Paper 7 – Direct Taxation

Question 1.

(i) 'D', an Indian citizen left India for the first time on 20.9.2013 for employment in Denmark. During the Previous Year 2014-15 he comes to India on 5.5.2014 for 150 days. Determine the residential status of 'D' for the Assessment Years 2014-15 and 2015-16.

Solution :

During the Previous Year 2013-14 (A.Y. 2014-15) 'B' was in India for 175 days (30+31+30+31+31+21) and therefore, does not satisfy the first condition. As regards the second condition, although he was here in the four preceding Previous Years for more than 365 days as he was permanently in India but for the relevant Previous Year 2013-14 he should have been here for 182 days instead of 60 days as he is a citizen of India and leaves India in 2013-14 for employment abroad.

He neither satisfies the first, nor the second condition and is therefore, Non-Resident in India. Similarly, during the previous year 2014-15 (A.Y. 2015-16) he visits India for 150 days. In this case also, the period of 60 days will be substituted by 182 days as he is a citizen of India. Therefore, he will be a Non-Resident in India even for the Previous Year 2014-15 (A.Y. 2015-16).

(ii) A Hindu Undivided Family (Mr. W is Karta, X, Y and Z are coparceners) carries on cloth business in Bhutan. X comes to India and starts a cloth business at Mumbai in partnership with some other persons. The capital contributed by X to this firm is found to have come from the family. Subsequently, Y joins the firm as partner. Later on another business is started at Varanasi with the same persons and one outsider as partner. Z joins this firm. The Assessing Officer wants to treat the family as resident on the ground that its coparceners are partners in firms, financed out of the family funds, and the firms are resident in India. Is the Assessing Officer legally correct?

Solution:

A case on similar facts was examined by the Supreme Court of India in the case of CIT vs. Nandlal Gandalal (1960) 40 ITR 1, wherein the Apex Court pointed out that both under the Hindu Law and under the Law of Partnership, the Hindu Undivided Family as such could exercise no control over the management of a firm in which some of its coparceners were partners, even if capital contributed by coparceners was found to have come from the family.

The position in Hindu Law with regard to coparcener who has entered into partnership with others is well settled. The partnership is a contractual partnership and is governed by the Indian Partnership Act, 1932. The partnership is between the coparcener individually and the other partners and not between the family and other partners. This remains so even if the coparcener is accountable to the family for the income received. Thus, control and management over the firm's business lies in the hands of individual coparceners and not in the hands of the family. The Assessing Officer is, therefore, not justified while holding the HUF as resident in India.

(iii) Mr. Khan discloses following particulars of his receipts during the Previous Year 2014-2015:

(a) Salary income earned at Pune but received in China ₹ 5,00,000.

- **(b) Profits earned from a business in South Africa which is controlled in India, half of the profits being received in India ₹4,40,000.**
- **(c) Income from property, situated in Nairobi and received there ₹1,50,000.**
- **(d) Income from agriculture in Bangladesh and brought to India ₹1,90,000.**
- **(e) Dividend-paid by an Indian company but received in Itali on 15th May, 2014 ₹44,000.**
- **(f) Interest on USA Development Bonds, one half of which was received in India ₹1,52,000.**
- **(g) Past foreign untaxed income brought to India ₹4,20,000.**
- **(h) Gift of $1000 from father, settled in USA, received in India ₹1,60,000.**
- **(i) Capital Gains on sale of Land in Delhi, consideration received in Canada ₹5,00,000.**
- **(j) Income from structure-designing consultancy service, set up in Germany, controlled from India, profits being received outside India ₹8,00,000.**
- **(k) Loss from foreign business, controlled from India, sales being received in India ₹4,00,000.**

Determine his Gross Total Income for the Previous Year 2014-2015 if he is
(i) Resident and Ordinarily Resident,
(ii) Resident but not Ordinarily Resident,
(iii) Non Resident.

Solution:

Computation of Gross Total Income for the Previous Year 2014-15

Particulars	ROR	RNOR	NR
(a) Salary earned at Pune but received at China. Salary is deemed to accrue or arise at a place where services are rendered, place of receipt being immaterial [Sec. 9(1)(ii)] Hence, it is taxable in all cases	5,00,000	5,00,000	5,00,000
(b) Profits of ₹ 4,40,000 earned from a business in South Africa, controlled in India:			
A. One half of profits are taxable on receipt basis	2,20,000	2,20,000	2,20,000
B. Other half profits—from foreign business controlled in India (in case of resident and ordinarily resident, place of control is of no relevance)	2,20,000	2,20,000	—
(c) Income from property in Nairobi and received there : income accruing or arising outside India	1,50,000	—	—
(d) Income from agriculture in Bangladesh and brought to India: It is not income received in India as receipt means first receipt. Hence, it is not taxable in case of "not ordinarily resident" and "non-resident". In case of "ordinarily resident", it is income accruing or arising outside India. Hence, it is taxable. It should be noted that it is not agricultural income as it is not received from land, situated in India, and hence not derived from sources of income being exempted u/s 10(1).	1,90,000	—	—

(e) Dividend paid by an Indian company but received in Itali: Dividend paid by an Indian Company is deemed to accrue or arise in India. However, any dividend paid, declared or distributed by a domestic company on or after 1st April,2005 is exempt from tax u/s 10(34). Therefore, such dividend is not taxable	—	—	—
(f) Interest on USA Development Bonds: A. One half of taxable on receipt basis B. Other half is taxable only in case of "ordinarily resident" as it is foreign income accruing or arising outside India	 76,000 76,000	 76,000 —	 76,000 —
(g) Past untaxed foreign income brought to India. It is not an income received in India. Furthermore, it is not the income of the Previous Year 2014-15. Hence, it is not taxable in any case	—	—	—
(h) Gift from a relative is not taxable	—	—	—
(i) Capital gain is deemed to accrue or arise in India u/s 9(1)(i)	5,00,000	5,00,000	5,00,000
(j) Income from consultancy profession, set up outside India, profits being received outside India: Taxable in case of "ordinarily resident", as income accruing or arising outside India and received outside India [Sec.5(1)(c)] In case of "not ordinarily resident, as it is not income from profession set up in India, control and management applies to business and not to professions. Hence, it is not taxable [Sec. 5(1) (c) r.w. proviso]	8,00,000	—	—
(k) Loss from foreign business, controlled from India Income includes loss also. Profits are embedded in sales. As sales realization were received in India, the place of control and management is not relevant. Business loss can be set off against business profits and thereafter against the income of any other head except income from salary and chance winnings (Sec. 70)	(4,00,000)	(4,00,000)	(4,00,000)
Gross Total Income	23,32,000	11,16,000	8,96,000

(iv) Mr. Sakti, an Indian citizen, earns the following income during the Previous Year 2014-2015 (A.Y. 2015-16):

(a) Profits from a business in Mumbai, managed from France ₹10,40,000.

(b) Pension for services rendered in Kenya but kept with State Bank in Kenya with the permission of the Reserve Bank of India ₹3,60,000.

(c) Income from property in Kuwait, received in India ₹3,70,000.

(d) Profits from business in Nepal and deposited in a bank there ₹24,000.

(e) Income received in Oman from a profession, which was set up in India, extended to Oman and managed from Kenya ₹3,00,000.

(f) Profit on sale of machinery in India but received in Italy ₹2,52,000.

(g) Profits, before allowing depreciation, from business Kuwait 50% of profits were received in India ₹4,00,000.
Total depreciation ₹5,00,000.

(h) Interest on foreign bank deposit, received by his minor son in India Bank deposit was made out of funds gifted by grandfather ₹3,40,000.

(i) A German company credited commission to his Bank Account outside India for sale of goods by him in India ₹3,50,000

(j) Commission earned and received by him outside India on export orders collected by him in India for foreign exporters, without any authority being given to him by them ₹4,60,000.

(k) Dividends remitted in India by an Egyptian company to him under his instruction through Bank of Patiala ₹3,60,000.

Determine his Gross Total Income for the Previous Year 2014-2015 if he is

(i) Resident and Ordinarily Resident;

(ii) Resident but not Ordinarily Resident; and

(iii) Non Resident.

Solution:

Computation of Gross Total Income for the Previous Year 2014-15

Particulars	ROR	RNOR	NR
(a) Profits from a business at Mumbai, managed from France: Income from business accrues at the place where the business is done, place of management being of no relevance. Hence, it is taxable in all cases.	10,40,000	10,40,000	10,40,000
(b) Pension for services rendered in Kenya, received there: – Pension is deemed to accrue or arise at a place where services are rendered	3,60,000	—	—
(c) Rent of house property, situated in Kuwait, but received in India	3,70,000	3,70,000	3,70,000
(d) Profits from business in Nepal and deposited in Bank there: Income accruing or arising outside India	24,000	—	—
(e) Income from profession in Oman which was set up in India, received there, managed from there: Foreign Income accruing or arising outside India from a Profession set up in India is taxable in case of ROR and RNOR. Its control and management is not relevant	3,00,000	3,00,000	—
(f) Profit on sale of machinery in India but received in Italy: Income from asset situated in India is deemed to accrue or arise in India. Hence, it is taxable in all cases	2,52,000	2,52,000	2,52,000
(g) Profits from foreign business	4,00,000	2,00,000	2,00,000
(h) Depreciation of foreign business It can be set off first from business profits and thereafter against the income of any other head u/s 32(2)	(5,00,000)	(2,50,000)	(2,50,000)
(i) Income of a minor child is included in total income of that parent whose income, before including such income is greater [Sec.64(1A)], however, an exemption upto ₹ 1,500 is to be allowed u/s 10(32)	3,38,500	3,38,500	3,38,500

(j) Commission from German company received outside India is deemed to accrue or arise in India because of business connection in India u/s 9(1)(i)	3,50,000	3,50,000	3,50,000
(k) Commission earned and received outside India on export orders collected in India is deemed to accrue or arise in India [Explanation 2 of Sec.9(1)(i) w.e.f. A.Y. 2007-08]	4,60,000	4,60,000	4,60,000
(l) Dividends from foreign company received outside India	3,60,000	—	—
Gross Total Income	37,54,500	30,60,500	27,60,500

(v) Compute Income for Mr. Om Prakash for the Previous Year 2014-15.

(a) Salary accrued and received in India ₹45,000.

(b) Profit from hotel business in Japan ₹90,000.

(c) Dividends declared in Japan received in India ₹22,500.

(d) Gain from transfer of capital asset in India ₹52,500.

(e) Interest on Debentures of a company in New York received in India ₹28,500.

(f) Royalty received in Germany from a resident in India for technical services provided for a business in Germany ₹30,000.

(g) Interest received in UK from Mr. Robert, a non-resident, on loan provided to him for business in India ₹9,000.

(h) Fees from an Indian company carrying on business in the UK for technical services rendered in London, directly deposited in his bank account in India ₹37,500.

Compute the Gross Total Income of Mr. Om Prakash for the relevant Previous Year 2014-15 (A.Y. 2015-16), if he is (i) Ordinarily Resident, (ii) Not Ordinarily Resident, (iii) Non Resident.

Solution:

Computation of Gross Total Income of Mr. Om Prakash for the Previous Year 2014-2015

	ROR	RNOR	NR
(a) Salary accrued and received in India	45,000	45,000	45,000
(b) Profit from hotel business in Japan	90,000	—	—
(c) Dividends declared in Japan received in India	22,500	22,500	22,500
(d) Gains from transfer of a capital asset in India deemed to accrue or arise in India	52,500	52,500	52,500
(e) Interest on debentures of a company in New York but received in India	28,500	28,500	28,500
(f) Royalty received in Germany from a resident in India for technical services provided for a business in Germany	30,000	—	—
(g) Interest received in UK from Mr. Robert, a non-resident, on loan provided to him for business in India	9,000	9,000	9,000
(h) Fees from an Indian company, carrying on business in UK for technical services rendered in London, directly deposited in his Bank Account in India	37,500	37,500	37,500
Gross Total Income	3,15,000	1,95,000	1,95,000

Question 2:

(i) A, is entitled to a basic salary of ₹ 6,000 p.m. and dearness allowance of ₹ 1,200 p.m., 40% of which forms part of retirement benefits. He is also entitled to HRA of ₹ 2,400 p.m. He actually pays ₹ 2,400 p.m. as rent for a house in Delhi. Compute the taxable HRA.

Solution:

Salary for House Rent Allowance = Basic Pay + D.A. (considered for retirement benefits) + Commission (if received as a fixed percentage on turnover as per terms of employment) = (6,000 × 12) + (40% × 1,200 ×12) = 77,760

Computation of Taxable House Rent Allowance

Particulars	₹	₹
Amount received during the financial year for HRA (2,400 ×12)		28,800
Less: Exemption u/s 10(13A) Rule 2A		
Least of the followings:		
(a) Actual amount received	28,800	
(b) 50% of Salary of ₹ 77,760	38,880	
(c) Rent paid less 10% of Salary [2,400 × 12 - 10% of 77,760]	21,024	21,024
Taxable House Rent Allowance		7,776

(ii) Mr. Ganesh retires on 15th October 2014, after serving 30 years and 7 months. He gets ₹4,80,000 as gratuity. His salary details are given below:

FY 2014 -15	**Salary ₹16,000 pm**	**D.A. 50% of salary. 40% forms part of retirement benefits.**
FY 2013 -14	**Salary ₹15,000 pm**	**D.A. 50% of salary. 40% forms part of retirement benefits**

Determine the taxable value of gratuity in the following cases:

(a) He retires from Government service

(b) He retires from seasonal factory in a private sector, covered under Payment of Gratuity Act, 1972.

(c) He retires from non-seasonal factory, covered by Payment of Gratuity Act, 1972

(d) He retires from private sector, not covered by payment of Gratuity Act, 1972

Solution:

(a) The amount of gratuity received as a Government employee is fully exempt from tax u/s 10(10)(i)

(b) As an employee of a seasonal factory, in a private sector, covered under the Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Amount (₹)	Amount (₹)
Amount received as Gratuity		4,80,000
Less: Exemption u/s 10(10)(ii)		
Least of the followings:		
(a) Actual amount received	4,80,000	
(b) 7/26 x Last drawn salary x No. of years of completed service [7/26 x 24,000 x 31]	2,00,308	
(c) Maximum Limit	10,00,000	2,00,308
Taxable Gratuity		2,79,692

(c) As an employee of a non-seasonal factory, covered by Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Amount (₹)	Amount (₹)
Amount received as Gratuity		4,80,000
Less: Exemption u/s 10(10)(ii) Least of the followings: (a) Actual amount received (b) 15/26 x Last drawn salary x No. of years of completed service [15/26 x 24,000 x 31] (c) Maximum Limit	 4,80,000 4,29,231 10,00,000	4,29,231
Taxable Gratuity		50,769

Note: Salary = Basic Pay + Dearness Allowance

In case of seasonal employment, instead of 15 days, 7 days shall be considered.

(d) As an employee of a private sector, not covered by Payment of Gratuity Act, 1972.

Computation of Taxable Gratuity

Particulars	Amount (₹)	Amount (₹)
Amount received as Gratuity		4,80,000
Less: Exemption u/s 10(10)(iii) Least of the followings: (a) Actual amount received (b) ½ x Average Salary x No. of fully completed years of service [½ x18,720 x 30] (c) Maximum Limit	 4,80,000 2,80,800 10,00,000	2,80,800
Taxable Gratuity		1,99,200

Note: Salary = 10 months average salary preceding the month of retirement.

= Basic Pay + Dearness Allowance considered for retirement benefits + commission (if received as a fixed percentage on turnover)

Salary for the months December '13 till September '14 shall have to be considered.

Basic Salary: (i) December "13 to March '14 (15,000 × 4)	60,000
(ii) April '14 to September '14 (16,000 × 6)	96,000
Total Basic Salary	1,56,000
Add: D.A. [50% of 1,56,000 × 40%, forming part of superannuation benefits]	31,200
Salary for 10 months	1,87,200
Average salary = 1,87,200/10	18,720

(iii) Mr. Poor is getting a salary of ₹ 5,400 pm since 1.1.13 and dearness allowance of ₹ 3,500 p.m., 50% of which is a part of retirement benefits. He retires on 30th November 2014 after 30 years and 11 months of service. His pension is fixed at ₹ 3,800 pm. On 1st February 2015 he gets 3/4ths of the pension commuted at ₹ 1,59,000. Compute his gross salary for the Previous Year 2014-15 in the following cases :

(a) If he is a Government employee, getting gratuity of ₹ 2,90,000

(b) If he is an employee of a private company, getting gratuity of ₹ 2,90,000

(c) If he is an employee of a private company but gets no gratuity.

Solution:

Previous Year 2014-15. Tenure of Service: 1.4.14 to 30.11.14 = 8 months

Post-retirement period: December '14 to March '15 = 4 months

Particulars	Case (a)	Case (b)	Case (c)
Salary	43,200	43,200	43,200
Add: Dearness Allowance	28,000	28,000	28,000
Add: Taxable Gratuity	Exempted	82,750	Nil
Add: Uncommuted Pension [(3,800×2)+(950×2)]	9,500	9,500	9,500
Add: Commuted Value of Pension Exempted		88,333	53,000
Gross Salary	80,700	2,51,783	1,33,700

Case (b) Gratuity received by an employee of a private company

Particulars	Amount (₹)	Amount (₹)
Actual amount received		2,90,000
Less: Exempted amount (least of the followings): (i) Actual amount received (ii) ½ × Average Salary × No. of years of completed service [½ x 7,150 × 30] (iii) Maximum limit	 2,90,000 1,07,250 10,00,000	 1,07,250
Taxable Gratuity		1,82,750

Computation of Taxable Commuted value of Pension (Non-Government employee and gratuity received)

Particulars	Amount (₹)	Amount (₹)
Actual commuted value of pension received **Less**: Exempted u/s 10(10A) 1/3rd of Full Value of Commuted Pension [1/3 × 2,12,000] Full value of commuted pension = $\frac{\text{Amount received on commutation}}{\text{Percentage of pension commuted}}$ = 1,59,000 / 75 % = 2,12,000		1,59,000 70,667
Taxable Commuted Value of Pension		88,333

Case (c) Computation of Taxable Value of Commuted Value of Pension (Non-Government employee and gratuity not received)

Particulars	Amount (₹)	Amount (₹)
Actual commuted value of pension received **Less**: Exempted u/s 10(10A) ½ of Full Value of Commuted Pension [1/2 × 2,12,000] Full value of commuted pension = $\frac{\text{Amount received on commutation}}{\text{Percentage of pension commuted}}$ = 1,59,000 / 75 % = 2,12,000		1,59,000 1,06,000
Taxable Commuted Value of Pension		53,000

(iv) Ms. Ankita retired from service after 28 years from ABC Ltd. Leave sanctioned by employer 45 days p.a. Leave availed during service 400 days. Leave encashment received ₹ 6,30,000. Average salary for 10 months preceding the month of retirement ₹ 15,000. Compute taxable amount of Leave encashment for the Previous Year 2014-15.

Solution :

Since leave sanctioned by the employer is more than 30 days p.a., the following calculation is required, to determine the amount of leave credit on the date of retirement:

Particulars	No. of Days
(i) Leave credit available on the date of retirement = Total Leave sanctioned during tenure of employment – Total leave availed during service = [(28 × 45) – 400]	860
Less: Excess leave sanctioned by the employer [(45–30 days) per year × 28)	420
Leave credit on the basis of 30 days credit for completed years of service	440
(ii) Leave salary on the basis of 30 days credit = Step (i) × Average Salary = 440 × (15,000/30)	2,20,000

Taxable Leave Salary on Retirement

Particulars	Amount (₹)	Amount (₹)
Amount Received on Leave Encashment		6,30,000
Less: Exemption u/s 10(10AA)		
Least of the followings:		
(i) Actual amount of Leave encashment received	6,30,000	
(ii) Average salary of the individual for the past 10 months = 15,000 × 10 months	1,50,000	
(iii) Maximum Limit	3,00,000	
(iv) Leave at credit at the rate of 30 days p.a. for every completed year of service as calculated in Step (ii)	2,20,000	1,50,000
Taxable Leave Encashment		4,80,000

Question 3:

(i) Mr. Saha, after serving Z Ltd. for 23 years 7 months, opted the Voluntary Retirement Scheme. Total tenure of service: 30 years. Compensation received ₹ 12,00,000. Last drawn Salary (i.e. Basic Pay + D.A, forming part of retirement benefits) ₹ 15,000. Compute exemption & taxable value of VRS compensation.

