

Paper 7 – Direct Taxation (DTX)

Paper 7 – Direct Taxation

Time Allowed: 3 Hours

Full Marks: 100

Answer Question No. 1 which is compulsory and any FIVE from Question No 2 to 7.

Part-I

1.

(a) Multiple Choice Questions:

10x 1 = 10

- i. Counter insurgency allowance is exempt upto ₹ _____ p.m.
 - A. 1,000 p.m
 - B. 1,500 p.m
 - C. 3,900 p.m
 - D. 1,600 p.m

- ii. ICDS are applicable for the purpose of computation of income under which head?
 - A. Profit & Gains from Business and Profession & Capital Gains
 - B. Profit & Gains from Business and Profession & Salary income.
 - C. Profit & Gains from Business and Profession & Other sources
 - D. None of the above

- iii. Deemed notice is covered under section _____.
 - A. 145
 - B. 143(1)
 - C. 156
 - D. 144

- iv. ITR _____ is used for filing return of income by assessee having presumptive income from Business & Profession.
 - A. ITR 1
 - B. ITR 4 (Sugam)
 - C. ITR 3
 - D. ITR 5

- v. ICDS X is in relation to
 - A. Revenue recognition
 - B. Construction Contract
 - C. Tangible Fixed Assets
 - D. Contingent Assets

- vi. Levy and collection of direct tax is administrated by _____.
 - A. CBEC
 - B. CBDT
 - C. Department of Revenue
 - D. Ministry of Finance

- vii. Levy of tax on income other than agricultural income is covered under entry number.
 - A. 92C
 - B. 92D
 - C. 82
 - D. 86

- viii. TDS rate on transfer of certain immovable property other than agricultural land.
 - A. 2%
 - B. 5%
 - C. 1%
 - D. 20%

- ix. TDS rate on payment to compensation on acquisition of certain immovable property.

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

- A. 1%
- B. 2%
- C. 3%
- D. 10%

- x. Advance tax is required to be paid by all assessee only if estimated advance tax liability is
- A. ₹ 2,000 or more
 - B. ₹ 5,000 or more
 - C. ₹ 8,000 or more
 - D. ₹ 10,000 or more

(b) Match the following.

5 x 1 = 5

	Column A		Column B
i	Retrenchment compensation	A	Section 55(2)
ii	Compulsory audit of accounts	B	Maximum ₹ 10,000
iii	Cost of Acquisitions	C	Best Judgment Assessment
iv	Section 144	D	Section 44AB
v	Deduction u/s 80TTA	E	Section 10(10B)

(c) State true or false with reasons:

5 x 1 = 5

- i. Residential status of an assessee determines the scope of chargeability of his income.
- ii. In case of conflict between the provision of the Income-tax Act and ICDS, the provision of the Act shall prevail to that extent.
- iii. Any amount paid u/s 211 on or before 31st March of the previous year, shall be treated as advance tax paid during the financial year.
- iv. Jain families are also treated as Hindu undivided family for the purpose of Income-tax Act. However, Muslim undivided family cannot be treated as HUF.
- v. The tax calculated on the total income should be rounded off to the nearest ₹ 100.

(d) Fill in the blanks

5 x 1 = 5

- i. The total income so computed will have to be rounded off to the nearest multiple of ₹ _____.
- ii. Domestic company means an _____ company.
- iii. ITR _____ is for Individual having Income from Salaries.
- iv. Winning from a motor car rally is a return for skill and effort and cannot be treated as _____ income but taxable as normal income.
- v. An assessee, who receives leave encashment during continuation of his service, can also claim _____.

Answer:1.a.

- i. C
- ii. C
- iii. C
- iv. B
- v. D
- vi. B
- vii. C
- viii. C
- ix. D
- x. D

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

Answer:1.b.

- i. E
- ii. D
- iii. A
- iv. C
- v. B

Answer:1.c.

- i. True
- ii. True
- iii. True
- iv. True
- v. False. The tax calculated on the total income should be rounded off to the nearest ₹ 10.

Answer:1.d.

