, business loss relating to discontinued business is eligible for set-off.
- (4) Short-term capital gains (STCG): The listed shares have been sold and securities transaction tax is paid, hence it is taxable @ 15% as per Section 111 A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares.
- (5) Deductions under sections 80C and 80D: Deduction under section 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed that block 2 let out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction under section 80C.

However, deduction under section 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Hence, only mediclaim premium paid for self of Rs. 6,000 is eligible for deduction.

Question 20: Computation of Total income: Mr. Balaji furnishes you the following information for the financial year ended 31st March, 2018:

Pension from Central Government	2,47,000
Rent from let out property	2,40,000
Interest on moneys borrowed for let out property - paid	1,60,000
Interest on moneys borrowed for let out property - unpaid	12,000
Income from business in trade in grains and pulses	4,10,000
Loss from speculation in grains and pulses	50,000
Loss from speculation in Jewellery	80,000
Unabsorbed depreciation of discontinued textiles business of assessment year 2015-16	2,00,000

He let out a factory building with machinery for a monthly rent of Rs. 20,000.

The WDV of factory building as on 01-04-2017 was Rs. 8,10,000 (depreciation rate 10%) and WDV of machineries being Rs. 4,91,300 (depreciation rate 15%).

Compute the total income of Mr. Balaji for the Assessment year 2018-19.

Ans.

Computation of total income of Mr. Balaji:

Particulars	Rs.	Rs.	Rs.
Income from salaries			
Pension from Central Government [WN-1]			2,47,000
Income from house property			
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)		2,40,000	
Less: Municipal Taxes paid		Nil	
Net Annual Value (NAV)		2,40,000	
Less: Deduction under section 24			
(a) Standard deduction @ 30% of NAV	72,000		
(b) Interest on borrowed capital (Rs. 1,60,000 + Rs. 12,000) [WN-2]	1,72,000	2,44,000	-4,000
Income from business or profession			
Income from business of trading in grains and pulses		4,10,000	
Rent of factory building with machinery (Rs. 20,000 x 12) [WN-3]	2,40,000		
Less: Depreciation			
- Factory building (Rs. 8,10,000 x 10%)	81,000		
- Machinery (Rs. 4,91,300 x 15%)	73,695	85,305	4,95,305
			7,38,305
Less: Brought forward depreciation relating to A.Y. 2015-16 from			2,00,000

discontinued textile business [WN-4]			
Total Income (rounded off)			5,38,305

Working Notes:

- (1) Uncommuted pension is fully taxable in the hands of both government and non-government employees. It is presumed that pension received by Mr. Balaji is uncommuted pension.
- (2) Interest accrued is allowable as deduction under section 24(b). Therefore, interest of Rs. 12,000 accrued but not paid during the year can also be claimed as deduction.
- (3) Composite rent from letting out of building along with machinery is not taxable under the head "Income from house property", if the two lettings are not separable. It would be taxable either as business income or income from other sources.
It has been assumed that the composite rent received by Mr. Balaji from letting out of factory building and machinery is not separable and letting out of factory building by Mr. Balaji is incidental to his main business of trading in grains and pulses and therefore, such income would be taxable under the head "Profit and gains from business or profession".
- (4) Unabsorbed depreciation under section 32 can be carried forward indefinitely and set-off against income under any head, even if it relates to a discontinued business.
- (5) As per Section 73, loss from a speculation business can be set off only against profit of another speculation business. Therefore, loss from speculation in grains and pulses amounting Rs. 50,000 and loss from speculation in jewellery of Rs. 80,000 cannot be set off in the current year since there is no profit from any other speculation business. The total loss from speculation business of Rs. 1,30,000 (i.e. Rs. 80,000 + Rs. 50,000) has to be carried forward for set off against profit and gains of any speculation business in the succeeding 4 years.

Note: It is presumed that the loss from speculation in grains and pulses has not arisen on account of a hedging contract in respect of commodities entered into by Mr. Balaji in the course of his business of trading in grains and pulses.

Question 21: Computation of Total Income: The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31-03-2018:

Particulars	Rs.	Particulars	Rs.
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15-9-2017)	25,000
Wealth tax	5,000	Sale of car	17,000
Medical expenses	4,500	Interest on income-tax refund	3,000
Salary	18,000		
Depreciation on car	3,000		
Advance income-tax	1,500		
Net Profit	1,35,000		
	2,30,000		2,30,000

Other information:

- (1) Aditya bought a car during the year for Rs. 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for Rs. 17,000. The use of the car was 3/4th for business and 1/4th for personal use.
- (2) Medical expenses were incurred for the treatment of Nikita, his wife.
- (3) Salary had been paid on account of car driver.
- (4) Rent includes arrears of rent from April 2017 to October 2017 @ Rs. 5,000 p.m., paid in cash on 01-11-2017. -
- (5) Mr. Aditya had also let out a house property at a monthly rent of Rs. 25,000. The annual letting value is considered to be Rs. 2,50,000. The municipal taxes are Rs. 6,000, out of which Rs. 3,000 are paid by the tenant and Rs. 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is f 20,000.
- (6) Mr. Aditya's minor daughter received Rs. 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was Rs. 10,000.
- (7) Aditya incurred an expense of Rs. 50,000 on the medical treatment of his dependant son, who has disability of more than 80%.