Solution :

Total tenure of service = 30 × 12 = 360 months

Actual length of service = 23 years 7 months = 283 months

No. of months of service left= (360 - 283) months = 77 months

Computation of Taxable VRS compensation

Particulars	Amount (₹)	Amount (₹)
Amount received as VRS Compensation		12,00,000
Less: Exemption u/s 10(10C): Least of the followings:		
(i) Actual amount received	12,00,000	
(ii) Maximum Limit	5,00,000	
(iii) The highest of the following:		
Last drawn salary x 3 x No. of fully completed years of service		
=15,000 x 3 x 23= 10,35,000		
Last drawn salary x Balance of no. of months of service left.		
= 15,000 x 77 months = 11,55,000	11,55,000	5,00,000
Taxable VRS Compensation		7,00,000

(ii) Mr. Sahil was provided an accommodation in a hotel by his employer for 22 days before providing him a rent free accommodation which is owned by the employer. The hotel charges paid ₹ 6,000 of which ₹ 2,000 was recovered from the employee. Salary for the purpose of accommodation for the period of 22 days is ₹ 15,000. Compute the taxable perquisite of accommodation.

Solution :

In case of accommodation provided to the assessee on account of transfer, which is exceeding 15 days cumulatively, such shall be taxable as a perquisite. The company recovered ₹1,000 from the employee.

Computation of Taxable Value of Perquisite for Accommodation in a Hotel

Particulars Amount (₹)	
Lower of the followings:	
(i) 24% of Salary paid/payable = 24% of ₹ 15,000 = 3,600	
(ii) Actual Charges paid/payable = 6,000	3,600
Less: Amount recovered from the employee	2,000
Taxable Value of Perquisite	**1,600**

(iii) Mr. Kumar is provided with an accommodation in Kolkata since April 2014. Salary ₹ 40,000 p.m. Cost of furniture provided ₹ 1,00,000. On 1st October, 2014, following a promotion with a increase in Salary by ₹ 15,000, he was transferred to Jharkhand (population less than 25 lakhs but more than 10 lakhs), and was also provided an accommodation there. Mr. Kumar was allowed to retain the Kolkata accommodation till March, 2015. Compute taxable value of perquisite.

Solution:

Phase 1: Value of Furnished Accommodation (Kolkata) (April to September 2014)

Particulars	Amount (₹)
Value of unfurnished accommodation (15% of 40,000 × 6 months)	36,000
Add: Value of Furniture provided:	
• 10% p.a. of original cost of such furniture (10% of 1,00,000 x 6/12 months)	5,000
Taxable Value of Perquisite – related to Furnished Accommodation	41,000

Phase 2: Valuation of accommodation (October 2014 to December 2014)

(a) For the first 90 days of transfer: Where accommodation is provided both at existing place of work and in new place, the accommodation, which has lower value, shall be taxable.

(b) After 90 days: Both accommodations shall be taxable.

Computation for the first 90 days of transfer: (October 2014 to December 2014)

Particulars	Amount (₹)
Lower of the followings:	
(i) Value of accommodation at existing place of work	27,250
(ii) Value of accommodation at new place of work	16,500
Value of accommodation at existing place of work (i.e. Kolkata)	
15% of Salary for 3 months (i.e. 90 days) = 15% of ₹ 55,000 x 3 months	24,750
Add: Cost of Furniture provided : 10% p.a. on ₹ 1,00,000 x 3/12 months	2,500
Taxable Value of Perquisite	27,250

Value of accommodation at new work place (Jharkhand)

10% of salary for 3 months (i.e. 90 days) = 10% of 55,000 × 3 months = 16,500

Therefore, the assessee shall be assessed to tax on ₹ 16,500 (being the lowest)

Phase 3: Valuation of accommodation (after 90 days) (January 2015 to March 2015)

	₹
(i) For Kolkata accommodation: 15% of 55,000 x 3 months	24,750
Add: Cost of furniture provided: 10% x 1,00,000 x 3 months / 12 months	2,500
Total value of perquisite	27,250
(ii) For Jharkhand accommodation: 10% of 55,000 x 3 months/12 months	16,500

Total Taxable Value of Perquisite

Particulars	Taxable value of perquisite (₹)
Phase 1: Accommodation in Kolkata	40,000
Phase 2: Accommodation in Jharkhand (being the lower during 90 days)	16,500
Phase 3: (i) Accommodation in Kolkata	27,250
(ii) Accommodation at Jharkhand	16,500
Total Taxable Value of Perquisite	1,00,250

(iv) Mr. Amit takes interest-free loan of ₹ 2,50,000 on 1.11.14 from his employer to construct his house. The loan is repayable in 50 monthly installments from January 2015. Compute the value of interest free loan. SBI Lending rate 9.5% p.a. (for housing loans not exceeding 5 years).

Solution:

Computation of Taxable Value of Perquisite – related to Loan provided by employer [As per Rule 3(7)(i)]

Time period during which loan remains outstanding	Balance on the last day of the month (₹)
November	2,50,000

December	2,50,000
January	2,45,000
February	2,40,000
March	2,35,000
Total	12,20,000
Perquisite value of interest-free loan: 12,20,000 × 9.5% × 1/12 = ₹ 9,658	

Question 4:

(i) Akash joined a company on 01.07.2014 and was paid the following emoluments and allowed perquisites as under:

Emoluments: Basic Pay ₹ 40,000 per month; D.A. ₹ 20,000 per month; Bonus ₹ 20,000 per month.

Perquisites :

- **(a) Furnished accommodation owned by the employer and provided free of cost;**
- **(b) Value of furniture therein ₹ 4,80,000; Hire charges of Furniture provided ₹ 20,000 p.a.;**
- **(c) Motor car owned by the company (with engine c.c. less than 1.6 litres) along with chauffeur for official and personal use, expenses met by Employer;**
- **(d) Sweeper salary paid by company ₹ 1,500 per month; amount recovered @ ₹ 200 pm;**
- **(e) Watchman salary paid by company ₹ 1,500 per month; amount recovered @ ₹ 300 pm;**
- **(f) Educational facility for 2 children provided free of cost. The school is owned and maintained by the company. Elder child studies in class V and younger child in class II. Tuition fee per month ₹ 1,600 & ₹ 900 respectively;**
- **(g) Loan of ₹ 5,00,000 repayable within 7 years given on 1.9.2014 for purchase of a house. No repayment was made during the year. Interest charged by employer @ 2% p.a. Interest chargeable as per Income Tax Act @ 10% p.a.;**
- **(h) Interest free loan for purchase of computer ₹ 50,000 given on 01.02.2015. No repayment was made during the year. Interest rate as per Income Tax Act, 1961 @16.5% p.a.;**
- **(i) Corporate membership of a club. The initial fee of ₹ 1,00,000 was paid by the company. Akash paid the bills for his use of club facilities.**

You are required to compute the income of Akash under the head "Salaries" in respect of Assessment Year 2015-16.

Solution: Assessee: Mr. Akash Assessment Year: 2015-16

Computation of Income from Salary

Particulars	Amount (₹)
Basic Pay (40,000 x 9 months)	3,60,000
Add: Dearness Allowance (20,000 x 9 months)	1,80,000
Add: Bonus (20,000 x 9 months)	1,80,000
Add: Taxable Value of Perquisite related to: -	
- furnished accommodation (Note 1)	1,44,000
- motor car provided by employer [(1,800 + 900) x 9 months]	24,300
- salary of sweeper [(1,500 – 200) x 9 months]	11,700
- salary of watchman [(1,500 – 300) x 9 months]	10,800
- educational facilities (Note 2)	5,400

- interest free housing loan (Note 3)	23,333
- interest free computer loan (Note 4)	1,375
Gross Income from Salary	9,40,908

Note 1: Salary for the purpose of computing taxable value of furnished accommodation:

Particulars	Amount (₹)
Basic Salary	3,60,000
Dearness Allowance	1,80,000
Bonus	1,80,000
	7,20,000

Assuming, Mr. Akash stays in a city where population is more than 25,00,000 as per 2001 census,

Value of unfurnished accommodation = 15% of salary
= 15% of ₹ 7,20,000
=₹1,08,000

Value of furniture provided = 10% p.a. of actual cost
= 10% of ₹ 4,80,000 × 9/12
= ₹ 36,000

(Assuming, value of furniture given in the problem represents actual cost.)

Note 2 : Computation of taxable value of perquisite – related to educational facility.

Where the school is owned and maintained by employer, if the cost of education provided is less than ₹1,000 p.m. then the value of perquisite is NIL. If the cost of education exceeds ₹1,000 p.m. then the value of perquisite will be equal to the actual cost of education provided in excess of ₹1,000 p.m. per child maximum for two children.

Value of perquisite for elder child = ₹ (1,600–1,000)×9 m = ₹ 5,400 (where 9 months = from 1.7.2014 to 31.3.2015)

Value of perquisite for younger child = NIL, since tuition fee per month is less than ₹ 1,000.

Assuming, cost of education provided to Akash's children is less than ₹ 1,000 p.m. value of perquisite provided is NIL.

Note 3: Computation of taxable value of perquisite – related to interest free housing loan.

Value of Perquisite = Interest @ 10% p.a. less Actual interest charged
= (10% - 2%) x ₹ 5,00,000 x 7/12 = ₹ 23,333

Note 4 : Computation of taxable value of perquisite – interest free loan to purchase computer

Value of Perquisite = Interest @ 16.50% p.a. less Actual interest charged
= (16.50% - 0%) x ₹ 50,000 x 2/12 = ₹ 1,375

(ii) During the Previous Year ending March 31, 2015, Anu, a salaried employee (age: 40 years), received ₹10,70,000 as basic salary and ₹20,000 as arrears of bonus of the financial year 1994-95. During the Previous Year 1994-95, Anu has received ₹60,000 as salary. Anu deposits ₹ 1,500 (during 1994-95) and ₹13,000 (during 2014-15) in public provident fund.

Solution:

The admissible relief under section 89, in respect of bonus paid in the financial year 2014-15 will be computed as under:

	Taxable income and tax liability on "receipt" basis		Taxable income and tax liability on "accrual" basis	
Assessment Year	2015 –16	1995 – 96	2015 – 16	1995 – 96
	₹	₹	₹	₹
Salary	10,70,000	60,000	10,70,000	60,000
Arrears of salary	20,000	-	-	20,000
Gross Salary	10,90,000	60,000	10,70,000	80,000
Less: Standard seduction under section 16(i)	Nil	12,000	Nil	12,000
Gross Total Income	10,90,000	48,000	10,70,000	68,000
Less: Deduction under section 80C				
Net Income	13,000	Nil	13,000	Nil
Tax on net income	10,77,000	48,000	10,57,000	68,000
Less: Rebate under section 88	1,48,100	2,600	1,42,100	6,600
Tax	Nil	300	Nil	300
Add : Surcharge	1,48,100	2,300	1,42,100	6,300
Tax and surcharge	Nil	-	Nil	-
Add : Education cess	1,48,100	2,300	1,42,100	6,3 00
Add: Secondary and higher education cess	2,962	-	2,842	-
Tax liability	1,481	-	1,421	-
	1,52,543	2,300	1,46,363	6,300

Tax liability of the two Assessment Years on receipt basis (1,52,543 + 2,300) ₹1,54,843
Tax liability of the two Assessment Years on accrual basis (1,46,363 + 6,300) ₹1,52,663
Tax relief under section 89 for the Assessment Year 2015-16 (i.e., ₹1,54,843 - ₹1,52,663) ₹2,180
Tax payable for the Assessment Year 2015 -16 (i.e., ₹1,52,543 - ₹2,180) ₹1,50,363

Note : For the Assessment Year 1995 - 96, an assessee, having income under the head "salaries", is eligible for deduction u/s 16 (1) of a sum equal to $33\frac{1}{3}$ % of the salary or ₹12,000 whichever is less. However, Section 16(i) has been omitted by finance Act, 2005.

(iii) Mr. David was retrenched from service of "GO SLOW Ltd". Retrenchment compensation received ₹7,00,000. Amount determined under the Industrial Disputes Act, 1948 ₹4,75,000. What is the taxability?

Solution:

Computation of Taxable Value of Retrenchment Compensation

	₹	₹
Amount received as Retrenchment Compensation		7,00,000
Less: Exemption u/s 10(10B):		
Least of the followings:		
(i) Actual amount received	7,00,000	
(ii) Amount determined under the Industrial Disputes Act, 1948	4,75,000	
(iii) Maximum Limit	5,00,000	4,75,000
Taxable Retrenchment Compensation		2,25,000

(iv) Mr. Amal is a manager in H Ltd. He gets salary @ ₹ 40,000 pm. He is also allowed free use of computer, video-camera and television of the company. H Ltd. has purchased (i) Computer for ₹ 1,00,000 (ii) Video-camera for ₹ 30,000. Their written down value on 1.04.14 is ₹60,000 and ₹ 20,000 respectively. Television set has been taken on lease rent @ ₹ 100 p.m. Compute his gross salary for the Assessment Year 2015-16.

Solution:

Computation of Taxable Value of Asset provided by Employer [As per Rule 3(7)(vii)]

Particulars	Amount (₹)
Salary (₹ 40,000 × 12)	4,80,000
Add: Free use of computer u/s 17(2)(vi) read with Rule 3(7)(vii)	Nil
Add: Free use of video camera u/s 17(2)(vi) read with Rule 3(7)(vii) [10% of ₹ 30,000]	3,000
Add: Free use of telephone u/s 17(2)(vi) read with Rule 3(7)(vii) [₹ 100 x 12]	1,200
Gross Salary	4,84,200

Question 5:

(i) Mr. Krishna owns two houses, which are occupied by him for his own residence. The detailed particulars of houses and his other incomes for the Previous Year 2014-15 are given below:

Particulars	**House A**	**House B**
Fair Rent	**5,00,000**	**5,00,000**
Municipal Value	**4,20,000**	**4,50,000**
Standard Rent	**4,50,000**	**6,20,000**
Municipal taxes paid	**50,000**	**60,000**
Interest on loan for the FY 2014-15	**1,60,000**	**2,20,000**
Date of loan	**1.12.2003**	**1.04.2004**
Date of completion	**31.03.2005**	**31.03.2007**
Certificate of interest attached with return of income	**No**	**Yes**

Mr. Krishna earns income from other sources amounting to ₹ 3,00,000
Compute his Total Income and advise him which house should be opted for self-occupation.

Solution :

Computation of Income from House Property under different options

Particulars	**House A ₹**	**House B ₹**
(a) Assuming both properties are self-occupied (SO)		
Annual Value	Nil	Nil
Less : Interest on loan	(-) 30,000	(-) 1,50,000
Loss from House Property	(-) 30,000	(-) 1,50,000
(b) Assuming both properties as deemed let out (DLO)		

Gross Annual Value	4,50,000	5,00,000
Less : Municipal taxes paid	(-) 50,000	(-) 60,000
Net Annual Value	4,00,000	4,40,000
Less : Permissible deduction :		
(i) Statutory deduction : 30% of Net Annual Value	(-) 1,20,000	(-) 1,32,000
(ii) Interest on loan	(-)1,60,000	(-) 2,20,000
Income from House Property	1,20,000	88,000
(c) Criteria for selection of house for self-occupied : Lowest taxable income	Option I	Option II
Income from house A	(-)30,000 (SO)	1,20,000 (DLO)
Income from house B	88,000 (DLO)	(-)1,50,000 (SO)
Income from Other Sources	3,00,000	3,00,000
Total Income	3,58,000	2,70,000

Conclusion : House B should be treated as self-occupied.

Gross Annual Value = Higher of Municipal value or fair rent but restricted to standard rent.

(ii) Mr. Ranbir is employed with HUD Co. Ltd. @ ₹ 35,000 p.m. He is the owner of a house property construction of which was completed on 1st April 2005. Since then, it has been in his self-occupancy for residential purposes. The particulars in respect of the house for financial year 2014-2015 are given below :

Municipal Valuation ₹ 3,00,000

Municipal tax paid ₹ 20,000

Insurance premium paid ₹ 3,000

Interest on loan, taken on 1-6-2013 for renovation of the house is ₹ 75,000 for the year 2014-2015. However, he could pay only ₹ 45,000 during the year. He is transferred in February 2015 to the Nagpur Branch of the Company. He intends to allow his sister to occupy the house free of rent in his absence. He seeks your advice in this connection. Compute his total income for AY 2015-2016.

Solution :

Computation of Total Income

Assessee : Mr. Ranjit Sinha **A. Y : 2015-16**

Particulars	Case I House kept vacant ₹	Case II House is occupied by his sister in his absence ₹
Income from House Property :		
Gross Annual Value	Nil	3,00,000
Less : Municipal taxes paid	Nil	(-) 20,000
Net Annual Value	Nil	2,80,000
Less : Permissible deduction (Sec. 24)		
(i) Statutory deduction – 30% of Net annual value	Nil	(-) 84, 000

(ii) Interest on loan for renovation	(-) 30,000	(-) 75,000
Income from House Property	(-) 30,000	1,21,000
Statement of Total Income :		
Income from Salary (₹ 35,000 × 12)	4,20,000	4,20,000
Income from House Property	(-) 30,000	1,21,000
Total Income	3,90,000	5,41,000

Advise : From tax angle it is not advisable to allow his sister to occupy the house in his absence.

(iii) Mr. Rupam owns a house. The municipal value of the house is ₹ 2,80,000. He paid ₹ 18,000 as local taxes during the year. He uses this house for his residential purposes but let out half of the house at ₹3,000 per month with effect from 1st January 2015. Compute the Annual Value of the house.

Solution :

Mr. Rupam uses the house for his residential purpose and let out half of the house for 3 months. Accordingly, the house shall be treated as partly self occupied and partly let out.

Particulars	**Total**	**Unit 1 (self occupied)**	**Unit 2 (let out)**
Municipal value	2,80,000	1,40,000	1,40,000
Fair Rent	36,000	-	36,000
Actual Rent receivable (3,000 × 3)	9,000	-	9,000
Municipal Tax	18,000	9,000	9,000

Computation of Net Asset Value (NAV)

Step	**Particulars**	**Working**	**Unit 1 (self occupied)**	**Unit 2 (let out)**
	Municipal Value	1 : 1	1,40,000	1,40,000
	Fair Rent	3,000 × 12		36,000
I	Reasonable Rent	Higher of above two		1,40,000
II	Actual Rent receivable - Unrealised Rent	3,000 × 3		9,000
	GAV – higher of Step I & II			1,40,000
	Less: Municipal Tax		Nil	(9,000)
	Net Annual Value		Nil	1,31,000

(iv) Ms. Puja has occupied three houses for her self-occupancy. Their particulars for the Previous Year 2014- 2015 are given below:

Particulars	House X(₹)	House Y(₹)	House Z(₹)
Municipal Value	**3,60,000**	**9,60,000**	**8,90,000**
Municipal taxes paid	**30,000**	**60,000**	**60,000**
Fair Rent	**5,40,000**	**8,00,000**	**9,00,000**
Standard Rent	**4,50,000**	**6,00,000**	**10,00,000**
Repairs	**1,50,000**	**2,50,000**	**3,00,000**
Ground rent paid	**20,000**	**25,000**	**30,000**
Insurance premium paid	**5,000**	**6,000**	**7,000**
Interest on loan taken for purchase of H.P.	**75,000**	**1,20,000**	**2,00,000**
Year of the loan	**1998-99**	**1998-99**	**2006-07**

She has suffered loss in his business, amounting ₹ 2,00,000

Compute her total income & advising her which house should be specified for self- occupancy concession.

Solution :

Computation of Income from House Property under different options :

(a) Assuming all the properties are self-occupied (SO)	**House X (SO) ₹**	**House Y (SO) ₹**	**House Z (SO) ₹**
Annual Value	Nil	Nil	Nil
Less: Interest on loan	30,000	30,000	2,00,000
Loss from House Property	30,000	30,000	2,00,000

(b) Assuming all the properties as Deemed Let Out (DLO)	**House X (DLO) ₹**	**House Y (DLO) ₹**	**House Z (DLO) ₹**
Gross Annual Value	4,50,000	6,00,000	9,00,000
Less: Municipal taxes paid	30,000	60,000	60,000
Net Annual Value	4,20,000	5,40,000	8,40,000
Less: Statutory deduction u/s 24(a) @ 30% of Net Annual Value	1,26,000	1,62,000	2,52,000
Interest on Loan u/s 24(b)	75,000	1,20,000	2,00,000
Income from House Property	2,19,000	2,58,000	3,88,000

(c) Total Income under different options for self-occupancy:

Particulars	**Option 1 House X (₹)**	**Option 2 House Y (₹)**	**Option 2 House Z (₹)**
House X	(-) 30,000 (SO)	2,19,000 (DLO)	2,19,000 (DLO)
House Y	2,58,000 (DLO)	(-) 30,000 (SO)	2,58,000 (DLO)
House Z	3,88,000 (DLO)	3,88,000 (DLO)	(-)2,00,000 (SO)
Income from House Property	6,16,000	5,77,000	2,77,000
Loss from business	(-) 2,00,000	(-) 2,00,000	(-)2,00,000

Total Income	4,16,000 (DLO)	3,77,000	77,000

Conclusion: A house with minimum income/maximum loss should be opted for self-occupancy concession to minimize the tax liability.
The option can be changed from year to year.
In the instant case, House Z should be treated as self-occupied.