- i. 10
- ii. Indian
- iii. ITR-1
- iv. casual
- v. relief

Part-II

(Answer any Five Questions out of seven questions to be answered)

2(a) What are the general points to be kept in mind regarding residential status a person? 7 Marks

2(b) Pankaj owns a house property which is self occupied by him till 30.11.2017 and thereafter let out for ₹ 10,000 p.m . The municipal value of house property is ₹ 1,00,000 and the fair rent is ₹ 1,20,000. Pankaj paid ₹ 1,50,000 as municipal taxes during the previous year which relate to past years as well as for current year.

Determine the income from house property assuming the insurance premium and interest paid during the year were ₹ 3,000 and ₹ 25,000 respectively. 8 Marks

Answer:2.a.

General points to be kept in mind regarding residential status of a person:

Different for each previous year	Residential status is determined in respect of each previous year. In other words, residential status of a person may vary from one previous year to another previous year.
Single status for each source of income	A person can have only one residential status for a previous year i.e. he cannot be a resident for one source of income and non-resident for another source.
Impact of Citizenship	Citizenship and residential status are two different concepts. A citizen of India may not be a resident in India for the purpose of income-tax.
Country Specific	A person can have same residential status in more than one country.

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

Answer:2.b.

Particulars	Amount (₹)	Amount (₹)
Gross annual value which shall be higher of the following two:		
Expected rent	1,20,000	
Actual rent received or receivable	40,000	
Therefore Gross Annual Value		1,20,000
Less: Municipal taxes		1,50,000
Net Annual value		(-)30,000
Less: Deduction u/s 24		
(a) Statutory deduction	Nil	
(b) Interest paid	25,000	
Deduction to be allowed		(-)25,000
Income from House property		(-) 55,000

3(a) Sri Pankaj has been in service of Y & Co. Pvt Ltd , since 1st February 1989, Kolkata. During the financial year ending 31.03.2018 Pankaj received from the company salary @ ₹ 90,000 p.m dearness allowance @ ₹ 15,000 p.m city compensatory allowance @ 2,000 p.m entertainment allowance @ 5,000 per month and house rent allowance @ 25,000 p.m. Pankaj resides in the house property owned by his HUF for which he pays a rent of ₹ 30,000 p.m . Pankaj has been in receipt of entertainment allowance from company since February, 1989.

Pankaj Contributes ₹ 10,000 p.m to the recognised provided fund. The company is also contributing an equal amount. Pankaj retires from the service of the company on 31.12.2017 when he was allowed gratuity of ₹9,00,00 and pension of ₹ 40,000 p.m. On 01.02.2018 he got one half of pension commuted and received ₹ 15,00,000 as commuted pension. He also received ₹ 20,00,000 as the accumulated balance of the recognised provident fund.

Compute his income under the head salary for the assessment year 2018-19.

8 Marks

3(b) List down the instances of agricultural Income.

7 Marks

Answer:3.a.

Particulars	Amount (₹)
Salary (₹ 90,000x9)	8,10,000
Dearness Allowance(₹ 15000x 9)	1,35,000
City compensatory allowance(₹ 2,000 x 9)	1,80,000
Entertainment allowance(₹ 5,000 x 9)	45,000
House rent allowance see note	36,000
Pension for 1 month	40,000
Pension for 2 month	40,000
Out of commuted pension (₹ 15,00,000 - ₹ 10,00,000)	5,00,000
Gross Salary	16,24,000
Less: Deduction	Nil
Income from Salary	16,24,000

Note:

1. House rent allowance will be exempt to the extent of minimum of the following three:
 - A. 50% of salary i.e ₹ 4,05,000

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

B. Rent paid minus 10% of salary i.e ₹ 30,000-₹ 9,000=₹ 21,000*9=₹ 1,89,000

C. HRA received 25,000 x 9= 2,25,000

Therefore out of ₹ 2,25,000 ,₹ 1,89,000 will be exempt and balance ₹ 36,000 will be included in Gross Salary.

2. Gratuity of ₹ 9,00,000 is fully exempt being the minimum of the following amounts:
 - A. ₹ 9,00,000.
 - B. ₹ 10,00,000
 - C. (Average salary/2 x 27) i.e (₹ 90,000/2 x 27)= ₹ 12,15,000.
3. As Pankaj is receiving gratuity, commuted pension upto 1/3 will be exempt and the balance taxable. 50% of the pension is ₹ 15,00,000. Therefore, 100% would be ₹ 30,00,000 and 1/3 would be ₹ 10,00,000.