(8) Aditya had taken a loan during the year 2017-18 for the education of his son, who is pursuing B. Com. in Delhi University. Interest paid on the same during the year was Rs. 10,000.

Compute the total income of Mr. Aditya

Income from house property:		
Gross Annual Value [Actual Rent Receivable (Rs. 25,000 x 12) or Annual letting value Rs. 2,50,000 whichever is higher]	3,00,000	
Less: Municipal taxes [WN-1]	Nil	
Net annual Value (NAV)	3,00,000	
Less: Standard deduction (@ 30% of NAV)	90,000	
Less: Interest on borrowed capital	20,000	1,90,000
Profits and gains of business profession:		
Net profit as per P&L A/c	1,35,000	
Less: Items credited to profit and loss account not treated as business income		
Gift of cash from a friend (received on 15-09-2017)	-25,000	
Sale of car	-17,000	
Interest on income-tax refund	-3,000	
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance Income Tax [Not allowable as deduction u/s 40(a)]	1,500	
Car expenses disallowed @ 25% for personal use [Rs. 3,000 x 25%]	750	
Depreciation on car 3,000, Since, the car is sold in the year of purchase, hence block does not exist at year end, hence no depreciation shall be admissible]	3,000	
Wealth tax [Disallowed under Section 40(a)]	5,000	
Salary of car driver for personal use [Rs. 18,000 x 25%]	4,500	
Arrears of rent paid in cash [Since, it exceeds Rs. 10,000, the same shall be disallowed under section 40A(3)] (Rs. 5,000 x 7)	35,000	
Medical expenses [Personal expenses, hence disallowed under Section 37(1)]	4,500	1,44,250
Capital Gains:		
Original cost of car	20,000	
Sale proceeds of car	17,000	
Short term capital loss [Short term capital loss cannot be set off from any other head of Income and hence the same shall be carried forward]	-3,000	Nil
Income from other sources:		
Interest on income tax refund	3,000	
Gift of cash from a friend [Not taxable u/s 56(2)(x), since it does not exceed Rs. 50,000]	Nil	
Interest on company deposits of Mr. Aditya's daughter will be clubbed with Aditya's Income and exemption of Rs. 1,500 u/s 10(32) shall be allowed. (Rs. 10,000 - Rs. 1,500)	8,500	11,500
Gross Total Income		3,45,750
Less: Deduction under section -		
Section 80DD : Medical treatment of dependent disabled suffering from severe disability [Fixed sum shall be allowed as deduction, irrespective of expenditure incurred]	1,25,000	
Section 80E: Interest on loan taken for higher education of son	10,000	1,35,000
Total Income (rounded off)		2,10,750

Working Note:

- (1) Municipal taxes of Rs. 3,000 yet to be paid by Mr. Aditya., shall not be allowed as deduction, since Municipal taxes paid during the previous year is allowed as deduction. Municipal taxes paid by tenant (Rs. 3,000) are also not eligible for deduction.
- (2) Income of Rs. 75,000 received by Mr. Aditya's minor daughter from stage acting will not be clubbed in hands of Aditya.

Question 18: From the following details compute the total income of Kamal, A resident individual aged 54 years for the year ended 31-3-2018. Tax payable need not be calculated.

(i) Salary including Dearness Allowance	5,00,000
(ii) Bonus	15,000
(iii) Salary to servant provided by Employer	12,000
(iv) Bill paid by Employer for Gas, Electricity and water provided free of cost at his flat	14,500
(v) Cost of Laptop provided by the employer (Used both for official and personal purposes)	40,000

Following additional information is provided:

- (1) Kamal purchased a flat in a Co-operative Housing Society in Delhi for Rs. 10,75,000 in April, 2011 by taking loan from State Bank of India amounting to Rs. 5,00,000 @ 15% per annum interest, Rs. 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of Rs. 5,500. The outstanding amount of loan is Rs. 1,60,000.
- (2) Municipal Taxes paid by Kamal Rs. 4,500 p.a.
- (3) Insurance in respect of the said flat Rs. 1,275
- (4) Kamal earned a profit of Rs. 15,000 in shares speculation business and incurred a loss of Rs. 20,200 in speculation business of cotton.
- (5) In the year 2012-13, he had gifted Rs. 50,000 to his wife and Rs. 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.
- (6) Kamal received a gift of Rs. 25,000 each from his four friends on the occasion of his birthday.
- (7) He contributed Rs. 10,500 to Public Provident Fund and Rs. 6,000 to Unit Linked Insurance plan.
- (8) He deposited Rs. 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.
- (9) He has taken a policy on life for his married daughter on 1-4-2017 and paid a premium of Rs. 25,000. The sum assured for policy is Rs. 2,00,000.

Ans. Computation of total income and tax liability of Mr. Kamal (Amounts in Rs.)