Gross Annual Value = Higher of Municipal value or fair rent but restricted to standard rent.

Question 6:

(i) X Ltd. acquired a printing machine for ₹ 26,00,000. Transport Cost, including loading and unloading charges ₹ 35,000. Expenses incurred during the trial run period ₹ 3,00,000. Output generated during trial run period was sold for ₹ 1,90,000. Depreciation @ 15%. Compute WDV. Would your answer differ if the output generated during trial run period was ₹ 4,00,000.

Solution:

Assessee : X Ltd
Previous Year: 2014-15
Computation of Depreciation

Particulars	Amount (₹)	Amount (₹)
Expenses incurred during trial run period *Less* : Income from sale of output generated during trial run period	3,00,000 (1,90,000)	3,00,000 (4,00,000)
Net Cost / Gain	1,10,000	(1,00,000)
Actual Cost of the Machine *Add* : Net Cost during trial run *Less* : Net Gain during trial run	26,35,000 1,10,000 —	26,35,000 — (1,00,000)
Actual Cost of Machine for charging depreciation	27,45,000	25,35,000
Less : Depreciation @ 15%	4,11,750	3,80,250
Written Down Value (W.D.V.)	23,33,250	21,54,750

(ii) Z Ltd. purchased machinery (rate of depreciation 15%) from Japan for US$ 2,50,000 on 17.08.2013 (US $ = ₹ 63.25) by borrowing from Trade Bank Ltd. Z Ltd. took a forward contract on 11.07.2014, when the exchange rate was ₹ 66.25 per US$. This was put to use from 23.11.2013. Compute Depreciation for the Previous Years 2013-14 and 2014-15.

Solution:

Assessee: Z Ltd
Previous Year: 2013-14 & 2014-15
Computation of Depreciation and Written Down Value

Particulars	Amount (₹)
Cost of the Asset (US$ 2,50,000 × ₹ 63.25)	1,58,12,500
Less : Depreciation @ 50% of 15% (since Put to Use < 180 days) for Previous Year 2013-14 (₹ 1,58,12,500 × 50% × 15%)	(11,85,938)

WDV as on 01.04.2014 *Add* : Exchange Rate Difference [US$ 2,50,000 × ₹ (66.25 – 63.25)]	1,46,26,562 7,50,000
WDV for claiming depreciation *Less* : Depreciation @ 15% for the Previous Year 2014-15 (₹1,53,76,562× 15%)	1,53,76,562 23,06,484
WDV as on 01.04.2015	1,30,70,078

(iii) XYZ Bros., a sole-proprietorship concern, was converted into X Ltd. on 20.9.2014. Before the conversion, the concern had a block of furniture (rate of depreciation @ 10%), whose WDV as on 01.04.2014 was ₹ 7,50,000. On 01.05.2014, a new furniture of the same block was purchased for ₹50,000. X Ltd. purchased another furniture of the same type on 20.12.2014 for ₹ 48,000. Compute depreciation that would be claimed by XYZ Bros. and X Ltd. for the Previous Year 2014-15.

Solution :

(1) Depreciation shall have to be calculated at the prescribed rates, as is applicable for a going concern, without considering the event of amalgamation or demerger.

(2) Depreciation shall have to be apportioned between the predecessor and the successor in the ratio of number of days for which such assets were held for their business purpose and used by them.

Depreciation to be apportioned = [W.D.V. as on 1.4.2014 + New Purchases on 01.05.2014] × 10%
= ₹ (7,50,000 + 50,000) × 10% = ₹ 8,00,000 × 10% = ₹ 80,000

Apportionment of Depreciation and Allowable Depreciation

Assessee	No. of Days	Depreciation on Assets exists on the date of succession	Depreciation on Assets acquired after Succession	Total Depreciation for the Previous Year 2014-15
XYZ Bros. (Sole-Proprietorship concern)	01.04.2014 to 20.9.2014 = 173 days	₹ 80,000 × 173/365 = ₹ 37,912	Nil	₹ 37,912
X Ltd. (Company)	21.09.2014 to 31.3.2015 = 192 days	₹ 80,000 × 192/365 = ₹ 42,082	₹ 48,000 × 50% × 10% = ₹ 2,400 (Put to use < 180 days)	₹ 44,482

(iv) P Ltd. was taken over by Q Ltd. with effect from 31.7.2014. This satisfies the conditions of Sec. 2(1B) of the Income Tax Act, 1961. From the following information, compute deductions admissible u/s 32 to P Ltd and Q Ltd. for the previous year 2014-15.

Assets	Rate of Depreciation	WDV in the hands of P Ltd (as on 01.04.2014)	Transfer Value to Q Ltd. (₹)
Building	**10%**	**15,00,000**	**22,50,000**
Plant & Machinery	**15%**	**10,00,000**	**7,50,000**
Motor Car	**15%**	**4,00,000**	**3,00,000**

Computers	**60%**	**2,50,000**	**1,00,000**
Furniture	**10%**	**1,50,000**	**70,000**

Solution :

(1) Depreciation shall have to be calculated at the prescribed rates, as is applicable for a going concern, without considering the event of amalgamation or demerger.

(2) Depreciation shall have to be apportioned between the predecessor and the successor in the ratio of number of days for which such assets were held for their business purpose and used by them.

Depreciation Statement as per Income Tax Act, 1961

Particulars of Block of Assets	Rate Of Dept.	W.D.V as on 01.04.2014	Additional Actual Cost	Debenture	Net Value of Block	Depreciation for the Current Year	W.D.V. as on 31.3.2015
1	2	3	4	5	6	7	
Block I – Building	10%	15,00,000	Nil	Nil	15,00,000	1,50,000	13,50,000
Block – II Plant & Machinery	15%	10,00,000	Nil	Nil	10,00,000	1,50,000	8,50,000
Block –III Motor Car	15%	4,00,000	Nil	Nil	4,00,000	60,000	3,40,000
Block – IV Computers	60%	2,50,000	Nil	Nil	2,50,000	1,50,000	1,00,000
Block – V Furniture	10%	1,50,000	Nil	Nil	1,50,000	15,000	1,35,000
		33,00,000			33,00,000	5,25,000	27,75,000

TOTAL DEPRECIATION ADMISSIBLE ₹10,50,000

Apportionment of Depreciation and Allowable Depreciation

Assessee	**No. of Days**	**Depreciation on Assets on the date of amalgamation**	**Depreciation on Assets acquired after amalgamation**	**Total Depreciation for the Previous Year 2014-15**
P Ltd.	01.04.2014 to 31.7.2014 = 122 days	₹ 5,25,000 × 122/365 = ₹ 1,75,479	Nil	₹ 1,75,479
Q Ltd.	01.08.2014 to 31.3.2015 = 243 days	₹ 5,25,000 × 243/365 = ₹ 3,49,521	Nil	₹ 3,49,521

Question 7:

(i) Orian International Ltd. incurs an expenditure of ₹600 crores for acquiring the right to operate telecommunication services for Odisha and Jharkhand. The payment was made in August 2013 and the licence to operate the services was valid for 12 years. In December 2014, the company transfers part of the licence, in respect of Odisha to Excel International Ltd. for a sum of ₹560

crores and continue to operate the licence in Jharkhand. What is the deduction allowable u/s 35ABB to Orian International Ltd. for the Assessment Year 2014-15?

Solution:

Assessee: Jammer International Ltd. Previous Year: 2014-15 Assessment Year: 2015-16

U/s 35ABB, where part of the Telecom Licence is transferred and Net Consideration received on such transfer, is more than the expenditure remaining unallowed, the amount of deduction shall be computed as follows :

(i) Unallowed amount as on 01.04.2014	= Total Expenditure Less Deduction for Financial Year 2013-14 = ₹600 crores Less (₹600 crores / licence period of 12 years) = ₹600 crores less ₹50 crores= ₹550 crores.
(ii) Net Consideration received	= ₹560 crores
(iii) Remaining period of licence	= 11 years (including current Previous Year)
(iv) Deduction u/s 35 ABB	= Nil
(v) Business Income	= ₹ (560 – 550) = ₹ 10 crores.

(ii) What would be your advice regarding admissibility of the following items of expenditure in computing the business income:

(a) A donation of ₹ 2 lakh made to a University for starting a laboratory for scientific research (i) relating to the assessee's business, (ii) not relating to the assessee's business.

(b) Travelling expenses include a sum of ₹ 15,000 incurred by a director in travelling abroad for negotiating purchase of plant and purchase of plant and machinery.

(c) Amount payable as damages to Government on account of shortfall in export target.

(d) Overdraft from bank for payment of income tax, interest charged by the bank is ₹ 20,000.

(e) Payment of interest of ₹ 60,000 on monies borrowed from bank for payment of dividends to shareholders.

(f) ₹ 72,000 paid for shifting of business from the original site to the present place which is more advantageously located.

(g) Retrenchment compensation of ₹ 5 lakh paid to the workmen on the closure of one of the units.

(h) Fees paid to the Registrar of Companies for bringing about a change in the Memorandum and Articles of Association in regard to issue of Equity.

Solution :

(a) The donation has been made to University to be used for scientific research for starting a laboratory. If the University is approved for the purpose of Sec. 35(1)(ii), then irrespective of the consideration whether the scientific research is related to assessee's business or not, deduction could be claimed @ 175% of amount paid. If it is not approved, donation could not be claimed as a deduction under Sec. 35 in the computation of business income. However, the assessee could claim deduction from Gross Total Income under Sec. 80G if the same is eligible.

(b) Travelling expenses incurred by the director for negotiating the purchase of plant and machinery is a capital expenditure and hence to be disallowed.

(c) The payment is not for any infraction of law but for failure to reach a target undertaken by the company being payment made wholly in the course of business, it is deductible.

(d) Interest on overdraft taken to pay income tax is not allowable under Sec. 36(1)(iii).
(e) Interest on borrowings utilized for payment of dividend is allowable under Sec. 36(1)(iii).
(f) Shifting expenses of business premises resulting in an expenditure of enduring benefit is a capital expenditure and is not allowable.
(g) Retrenchment compensation payable to workmen on the total closure of a business cannot be allowed as deduction as the expenses are not incurred for the purpose of carrying on of its business. When, however, the tax-payer closes one of its units and continues to carry on the same business as before, the compensation will be admissible under Sec. 37(1).
(h) Fee paid to Registrar of Companies for bringing about change in Memorandum and Articles of Association is a capital expenditure, where it relates to issue of equity shares. Where alterations are warranted by the changes made in the Companies Act, the expenses are allowable.

(iii) Mr. Thaper has estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31.3.2015, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the Assessment year 2015-2016.

(a) Manufacture of Rubber ₹ 10,00,000
(b) Manufacture of Coffee grown and cured ₹ 7,00,000
(c) Manufacture of Tea ₹ 14,00,000
(d) Sale of Plants from Nursery ₹ 2,00,000.

Solution:

Assessee: Mr. Tony **Previous Year: 2014-15** **Assessment Year: 2015-2016**

From the words 'Mr. Tony has estates', it is presumed that he had grown Tea, Coffee and Rubber, and also Plants in his Estates, and the amount given is the Profits of the Business.

Computation of Taxable Income is as under —

Particulars	Agricultural Income	Non-Agricultural Income
Growing and Manufacture of Rubber [Rule 7A]	10,00,000 × 65% = ₹ 6,50,000	10,00,000 × 35% = ₹ 3,50,000
Grown and Cured Coffee [Rule 7B]	7,00,000×75% = ₹ 5,25,000	7,00,000 × 25% = ₹ 1,75,000
Growing and Manufactured of Tea [Rule 8]	14,00,000 × 60% = ₹ 8,40,000	14,00,000 × 40% = ₹ 5,60,000
Growing & Sale of Plant by Nursery [See Note]	₹ 2,00,000	—
Total	₹22,15,000	₹ 10,85,000
Taxable Income	Exempt u/s 10(1)	₹ 10,85,000

(iv) A firm of Cost Accountants earned a net profit of ₹ 8,00,000. Such profit is derived after charging interest @10% p.a. ₹ 2,00,000 and after charging remuneration of ₹ 8,00,000. There is unabsorbed depreciation of ₹ 2,00,000 and brought forward losses of ₹ 3,00,000. Determine the amount of taxable income of the firm.

Solution:

Computation of taxable income of the firm

Particulars	₹
Net Profit as per Profit & Loss Account	8,00,000
Interest paid partners is allowable expenditure	—
Remuneration as per books of accounts (refer notes)	(+)8,00,000
Profits & Gains from Business & Profession	16,00,000
Remuneration allowed to partners being minimum of the following: Maximum remuneration allowed to partners (note) ₹ 9,30,000	
Profits & Gains from Business & Profession	8,00,000
Less : Brought Forward Loss	3,00,000
Less : Unabsorbed depreciation	2,00,000
Taxable Profits & Gains from Business & Profession	3,00,000

Working Note:

Computation of allowable remuneration to Partners

Profits & Gains of Business & profession after interest But before remuneration	₹ 16,00,000
Less : Unabsorbed depreciation	₹ 2,00,000
Book Profit for the purpose of computation of remuneration	₹ 14,00,000
Maximum Remuneration allowed to partners (3,00,000 x 90% + 11,00,000 x 60%)	₹9,30,000

Question 8:

(i) 'G' was born in England in 1966. His father was born in America in 1936. 'G's' grandfather was born in Labore in 1916. Will 'G' be a Resident in India if he visits India for 180 days during the previous year 2014-15.

Answer:

No. G is a person of Indian origin as his grandfather was born in Lahore in 1916 i.e., in undivided India and therefore, the second condition is not applicable in his case and the first condition is not satisfied as he visits India for less than 182 days.

(ii) Mr. A is to receive Interest from a Notified Infrastructure Debt Fund eligible for exemption u/s 10(47) of ₹6,00,000. Mr. A is a Resident of Notified Jurisdictional Area u/s 94A. Explain the tax treatment in the hands of Mr. A.

Answer:

Computation of Tax Payable on the Interest

Particulars	₹
Interest Income received from a Notified Infrastructure Debt Fund	6,00,000
Tax @ 5% u/a 115A since the Fund is eligible for exemption u/s 10(47)	30,000
Add: Education Cess @ 2%	600
Add: Secondary and Higher Education Cess @ 1%	300
Total Tax Payable on the Interest Income	30,900

Note: TDS shall be deducted at the rate of 30% u/a 94A, since the Income is received by a Resident in Notified Jurisdictional Area. Since the provisions of Sec. 94A contain a non-obstante clause, the rate of 30% u/a 94A shall be applied as against the rate of 5% as specified u/s 194LB. However, Mr. A is eligible for refund of excess tax deducted by way of TDS.

(iii) State the consequences if Firm fails to fulfill condition under section 184 of the Income Tax Act, 1961.

Answer:

The following are the consequences when the Firm is – (a) assessed u/s 144, (Best Judgment) or (b) fails to fulfill the conditions u/s 184 –

(a) In the hands of Firm: No deduction shall be allowed in respect of any payment of Interest, Salary, Bonus, Commission or Remuneration made by such Firm to any of its Partners u/s 40(b).

(b) In the hands of Partners: Interest, Salary, Bonus, Commission or Remuneration disallowed as above, shall not be treated as Income u/s 28(v).

Note: When a Firm fails to fulfill the conditions u/s 184, it shall not be assessed as an AOP. It shall only be assessed as a Firm subject to above provisions.

(iv) Ellumurate the steps in computation of total income of a Partnership Firm.

Answer:

Step 1: Determine the Residential Status of the Firm u/s 6(2).
Step 2: Determine the Income chargeable to tax u/s 5.
Step 3: Compute the Total Income of the Firm.
Step 4: Compute Tax Liability at 30% Plus Education Cess @ 2% Plus SHEC @ 1%.
Step 5: Consider the application of AMT, and the final amount of Tax Payable.

(v) A Farmer, being Resident of Jaipur, sold his Rural Agricultural Land situated in Nepal and received Indian Rupees 2 Lakh over the cost of acquisition of this land. Explain the taxability of the sale.

Answer:

1. Principle: U/s 2/(14), only Rural Agricultural Lands in India are not a Capital Asset.
2. Analysis and conclusion: In the given case, the farmer has sold Rural Agricultural Lands in Nepal. Therefore, the transaction attracts Capital Gains as the sale falls under the definition of Capital Gain.
   Hence, the amount of LTCG of ₹ 2 lakhs.

(vi) What are the incomes exempted under the hand of Political Parties?

Answer:

Exempted Incomes: The following Incomes are exempt from tax:

(a) Income from House Property;
(b) Income from Other Sources;
(c) Voluntary Contributions received;
(d) Capital Gains.

Question 9:

(i) Mr. Parekh is an employee of XYZ Ltd. getting a salary of ₹ 40,000 per month which is 'due' on the last day of the month but is paid on the 5th of next month. He is paid the salary of April, 2015 and May, 2015 in advance in March, 2015. What will be his gross income for the assessment year 2015 – 2016?

Answer:

Income from salary is taxable on due or receipt basis whichever is earlier. Salary for the months of April, 2014 to March, 2015 will be taxable on 'due' basis. However, salary paid in advance in the months of March, 2015 for the months of April and May, 2015 will also be included in the income of the previous year 2014–15 because the same has been paid in March, 2015 although it is not 'due.' The gross income shall be as under:

	₹
Salary for the months April, 2014 to March, 2015 (40,000 × 12) Advance salary of April and May, 2015 received in March, 2015 (40,000 × 2)	4,80,000 80,000
	5,60,000

(ii) Explain in brief, the treatment as to their taxability and/ or allowability, under the Income-Tax Act, 1961, in the ' following case: S Ltd receives a sum of ₹10 Lakhs from K Ltd, for agreeing not to carry on any business relating to Computer Software in India for the next three years which was received on 3rd January.

Answer:

The tax treatment is viewed from two angles, i.e. Payee and Payer, as under

1. Taxability of receipt for S Ltd: By virtue of Sec. 28(va), the above receipt is taxable under the head "Profit and gains of Business or Profession".
2. Allowability of Expense for K Ltd: Payments covered u/s 194J includes payments referred u/s 28(va), i.e. sum received for not carrying out any activity or not sharing any know-how, patent, etc. So, TDS has to be deducted at the rate of 10%. Otherwise, the expenditure will not be allowable as a deduction for K Ltd.

(iii) A Ltd lets out its property to B. B sub-lets it. How is the sub-letting receipt will assessed in the hands of B?

Answer:

If sub-letting is in the ordinary course of business, such Income is taxable under the head "Profits and Gains of Business or Profession". Otherwise, it will be taxable under the head "Income from Other Sources".

(iv) Mr. Rupesh Sharma, an IFS, was posted to USA by the Government of India on 11.07.2014 for a period of 3 years. He was paid salary of ₹ 6 Lakhs for the period 01.04.2014 to 01.07.2014 and of ₹20 Lakhs for period upto 31.03.2015. He left India for USA in the night of 10.07.2014 and did not come even for a day until 31.03.2015. Examine the taxability of the above Income.

Answer:

1. Principle:
   (a) U/s 9 (1) (iii), Salaries paid by Government of India to an Indian Citizen for services rendered outside India shall be deemed to accrue or arise in India, and is hence taxable in India, irrespective of whether he is a Resident or Non-Resident in India during the Relevant Previous Year.
   (b) U/s 10 (7), Allowance or perquisites provided by the government of India to an Indian Citizen for services rendered outside India, is fully exempt from tax.
2. Conclusion: In the above case, the entire salary of ₹ 26 lakhs of Mr. Ravi who appointed by the government of India is taxable in India as salaries u/s 9(1) (iii).

(v) What are the advantages while computing arm's length price Transactional Net Margin Method?

Answer:

- It is based on Net Margins are less affected by Transactional differences.
- The Net Margins are also more tolerant to Functional Differences between Controlled and Uncontrolled transactions than Gross Profit Margins
- It is not necessary to determine the Functions performed and responsibilities assumed by more than one of the associated enterprises.
- It is favorable where one of the parties to the transaction is Complex and has many Inter-related activities or when it is difficult to obtain reliable information about one of the parties.