Answer:3.b.

Instances of Agricultural Income:

1. Income from growing trade or commercial products like jute, cotton, etc. is an agro income.
2. Income from growing flowers and creepers is an agro income.
3. Plants sold in pots are an agro income provided basic operations are performed.
4. Remuneration and interest to partner: Any remuneration (salary, commission, etc.) received by a partner from a firm engaged in agricultural operation is an agro income.
Interest on capital received by a partner from a firm, engaged in agricultural operation is an agro income.
5. Income arising by sale of trees grown on denuded parts of the forest after replanting and by carrying on subsequent operations, is an agro income.
6. Compensation received from insurance company for damage caused by hail-storm to the green leaf of the assessee's tea garden is agricultural income. Further, no part of such compensation consists of manufacturing income; as such compensation cannot be apportioned under Rule 8 between manufacturing income and agricultural income.
7. Any fee derived from land used for grazing of cattle, being used for agricultural operation, is an agro income.
8. Any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income.

4(a) A building was acquired by A in 1994 for ₹ 5,00,000. He spent ₹ 1,40,000 in year 1999 for some additions to that building. He further spends ₹ 2,00,000 for construction of additional room in the year 2004-05. A died in 2012-13 and the same property passed on to his son B under a will. The market value as on that date was ₹ 20,00,000. B spent ₹ 3,00,000 on 05.01.2014 for further addition in that building, On 06.07.2016 the building was converted into stock in trade . Narket value of that building as on that date was ₹ 35,00,000. The above building was sold on 05.01.2018 for ₹ 39,00,000. Compute capital gain and any income which is liable to tax. Market value of building as on 01.04.2001 was ₹ 85,00,00. CII of previous year 2001-05,2012-13,2013-14,2016-17, and 2017-18 is 113, 200, 220, 264, 272 respectively.

8 Marks

4(b) Pankaj who is an advocate in Delhi furnishes the following particulars for the previous year 2018-19.

7 Marks

Particulars	Amount (₹)
Income from Profession	2,32,000
Short term capital gain on sale of gold	18,000
Long term capital gain on sale of land	96,000

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

Interest on government securities	11,000
Payment of interest on loan taken from a bank for higher studies of his daughter	10,000
Payment made by credit card for Mediclaim policy on his own health and the health of his wife	4,000
Rent paid for a house in Delhi	36,000
Deposit in PPF	60,000

Determine his total income for the assessment year 2018-19.

Assessment year 2018-19

Answer:4.a.

Particulars	Amount (₹)	Amount (₹)
Business Income		
Sales price	39,00,000	
Less: Market price on the date of conversion	35,00,000	4,00,000
Capital Gain		
Long term capital gain consideration price (market value)		35,00,000
Less: Indexed cost of acquisition ₹ 8,50,000 x 264/113	22,44,000	
Indexed cost of improvement		
By previous owner 2,00,000 x 264/113	4,67,257	
By B 3,00,000 x 264/220	3,60,000	30,71,257
Long term capital gain		4,28,743

Answer:4.b.

Particulars	Amount (₹)	Amount (₹)
Income from profession		2,32,000
Income from Capital Gain		
Short term	18,000	
Long term	96,000	1,14,000
Income from other sources		
Interest on Government securities		11,000
Gross Total Income		3,57,000
Less: Deduction u/s 80C to 80U		
u/s 80C – PPF	60,000	
u/s 80D- Mediclaim	4,000	
U/s 80E- Higher education	10,000	
U/s 80GG	17,300	91,300
Total Income		2,65,700

5(a) Mr Pankaj furnishes the following particulars of his income for the assessment year 18-19.