Income under the head Salary:		
Salary including dearness allowance	5,00,000	
Bonus	15,000	
Salary of servant provided by the employer (Taxable as perquisite)	12,000	
Bill paid by employer for gas, electricity and water provided free of cost at the residence of Kamal (Taxable as perquisite)	14,500	
Laptop for official and personal use	Exempt	5,41,500
Income from House Property:		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) 5,500 x 12]	66,000	
Less: Municipal Taxes paid	4,500	
Net Annual Value (NAV)	61,500	
Less: Standard Deduction @ 30% of NAV	18,450	
Less: Interest on loan from SBI 1,60,000 x 15% x 1]	24,000	19,050
Profits and gains of business or profession:		
Profit in Share speculation business	15,000	
Loss in Cotton speculation business	-20,200	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.	-5,200	
Income from Other Sources:		
Income on account of interest earned from advancing money, gifted to his minor son is includible in the hands of Kamal as per Section 64(1A). However, as per section 10(32) an exemption of Rs. 1,500 shall be available (Rs. 4,500 - Rs. 1,500).	3,000	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per Section 64(1) (Rs. 50,000 x 15%)	7,500	
Gift from four friends @ Rs. 25,000 each - Since the aggregate amount exceeds Rs. 50,000, hence, whole of the sum will be taxable u/s 56(2)(x)	1,00,000	1,10,500
Gross Total Income		6,71,050
Less: Deduction u/s 80C		
Contribution to Public Provident Fund	10,500	
Tax saver deposit with a Nationalised Bank in the name of his married son [WN -1]	NIL	

LIC premium in respect of policy taken in name of married daughter [WN -2]	20,000	
Unit Linked Insurance Plan	6,000	36,500
Total Income (rounded off)		6,34,550
Tax on total income		39,410
Add: EC and SHEC @ 3%		1,182
Total Tax (rounded off)		40,590

Working Notes:

- (1) Tax saver deposit in the name of married son does not qualify for deduction under section 80C.
- (2) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. Therefore, the life insurance premium paid for insurance policy of married daughter is allowed as deduction. However, the same cannot exceed 10% of capital sum assured since the policy is taken after 31-03-2012.
- (3) It has been assumed that Kamal own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential house in his own name.

It will really make a difference – MUST READ ARTICLE

Today I would like to share the real story of my senior where I have done my articleship. He was very senior to me and I even didn't meet him but came to know of his life from my principal. I cried for some time after listening and took some positives out of that. Here I am mentioning so that it may also prove fruitful to you all to combat the stress of exams:-

His name was siddharth. He lost his father during schooling. His relatives didn't help and he had mother and younger sister to look after. His illiterate mother told children to continue studies and she started work as maid and sweeping at temples. Siddharth used to do labour work along with studies in B.Com to help her Sister to study as well. After B.Com he told his mom that he would now do some job but his mother refused and told him to do further studies/CA to bring good name to family and upliftment of family status. Those time 3 years of articleship. Tremendous pressure on him. Her mother also started falling ill sometime during first year and he had to work sometime on night to earn some money. He would not share everything to principal. Also he had seen some days when he had no food but he managed for his sister and mom. Very difficult days for him and he passed 3 years of articleship in just two pairs of dress.

Anyhow he cleared Inter both groups without aid of coachings. Soon after he cleared inter, his mother passed away. He was totally shattered but the more difficulties came, the stronger he became. He decided to complete CA to fulfill wishes of parents and look after sister. Little help he was getting from friends also sometime. Principal increased his stipend but that was meager and difficult to manage. He continued his studies with consistency and finally CA final exam days came but god wanted him to test further. His sister fall ill badly and rushed to hospital during final exam days. Out of his strong will power, determination and *previous good preparation*, he managed to give final exams. Result came and he cleared both groups together and became CA. He and his sister started crying for an hour after he became CA in remembrance to her beloved mother and father. He is now in Canada and earning lacs together. He donates too much to trusts to help needy students.

SO MY DEAR STUDENTS, you should also take some positives from above like:

1. He was just an average student and wanting in every field like no coachings, meager finance, little books, looking after family etc. You have everything, so why don't you study and clear your CA exams to fulfill your parents dream. Imagine the moments when u are CA and standing before parents. What a proud moments. Work on it from right now. Siddharth cleared CA out of strong will power and determination to fulfill parents dream, you should also do it. How many of you want to fulfill parents dream and actually started doing should scrap below.

- 2) My dear friends you should understand that people do it in spite of all odds and difficulties. You are your maker or destroyer of your own career. But remember, your family and friends are always attached to you and if you wanna destroy your career by not studying, you are destroying them too. Think it and give a thought...
- 3) If you wanna roar like a lion, learn and develop the ways of a lion. Means be strong from inside and leave aside your weak man attitude that always complain. Difficulties will come for sure in life and while studying but how you overcome these is your strong attitude.
- 4) One thing I wanna share you that achievers don't waste time in unproductive thoughts. They think constructively and they know their level of thinking determines their success.

To conclude my friends, take some positives from above and implement it. This article is for your benefit only. Most people fail not because of ability and intelligence but because of lack of desire, direction, dedication and discipline

“BEST OF LUCK & AND MEET ME AFTER EXAMS”