(vi) What are the methods in computation of arm's length pricing in relation to International Transaction/specified Domestic Transactions?

Answer:

Methods of Computation [Sec.92C & Rule 10B]: ALP in relation to an International Transaction / Specified Domestic Transaction shall be determined by any of the following methods -

(a) Comparable Uncontrolled Price Method,
(b) Resale Price Method,
(c) Cost Plus Method,
(d) Profit Split Method,
(e) Transactional Net Margin Method,
(f) Other method prescribed by CBDT. (Note)

Question 10:

(i) The W.D.V. of the block of assets as on 1.4.2014 was ₹ 10 lacs. Rate of Depreciation @ 15%. An asset of the same block was acquired on 11.5.14 for ₹ 6 lacs. There was a fire on 18.9.2014 and the assets were destroyed by fire and the assessee received a sum of ₹ 24 lacs from the insurance company. Compute the Capital Gain assuming:

(a) All the assets were destroyed by fire
(b) Part of the block was destroyed by fire

Would your answer differ if the assessee received ₹14,00,000 from insurance company assuming:

(a) All the assets were destroyed by fire
(b) Part of the block was destroyed by fire

Solution :
If Compensation received ₹ 24,00,000
Block of Assets u/s 2(11)

	Particulars	All assets destroyed	Part of Block destroyed
1.4.14	W.D.V. of the Block	10,00,000	10,00,000
	Add : Cost of New Asset purchased relating to the Block	6,00,000	6,00,000
		16,00,000	16,00,000
	Less : Compensation received	24,00,000	24,00,000
	Short Term Capital Gains	8,00,000	8,00,000
		u/s 50(2)	u/s 50(1)

If Compensation Received ₹ 14,00,000
Block of Assets u/s 2(11)

	Particulars	All assets destroyed	Part of Block destroyed	
1.4.14	W.D.V. of the Block	10,00,000	10,00,000	
	Add : Cost of New Asset purchased relating to the Block	6,00,000	6,00,000	
		16,00,000	16,00,000	
	Less : Compensation received	14,00,000	14,00,000	
	Short Term Capital Loss	2,00,000	2,00,000	= WDV (Depreciation to be charged on WDV)
	Less : Depreciation @ 15%	u/s 50(2)	30,000	
			1,70,000	

(ii) Rahim acquired a plot of land on 1.06.75 for ₹ 6,00,000. He converts the plot into stock in trade of his real estate dealing business on 18.02.2007 when the fair market value of the plot was ₹35,00,000. The stock-in-trade is sold by him on 18.5.2014 for ₹ 40,00,000 (FMV as on 1.04.81 was ₹ 4,00,000 and FMV as on 1.4.1976 ₹4,50,000).

Solution :
The conversion of capital asset into stock-in-trade is treated as a transfer as per Sec. 2(47). Capital asset was converted into stock-in-trade on 18.2.2007 i.e. Previous Year 2006-07.
Computation of Capital Gains

	₹
Consideration for Transfer (FMV)	35,00,000
Less : Indexed Cost of Acquisition 6,00,000 × $\frac{519}{100}$	31,14,000
Long Term Capital Gains	3,86,000

Computation of Business Income

	₹
Sale Proceeds of HP	40,00,000
Less : FMV on the date of conversion	35,00,000
Business Income	5,00,000

When assets acquired by assessee prior to 1.4.1981:

Index cost of acquisition: (Fair market value on 1.4.1981 or cost of acquisition whichever is higher × Cost of Inflation Index for the year of transfer) ÷ 100

(iii) The Depository Account shows the following details of M's holdings:

Date of Credit	Particulars	Quantity
10.11.2001	**Shares of XYZ LTD. purchased in physical form on 10.11.2001 @ ₹ 20 per share**	**300**
30.11.2002	**Purchased dematerialised shares of Y Ltd. on 25.11.2002 @ ₹70 per share**	**500**
06.12.2004	**Shares of XYZ LTD. held in physical form, were got dematerialised on 01.12.2004**	

M sold 600 dematerialised shares on 6th June 2014 @ ₹ 250 per share. Brokerage is paid @2% of sale price. Compute Capital Gains.[Ignore the exemption available u/s10(38)]

Solution :

(a) Person Liable : The sale of shares held under dematerialized format with a depository is chargeable to tax as the income of the beneficial owner.

(b) Cost of Acquisition and period of holdings : The cost of acquisition and the period of holding shall be determined on FIFO Method. [Circular No. 768 dated 24.6.1998]

   (i) FIFO Method will be applied for each Account independently.

   (ii) When physical stock is dematerialized, the date of credit into the Depository Account shall be considered for the purpose of FIFO Method, but indexed cost of acquisition shall be computed on the basis of year of acquisition.

	₹
Consideration for Transfer	
600 Share @ ₹ 245 per share	1,47000
Less : Indexed Cost of Acquisition	
(i) $500 \times 70 \times \frac{1024}{447}$	(80,179)
(ii) $100 \times 20 \times \frac{1024}{426}$	(4,808)
Long Term Capital Gain	62,013

(iv) ABC & Co. is a partnership firm, consisting 3 partners A, B and C. The firm is dissolved on 31.12.14. The assets of the firm were distributed to the partners as under :

Particulars	Block of Machinery (given to P)	Stock (given to Q)	Land (given to R)
Year of acquisition	1990-91	2002-03	1978-79
Cost of acquisition (₹)	27,20,000	4,00,000	10,000
Market value as on 31.12.14	17,00,000	6,00,000	27,00,000
WDV as on 31.12.14	10,40,000	—	—
Value at which given to partners as per agreement	12,00,000	4,50,000	18,00,000
Market value as on 1.4.81	—	–	2,70,000

Compute the income taxable in the hands of the firm for the Assessment Year 2015-16. What shall be the cost of acquisition of such assets to the partners of the firm?

Solution :

Computation of Short Term Capital Gains on Block of Machinery

	₹
Sale consideration (i.e. the market value)	17,00,000
Less : Cost of Acquisition (WDV of the block)	10,40,000
Short Term Capital Gains	**6,60,000**

Income from Business (on transfer of stock)

	₹
Market value of stock	6,00,000
Less : Cost of Acquisition	4,00,000
Business Income	2,00,000

Computation of Capital Gains on transfer of land

	₹
Consideration for transfer	27,00,000
Less : Indexed cost of Acquisition : 2,70,000 × $\frac{1024}{100}$	27,64,800
Long Term Capital Gains	(64,800)

Cost of acquisition of assets to the partners

	₹
Partner "A"	12,00,000
Partner "B"	4,50,000
Partner "C"	18,00,000
Less : Indexed cost of Acquisition : 2,70,000 × $\frac{1024}{100}$	27,64,800
	6,85,200

Question 11:

(i) A holds 15,000 shares (10% of total share holding) in B Ltd. which he had purchased on 10.2.96 for ₹ 6,00,000. The company went into liquidation on 16.7.2014 and paid a sum of ₹ 20 per share in cash and an asset whose market value as on the date of distribution i.e. 5.10.14 was ₹ 21,20,000 to A. The accumulated profits of the company were ₹ 15 lacs.

(a) Compute the income of A for the A.Y. 2015-16 assuming that he has no other income.

(b) Compute the Capital Gain chargeable to tax if the asset of B Ltd. is sold by A for ₹ 25 lacs on 28.3.15.

Solution :

Computation of Capital Gains of Mr. A for the A.Y. 2015-16

	₹
(a) (i) Capital Gain on transfer of shares:	
Total consideration (15,000×20+21,20,000)	24,20,000
Less : Proportionate amount of deemed dividend (10% of ₹ 12,82,106)	(1,28,211)
Less : Indexed Cost of Acquisition 6,00,000 × $\frac{1024}{281}$	(21,86,477)
Long Term Capital Gains	1,05,312
(ii) Income from others Sources	
Dividend from Indian Company	Exempted
	1,05,312

(b) Capital Gain on transfer of asset (B Ltd.):	
Full Value of Consideration	25,00,000
Less : Cost of Acquisition (being the market value as on the date of distributions)	21,20,000
Short Term Capital Gains	3,80,000

Accumulated Profit = ₹ 15,00,000

Dividend tax @ 16.995% (15% + 10% + 2% Education cess + 1% SHEC)

Hence, the amount to be distributed plus tax @ 16.995%

on such amount should be ₹ 15,00,000

∴ Amount of tax = ₹ 15,00,000 x $\frac{16.995}{116.995}$ = 2,17,894

∴ Profits available for distribution = ₹ (15,00,000 – 2,17,894) = ₹ 12,82,106.

(ii) Ravi owns a residential house which was purchased by him in 1975 for ₹ 2,00,000. The FMV as on 1.4.81 was ₹ 1,80,000. This house is sold by him on 16.7.2014 for a consideration of ₹ 25,50,000. The brokerage and expenses on transfer was ₹ 75,000. Compute Capital Gains for the Assessment Year 2015-16.

If he invests ₹ 5,00,000 for purchase of a new house on 15.3.2015.

If the HP so purchased in 15.3.2015 is again sold in 21.10.15 for ₹ 9 lacs, what will be the tax liability?

Solution :

When assets acquired by assessee prior to 1.4.1981:

Index cost of acquisition: (Fair market value on 1.4.1981 or cost of acquisition whichever is higher × Cost of Inflation Index for the year of transfer) ÷ 100

Computation of Capital Gains for the A.Y. 2015-16

	₹
Consideration for transfer	25,50,000
Less : Expenses on transfer	(75,000)
Net Consideration	24,75,000
Less : Indexed Cost of Acquisition [2,00,000 x $\frac{1024}{100}$]	20,48,000
Long Term Capital Gain	4,27,000
Less : Exemption u/s 54	
Cost of New HP Purchased ₹ 5,00,000	
(exemption restricted upto the balance of LTCG)	(4,27,000)
Taxable Long Term Capital Gain	NIL

If the HP purchased in 15.3.2015 is again sold on 21.10.15 for ₹ 9 lacs, there arise Short Term Capital Gain. The cost of acquisition shall be adjusted to the extent of Long Term Capital Gain exemption already availed.

Computation of Capital Gains for the A.Y. 2015-16

	₹	₹
Consideration for transfer		9,00,000
Less : Cost of Acquisition		
Cost of purchase	5,00,000	
Less : Exemption u/s 54 availed during A.Y. 2015-16 now withdrawn	NIL	5,00,000
		4,00,000

(iii) Samdarshi acquired shares of G Ltd. on 15.12.99 for ₹5 lacs which were sold on 14.6.14 for ₹26 lacs. Expenses on transfer of shares ₹20,000. He invests ₹18 lacs in the bonds of Rural Electrification Corporation Ltd. on 16.10.2014.

(a) Compute Capital Gain for the Assessment Year 2015-16.

(b) State the period for which the bonds should be held by the assessee. What will be the consequences if such bonds are sold within the specified period?

(c) What will be the consequences if Samdarshi takes a loan against the security of such bonds?

Solution :

(a) **Computation of Capital Gains for the A.Y. 2015-16**

	₹
Consideration for transfer	26,00,000
Less: Expenses on Transfer	20,000
Net Consideration	25,80,000
Less: Index Cost of Acquisition (5,00,000 x $\frac{1024}{389}$)	(13,16,195)
Long-term Capital Gains	12,63,805
Less: Exemption u/s 54EC	12,63,805
Taxable Long-Term Capital Gain	NIL

(b) Samdarshi should not transfer or convert (otherwise than transfer) into money such bonds within 3 years from the date of their acquisition.
If these bonds are transferred or converted into money within 3 years, Capital Gain of ₹12,63,805 exempted earlier shall attract taxability towards Long-term Capital Gain of the Previous Year in which such asset is transferred or converted into money.

(c) If any loan is taken against security of such bonds, it shall be taxable as Long-term Capital Gains of the Previous Year in which such loan is taken against the security of such bonds.

(iv) P Ltd. owns an industrial undertaking manufacturing chemicals in Bangalore owns the following assets-

(a) Plant and Machinery (WDV ₹ 5 lacs) sold for ₹10 lacs.
(b) Building (WDV ₹ 12 lacs) sold for ₹ 50 lacs.
(c) Furniture and Fixtures (WDV ₹ 50,000) sold for ₹ 1,80,000
(d) Land cost of acquisition ₹ 5,00,000 during 1984-85 and sold for ₹ 30 lacs

The industrial undertaking was shifted as per policy of the Government from urban area to other area. The new assets acquired during the period 01.01.15 to 31.3.15 are as under:
Plant and machinery ₹ 20 lacs; Buildings ₹ 40 lacs.
Compute Capital Gain chargeable to tax for the Assessment Year 2015-16.

Solution :

Computation of Capital Gains for the A.Y. 2015-16

	₹	₹
Short-term Capital Gains on Depreciable assets		
(i) Plant & Machinery (10,00,000 – 5,00,000)	5,00,000	
(ii) Buildings (50,00,000 – 12,00,000)	38,00,000	
(iii) Furniture & Fixtures (1,80,000 – 50,000)	1,30,000	44,30,000
Long-term Capital Gains on Industrial Land :		
Consideration for transfer	30,00,000	
Less : Indexed Cost of Acquisition		
$5,00,000 \times \frac{1024}{125}$	(40,96,000)	(10,96,000)
Total Capital Gains		33,34,000
Less : Exemption u/s 54G		
Plant & Machinery	20,00,000	
Building	40,00,000	
	60,00,000	
but restricted to ₹ 33,34,000 [₹33,34,000 — 1,30,000, being STCG on furniture, not eligible for the purpose of claiming exemption u/s 54G]		32,04,000
Short Term Capital Gains (on furniture)		1,30,000

Question 12 :

(i) Mr. JK gets the following gifts during the Previous Year 2014-2015.

	Date of Gift	Name of the Donor	Amount of Gift (₹)
1.	**01.07.2014**	**Gift from R, a friend, by cheque**	**50,000**
2.	**01.09.2014**	**Cash gift from N, nephew**	**1,00,000**
3.	**01.12.2014**	**Gift of diamond ring on his birthday, by a friend, C**	**75,000**
4.	**15.12.2014**	**Cash gifts of ₹ 31,000 each made by four friends on the occasion of his marriage**	**1,24,000**
5.	**21.12.2014**	**Cash gift made by wife's sister on house opening ceremony**	**51,000**
6.	**15.01.2015**	**Cash gift from a close friend of father-in-law.**	**1,51,000**
7.	**31.01.2015**	**Cash gift made by great-grandfather**	**1,51,000**
8.	**01.02.2015**	**Cash gift received under the Will of a friend, who is seriously ill.**	**1,65,000**
9.	**15.02.2015**	**Cash gift made by a business friend on his birthday**	**51,000**
10.	**31.03.2015**	**Cash gifts made by three friends of ₹ 25,000 each**	**75,000**

Besides this, JK is engaged in the business of sale and purchase of retail goods.
He maintains no account books. Gross turnover from retail trading is ₹ 50,00,000.
Compute his total income for the Assessment Year 2015-2016.

Solution :

Computation of Taxable Income for the AY 2015-2016

Particulars	**Amount (₹)**
1. Income from retail trading business [Sec. 44 AD] (8% ₹ 50,00,000)	4,00,000
2. Income from Other Sources (money gifts):	
(i) Cash gift from a friend, by cheque	50,000
(ii) Cash gift from nephew, not covered by the definition of relative	1,00,000
(iii) Gift of diamond ring — Jewellery gift taxable	75,000
(iv) Cash gifts on the occasion of marriage are not chargeable even if such gifts are made by unrelated persons	—
(v) Cash gift made by wife's sister, a relative, not taxable	—
(vi) Cash gift by a friend of father-in-law, unrelated person	1,51,000
(vii) Cash gift made by great-grand father, a relative	—
(viii) Cash gift received under Will in contemplation of death of a friend	—
(ix) Cash gift made by a business friend on his birthday	51,000
(x) Cash gifts, made by three friends, of ₹ 25,000 each	75,000
Total Income	9,02,000

(ii) Suman purchased in 2004, 10,000 Shares of Power Ltd. for ₹ 5 Lakhs by borrowing money from a bank. He holds them as 'Investments'. He received dividend during the Previous Year 2014-15. He has paid interest of ₹ 85,000 on the loan to the bank during the Previous Year. Please advise Suman, how should he deal with these facts in computing his income?

Answer :

(a) In computation of total income under the Income Tax Act, the expenditure incurred in relation to income, which does not form part of Total Income, shall not be allowed as deduction. [Section 14A]

(b) Dividend Income is exempt u/s 10(34) and hence does not form part of Total Income. Therefore, the interest payment is not an allowable expenditure.

(iii) Ms. A widow of Mr. A received family pension of ₹20,000 during the assessment year 2015-16. Discuss the taxability of Family Pension.

Answer :

Family pension means pension received by the family members of the deceased employee. It is chargeable to tax under the head 'Income from Other Sources'.

Deduction u/s 57: Least of the following is allowed as a deduction -

(a) $33\frac{1}{3}$% of gross pension

(b) ₹ 15,000

Exemptions :

(a) Family pension received by family members of Army personnel who are recipient of gallantry awards [Section 10(18)].

(b) Family pension received by the widow or children or nominated heirs of a member of the armed forces (including para-military forces) whose death has occurred in the course of operational duties [Section 10(19)].

Conclusion:

Amount received		20,000
Less: Deduction		
- $33\frac{1}{3}$% of gross pension (20,000 x $33\frac{1}{3}$%) = 6,667		
- ₹ 15,000	15,000	6,667
		13,333

(iv) Discuss the taxability of gifts received by an Assessee.

Answer :

1. Applicability: Gifts received by Individual and HUF irrespective of Residential Status.
2. Taxability: Any sum of money, aggregate value of which exceeds ₹ 50,000, is received during the Previous Year without consideration, by an Individual or a HUF from any person(s) on or after 1.4.2007, then the whole of the aggregate of such sum will be taxable.
3. Exceptions:
   (a) Gifts received from the following persons not taxable -
   - From a relative, or
   - On the occasion of the marriage of the individual, or
   - Under a will or by way of inheritance, or
   - In contemplation of death of the payer, or
   - From any Local Authority, or
   - From any Fund/Foundation/University/Educational Institution or Hospital or other

Medical Institution or Trust or Institution referred u/s 10(23C), or

- From any Trust / Institution registered u/s 12AA, or
- By an HUF from its member.

(b) Gifts received in kind not taxable.

4. **Relative means:**
   (a) Spouse of the individual,
   (b) Brother or sister of the individual,
   (c) Brother or sister of the spouse of the individual,
   (d) Brother or sister of either of the parents of the individual,
   (e) Any lineal ascendant or descendant of the individual,
   (f) Any lineal ascendant or descendant of the spouse of the individual,
   (g) Spouse of the person referred to in clauses (b) to (f) above.

Question 13:

(i) Mrs. M holds 7% equity shares in B Ltd., where her married sister, Mrs. N also holds 14% equity shares. Mr. M is employed with B Ltd., without holding technical professional qualification. The particulars of their income for the Previous Year 2014-2015 are given as follows:

	Income of Mr. M	**Income of Mrs. M**
(a) Gross Salary from B Ltd.	**2,04,000**	**—**
(b) Dividend from B Ltd.	**—**	**12,000**
(c) Income from House Property	**1,80,000**	**—**

Solution :

Computation of Total Income of Mr. M & Mrs. M for the A.Y. 2015-2016

Particulars	**Mr. M (₹)**	**Mrs. M (₹)**
Gross Salary	2,04,000	
Taxable Salary to be included in the total income of Mrs M [Sec. 64(1)(ii)]	—	2,04,000
Add: Income from House Property	1,80,000	
Add: Income from Other Sources :	—	—
Dividends to Mrs. M, but under Sec. 10(34)exempt	—	Nil
Total Income	1,80,000	2,04,000

Note:

1. In the instant case, Mrs. M along with his sister holds substantial interest in B Ltd. and Mr. M does not hold professional qualification. Accordingly, remuneration of Mr. M has been included in the total income of Mrs. M.
2. If the requisite conditions of clubbing are satisfied, clubbing provision will apply even if their application results into lower incidence of tax.

(ii) Mr. B holds 5% shares in A Ltd., where his brother and nephew hold 11% and 6% shares, respectively. Mrs. B gets commission of ₹ 2,00,000 from A Ltd. for canvassing orders. She holds no technical/professional qualification. Mr. B earns income of ₹ 10,00,000 from sugar business.

Compute their Total Income for the Assessment Year 2015-16.