10 Marks

Profit and loss Account for the year ending 31.03.2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To office expenses	12,400	By gross profit	6,08,000
To general expenses	12,000	By sundry expenses	19,000
To Legal expenses	8,000	By customs duties recovered back from govt	15,300

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

		(earlier not allowed as deduction)	
To depreciation on machinery	11,000	By bad debt recovered (earlier allowed as deduction)	3,000
To staff salary	21,000	By gift from son	40,000
To Bonus to staff	15,000		
To contribution to approved gratuity fund	16,000		
To outstanding liability for excise duties	18,000		
To Audit fees	31,000		
To Net Profit	5,40,900		
	6,85,300		6,85,300

Additional information:

1. Bonus to employee to the payment of bonus act 1965, comes to ₹ 4,200.
2. Depreciation on machinery shown in profit and loss account is calculated according to the income tax provisions.
3. General expenses include payment of ₹ 9,000 to an approved educational institute for the purpose of carrying on scientific research in natural science. The research is, however not related to business of the assessee.
4. During the year Mr Pankaj also made a capital expenditure of ₹ 5,000 for the purpose of carrying on a scientific research related to business. This expenditure is however not recorded in the profit and loss account.
5. Outstanding liability in respect of excise duty amounting to ₹ 10,500 was paid on 10.04.2018; ₹ 1,000 on 10.05.2018; ₹ 2,000 on 30.06.2018; ₹1,000 on 10.07.2018 and ₹ 3,500 is still outstanding. The return is furnished on 30.09.2018 (last date).

Compute the taxable income of Mr Pankaj for the assessment year 2018-19 assuming he is annually deposit ₹ 10,000 in a Public Provided Fund Account.

5(b) Mrs Yadav received the following amounts during financial year 2017-18

5 Marks

Particulars	Amount (₹)
Gross salary	5,20,000
Family Pension (₹ 10,000 x 12)	1,20,000
Income of a minor child	49,000
Accumulated balance in PF of her husband after his death	1,00,000
Gratuity received after the death of husband	1,00,000

Calculate taxable income of Mrs yadav and tax liability for the assessment year 2018-19.

Answer:5.a.

Computation of Biasness Income of Mr Pankaj for the Assessment year 2018-19

Particulars	Amount (₹)	Amount (₹)
Profit and Gains from business or profession		
Net profit as per P&L A/c		5,40,900
Add: Expenses payment not admissible		
Outstanding for excise duty	3,500	
30% of audit fees as tax has not been deducted at sources	9,300	12,800

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

		5,53,700
Less: Items of income not treated as business income		
Customs duties recovered back	15,300	
Gift from son	40,000	
Capital expenditure on scientific research	5,000	
Additional deduction of 50% for scientific research	4,500	64,800
Income from business		4,88,900
Less: Deductions u/s 80C		10,000
Taxable Income		4,78,900

Note:

1. Outstanding liability for excise duties, if not paid even till last date of filling of return of income, is not allowed as a deduction.
2. ₹ 9,000 payments to an approved institute for purpose of scientific research in natural science is allowed as deduction u/s 35 @ 150% of the sum paid even though it is not related to the business of the assessee.
3. Bonus is fully allowed as deduction.

Answer:5.b.

Computation of taxable income of Mrs Yadav for the Assessment Year 2018-19

Particulars	Amount (₹)	Amount (₹)
Income from salary		
Gross Salary	5,30,000	
Less: Deduction	Nil	5,30,000
Income from other sources		
Family pension	1,20,000	
Less: Deduction u/s 56 1/3 rd or ₹ 15,000 whichever is low	15,000	1,05,000
Income of minor child	49,000	
Less: Exemption u/s 10(32)	1,500	47,500
Gross total income		6,82,500
Tax Payable		49,000
Add: Education cess & SHEC @ 3%		1,470
Tax rounded off		50,470

Note:

Accumulated balance in PF and amount of gratuity received after the death of husband is exempt from tax as it is assumed to be within the limit prescribed by section 10(10).

6(a) Mr Pankaj is a lawyer of Kolkata high court. He keeps his account on cash basis. His receipt and payments A/c for the year ending 31.3.2018 is given below; 10 Marks

Receipt and Payment Account for the year ending 31.03.2018

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)
Balance b/d		3,820	Subscription and membership	4,500
Legal Fees			Purchase of legal books	7,500