Solution :

Computation of Total Income for the AY 2015-16

Particulars of income	Mr. B (₹)	Mrs. B (₹)
Income from sugar business	10,00,000	—
Commission for canvassing orders from A Ltd.	—	2,00,000
Total Income	10,00,000	2,00,000

Note: In the instant case, Mr. B holds 5% and his brother holds only 11% shares in A Ltd. The total of their shareholding is less than 20%. They have no substantial interest.

Therefore, commission income is assessable as income of Mrs. B.

(iii) Mrs. Z is the owner of the business units A and B. A unit has been started with capital contribution from Mr. Z and B unit has been started out of capital contribution from Mrs. Z. The particulars of their income for the Previous Year 2014-2015 are as follows:

Particulars	**Mrs. Z (₹)**	**Mr. Z (₹)**
(i) Income from A unit	**—**	**(–) 9,00,000**
(ii) Income from B unit	**6,00,000**	**—**
(iii) Income from House Property	**—**	**3,75,000**

How would you assess them for the Assessment Year 2015-2016?

Solution:

(a) Mrs. Z is assessable on the profits from B unit. She cannot set-off the loss from A unit against the profits of B unit. Thus, she would be assessed on ₹ 6,00,000.

(b) The loss from A unit will be included in the total income of Mr. Z in view of Sec. 64(1)(iv). "Income" includes "loss" also. Mr. Z is entitled to set-off business loss of A's unit against Income from House Property. Thus, loss of ₹ 5,25,000 would be carried forward but could be set-off only against business profits.

Question 14:

(i) Mr. N discloses the following incomes for the Previous Year 2014-2015:

House Property	**Business or Profession**		**Capital Gains**		**Income from Other Sources**
(₹)	**Speculation (₹)**	**Non-speculation (₹)**	**STCG (₹)**	**LTCG (₹)**	
A 60,000	**P 4,00,000**	**X 6,00,000**	**C 7,00,000**	**F 8,00,000**	**Family pension 105,000**
B (-) 50,000	**S (-)3,00,000**	**Y (-) 4,00,000**	**D (-) 4,00,000**	**E (-)6,00,000**	**Loss (-) 60,000 letting out from machinery/plant**

Determine income under head of income for the A. Y. 2015-2016

Solution :

Aggregation of income under each head of income: A. Y. 2015-2016

House Property	Business or Profession		Capital Gains		Income from Other Sources
(₹)	Speculation (₹)	Non-speculation (₹)	STCG (₹)	LTCG (₹)	(₹)
A 60,000	P 4,00,000	X 6,00,000	C 7,00,000	F 8,00,000	Family pension 105,000
B (-)50,000	S (-)3,00,000	Y (-)4,00,000	D (-)4,00,000	E (-)6,00,000	Loss (-) 60,000 letting out machinery/ plant
10,000	1,00,000	2,00,000	3,00,000	2,00,000	45,000

(ii) A discloses the following incomes from business or profession for the Previous Year 2014-2015:

(a) Profit from X business ₹ 8,00,000
(b) Loss from Y business ₹ (-)2,00,000
(c) Loss from profession Z (-) ₹ 2,50,000
(d) Profit from speculation business – M ₹ 2,00,000
(e) Loss from speculation business – N ₹ (-)3,00,000

Determine the Income from Business or Profession for the Assessment Year 2015-2016

Solution :

Income from Business or Profession for the AY 2015-2016

Particulars	₹
(a) X	8,00,000
(b) Y	(-) 2,00,000
(c) Z	(-) 2,50,000
Total Income from Non Speculation Business and Profession	3,50,000
Income from Speculation Business	
(a) M	2,00,000
(b) N	(-) 3,00,000
Loss from Speculation Business	1,00,000

Speculation loss cannot be set-off against the income from business profit, though both of them fall under the same head of income.

Thus, taxable business profits for the Assessment Year 2015-2016 is ₹ 3,50,000. The speculation loss will be carried forward for future set-off for 4 Assessment Years, immediately succeeding the Assessment Year for which it was first computed [Sec. 73(4)].

The time-limit of 4 years is applicable from the Assessment Year 2016-2017 and subsequent year.

(iii) Mr. Samir submits the following information for the A.Y. 2015-16.

Particulars	₹
Taxable Income from Salary	**2,64,000**
Income from House property :	
House 1 Income	**37,000**
House 2 loss	**(53,000)**
Textile Business (discontinued on 10.10.2014)	**(20,000)**
Brought forward loss of textile business - A.Y. 2011-12	**(80,000)**
Chemical Business (discontinued on 15.3.2014)	
– b/f loss of Previous Year 2011-12	**(25,000)**
– unabsorbed depreciation of Previous Year 2011-12	**(15,000)**
– Bad debts earlier deducted recovered in July '2014	**40,000**
Leather Business	**62,000**
Interest on securities held as stock in trade	**10,000**

Determine the Gross Total Income for the Assessment Year 2015-16 and also compute the amount of loss that can be carried forward to the subsequent years.

Solution :

Computation of Gross Total Income A.Y. 2015-16

Particulars		₹	₹
I. Income from Salary			2,64,000
II. Income from House property :			
House 1 Income		37,000	
House 2 Loss		(53,000)	(16,000)
III. Profits and Gains of Business or Profession :			
(i) Textile business loss		(20,000)	
(ii) Chemical business – Bad debts recovered taxable u/s 41(4)	40,000		
Less : (i) Set off of brought forward loss of P.Y. 2010-11 u/s. 72	(25,000)	15,000	
		(5,000)	
(iii) Leather Business Income	62,000		
(iv) Interest on securities held as stock-in-trade	10,000	72,000	
		67,000	
Less: B/f business loss ₹ 80,000 restricted to		67,000	Nil
Gross Total Income			2,48,000

Notes :

1. The unabsorbed loss of ₹ 13,000 (80,000-67,000) of Textile business can be carried forward to A.Y. 2016-17 for set-off u/s. 72, even though the business is discontinued.
2. The unabsorbed depreciation of ₹ 15,000 is eligible for set-off against any income other than salary income. Since, Gross Total Income contains the balance of Income from Salary only,

unabsorbed depreciation cannot be adjusted, and hence, carried forward for adjustment in the subsequent years.

Question 15:

(i) Mr. N is employed at a gross salary of ₹ 12,00,000. He gets ₹ 18,000 interest on bank deposit. He has made the following investment/deposit during the year 2014-2015:

	₹
1. Life insurance premium:	
(a) Own life, insured for ₹ 80,000	**15,000**
(b) Brother's life, dependent on him	**5,000**
(c) Major son, not dependent on him	**4,000**
2. Contribution to unrecognised provident fund	**60,000**
3. Contribution to public provident fund	**20,000**
4. Contribution to ULIP	**5,000**
5. Repayment of loan to SBI to purchase a residential house: 50% repayment is towards interest.	**1,20,000**
He has paid education fees for his 3 children:	
A	**12,000**
B	**9,000**
C	**6,000**

Besides, interest of ₹ 1,632 on NSC-VIII, (purchased during the year 2008-2009) has been credited on them during the year 2014-2015.

Compute deduction u/s 80C for the Assessment Year 2015-2016.

Solution :

Computation of Deduction u/s 80C of Mr. N for the Assessment Year 2015-2016

Particulars	₹	₹
Deduction in respect of contribution to approved savings (Sec. 80C):		
1. Life insurance premium(assumed issued before 1st April, 2012);		
(i) Own life	15,000	
(ii) Brother's life	—	
(iii) Major son	4,000	
2. Contribution to unrecognised provident fund	—	
3. Contribution to ULIP	5,000	
4. Contribution to public provident fund	20,000	
5. Repayment of housing loan to SBI	60,000	
6. Accrued interest on NSC- VIII issue	1,632	
7. Education fees for two children:		
A	12,000	
B	9,000	
	1,26,632	
Deduction available upto ₹ 1,50,000		**1,26,632**

(ii) Mr. Jamal, a resident assessee, runs a manufacturing business in Delhi. For the Previous Year 2014-2015, he disclosed his Taxable Income as below:

Business Profits ₹ 2,55,000

Long-term Capital Gains ₹ 75,000

Short-term Capital Gain ₹ 25,000

He has hired furnished accommodation for his own use and pays ₹ 4,000 p.m. He has paid donation amounting to ₹ 10,000 to National Defence Fund. He has deposited ₹ 50,000 under a scheme framed by the Life Insurance Corporation for maintenance of his dependant brother with a disability. The disability is certified by the medical authority. Compute his Total Income for the Assessment Year 2015-2016.

Solution :

Computation of Total Income of Mr. Jamal — Assessment Year 2015-2016

Particulars	₹	₹
Income from Business (computed)		2,55,000
Long-term Capital Gain (computed)		75,000
Short-term Capital Gain (computed)		25,000
Gross Total Income		3,55,000
Deductions from Gross Total Income:		
(i) Deposit for maintenance of a dependent with disability [Sec. 80DD]	50,000	
(ii) Charitable donations to National Defence Fund [Sec. 80G]:		
Amount of Deduction @ 100% of ₹ 10,000	10,000	
	60,000	
(iii) Expenditure incurred on rent [Sec. 80GG] [W.N.1]	24,000	(84,000)
Total Income		2,71,000

Workings Note :

Particulars	₹	₹
Expenditure incurred on rent [Sec. 80GG]:		
• [Rent paid -10% of AGTI], i.e. 48,000 – 21,000 = 27,000, or		
• 25% of AGTI, i.e. 25% of 2,70,000 = 67,500, or		
• ₹ 2,000 p.m. = ₹ 24,000		
whichever is less, is to be deducted, i.e. ₹ 24,000		
Adjusted Gross Total Income for Sec. 80GG:		
Gross Total Income		3,55,000
Less: Aggregate of		
2. (i) All permissible deduction from GTI except for deduction for u/s 80GG	60,000	
(ii) Any Long-term Capital Gain	25,000	85,000
Adjusted Gross Total Income [AGTI] for Sec. 80GG		2,70,000

(iii) Mr. J is suffering with 60% locomotor disability which is certified by medical authority. He is employed as Technical Supervisor with Airtel at a salary of ₹ 40,000 p.m.

Particulars	**₹**
(a) Income from Government securities	**20,000**
(b) Long-term Capital Loss	**(-) 40,000**
(c) Short-term Capital Gain (Sec. 111A)	**1,00,000**
(d) Insurance commission (gross)	**1,00,000**
(e) Interest on Saving Fund A/c from Bank	**10,000**

He has incurred the following expenses:

(a) Medical insurance paid by cheque for his father, resident in India and 70 years ₹18,000.

(b) Deposit with LIC for maintenance of father, mainly dependant on him for support and maintenance and suffering from low-vision with a severe disability of 80%, as per certificate of the medical authority ₹1,00,000.

(c) Rent paid for the year 2014-2015 for accommodation hired by him ₹72,000.

Compute his Total Income for the Assessment Year 2015-2016.

Solution :

Computation of Total Income for the Assessment Year 2015-2016

Particulars	₹	₹
1. Income from Salaries		4,80,000
2. Income from Capital Gains :		
(a) Short-term Capital Gains (Sec. 111A)		1,00,000
(b) Long-term Capital Loss to be carried forward		Nil
3. Income from Others Sources :		
(a) Interest from Government securities	20,000	
(b) Interest on Savings Fund A/c with Bank	10,000	
(c) Insurance commission	1,00,000	1,30,000
Gross Total Income		**7,10,000**
Less : Deductions under Chapter VIA:		
Medical insurance (Sec. 80D)	18,000	
Deduction in respect of maintenance including medical treatment of a dependant, a person with severe disability (Sec. 80DD)	1,00,000	
Deduction in respect of Interest on Savings Fund A/c (Sec. 80TTA)	10,000	
Deduction in case of a person with disability (Sec. 80U)	50,000	
Deduction u/s 80GG :(Least of the followings)		
(a) (i) Rent paid less 10% of Adjusted Gross Total Income 72,000-53,200 = 18,800,		
(b) (ii) 25% of 5,32,000 Adjusted Gross Total Income= 1,33,000, (iii) 2,000 p.m. × 12 = 24,000		
Whichever is less, is or be deducted	18,800	1,96,800
Total Income		**5,13,200**

Adjusted Total Income = GTI – all deduction available except deduction available u/s 80GG
= 7,10,000 – 18,000 – 1,00,000 – 10,000 – 50,000
= 5,32,000

(iv) From the following details compute the Total Income of Mr. X, a resident of Delhi, for the A.Y. 2015-16.

Particulars	₹
(a) Salary including Dearness Allowance	**6,00,000**
(b) Bonus	**60,000**
(c) Contribution to a Recognised Provident Fund	**36,000**
(d) Life Insurance Premium	**57,000**
(e) Rent paid by the Employer for flat provided to Mr. X	**90,000**
(f) Cost of Furniture provided by the employer at the aforesaid flat	**80,000**

(g) Rent recovered from Mr. X by employer	**36,000**
(h) Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	**18,000**
(i) Mr. X was provided with Company's car (with driver) also for personal use, not possible to determine expenditure on personal use and all expenses were borne by the employer.	

Particulars	**₹**
Mr. X owns a house. The particulars are :	
Rent received (12 months)	**72,000**
Municipal valuation	**48,000**
Municipal taxes paid	**12,000**
Insurance charges	**1,000**
Collection charges	**3,400**
Interest on borrowing used for construction of house (constructed in June 2004)	**48,000**
Other Information :	
Dividend received from UTI	**14,000**
Deposits under National Saving Certificate	**20,000**

Solution :

Assessee : Mr. X

Previous Year : 2014-15 **Assessment Year : 2015-16**

Computation of Total Income

Particulars	₹	₹
Income under the head Salary:		
Salary including Dearness Allowance		6,00,000
Bonus		60,000
Gross Salary before including value of perquisites		6,60,000
Value of Concessional Furnished Accommodation [Rule 3(1)]		
Least of Rent Paid by employer		
[₹ 90,000 or 15% of Salary ₹ 7,70,000]	90,000	
Add : 10% of Furniture Value [₹ 80,000 × 10%]	8,000	
Less : Rent recovered from Mr. X	(36,000)	62,000
Gas, Electricity and Water provided by the employer		18,000
Motor Car provided to the employee for use (assumed capacity upto 1.6 liitres) [(₹ 1,800 p.m. + ₹ 900 p.m. for chauffeur) × 12 Months)] as per Rule 3		32,400
Gross Income from Salary		7,72,400
Income from House Property :		
Gross Annual Value u/s 23(1)- Higher of Municipal Value ₹ 48,000 or Rent Received ₹ 72,000	72,000	
Less : Municipal Taxes paid	(12,000)	
Net Annual Value	60,000	
Less : Deduction		
Standard deduction @ 30% of Net Annual Value u/s 24(a)	(18,000)	
Interest on borrowed capital u/s 24(b)	(48,000)	(6,000)

Income from Other Sources :		
Income from UTI	14,000	
Exemption u/s 10(35)	(14,000)	Nil
GROSS TOTAL INCOME		7,66,400
Less : Deduction under Chapter VIA - Section 80C		
- Contribution to RPF	36,000	
- LIC Premium	57,000	
- Deposits in NSC	20,000	
	1,13,000	
Deduction u/s 80C restricted to ₹ 1,50,000 [Sec. 80CCE]		(1,13,000)
Total Income (Rounded Off u/s 288A)		6,53,400

Question 16:

(i) The books of account maintained by a National Political Party registered under the Representation of the People Act, 1951 for the year ended on 31-3-2015 disclose the following receipts:

(a) Rent of property let out to a departmental store at Chennai ₹12,00,000
(b) Interest on deposits other than banks ₹3,00,000
(c) Contribution from 100 persons (who have secreted their names) of ₹35,000 each ₹ 35,00,000
(d) Contribution @ ₹ 25 each from 1,00,000 members in cash ₹25,00,000
(e) Net Profit of cafeteria run in the premises at Delhi ₹5,00,000

Compute the total income of the political party for the Assessment Year 2015-2016, with reason for inclusion or otherwise.

Solution :

Computation of income of National Political Party for the AY 2015-2016.

	Particulars	₹
(a)	Rent from property: Exempt under Sec. 13A	—
(b)	Income from Business—Profits of cafeteria	5,00,000
(c)	Income from Other Sources:	
	(i) Interest on deposit other than banks: Exempt under Sec. 13A	—
	(ii) Contributions from 100 persons exceeding ₹ 20,000 each (See Note below)	35,00,000
	(iii) Contributions from 1,00,000 members: Exempt Sec. 13A.	—
	Total Income	**40,00,000**

Note : Any income of a political party received by way of voluntary contributions is exempt, provided:

(a) it keeps and maintains such books of account and other documents as would enable the Assessing Officer to properly deduce its income there from;

(b) it keeps and maintains a record, name and address of the person who has contributed in excess of ₹ 20,000; and

(c) its accounts are audited by an accountant defined in Explanation to Sec. 288(2).

Thus, in order to claim exemption in respect of voluntary contributions exceeding ₹ 20,000, a political party is required to keep and maintain a record, and names, addresses of persons who have made such contributions. The legislative intention is to ensure that there is transparency in the process of collection of funds [Common Cause vs. Vol. 222 ITR 260 (SC)]. Hence, no exemption can be allowed in respect of contributions exceeding ₹ 20,000 from persons who have secreted their names.

(ii) AB & Co., a partnership concern had established an undertaking for manufacturing computer software in Special Economic Zone. It furnishes the following particulars of its second year operations, ended on 31-03-2015:

Particulars	₹ (in lakh)
Total Sales of business	200.00
Export Sales	160.00
Profit of the business	20.00

Out of the total export sales, realisation of sale of ₹ 10 lakh is difficult because of the deficiency of the buyer. Realisation of rest of the sales is received in time.

The plant and machinery used in the business had been depreciated @ 15% on SLM basis of depreciation and depreciation of ₹ 4.5 lakh was charged to the Profit and Loss Account.

Compute the taxable income of AB & Co for the Assessment Year 2015-2016.

Solution:

Computation of Taxable Income for the A.Y. 2015-16

Particulars	₹ (in lakh)
Profit of business	20,00,000
Add : Depreciation charged on SLM basis	4,50,000
	24,50,000
Less: Depreciation on WDV basis @ 15% of 25,50,000 –[See Note below]	3,82,500
	20,67,500
Less: Deduction under Sec. 10AA : 20,67,500 × 75 ÷100	15,50,625
Taxable Income	5,16,875

Note :

1. Computation of Depreciation:

	₹
Total purchase price of machine : [4,50,000 ÷15] × 100	30,00,000
Less: Depreciation in the first year @ 15%	4,50,000
WDV at the end of first year	25,50,000
Less: Depreciation for second year @ 15%	3,82,500
WDV at the end of second year	21,67,500

2. Export Turnover:

Export Sales	1,60,00,000
Less: Remittance not received due to insolvency of buyer	10,00,000
	1,50,00,000

(iii) B Ltd. grows sugarcane to manufacture sugar. The data for the financial year 2014-15 is as follows :

Cost of cultivation of sugarcane	**₹ 7,00,000**
Market value of sugarcane when transferred to factory	**₹ 12,00,000**
Other manufacturing cost	**₹ 7,00,000**

Sales of sugar **₹ 30,00,000**
Salary of Managing Director who looks after all operations of the Company **₹ 5,00,000**
Determine its Business Income and Agricultural Income.

Solution :

(1) **Business Income :**

Sales of Sugar	₹ 30,00,000
Less: Market value of sugarcane when transferred to factory	₹ 12,00,000
Other manufacturing cost	₹ 7,00,000
Salary of Managing Director	₹ 5,00,000
	₹ 6,00,000

(2) **Agricultural Income :**

Market value of sugarcane when transferred to factory	₹ 12,00,000
Less: Cost of cultivation	₹ 7,00,000
	₹ 5,00,000

(iv) Mr. P has estates in Rubber, Tea and Coffee. He has also a nursery wherein he grows plants and sells. For the Previous Year ending 31.3.2015, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the Assessment Year 2015-2016:

Manufacture of Rubber	**₹ 20,00,000**
Manufacture of Coffee grown and cured	**₹ 7,00,000**
Manufacture of Tea	**₹ 10,50,000**
Sale of Plants from Nursery	**₹ 2,00,000**

Solution :

Computation of Taxable Income for the Assessment Year 2015-16

Rule	Nature of Business	Agl Inc.	Non-Agl Inc.
7A	Sale of centrifuged latex or cenex manufactured from rubber [65% is Agricultural Income]	13,00,000	7,00,000
7B	Sale of grown and cured coffee by seller in India [75% is Agricultural Income]	5,25,000	1,75,000
8	Growing and Manufacturing Tea [60% is Agricultural Income]	6,30,000	4,20,000
	Sale of plants from nursery	2,00,000	-
	Total	26,55,000	12,95,000

Computation of Tax Liability :

	₹
(a) Total Income (Agricultural Income + Non-agricultural Income)	39,50,000
(b) Tax on (a) above	10,10,000
(c) Total of (Agricultural Income + Basic Exemption Limit)	29,05,000
(d) Tax on (c) above	6,96,500
(e) Tax Payable (b) – (d)	3,13,500
Add: Education Cess @ 2%	6,270
Add: SHEC @ 1%	3,135
Total Tax Liability	3,22,905
Tax payable rounded off u/s 288B	3,22,910

Question 17:

(i) The following is the extract Profit and Loss Account for the year ended 31.3.2015 of ABC (LLP) having 3 partners :

Dr. Extract Profit and Loss Account for the year ended 31.3.2015 Cr.