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

2017-18	53,45,000		Rent	47,500
2016-17	1,00,000	54,45,000	Car expenses	14,000
Special Commission fees		5,500	Office Expenses	8,500
Salary from Law College as part time lecture		87,000	Electricity expenses	4,000
Exam Remuneration		1,480	Income Tax	8,000
Interest on saving bank deposit		3,500	Gift to daughter	12,000
Sale proceeds of residential property		2,92,000	Domestic Expenses	35,000
Dividend from cooperative society		1,000	Donation to Institutions approved u/s 80G	2,000
Dividend received from the unit of UTI		2,000	Car purchased	5,20,000
Rent from house property		15,000	Life insurance premium	60,000
Agricultural Income		64,000	Salary to staff	15,00,000
			Balance c/d	36,97,300
		59,20,300		59,20,300

Additional Information:

- The rent and electric expenses are related to a house, of which half portion is used for self residence and remaining half portion is used for office.
- Car is used only for professional purpose.
- Outstanding legal fees ₹ 10,000.
- Rent has been paid for 10 months only.
- Car was purchased on 25.09.2017. Law books purchased are annual publications out of which books of ₹ 2,000 were purchased on 06.04.2017 and balance on 31.10.2017.
- The house was purchased in January 2004 for ₹ 1,16,000 and sold on 01.07.2017.
- Rent of the property which has been sold was ₹ 5,000 p.m. The property was vacated by the tenant on 30.06.2017.

Compute his total income for the assessment year 2018-19.

6(b) X and Y, being members of an AOP with equal ratio, furnishes the following details, compute tax liability of AOP and members:

Profit and loss account for the year ended 31-3-2018

Particulars	Amount	Particulars	Amount
Bonus to employee	5,000	Gross Profit	60,000
Other Expenses	14,000	Short term capital gain	6,000
Salary to -			
X	5,000		
Y	5,000		
Interest on capital @ 15%			
X	5,000		
Y	7,000		
Depreciation u/s 32	10,000		
Net profit	15,000		
	66,000		66,000

Additional information

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

1. Other expenses include expenditure of ₹ 4000, which is disallowed u/s 37.
2. Other personal income of X & Y -

	X	Y
Dividend received	₹ 5,000	₹ 20,000
Interest on loan	₹ 25,000	₹ 2,49,000
Brought forward loss from house property	₹ 25,000	₹ 10,000

Answer:6.a.

Computation of Total Income of Mr Pankaj for the assessment year 2018-19

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Income from salary			
Salary as a part time lecturer		87,000	
Less: Deduction		Nil	87,000
Income from house property			
(Gross Annual Value ₹ 5,000 x 12= ₹ 60,000			
Proportionate for 3 months 60,000x3/12		15,000	
Less: Municipal taxes		---	
Net Annual value		15,000	
Less: Standard deductions @ 30%		4,500	10,500
Income from profession			
Professional earnings			
Legal fees		54,45,000	
Special commission		5,500	
		54,50,500	
Less: Allowable expenses			
Subscription	4,500		
½ Rent (office)	23,750		
Car expenses	14,000		
½ electric charges	2,000		
Office expenses	8,500		
Depreciation on Car @ 15%	78,000		
Depreciation on books	1,900		
Salary to staff	15,00,000	16,32,650	38,17,850
Capital gains			
Sales Consideration		2,92,000	
Less: Indexed cost of acquisition ₹1,16,000 x 272/109		2,89,468	2,532
Income from other sources			
Interest on Bank deposit		3,500	
Examiners fees		1,480	
Dividend from Co operative society		1,000	

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

Dividend from UTI		Exempt	5,980
Gross Total Income			39,23,862
Less: Deductions			
80C-LIP		60,000	
80G-Donation @ 50% of ₹ 2,000		1,000	
80TTA		3,500	64,500
Total Income (rounded off)			38,59,360

Notes:

1. As the assessee follows the cash system of accounting, amount actually received and payment actually made on account of expenditure, during the year, shall be considered for computing the income. Therefore, any outstanding receipts will not be included in the Total Income. Similarly rent not paid for two months will not be allowed as deduction.
2. The system of accounting does not affect the computation of income from salary, house property and capital gains. Therefore, in this case, rent for three months, though not received (as it has not been shown in the Receipts and Payments Account) shall be taken into account in computing the income under the head house property.
3. Car was purchased and put to use for more than 180 days. Therefore, full depreciations @ 15% has been claimed.
4. Law book worth ₹ 2,000 were purchased and put to use more than 180 days and are, therefore, eligible for depreciation @ 40%. The balance books worth ₹ 5,500 were purchased on 31.10.2017, therefore, 50% of the normal depreciation of 40% will be allowed as the books were purchased and put to use for less than 180 days. The total depreciations shall, therefore, be ₹ 800 + 20% of ₹ 5,500 = ₹ 1,900

Answer:6.b.

Computation of total income of AOP for the A.Y. 2018-19

Particulars	Details	Amount	Amount
Profits and gains of business or profession			
Net profit as per profit and loss account		15,000	
Add: Expenditure disallowed but debited in P/L Account			
Salary to member disallowed u/s 40(ba) [₹ 5,000 + ₹ 5,000]	10,000		
Interest on capital disallowed u/s 40(ba) [₹ 5,000 + ₹ 7,000]	12,000		
Other expenses disallowed u/s 37	4,000	26,000	
		41,000	
Less: Income credited but taxable under other head			
Short term capital gain		6,000	35,000
Capital Gains			
Short term capital gain			6,000
Total Income			41,000
Tax on above (using rates applicable on an individual)			Nil

Computation of total income of X & Y excluding share from AOP

Particulars	X	Y
Income from other sources		
Dividend received [exempted u/s 10(34)]	Nil	Nil
Interest on loan	25,000	2,49,000
Total income excluding share from AOP	25,000	2,49,000

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

Since total income of X & Y excluding share from AOP does not exceed maximum exempted limit, hence AOP shall be taxable at the rate applicable to an individual.

Computation of total income of X & Y for the A.Y. 2018-19

Particulars	X		Y	
	Details	Amount	Details	Amount
Profits and gains of business or profession				
Salary from AOP	5,000		5,000	
Interest on capital	5,000		7,000	
Balance income other than short term capital gain in equal ratio	6,500	16,500	6,500	18,500
Capital Gains: Short term capital gain		3,000		3,000
Income from other sources				
Dividend received [exempted u/s 10(34)]	Nil		Nil	
Interest on loan	25,000	25,000	2,49,000	2,49,000
Total income		44,500		2,70,500
Tax on above less rebate plus cess (Slab rate) (R/off)		Nil		Nil

Since AOP is not charged to tax, hence rebate u/s 86 is not available.

7(a) Mr Pankaj took a loan ₹ 1,00,000 from a company in which the public company is not substantially interested. The company also paid an insurance premium of ₹ 5,000 on his behalf. He holds 25% equity shares of the company.

On the date of loan and paying the premium, the accumulated profits of the company were ₹ 80,000. Subsequently in the same year, the company declared dividends. On his shareholding Mr Pankaj was entitled to a dividend amounting to ₹ 15,000 which was set off against the amount of loan, etc.

Compute the amount that should be included in the income of Mr Pankaj.

8 Marks

7(b) Discuss the due date of payment of advance tax.

7 Marks

Answer:7.a.

Particulars	Amount (₹)
Amount of loan taken	1,00,000
Add: Insurance premium paid on his behalf	5,000
Total amount taken from the company	1,05,000
Accumulated profit of the company	80,000

Hence the deemed dividend shall be ₹ 80,000.

(Loan etc taken or the amount of a accumulated profit, whichever is less)

The amount of actual dividend- ₹15,000 is set off against loan etc., hence, such dividend is not to be treated as dividend and the company shall not have to pay any corporate dividend tax.

Answer:7.b.

Due date for payment of advance tax [Sec. 211]

Assessee	Due date of installment (of previous year)	Minimum amount payable
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Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

An eligible assessee in respect of an eligible business referred to in sec. 44AD or 44ADA.	On or before March 15	100% of advance tax liability
Other Assessee	On or before June 15	Upto 15% of advance tax liability
	On or before September 15	Upto 45% of advance tax liability
	On or before December 15	Upto 75% of advance tax liability
	On or before March 15	Upto 100% of advance tax liability