	₹	₹		₹	₹
Establishment & other expenses		50,00,000	Gross Profit		70,20,000
Interest to partner @ 15%			Profit on sales of equity shares sold after 2 years through Recognized Stock Exchange		1,40,000
A	90,000				
B	1,20,000				
C	60,000	2,70,000	Rent from house property		60,000
Salary to designated partners			Interest on bank deposits		10,000
A	2,40,000		Profit on equity shares sold after 10 months through Recognized Stock Exchange		1,20,000
B	1,80,000				
		4,20,000			
Net Profit		16,60,000			
		73,50,000			73,50,000

Additional information:

(1) Establishment expenses include ₹ 1,20,000 on account of bonus which was due on 31.3.2015.

(2) The LLP is eligible for 100% deduction under section 80-IC as it is established in notified area in Himachal Pradesh.

(3) Shares were sold through recognized stock exchange and securities transaction tax of ₹1,000 is included in the establishment expenses on account of the same.

Compute the tax payable by the Limited Liability Firm.

Solution:

Computation of Total Income of ABC (LLP) for the A.Y. 2015-16

Particulars	₹	₹	₹
Income under the head House Property			
Actual Rent		60,000	
Less : Deduction 30%		18,000	42,000
Business Income			
Net Profit as per P&L A/c		16,60,000	
Less : Income credited but either exempt or taxable under other head			
- Rent	60,000		
- Profit on sale of shares sold after 2 years	1,40,000		
- Interest on bank deposit	10,000		
- Profit on sale of shares sold after 10 months	1,20,000	3,30,000	
		13,30,000	
Add : Expenses disallowed			
Bonus as per section 43B	1,20,000		
Securities Transaction Tax	1,000		
Interest to partners in excess of 12%	54,000		

Salary to partners	4,20,000	5,95,000	
Book Profit		19,25,000	
Less : Salary as per section 40(b) (See working note)		4,20,000	15,05,000
Short-term Capital Gain on sale of equity shares			1,20,000
Income from Other Sources			10,000
Gross Total Income			16,77,000
Less : Deduction under section 80-IC		15,05,000	
Deduction under section 80TTA [Assumed interest is from Savings Account]		10,000	15,15,000
Total Income			**1,62,000**

Regular Income Tax Payable on Total Income

(1)	Short-term Capital Gain of ₹ 1,20,000 @ 15%	18,000
(2)	Balance total income ₹ 42,000 @ 30%	12,600
		30,600

Adjusted Total Income	
Total Income	1,62,000
Add: Deduction u/s Chapter VIA	15,05,000
	16,67,000

Where the regular Income Tax payable for a Previous Year by a person (other than a company) is less than the Alternate Minimum Tax payable for such Previous Year, the Adjusted Total Income shall be deemed to be the total income of such person and he shall be liable to pay Income-tax on such Total Income at the rate of 18.5% [Section115JC (1)]

To whom Alternate Minimum Tax shall be applicable [Section 115JEE (1)]

The provisions of Alternate Minimum Tax shall apply to a non-corporate assessee who has claimed any deduction under:

(a) Sections 80-IA to 80RRB other than section 80P; or

(b) Section 10AA; Or

(c) Section 35AD

Alternate Minimum Tax (AMT) @18.5% on ₹ 16,67,000 = ₹ 3,08,395 [Higher of ₹ 30,600]

Hence, adjusted total income shall be total income and the tax payable shall be the Alternate Minimum Tax *i.e.* on ₹ 16,67,000 @ 18.5% + 3% (EC + SHEC).

Tax Payable

	₹
Alternate minimum tax 18.5% on ₹ 16,67,000	3,08,395
Add : 3% Education Cess & SHEC	9,252
	3,17,647
Rounded off	3,17,650
Working Note	
1. Book Profit	19,25,000

Maximum salary allowed	
First 3,00,000 of book Profit — 90%	2,70,000
Balance ₹ 16,25,000 of book Profit 60%	9,75,000
	12,45,000

Salary allowed shall be ₹ 12,45,000 or ₹ 4,20,000 whichever is lower i.e. ₹ 4,20,000.

2. Long term Capital Gains arising from transfer of Equity Shares through Recognized Stock Exchange, on which STT is paid, is exempted from Tax [Sec.10(38)]

(ii) Shivam Charitable Trust submits the particulars of its receipts and outgoing during the Previous Year 2014-2015 as below :

1	**Income from property held under trust for charitable purposes**	**₹ 30,00,000**
2	**Voluntary contribution (out of which ₹ 7,50,000 will form part of the corpus)**	**₹ 22,50,000**
3	**Donations paid to blind charitable school**	**₹ 9,00,000**
4	**Scholarship paid to poor students**	**₹ 6,00,000**
5	**Amount spent on holding free eye camps in urban slums**	**₹ 4,50,000**
6	**Amount set apart for setting up an old age home by March 2017**	**₹ 15,00,000**

Compute the total income of the trust for the Previous Years 2014-2015 and 2017-2018 if it spends ₹ 3,00,000 during the Previous Year 2016-2017 and ₹ 5,00,000 during the Previous Year 2017-2018 in setting up the old age home.

Solution :

(a) Computation of the Taxable Income of the trust for Previous Year 2014-2015/AY 2015-2016.

	₹	₹
(a) Income from property held under charitable trust		30,00,000
(b) Income from voluntary contributions (₹ 22,50,000 - ₹ 7,50,000)		15,00,000
Total		45,00,000
Less : 15% set apart for future application		6,75,000
Balance		38,25,000
Less: Income applied for charitable purposes:		
(i) Donations to blind charitable school	9,00,000	
(ii) Scholarship to poor students	6,00,000	
(iii) Free eye camps in urban slums	4,50,000	
Total	19,50,000	
Amount set apart for old age home	15,00,000	34,50,000
Taxable Income		3,75,000

(b) Previous Year 2017-2018 /AY 2018-2019:

	Amount set apart for old age home	₹15,00,000
Less :	1. Amount spent during 2016-2017	₹ (3,00,000)
	2. Amount spent during 2017-2018	₹ (5,00,000)
	Taxable Income	₹7,00,000

(iii) Mr. Bala Cooperative Society Ltd. furnishes the following particulars of its income for the Previous Year ended on 31st March 2015:

(i)	**Interest on Government securities**	**60,000**
(ii)	**Profits from banking business**	**5,50,000**
(iii)	**Income from purchase and sale of agricultural implement and seeds to its members**	**2,50,000**
(iv)	**Income from marketing of agricultural produce of its members**	**4,00,000**
(v)	**Profits and gains of business**	**2,20,000**
(vi)	**Income from cottage industry**	**3,50,000**
(vii)	**Interest and dividends (gross) from other cooperative societies**	**30,000**

Compute Total Income of the society and calculate the Tax Payable by it for the Assessment Year 2015-2016.

Solution :

Dinesh Pally Co-operative Society Ltd.

Computation of income of the for the Previous Year 2014-2015 relating to the Assessment Year 2015-2016 :

Particulars	₹	₹
1. Profits and Gains of Business or Profession:		
a) Banking business	5,50,000	
b) Income from purchase and sale of agricultural implements and seeds to its members	2,50,000	
c) Income from marketing of agricultural produce of its members	4,00,000	
d) Profits and gains of business	2,20,000	
e) Income from cottage industry	3,50,000	17,70,000
2. Income from Other Sources:		
a) Interest on Government securities	60,000	
b) Interest and dividends from other cooperatives	30,000	90,000
Gross Total Income		18,60,000
Less: Deduction allowable from gross total income under Sec. 80P		
1. Banking business [Assumed it is a Rural Development Bank]	5,50,000	
2. Income from purchase and sale of agricultural implement and seeds to its members	2,50,000	
3. Income from marketing of agricultural produce of its members	4,00,000	
4. Income from cottage industry	3,50,000	
5. Interest on Government securities(not eligible for deduction)	Nil	
6. Interest and dividends from other cooperative societies	30,000	15,80,000
Total Income		2,80,000

Computation of Tax Liability :

Particulars	**Rate**	₹
On first ₹ 10,000	10%	1,000
On next ₹ 10,000	20%	2,000
On balance ₹ 2,60,000	30%	78,000
Income Tax Payable		81,000
Add: Education cess @ 2%		1,620
Add: SHEC @ 1%		810
Tax Payable		**83,430**

Note: It is assumed that the provisions of Alternate Minimum Tax are not applicable.

Question 18:

(i) The total income of MS. Kavita for the assessment year 2015-16 is ₹ 1,01,50,000. Compute the tax payable by MS. Kavita for the assessment year 2015-16.

Solution :

		₹
Tax on ₹ 1 crore		
On first ₹ 2,50,000		Nil
Next ₹ 2,50,000 — 10%		25,000
Next ₹ 5,00,000 — 20%		1,00,000
Balance ₹ 90,00,000 — 30%		27,00,000
Tax on ₹ 1,50,000 which is above ₹ 1 crore		28,25,000
₹ 1,50,000 @ 30%		45,000
Total tax		28,70,000
Additional income above ₹ 1 crore	1,50,000	
Tax payable	45,000	
Balance income	1,05,000	
Surcharge on ₹ 28,70,000 @ 10% — ₹ 2,87,000		
∴ Surcharge in this case shall be ₹ 1,05,000 or ₹ 2,87,000 whichever is less due to marginal relief		1,05,000
Tax including surcharge		29,75,000
Add: Education cess & SHEC @ 3%		89,250
Tax Payable		30,64,250

Alternatively:

	₹
Tax on ₹ 1 crore	
On first ₹ 2,50,000	Nil
Next ₹ 2,50,000 — 10%	25,000
Next ₹ 5,00,000 — 20%	1,00,000
Balance ₹ 91,50,000 — 30%	27,45,000
	28,70,000
Add: Surcharge @ 10%	2,7,000
(a)	31,57,000
Tax on ₹ 1,00,00,000	28,25,000
Add: Income over ₹ 1 crore	1,50,000
(b)	29,75,000
Tax [(a) or (b) whichever is lower]	29,75,000
Add: Education Cess & SHEC @ 3%	89,250
Tax payable	30,64,250

(ii) C, the Karta of a Hindu Undivided Family, was appointed as the treasurer of a private sector bank on his furnishing security of the family property valued at ₹ 3,00,000, as required by the service rules of the bank. C does not own any self-acquired property.

(a) Discuss how the remuneration of C as the treasurer should be assessed.

(b) Will your answer be different if C had joined a partnership firm as a partner by contributing family funds of ₹ 30,000.

Solution:

(i) Remuneration from bank cannot be treated a return on the security of family property, pledged with the bank to secure the continuity of service. It cannot be treated as income of the HUF.
Remuneration is a compensation for services rendered by C, in his personal capacity on account of personal qualifications. C is assessable on remuneration as income from "salary". He can claim standard deduction under Sec. 16.

(ii) Membership of partnership has been obtained because of HUF funds and not because of personal skill or qualification of C. Therefore, any income from partnership firm will be treated as income of the HUF.

Question 19:

(i) Classic Exporters Ltd, runs a new industrial undertaking set up in 2006-2007 which satisfies the conditions of Sec. 80-IB. Given below is the extract Profit and Loss Account for the Previous Year 2014-2015 :

Particulars	₹	Particulars	₹
Stock	6,00,000	Domestic sales	27,00,000
Purchases	23,00,000	Export sales	43,00,000
Salaries and wages	9,70,000	Export incentives Sec. 28(iiia)/(iiic)	50,000
Entertainment expenses	1,30,000	Profit of foreign branch	2,50,000
Freights and insurance attributable to exports	6,00,000	Brokerage/commission/interest/ rent, etc	1,50,000
Travelling expenses	2,20,000	Transfer from contingency reserve	10,00,000
Depreciation	1,50,000	Stock	4,50,000
Selling expenses	1,20,000		
Income tax paid	90,000		
Income-tax penalty	20,000		
Wealth tax paid	10,000		
Custom duty payable against demand notice	30,000		
Provision for unascertained liabilities	20,000		
Provision for ascertained liabilities	50,000		
Proposed dividend	3,00,000		
Loss of subsidiary company	50,000		
Net Profit	32,40,000		
	89,00,000		89,00,000

You are further informed:

(a) Excise duty for 2013-2014, amounting ₹ 1,20,000 was paid on 15th December 2014.

(b) Depreciation under Sec. 32 is ₹ 2,20,000.

(c) During the year 2010-2011, contingency reserve, amounting ₹ 10,00,000, debited to Profit and Loss A/c, was added back to the extent of ₹ 4,00,000 in the computation of Book-Profits. The company has transferred the said reserve to the Profit and Loss A/c during the year.

(d) Brought forward business loss/depreciation:

PY	Accounting purposes		Tax purposes	
	Loss	Depreciation	Loss	Depreciation
2010-2011	(-) 10,00,000	(-) 1,00,000	(-) 5,00,000	(-) 2,50,000
2011-2012	(-) 2,00,000	(-) 3,00,000	(-) 1,00,000	(-) 2,00,000

Compute the following: (a) Total Income, (b) Book-Profits and (c) Tax Liability.

Solution :

(a) Computation of Total Income for the AY 2015-2016

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		32,40,000
Add : Expenses debited to P&L A/c – disallowed		
(i) Income tax	90,000	
(ii) Wealth tax	10,000	
(iii) Custom duty payable	30,000	
(iv) Provision for unascertained liability	20,000	
(v) Proposed dividend	3,00,000	
(vi) Loss of subsidiary company	50,000	
(vii) Income-tax penalty	20,000	
(viii) Depreciation	1,50,000	6,70,000
		39,10,000
Less : Allowable Expenses and wrong credits in P&L A/c		
(i) Withdrawals from contingency reserve	10,00,000	
(ii) Excise duty	1,20,000	
(iii) Depreciation	2,20,000	
(iv) Brokerage, commission, interest and rent, etc.	1,50,000	14,90,000
Business Profits		24,20,000
Add: Income from Other Sources: Brokerage/ commission, etc.		1,50,000
Aggregate Income		25,70,000
Less:		
(i) Brought forward losses (Sec. 72)	6,00,000	
(ii) Brought forward depreciation [Sec. 32(2)]	4,50,000	10,50,000
Gross Total Income		15,20,000
Less: Profit from industrial undertaking Sec. 80IB: 30% of ₹ 15,20,000 as included in GTI		4,56,000
Total Income		10,64,000

(b) Computation of Book Profits for the AY 2015-2016

Particulars	₹	₹
Net Profits as per Profit & Loss A/c		32,40,000
Add : Expenses disallowed		
(i) Income tax	90,000	
(ii) Provision for unascertained liability	20,000	
(iii) Proposed dividend	3,00,000	
(iv) Loss of subsidiary	50,000	4,60,000
Less : Allowable expenses and wrong credit in P & L A/c		37,00,000
(i) Withdrawals from contingency reserve	4,00,000	
(ii) Brought forward business loss or depreciation whichever is less		
2010-2011 Depreciation	1,00,000	
2011-2012 Loss	2,00,000	7,00,000
Book-Profits		**30,00,000**

(c) Computation of Tax Liability for the AY 2014-2015

Particulars	₹
(a) Tax on Total Income (including Education Cess and SHEC) = 30.9% of 10,64,000	3,28,776
(b) Tax on Book Profits (including Education Cess and SHEC) = 19.055% on 30,00,000	5,71,650
Tax payable [Higher of (a) & (b)]	5,71,650

Note :

(i) No adjustment is required for depreciation debited to Profit and Loss A/c because it is not on account of revaluation of any asset.

(ii) MAT credit available ₹ (5,71,650 – 3,28,776) = ₹ 2,42,874

(iii) Any penalty, interest, etc. paid under any of the direct tax laws or for infraction of any other laws and debited to Profit & Loss Account will be allowed and hence, need not be added back.

(ii) XYZ Ltd is a qualifying shipping company which has got two qualifying ships during the Previous Year 2014-2015 :

Ship	**Tonnage weight**	**No. of operational days**
Ship A	**38,949 tonnes and 990 kg**	**300 days**
Ship B	**25,650 tonnes and 275 kg**	**365 days**

Compute its tonnage income under Tonnage Tax Scheme for the Assessment Year 2015-2016.

Solution:

Ship A	**Ship B**
(i) Tonnage consisting of kilograms is ignored.	(i) Tonnage consisting of kilograms is ignored.
(ii) If such tonnage is not a multiple of 100 tonnes and the last two digits are less than 50, the tonnage is reduced to the previous lower tonnage which is a multiple of 100.	(ii) If such tonnage is not a multiple of 100, and last two degits are 50 or more, the tonnage is increased to next higher tonnage which is a multiple of 100
(iii) Tonnage rounded off = 37,900 tonnes	(iii) Tonnage rounded off = 25,600 tonnes

Income — computation under TTS		Income — computation under TTS	
Daily TI:	₹	**Daily TI:**	₹
First 1,000 tonnes (₹ 46 × 10)	460	First 1,000 tonnes (₹ 46 × 10)	460
Next 9,000 tonnes (₹ 35 × 90)	3,150	Next 9,000 tonnes (₹ 35 × 90)	3,150
Next 15,000 tonnes (₹28 × 150)	4,200	Next 15,000 tonnes(₹28×150)	4,200
Balance 13,900 tonnes (₹ 19 × 139)	2,641	Balance 700 tonnes (₹ 19 × 7)	133
Daily TI:	10,451	Daily TI:	7,943
Total TI for the Previous Year ₹ 10, 451 × 300	31,35,300	Total TI for the Previous Year ₹ 7,943 × 365	28,99,195

(iii) There is a prevailing practice of a businessman taking loan of stock from another businessman and returning the same. Since he may have to pay for replacement at a higher price for return of loan of stock, can a provision made for the extra cost be deductible?

Answer:

The issue had come up in Welding Rods Manufacturing Co. vs. CIT, where it was found that the price rise at the time of closure of accounts in respect of outstanding loan of stock could be recognised and the provision therefore would be allowed as a deduction. In coming to the conclusion the High Court followed the decision in Calcutta Co. *Ltd.* vs. *CIT.*

In this context, one may refer to the statutory provision in section 47(xv) in respect of capital gains on stock lending, whereby tax on capital gains is spared on such stock lending, if the guidelines issued by Securities and Exchange Board of India had been followed. The provision, however, is only for exemption from capital gains and the mere act of lending of securities in pursuance of stock lending scheme. It cannot have application for dealers in shares. Similarly, the final outcome of the transaction even in the case of an investor may have to be recognised for capital gains tax purposes under the law as exemption is at the stage of lending and not at the stage when the contractual obligation gets discharged.

Question 20:

(i) During the Previous Year 2014-15, Mrs. A (aged 46 years) pays the following installments of advance tax :

	₹
On September 15, 2014	**6,000**
On December 15, 2014	**8,000**
On March 15, 2015	**10,000**
On March 16, 2015	**8,000**

Mrs. A files return of ₹ 6,01,000. Assessment is also completed on the basis of income returned by Mrs. A after making addition of ₹ 25,000 (date of assessment order : January 20, 2016). Mrs. A is entitled to tax credit of ₹ 12,510 on account of tax deducted at source. Compute interest under sections 234B and 234C.

Solution :

Interest liability under section 234B

	₹
Income (6,01,000+25,000)	6,26,000
Tax on ₹6,26,000	51,706

Less: Tax deducted at source	12,510
Assessed tax	39,196
90% of assessed tax	35,276
Advance tax paid during 2013-14 (i.e., ₹ 6,000 + 8,000 + 10,000 + 8,000)	32,000

Since advance tax during the Previous Year 2014-15 is less than 90% of assessed tax, Mrs. A is liable to pay interest under section 234B, i.e., on the shortfall of ₹ 7,196 (being ₹ 39,196 – 32,000) for 10 months (₹ 7,196 × 1/100 × 10) which comes to ₹ 720.