Notes

- a) Any amount paid u/s 211 on or before 31st March of the previous year, shall be treated as advance tax paid during the financial year.
- b) Where an assessee is a senior citizen (or super senior citizen) and does not have any income chargeable under the head "Profits and gains of business or profession", provision of advance tax is not applicable. In other words, senior citizen not having business income is not liable to pay advance tax.
- c) Every income including capital gain, winning from lotteries, etc. is subject to advance tax. However, it is not possible to estimate capital gain or casual gain or where income under the head "Profits and gains of business or profession" accrues or arises for the first time, therefore, where the assessee has paid the whole of the amount of tax payable in respect of such income -
1. As part of the remaining installments of advance tax which were due; or
 2. Where no installments were due, by March 31 of the financial year immediately preceding the assessment year,
- then it is deemed that all the provisions are complied.
- d) While calculating advance tax, net agricultural income shall also be taken into consideration for computing tax liability.
- e) If any assessee does not pay any installment within due date he shall be deemed to be an assessee in default in respect of such installment [Sec. 218]
- f) Any sum, other than a penalty or interest, paid by an assessee as advance tax shall be treated as a payment of tax and credit for such shall be given to the assessee in the regular assessment [Sec. 219].

8. Short Notes (Answer any three questions out of four)

(5 x 3=15 Marks)

- A. Quoting of Aadhaar number.**
- B. Relief u/s 89.**
- C. ICDS III on "Construction Contract".**
- D. Scrutiny Assessment u/s 143(3).**

Answer:8.A.

Quoting of Aadhaar number: Every person who is eligible to obtain Aadhaar number shall quote Aadhaar number:

- a. in the application form for allotment of permanent account number;
- b. in the return of income:

Note:

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

- ❖ Where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted.
- ❖ Every person who has been allotted PAN before 01-07-2017 and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority on or before specified date (31-12-2017). In case of failure to intimate the Aadhaar number, the PAN allotted to the person shall be deemed to be invalid.
- ❖ The provisions of this section shall not apply to notified persons or State

Answer:8.B.

Relief u/s 89:

Applicable to: An assessee, who is in receipt of –

- a) Arrear salary or Advance salary or in any other way is in receipt, in any one financial year, of salary for more than 12 months; or
- b) Profit in lieu of salary u/s 17(3) e.g. gratuity, commuted pension, etc.; or
- c) Family pension, being paid in arrears.

Note: An assessee, who receives leave encashment during continuation of his service, can also claim relief u/s 89.

Conditions to be satisfied

Charged at higher rate: Due to above receipt, total income of the assessee is assessed at a rate higher than that at which it would otherwise have been assessed.

Apply to Assessing Officer: Assessee has made an application in this behalf to the Assessing Officer.

Quantum of Relief: As computed by method provided in Rule 21A

Method of calculation of relief [Rule 21A]

Relief when salary is paid in arrears or in advance, etc

Where any portion of salary/family pension is received in arrears or in advance (hereinafter referred as additional salary), following steps are to be followed for calculating relief –

Step	Particulars
1	Calculate the tax payable for the previous year in which such additional salary is received, on: 1(a) Total income including additional salary 1(b) Total income excluding additional salary
2	Calculate the tax payable for the previous year to which such additional salary relates, on – 2(a) Total income including additional salary 2(b) Total income excluding additional salary
3	a) Add tax calculated on 1(a) and 2(b) = Tax on receipt basis b) Add tax calculated on 1(b) and 2(a) = Tax on accrual basis
4	Relief u/s 89 = Tax on receipt basis – Tax on accrual basis

Answer:8.C.

ICDS-III on “Construction Contract”

Scope

The Standard should be applied in determination of income for a construction contract of a contractor.

Construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes:

- (i) contract for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects;
- (ii) contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

Construction contracts are formulated in a number of ways which are classified as fixed price contracts and cost plus contracts.

- ❖ Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which may be subject to cost escalation clauses.
- ❖ Cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark up on these costs or a fixed fee.

Contract Revenue

Contract revenue shall be recognised when there is reasonable certainty of its ultimate collection.

Contract revenue shall comprise of:

- a) the initial amount of revenue agreed in the contract, including retentions; and
 - ❖ Retentions are amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.
 - ❖ Progress billings are amounts billed for work performed on a contract whether or not they have been paid by the customer.
- b) variations in contract work, claims and incentive payments:
 - i. to the extent that it is probable that they will result in revenue; and
 - ii. they are capable of being reliably measured.

Contract Costs

Contract costs shall comprise of:

- a) costs that relate directly to the specific contract;
- b) costs that are attributable to contract activity in general and can be allocated to the contract;
- c) such other costs as are specifically chargeable to the customer under the terms of the contract; and
- d) allocated borrowing costs in accordance with the ICDS on Borrowing Costs.

These costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue.

Costs that cannot be attributed to any contract activity or cannot be allocated to a contract shall be excluded from the costs of a construction contract.

Recognition of Contract Revenue and Expenses

Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

The recognition of revenue and expenses by reference to the stage of completion of a contract is referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

Changes in Estimates

Answer_MTP_Inter_Syllabus 2016_June 2018_Set 2

The percentage of completion method is applied on a cumulative basis in each previous year to the current estimates of contract revenue and contract costs. Where there is change in estimates, the changed estimates shall be used in determination of the amount of revenue and expenses in the period in which the change is made and in subsequent periods.

Disclosure

A person shall disclose:

- a. the amount of contract revenue recognised as revenue in the period; and
- b. the methods used to determine the stage of completion of contracts in progress.

A person shall disclose the following for contracts in progress at the reporting date:

- a. amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
- b. the amount of advances received; and
- c. the amount of retentions.

Answer:8.D.

Where the Assessing Officer or the prescribed income-tax authority (here-in-after collectively referred to as 'Assessing Officer') considers it necessary to ensure that the assessee has not -

- understated his income; or
- declared excessive loss; or
- under paid the tax,

he can make a scrutiny in this regard and gather such information and evidence as he deems fit. And on the basis of such information and evidence so collected, he shall pass an assessment order. Such order shall be treated as regular assessment order.

Conditions for scrutiny assessment

- A return has been furnished u/s 139 or in response to a notice u/s 142(1); and
- *Assessing Officer considers it necessary or expedient to ensure that the assessee has not understated his income, declared excessive loss or under-paid the tax.*

Procedure

Notice for scrutiny [Sec. 143(2)]

Assessing Officer shall serve on the assessee a notice requiring the assessee, on a date specified in the notice, to produce, or cause to be produced, any evidence on which assessee may rely, in support of the return.

Time limit of notice

No notice shall be served on the assessee after the expiry of 6 months from the end of the financial year in which the return is furnished.

Order

After collecting such information and hearing such evidence as the assessee produces in response to the notice u/s 143(2) and after taking into account all relevant materials, which the Assessing Officer has gathered;

The Assessing Officer shall, by an order in writing, make an assessment of the total income or loss of the assessee and determine the sum payable by him or refund of any amount due to him on the basis of such assessment.

Time limit for completion of scrutiny assessment

Assessment u/s 143(3) should be completed within 18 months (from A.Y. 2019-20: 12 months) from the end of the relevant assessment year.

Special procedure in case of research association etc. [Proviso to Sec. 143(3)]

Applicable to

- Research association referred in sec. 10(21);

- News agency referred in sec. 10(22B);
- Association or institution referred in sec. 10(23A);
- institution referred in sec. 10(23B);
- fund or institution referred in sec. 10(23C)(iv);
- trust or institution referred in sec. 10(23C)(v);
- any university or other educational institution referred in sec. 10(23C)(vi);
- any hospital or other medical institution referred in sec. 10(23C)(via)
- any university or college u/s 35(1)(ii) or (iii)
 - which is required to furnish the return of income u/s 139(4C) or (4D)

Assessment Order

An order for assessment of such assessee shall be made after giving effect to the provisions of sec. 10. However in the following case assessment of such assessee shall be made without giving effect to the provisions of sec. 10—

- a. The Assessing Officer has intimated the Central Government or the prescribed authority about contravention made by above assessee of respective provision of sec. 10 on the basis of which exemption has been granted; and
- b. Approval granted to such assessee has been withdrawn or rescinded by such authority.

Note: No effect shall be given by the Assessing Officer to the provisions of sec.10(23C) in the case of a trust or institution for a previous year, if the provisions of the first proviso to sec. 2(15) become applicable in the case of such person in such previous year, whether or not the approval granted to such trust or institution or notification issued in respect of such trust or institution has been withdrawn or rescinded.