<u>Interest liability under section 234C :</u>

Tax on ₹ 6,01,000 = 45,200 + 3% on Education and Higher Education Cess = 46,556

Due date	Advance Tax Payment (₹)	Advance Tax paid (₹)	Cumulative Advance Tax paid before due date (₹)	Shortfall in Payment (₹)	Surplus Months (₹)		Interest @ 1% p.m. (₹)
15.9.2014	30% of ₹ 46,556 = 13,967	6,000	6,000	7,967	—	3	239
15.12.2014	60% of ₹ 46,556 = 27,934	8,000	14,000	13,934	—	3	418
15.3.2015	100% of ₹ 46,556 = 46,556	18,000	32,000	14,556	—	1	146
							803

(ii) Compute the Advance Tax payable by R from the following estimated income submitted for the Previous Year 2014-15.

	₹
(1) Income from Salary	**3,84,000**
(2) Rent from house property (per annum)	**1,70,000**
(3) Interest on Government securities	**10,000**
(4) Interest on bank deposits	**6,000**
(5) Receipt from horse race (net)	**21,000**
(6) Agricultural Income	**90,000**
(7) Contribution towards PPF	**10,000**

Tax deducted at source by the employer on salary is ₹ 9,680.

Solution:

Computation of Estimated Total Income for the Previous Year 2014-15

	₹	₹
Income from Salary: Gross salary	3,84,000	
Less : Deduction	Nil	3,84,000
Income from House Property: Rent received	1,70,000	
Less : Statutory deduction u/s 24(*a*) @ 30%	51,000	1,19,000

Income from Other Sources: Interest on Government securities	10,000	
Interest on Bank Deposit	6,000	
Horse Races (Gross)	30,000	46,000
Estimated Gross Total Income		5,49,000
Less : Deduction under section 80C		10,000
		5,39,000
Estimated Tax: Step-1 : Aggregate of Agricultural income + Non-Agricultural income (90,000 + 5,39,000) = 6,29,000		
Tax on : Income from Horse Race of ₹ 30,000 @ 30%	9,000	
Balance income of ₹ 5,99,000	44,800	
		53,800
Step-2 : Aggregate of Basic exemption limit of agricultural income (2,50,000 + 90,000) = 3,40,000		
Tax on ₹ 3,40,000		9,000
Step-3 : Tax on non-agricultural income Tax under step-1 - Tax under step-2 (53,800– 9,000) = 44,800		
Estimated tax payable		44,800
Add: Education cess @2%		896
Add: SHEC @1%		448
Less : Estimated TDS		46,144
on salary	9,680	
on horse races	9,000	(18,680)
Advance tax payable		27,464
First installment payable by 15.9.2014 (30%)		8,239
Second installment payable by 15.12.2014 (30%)		8,239
Third installment payable by 15.3.2015 (balance 40%)		10,986

Working notes:

1. Computation of gross winnings from horse races:

Net Amount	₹ 21,000
Grossing up 24,000 X100/70	₹ 30,000
Tax deducted at source (Gross amount ₹ 30,000 – Amount received ₹ 21,000)	₹ 9,000

(iii) Find out the amount of advance tax payable by Mr. A on specified dates under the Income Tax Act, 1961 for the Previous Year 2014-15:

	₹
Business income	**5,50,000**
Long Term Capital Gain on 31-5-2014	**3,20,000**
Winning from lotteries on 12-6-2014	**1,00,000**
Bank interest	**20,000**
Other income	**10,000**

Investment in PPF	**80,000**
Tax deducted at source : Case I	**96,000**
Case II	**50,000**

Solution:

Computation of Total Income of Mr. A for the Previous Year 2014-15:

Particulars	Details	Amount (₹)
Profits and Gains of Business or Profession		550,000
Capital gains : Long Term Capital Gains		3,20,000
Income from Other Sources		
Winning from lotteries	1,00,000	
Bank interest	20,000	
Other income	10,000	1,30,000
Gross Total Income		10,00,000
Less : Deduction u/s 80C — Deposits	80,000	
in PPF Deduction u/s 80TTA	10,000	90,000
Total Income		9,10,000

Computation of Tax liability of Mr. A for the Previous Year 2014-15:

Income	Case 1 (₹)	Case 2 (₹)
Long Term Capital Gain (₹ 3,20,000 @ 20%)	64,000	64,000
Winning from lotteries (₹ 1,00,000 @ 30%)	30,000	30,000
Balance Income (₹ 2,50,000)	Nil	Nil
Tax	94,000	94,000
Add : Education cess & SHEC	2,820	2,820
	96,820	96,820
Less : Tax Deducted at Source	96,000	50,000
Total Tax Payable	820	46,820

Advance tax to be paid on specified dates

Case I: Since amount of tax payable is less than ₹10000, assessee is not liable to pay advance tax.

Case II : Advance Tax Payable

Due Date	Tax Liability (₹)	Amount of Instalment (₹)
15.09.2014	30% of 46,820 = 14,046	14,046
15.12.2014	60% of 46,820= 28,092	28,092 – 14,046 = 14,046
15.03.2015	100% of 46,820= 46,820	46,820-14,046-14,046= 18,728

Question 21:

(i) Mr. Prasad, ordinarily resident in India, furnished the following particulars of his income/ savings during the Previous Year 2014-2015.

(a)	**Income from foreign business (Including ₹ 2,00,000 from business connection in India) accruing outside India**	**15,00,000**
(b)	**Loss from Indian business**	**(–) 2,00,000**

(c) Income from house property	**4,00,000**
(d) Dividends gross from Indian companies	**60,000**
(e) Deposit in Public Provident Fund	**70,000**
(f) Tax paid in foreign country	**2,50,000**

There is no double taxation avoidance treaty. Compute the tax liability.

Solution:

(1) Computation of Total Income for the Assessment Year 2015-16

Particulars	Amount (₹)	Amount (₹)
1. Income from House Property		4,00,000
2. Income from Business:		
(a) Income from Indian Business	(2,00,000)	
(b) (i) Income from foreign business accruing or arising outside India	13,00,000	
(ii)income from foreign business deemed to accrue or arise in India	2,00,000	13,00,000
3. Income from other sources		
Dividends from Indian Companies- exempted u/s 10(34)		Nil
Gross Total Income		17,00,000
Less: Deduction for approved savings u/s 80C – PPF deposits		70,000
Total Income		16,30,000

(2) Computation of Tax liability on Total Income for the Assessment Year 2015-16

Particulars	**Amount (₹)**
Tax on Total Income of ₹ 16,30,000	3,14,000
Add: Surcharge on Income Tax (assuming total income is less than one crore)	Nil
Add: Education Cess @ 2%	6,280
Add: Secondary and Higher Education Cess @ 1%	3,140
	3,23,420
Less: Double taxation relief : 13,00,000 x 16.67%	2,16,710
Tax Payable	1,06,710

Note: 1. Relief is allowed on the doubly taxed income either at average rate of Indian tax or average rate of foreign income tax, whichever is lower:-

(a) Average rate of Indian income tax : 3,23,420/ 16,30,000 × 100 = 19.84%

(b) Average rate of foreign income tax: (2,50,000/15,00,000) × 100 = 16.67%

2. The amount of doubly taxed income has been worked out as under:

Income from foreign business, accruing outside India	15,00,000
Less: Income from business connection deemed to accrue or arise in India which is not entitled to double taxation relief.	2,00,000
Doubly taxed income	13,00,000

3. Loss from Indian business has been set-off against Profits from foreign business which is deemed to accrue or arise in India. The mode of set-off increases the amount of double taxation relief.

(ii) Ms. Dipika, a resident Indian, furnishes the details for the Assessement Year 2015-2016 :

Particulars	**Amount (₹)**
(1) Income from profession	**1,94,000**
(2) Share of income from a partnership in country X (tax paid in Country X for this income in equivalent Indian Rupees 10,000)	**50,000**
(3) Commission income from a concern in country Y (tax paid in country Y @ 20%, converted in equivalent Indian Rupees)	**40,000**
(4) Interest on scheduled banks [other than savings account]	**20,000**

Ms. Dipika wishes to know whether she is eligible to any double taxation relief, if so, its quantum. India does not have any Double Taxation Avoidance Agreement with countries X and Y.

Solution :

(1) Computation of Total Income for the Assessment Year 2015-16

Particulars	**Amount (₹)**	**Amount (₹)**
(a) Income from Business or Profession:		
(i) Income from Profession	1,94,000	
(ii) Share of income in partnership firm in country X	50,000	2,44,000
(b) Income from other sources:		
(i) Interest from scheduled bank	20,000	
(ii) Commission earned in Country Y, assumed from other sources	40,000	60,000
Total Income		**3,04,000**

(2) Computation of Tax Liability on Total Income for the Assessment Year 2015-16

Particulars	Amount (₹)
Tax on Total Income of ₹ 3,04,000	5,400
Add: Surcharge on Income Tax	Nil
Add: Education Cess @ 2%	108
Add: Secondary and Higher Education Cess @ 1%	54
	5,562
Less: Double taxation relief : 90,000 x 1.833%	(1,647)
Tax Payable	3,915
Rounded off u/s 288B	3,920

Notes : (i) Average rate of tax in the foreign country = 20% i.e. [(₹ 10,000 + 20% of ₹ 40,000)/ (50,000+40,000)] ×100 = 20%

(ii) Average rate of tax in India = (5,562/3,04,000) × 100 = 1.83%

(iii) A resident assessee, earned foreign exchange of ₹ 78,800. The foreign income was also subjected to tax deduction of ₹ 8,800 at source in the foreign country with which India had no agreement for avoidance of double taxation. The assessee claimed relief under Sec. 91 of the Income-tax Act in respect of the whole foreign income. Discuss his contention with reference to decided case laws.

Solution:

Where any income is taxed outside India as well as in India, a resident assessee is entitled to claim double taxation relief on such doubly taxed income provided such income is not deemed to accrue or arise in India. If any income arising outside India, is not subjected to tax in India, such foreign income does not form part of doubly taxed income for the purposes of Sec. 91. The expression "doubly taxed income" refers to foreign income which also suffered tax in India.

Where any foreign income, taxed outside India, is also eligible to deduction in computing total income in India, double taxation relief would be allowed only on such income as forms part of total income.

On the amount of doubly taxed income, Income-tax is calculated at the Indian rate of tax and rate of tax of the foreign country. The foreign tax rate has to be calculated separately for each country – CIT vs. Bombay Burmah Trading Corpn. Ltd. [2003] 126 Taxman 403 (Bom.)

Double taxation relief will be allowed on such doubly taxed income either at the average rate of Foreign Income Tax or Indian Income Tax, whichever is lower out of the two.

Question 22:

(i) Mr. Robin was working with X Ltd. on a salary of ₹ 60,000 p.m. He resigned on 31.07.2014 and joined Y Ltd. w.e.f. 01.08.2014 on a salary of ₹ 75,000 p.m. Compute the tax deductible by X Ltd. and Y Ltd. assuming he submitted the details of salary drawn and tax deducted at source by X Ltd. along with a company of Form 16 to Y Ltd. on 01.08.2014 itself.

Solution:

Tax to be deducted by X Ltd.

	₹	Tax to be deducted at source (₹)
Salary for the month of April paid in May	60,000	*5,923
Salary for the month of May paid in June	60,000	5,923
Salary for the month of June paid in July	60,000	5,923
Salary for the month of July paid on 31st July 2014	60,000	Nil**
Total tax deducted		17,769
*Total salary ₹ 60,000 × 12 = 7,20,000		
Tax on ₹ 7,20,000		69,000
Add: Education cess & SHEC @ 3%		2,070
		71,070

Tax deductible per month 71,070/12 = ₹ 5,923

** The employer has deducted tax at source for the first three months of April to June 2014 by estimating the salary for the whole year. Since, the employee has resigned on 31.07.2014, there is no need to deduct tax at source at the time of payment of salary for the month of July 2014 as already excess amount of tax has been deducted at source, as the total salary from X Ltd. was only ₹ 2,40,000 for the aforesaid four months.

Tax to be deducted by Y Ltd. assuming details of the salary drawn from the previous employer has been submitted in Form No. 12B

	₹
Salary drawn from X Ltd. ₹ 60,000 × 4	2,40,000
Salary to be drawn from Y Ltd. ₹ 75,000 × 8	6,00,000
Total salary	8,40,000

Less: Deduction	Nil
	8,40,000
Tax on ₹ 8,40,000	93,000
Add: Education cess & SHEC @ 3%	2,790
	95,790
Less: Tax deducted by X Ltd. [₹ 5,923 + 5,923 + 5,923]	17,769
Total tax to be deducted by Y Ltd.	78,021
Tax to be deducted every month ₹ 78,021/8	9,753

(ii) ThomasF LLP of France and Squar Ltd of India are associated enterprises. Squar Ltd. imports 3,000 compressors for Air Conditioners from ThomasF at ₹ 7,800 per unit and these are sold to Paharpur Cooling Solutions Ltd at a price of ₹ 11,000 per unit. Squar Ltd. had also imported similar products from Cold Ltd and sold outside at a Gross Profit of 20% on Sales.

ThomasF offered a quantity discount of ₹ 1,500 per unit. Cold Ltd. could offer only ₹ 500 per unit as Quantity Discount. The freight and customs duty paid for imports from Poland had cost to Squar Ltd. ₹1,200 a piece. In respect of purchase from Cold Ltd, Squar had to pay ₹ 200 only as freight charges.

Determine the Arm's Length Price and the amount of increase in Total Income of Squar Ltd.

Solution:

A. Computation of Arm's Length Price of Products bought from ThomasF, France by Squar Ltd.

Particulars	₹	₹
Resale Price of Goods Purchased from ThomasF		11,000
Less: Adjustment for differences		
(a) Normal gross Profit margin @ 20% of sale price [20% × ₹ 11,000]		2,200
(b) Incremental Quantity Discount by ThomasF [₹ 1,500 – ₹ 500]		1,000
(c) Difference in Purchase related Expenses [₹ 1,200 – ₹ 200]		1,000
Arms Length Price		**6,800**

B. Computation of Increase in Total Income of Squar Ltd

Particulars	₹	₹
Price at which actually bought from ThomasF LLP of France		7,800
Less : Arms Length Price per unit under Resale Price Method		(6,800)
Decrease in Purchase Price per Unit		1,000
No. of Units purchased from ThomasF		1,000
Increase in Total Income of Squar Ltd [3,000 Units × ₹ 1,000]		₹ 30,00,000

(iii) Plasco Inc., a Italian Company, holds 45% of Equity in the Indian Company Chirag Technologies Ltd (CTL). CTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Plasco Inc.

During the year, CTL had spent 2,400 Man Hours for developing and maintaining software for Plasco Inc, with each hour being billed at ₹ 1,300. Costs incurred by CTL for executing work for Plasco Inc. amount to ₹ 25,00,000.

CTL had also undertaken developing software for Harsha Industries Ltd for which CTL had billed at ₹ 2,700 per Man Hour. The persons working for Harsha Industries Ltd and Plasco Inc. were part of the same team and were of matching credentials and caliber. CTL had made a Gross Profit of 60% on the Harsha Industries work.

CTL's transactions with Plasco Inc. are comparable to the transactions with Harsha Industries, subject to the following differences:

(a) Plasco gives technical know-how support to CTL which can be valued at 8% of the Normal Gross Profit. Harsha Industries does not provide any such support.

(b) Since the work for Plasco involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.

(c) CTL had offered 90 days credit to Plasco the cost of which is measured at 2% of the Normal Billing Rate. No such discount was offered to Harsha Industries Ltd.

Compute ALP and the amount of increase in Total Income of Chirag Technologies Ltd.

Solution:

(A) Computation of Arms Length Gross Profit Mark-up

Particulars	₹	₹
Normal Gross Profit Mark up		60.00
Less : Adjustment for differences		
(a) Technical support from Branch [8% of Normal GP = 8% of 60%]	4.80	
(b) Quantity discount 14% of normal Gross Profit [14% of 60%]	8.40	(13.20)
		46.80
Add**:** Cost of Credit to Plasco 2% of Normal Bill [2% ×GP 60%]	1.20	1.20
Arm's Length Gross Profit mark-up		48.00

(B) Computation of Increase in Total Income of Plasco Ltd

Particulars	₹	₹
Cost of services provided to CTL		25,00,000
Arm's length Billed Value		38,46,154
Less: Billed amount [2,400 hours x ₹ 1,300 per hour]		31,20,000
Therefore, Increase in Total Income of Plasco		7,26,154

Question 23:

(i) What are the documents require to be maintained in respect of International Transactions?

Answer:

Documents to be maintained in respect of International Transactions

A. DOCUMENTS: Under Rule 10D, every person who has entered into an International Transaction shall keep and maintain the following information and documents:

1. Ownership Details: Description of the ownership structure of the Assessee Enterprise with details of Shares or other ownership interest held therein by other Enterprises.
2. Group Details: Profile of the Multinational Group of which the Assessee Enterprise is a part, along with the Name, Address, Legal Status and Country of tax residence of each

of the Enterprises comprised in the Group with whom international transactions have been entered into by the Assessee, and ownership linkages among them.

3. Business Details: Broad description of the business of the Assessee, and the industry in which the Assessee operates, and of the business of the Associated Enterprises with whom the Assessee has transacted.
4. International Transaction Details: Nature and terms (including prices) of international transactions entered into with each Associated Enterprises, details of property transferred or services provided and the quantum and the value of each such transaction or class of such transaction.
5. Functional Details: Description of the functions performed, risks assumed and assets employed or to be employed by the Assessee and by the Associated Enterprises involved in the international transaction.
6. Details of Factors influencing International Transactions: Record of the economic and market analyses, forecasts, budgets or any other financial estimates prepared by the Assessee for the business as a whole, and for each division of product separately, which may have a bearing on the international transactions entered into by the Assessee.
7. Uncontrolled Transactions Details: Record of Uncontrolled Transactions taken into account for analysing their comparability with the international transactions entered into, including a record of the nature, terms and conditions relating to any Uncontrolled Transaction with third parties which may be of relevance to the pricing of the international transactions,
8. Comparability Details: Record of the analysis performed to evaluate comparability of uncontrolled transactions with the relevant international transaction,
9. Details of Method selected for ALP: Description of the methods considered for determining the ALP in relation to each international transaction or class of transaction, the method selected as the most appropriate method, along with explanations as to why such method was so selected and how such method was applied in each case,
10. Details of Computation of ALP: Record of the actual working carried out for determining the ALP, including details of the comparable data and financial information used in applying the most appropriate method and adjustments, if any, which were made to account for differences between the international transaction and the comparable uncontrolled transactions, or between the Enterprises entering into such transactions,
11. Assumptions: Assumptions, policies and price negotiations, if any, which have critically affected the determination of the ALP,
12. Adjustments: Details of the adjustments, if any, made to Transfer Price, to align them with ALP determined under these Rules, and consequent adjustment made to the Total Income for tax purposes,
13. Other relevant details: Any other information, data or document, including information or data relating to the associated enterprise, which may be relevant for determination of the ALP.

B. FRESH DOCUMENTS:

1. No Significant Change: Where an international transaction continues to have effect for more than one previous year, fresh documentation need not be maintained separately unless there is a significant change in -
   (a) Nature or Terms of the international transaction,
   (b) Assumptions made,
   (c) Any other factor which could influence the Transfer Price.

2. Significant Change: In case of any significant change, fresh documents required to bring out the impact of the change on the international transaction should also be maintained.

C. SUPPORTING DOCUMENTS: The information specified above should be supported by authentic documents, which may include the following -

1. Official Publications, Reports, Studies and Database from the Government of the country of residence of the Associated Enterprise, or of any other country,
2. Reports of Market Research Studies carried out and Technical Publications brought out by institutions of national or international repute,
3. Price Publications including Stock Exchange and Commodity Market Quotations,
4. Published Accounts and Financial Statements relating to the business affairs of the Associated Enterprises,
5. Agreements and Contracts entered into with Associated Enterprises or with Unrelated Enterprises in respect of transactions similar to the international transactions,
6. Letters/other correspondence documenting any terms negotiated between the Assessee and the Associated Enterprise,
7. Documents normally issued in connection with various transactions under accounting practices followed.

(ii) Harmony Ltd is an Indian Company engaged in the business of developing and manufacturing Industrial components. Its Canadian Subsidiary Su-power Inc. supplies technical information and offers technical support to Harmony for manufacturing goods, for a consideration of Euro 2,00,000 per year.
Income of Harmony Ltd is ₹ 180 Lakhs. Determine the Taxable Income of Harmony Ltd if Su-power charges Euro 2,60,000 per year to other entities in India. What will be the answer if Su-power charges Euro 1,20,000 per year to other entitles. (Rate per Euro may be taken at ₹ 50)

Solution:

Computation of Total Income of Harmony Ltd.

Particulars		
When Price Charged for Comparable Uncontrolled Transaction	2,00,000	1,20,000
Price actually paid by Harmony Ltd [€ 2,00,000 x 50]	1,00,00,000	1,00,00,000
Less: Price charged in Rupees (under ALP) [€ 2,60,000 x 50] [€ 1,20,000 x 50]	1,30,00,000	60,00,000
Incremental Profit on adopting ALP [A]	(30,00,000)	40,00,000
Total Income before adjusting for differences due to Arm's Length Price	1,80,00,000	1,80,00,000
Add: Difference on account of adopting Arm's Length Price [if (A) is positive]	Nil	40,00,000
Total Income of Harmony Ltd	1,80,00,000	2,20,00,000

Note : U/s 92(3), Taxable Income cannot be reduced on applying ALP. Therefore, difference on account of ALP which reduces the Taxable Income is ignored.

Question 24:

(i) The gross total income of Mr. Raju for the assessment year 2015-16 is ₹7,20,000 which includes long-term capital gain ₹80,000, short-term capital gain referred to in section 115A ₹70,000 and interest on saving bank deposit ₹12,000. Compute the tax payable by Mr. Raju assuming he deposited ₹1,00,000 in PPF and paid premium for health insurance by cheque amounting to ₹15,000.

Solution:

Computation of tax payable by Raju for the assessment year 2015-16

	₹	₹
Gross total income		7,20,000
Less: Deductions		
U/s 80C	1,00,000	
U/s 80D	15,000	
U/s 80TTA	10,000	1,25,000
Total Income		5,95,000
Tax on ₹5,95,000		
Long-term capital gain ₹80,000 @ 20%	16,000	
Short-term capital gain ₹70,000 @ 15%	10,500	
Balance total income ₹4,45,000	19,500	
	46,000	
Less: rebate u/s 87A	2,000	
	44,000	
Add: Education cess & SHEC @ 3%	1,320	
	42,680	

(ii) Total income of Mr. Varun who is aged 46 years, for the previous year ending 31.3.2015 is ₹4,44,900. Compute the tax payable by him for the assessment year 2015-16.

Solution:

Tax on income of previous year is calculated at the rate prescribed for the relevant assessment year. For previous year 2014-15, the income-tax shall be payable at the rates prescribed for assessment year 2015-16. It will be calculated as under:

	Rate of tax	**Tax of payable**
		₹
First ₹2,50,000	Nil	-
Next ₹1,94,900 (rate for income tax between the slab of ₹2,50,000 & ₹5,00,000 is 10%)	10%	19,490
Less: rebate u/s 87A		2,000
		17,490
Add: EC & SHEC @ 3%		525
		18,015
Total tax (round off)		18,020

Note.—
Tax payable is rounded off to nearest rupees ten. For this purpose any part of a rupee consisting of paise shall be ignored. Thereafter, if the last digit of tax payable is ₹5 or more, it is rounded off to higher ten, whereas if the last digit of tax payable is less than ₹5, it is rounded off to lower ten.

(iii) Total income of Mrs. Gupta aged 60 years, a resident of India, for the previous year 2014-15 is ₹9,76,300.

(A) Compute her tax liability for the assessment year 2015-16.

(B) What will be tax payable if Mrs. Gupta is non-resident in India.

Answer:

(A) Since, Mrs. Gupta is a woman who is 60 years old, and resident in India, her tax liability will be computed as under:

	Rate of tax	Total Tax
First ₹3,00,000	Nil	-
Next ₹2,00,000 (on income exceeding ₹3,00,000 but up to ₹5,00,000)	10%	20,000
Next ₹4,76,300 (on income exceeding ₹5,00,000 but upto ₹10,00,000)	20%	95,260
		1,15,260
Add: Education cess + SHEC @ 3%		3,458
		1,18,718
Total tax (round off)		1,18,720

Note: tax payable is round off to nearest rupees ten. Since the last digit of tax payable is ₹ 5 or more, it is round off to higher ten.

(B) Since, Mrs. Gupta is a non- resident, the basic exemption limit in her case shall be ₹2,50,000 instead of ₹ 3,00,000.

	Rate of tax	Total Tax
	₹	₹
First ₹2,50,000	Nil	Nil
Next ₹2,50,000 (income exceeding ₹2,50,000 but up to ₹5,00,000)	10%	25,000
Next ₹4,76,300	20%	95,260
		1,20,260
Add: Education cess + SHEC @ 3%		3,608
		1,23,868
Total tax (Round off)		1,23,870

Question 25:

(i) Ms. Komal discloses the following particulars of her income during the Previous Year 2014-2015:

(a) Dividends from Sri Lankan companies received in India ₹ 6,00,000.
Dividends were received partly in cash and partly in shares. Face value of shares is ₹1,00,000 but their market value is ₹ 4,00,000. However, currently there is no buyer in the market.

(b) Pension remitted to her in India by Sri Lankan Government after deduction of tax at source (₹ 15,000) ₹ 1,65,000.

(c) Fees received in Ceylon for arguing a patent case in Delhi High Court on behalf of a fellow-lawyer friend of Mumbai ₹ 3,00,000.

(d) Commission credited to her account in India under her instructions by law firms in India, for referring clients from outside India but commission was received in Mauritius ₹2,00,000.

(e) Share of income from a Partnership firm, in which she is a partner received in Kolkata ₹2,50,000.

(f) Income from law practice in Mauritius and Qatar, received there, but practice was set up in Delhi ₹ 4,80,000.

(g) 5% commission for the Year 2014-2015 from publishers of law books on their annual Profits, received in India, commission has been paid after setting off ₹ 30,000 for books purchased by her. She has purchased the dealership rights from Mumbai Law House on 1 January, 2014 ₹ 1,50,000.

(h) Gift from a foreign client, received outside India ₹30,000.

Determine her Gross Total Income for the Previous Year 2014-2015 if she is (i) Resident and Ordinarily Resident; (ii) Resident but not Ordinarily Resident; and (iii) Non Resident

Solution:

Computation of Gross Total Income for the Previous Year 2014-15

Particulars	ROR	RNOR	NR
(a) Dividend received in India			
A. Cash dividend	2,00,000	2,00,000	2,00,000
B. Dividend in kind to be valued at market price of shares	4,00,000	4,00,000	4,00,000
(b) Pension received outside India and not deemed to accrue or arise in India [CIT vs. Kalyanakrishnan 195 ITR 534]	1,85,000	-	-
(c) Fees for arguing patent case in Delhi, but received in Ceylon – Income from business connection deemed to accrue or arise in India	3,00,000	3,00,000	3,00,000
(d) Commission credited to the account of payee under her instruction in the books of payer is a deemed receipt in India [Raghava Reddy vs.CIT (1962) 441 ITR 720 (SC)]	2,00,000	2,00,000	2,00,000
(e) Share income received from Partnership firm exempt from tax – as tax liability borne by Firm	-	-	-
(f) Income from profession set up in India, extended outside India -Income being received outside India	4,80,000	4,80,000	—

(g) Commission on account of dealership rights, received in India @ 5% or the annual Profits of the publishers - Commission not to be apportioned between seller and purchase on time basis	1,80,000	1,80,000	1,80,000
(h) Gift from a foreign client, received outside India [Sec. 28(iv)]	30,000	-	-
Gross Total Income	19,75,000	17,60,000	12,80,000

(ii) Mr. Kabir is getting a salary of ₹ 15,000 p.m. w.e.f. 1.4.2013. He is promoted w.e.f. 31.12.2012 and got arrears of ₹ 75,000 on 31.12.2014. Bonus for the year 2014-15 is ₹ 15,000 remains outstanding but bonus of ₹ 12,000 for the year 2013-14 was paid on 1st January 2015. In March 2015, he got two months' salary i.e. April and May 2015 in advance. Compute gross salary for the Previous Year 2014-15 (A.Y. 2015-16).

Solution:

Computation of Gross Salary for the Previous Year 2014-15

Particulars	Amount (₹)	Amount (₹)
Basic Salary (₹15,000 x 12 months		1,80,000
Add: Arrears of Salary		75,000
Add: Bonus for the year 2014-15 (Receivable)		-
Add: Bonus for the year 2013-14 (Received)		12,000
Add: Advance Salary : for April & May 2015 : ₹15,000 x 2 months		30,000
Gross Salary		2,97,000

(iii) Ms. Vandana retires on 16th October 2014 after 30 years and 8 months of service. Salary structure is given below:

FY 2014-15	**Salary ₹ 30,000 pm**	**D.A ₹ 15,000 pm**
FY 2013-14	**Salary ₹ 24,000 pm**	**D.A ₹ 12,000 pm**

40%of dearness allowance forms a part of superannuation benefits. Record of Earned Leave is given below: Leave allowed for one year of completed service - 20 days; Leave taken while in service -150 days; Leave encashed during the year 60 days.

Determine the gross salary in the following cases:

(a) He retires from Government service

(b) He retires from the service of Delhi Municipal Corporation

(c) He retires from the service of Life Insurance Corporation of India

(d) He retires from private sector

Solution:

Particulars	Case(a)	Case(b)	Case(c)	Case(d)
Salary for 6 months & 16 days	1,96,000	1,96,000	1,96,000	1,96,000
Dearness Allowance	98,000	98,000	98,000	98,000
Taxable amount of Leave Encashment	Exempted	2,85,000	2,85,000	2,85,000
Gross Income from Salary	2,94,000	5,79,000	5,79,000	5,79,000

Working Notes:

Average monthly salary for 10 months, prior to retirement:

Salary of 6 months 16 days : (1st April, 2014 to 16th October, 2014)		1,96,000
Salary of 3 months 14 days: (17th December, 2013 to 31st March, 2014)		83,200
Total Basic Salary (A)		2,79,200
Add: Dearness Allowance		
For 6 months 16 days : (1st April, 2014 to 16th October, 2014)	98,000	
For 3 months 14 days: (17th December, 2013 to 31st March, 2014)	41,600	
Total D.A.	1,39,600	
D.A. [@ 40% of ₹1,39,600, forming part of retirement benefits] (B)		55,840
Total Salary of 10 months [(A) + (B)]		3,35,040
Average Salary = 3,35,040/10 = ₹ 33,504		

Computation of Taxable Leave Encashment

Particulars	Amount (₹)	Amount (₹)
Amount of encashment received		
[(30 × 20) - (150 + 60)] × (30,000 +15,000)/30		5,85,000
Less : Exempted u/s 10(10AA)		
Least of the followings:		
Actual amount received	5,85,000	
10 months salary (preceding the month of retirement)	3,35,040	
Leave credit on the date of retirement [(30 × 20) - (150 +60)] × 33,504/30	4,35,552	
Maximum Limit	3,00,000	3,00,000
Taxable amount of Leave Encashment		2,85,000

Note : To avoid the fractions and ease of calculation, per day remuneration is calculated by dividing 30 days.

Question 26:

(i) Cash Book of M/S Brinda Rubber for financial year 2014-15 is given below :

Cash Book

Dr.			***Cr.***
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Balance b/d	**15,750**	**By, Salaries & Wages A/c**	**10,78,000**
To, Sale of centrifuged latex	**15,45,800**	**By, Electricity Charges A/c**	**32,500**
To, Interest on Bank FD	**38,000**	**By, Printing & Stationery A/c**	**2,890**
		By, Other Expenses A/c	**28,110**
		By, Amount deposited to Special A/c [specified by Rubber Board and approved by Central Govt.] **By, Amount deposited to a account not specified by Central Govt.**	**2,00,000** **2,00,000**
		By, Bank Charges A/c	**1,550**

		By, Balance c/d	**56,500**
	15,99,550		**15,99,550**

Profits and Gains of Business or Profession

Additional Information:

1. **Deprecation allowed u/s 32 of Income Tax Act is ₹ 28,200 but depreciation to be charged to the Profit & Loss A/c is ₹ 31,550.**
2. **Unabsorbed business loss brought forward is ₹ 30,000 [A.Y. 2012-13].**

You are required to prepare extracted Profit & Loss A/c and calculate the Taxable Business Profit for the Assessment Year 2014-15.

Solution:

Extracted Profit & Loss A/c for the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Salaries & Wages A/c	10,78,000	By, Sale of centrifuged latex	15,45,800
To, Electricity Charges A/c	32,500	By, Interest on Bank FD	38,000
To, Printing & Stationery A/c	2,890		
To, Other Expenses A/c	28,110		
To, Bank Charges A/c	1,550		
To, Depreciation A/c	31,550		
To, Net Profit - transferred	4,09,200		
	15,83,800		15,83,800

Statement showing calculation of Business Income

Particulars		Amount (₹)
Net Profit as per Profit & Loss A/c		4,09,200
Add: Depreciation debited to Profit & Loss A/c		31,550
		4,40,750
Less: depreciation allowable under Section 32		28,200
Income chargeable under other head		38,000
Business Profit		3,74,550
Less: Deduction u/s 33AB:		
Least of the following:		
(a) 40% of the Profit from the business	₹ 1,49,820	
(b) Amount deposited within the specifed time in the specifed account	₹ 2,00,000	1,49,820
Profit of the Business		2,24,730
Less: Agricultural Income [as per Rule 7A]		1,46,075
Business Income		78,655
Less: Unabsorbed business loss		30,000
Taxable Business Income		48,655

(ii) X Ltd. is a company engaged in the business of growing, manufacturing and selling of tea. For the accounting year ended 31st March, 2014, its composite business Profits, before an adjustment under section 33AB of the Income-tax Act, were ₹ 80 lakhs. In the year, it deposited ₹ 45 lakhs with NABARD.
The company has a business loss of ₹10 lakhs brought forward from the Previous Year.
The company withdrew in February, 2014 ₹20 lakhs from the deposit account to buy a non-depreciable asset for ₹18 lakhs and could not use the balance before the end of the accounting year. The withdrawal and the purchase were under a scheme approved by the Tea Board.
The non-depreciable asset was sold in November, 2014 for ₹ 29 lakhs.
Indicate clearly the tax consequences of the above transactions and the total income for the relevant years.

Solution:

Computation of Total Income of X Ltd. for A.Y. 2014-15

Particulars	₹
Net Profits before adjusting deduction u/s 33AB Less: Deduction u/s 33AB - Lower of : (i) 40% of ₹80 lakhs = ₹32 lakhs; or (ii) actual amount deposited with NABARD = ₹45 lakhs	80,00,000 32,00,000
Profits after adjusting deduction u/s 33AB	48,00,000
As per Rule 8 of Income-tax Rules, 40% of this sum is subject to income-tax and the balance 60% is treated as agricultural income. Hence, the business income is 40% of ₹48 lakhs Add: Non-utilisation of amount withdrawn: ₹ 2 lakhs [i.e. (₹20 lakhs – ₹18 lakhs)] 40% is taxable as business income (the balance 60% is treated as agricultural income).	 19,20,000 80,000
Business Income Less: Business loss brought forward from the Previous Year	20,00,000 10,00,000
Total Income	10,00,000

Computation of total income of X Ltd. for A.Y. 2015-16

Particulars	₹
Business income (See Note 2) Capital gains (Short-term) (See Note 1)	7,20,000 11,00,000
Total Income	18,20,000

Note 1 - Computation of capital gains

Particulars	₹
Sale proceeds *Less:* Cost of acquisition	29,00,000 18,00,000
Short Term Capital Gains (since the period of holding is less than 36 months)	11,00,000

Note 2 - Computation of business income:
Since the asset is sold within 8 years, the cost of the asset i.e. ₹ 18 lakhs should be treated as income since the same has been allowed as deduction in the Assessment Year 2014-15.
However, out of this ₹18 lakhs, 60% would be agricultural income and the balance 40% i.e. ₹ 7.2 lakhs would be business income of P.Y. 2014-15. This is because deduction under section 33AB was allowed in P.Y. 2013-14 before disintegration of income into agricultural income and non-agricultural income.

(iii) Free Call Ltd. obtained a telecom licence on 15.6.11 for a period of 8 years ending on 31.3.2019 against a fee of ₹ 60 crores to be paid in four installments of ₹24 crores, ₹14 crores, ₹12 crores, ₹10 crores by June 2011, June 2012, June 2013 and June 2014 respectively. Explain how the payment for licence fee shall be dealt under the Income Tax Act, 1961.

Solution :
Assessee : Free Call Ltd.
Previous Year : 2014-15 **Assessment Year : 2015-16**

(a) U/s 35ABB, expenditure incurred for the purpose of acquiring any right to operate telecommunication services is allowed equally as deduction throughout the unexpired life of the licence. Deduction shall be allowed only for the actual payment made.
(b) If only part payment is made, amortization is based on the amount paid and not on the basis of total consideration. For any further payments, deduction/amortization is allowed equally for the remaining unexpired useful life.
(c) Computation of amount of eligible deduction u/s 35 ABB:

Previous Year	Amount paid (₹ Crores)	Unexpired Period of Licence on the date of actual payment	Amount of Deduction (₹ Crores)
2011-12	24.00	8 years	3.00
2012-13	14.00	7 years	[3.00 + (14.00/7)] = 5.00
2013-14	12.00	6 years	[5.00+ (12.00/6)] = 7.00
2014-15	10.00	5 years	[7.00+ (10.00/5)] = 9.00

Question 27:
(i) What is the due date of filling of return of income in case of a non-working partner of a firm whose accounts are not liable to be audited?

Answer :
Due date of furnishing return of income in case of non-working partner shall be 31st July of the Assessment Year whether the accounts of the firm are required to be audited or not.
A working partner for the above purpose shall mean an individual who is actively engaged in conducting the affairs of the business or profession of the firm of which he is a partner and is drawing remuneration from the firm.

(ii) What do you mean by annexure less return? What is the manner of filling the return of income?

Answer :

The return of income required to be furnished in Form No.ITR-1,ITR-2,ITR-3,ITR-4, ITR-5, ITR-6 or ITR-7 shall not be accompanied by a statement showing the computation of the tax payable on the basis of the return, or proof of the tax, if any, claimed to have been deducted or collected at source or the advance tax or tax on self-assessment, if any, claimed to have been paid or any document or copy of any account or Form or report of audit required to be attached with the return of income under any of the provisions of the Act.

Manner of filling the return: The return of income referred to in sub-rule (1) may be furnished in any of the following manners, namely:-

(i) Furnishing the return in a paper form;
(ii) Furnishing the return electronically under digital signature;
(iii) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V;
(iv) Furnishing a bar-coded return in paper form.

(iii) Is e-filling of return mandatory? State the assessee's for whom e-filling of returns is mandatory?

Answer :

CBDT has vide notification No. 34/2013 dated 01.05.2013 has made it mandatory for the following category of the Assesses to file their Income Tax Return Online from A.Y. 2013-14 :-

(a) It is mandatory for every person (not being a co. or a person fling return in ITR 7) to e-file the return of income if its total income exceeds ₹5,00,000
(b) an individual or a Hindu Undivided Family, being a resident, having assets (including financial interest in any entity) located outside India or signing authority in any account located outside India and required to furnish the return in Form ITR-2 or ITR-3 or ITR-4, as the case may be.
(c) Every person claiming tax relief under Section 90, 90A or 91 shall file return in electronic mode.
(d) Those who are required to get their Account audited under Section 44AB, 92E, 115JB.
(e) A company required to furnish the return in Form ITR-6.

However, as per instruction of ITR 7 From assessment year 2013-14 onwards in case an assessee who is required to furnish a report of audit under section 10(23C)(iv), 10(23C)(v), 10(23C)(vi), 10(23C)(via), 10A, 12A(1)(b), 44AB, 80-IA, 80-IB, 80-IC, 80-ID, 80JJAA, 80LA, 92E or 115JB he shall file the report electronically on or before the date of fling the return of income.

Question 28:

(i) Pinewood Hotels and Resorts Limited is engaged in business of owning, operating and managing hotels. The tips are paid by the guests by way of charge to the Credit Cards in the Bills. The Company disburses the same to the Employees at periodic intervals. Explain with reasons whether the Company is responsible for deducting tax at source from disbursement of tips to its Employees.

Answer:

Here, the tips are charged to the Bill and disbursed to the employees at periodic intervals and thus, they form part of the Salary of the Employees. Thus, the Company is responsible to deduct tax u/s 192 in respect of the disbursement of tips to its Employees, provided the salary exceeds the maximum amount not chargeable to tax. [CTT (TDS) Vs ITC Ltd 338 ITR 598 (Del.)]

(ii) MNO Limited paid a sum of ₹15 Lakhs as salary to Mr. X for which no tax was deducted at source by the Company. Mr. X filed his Return of Income and paid the tax due by way of Self Assessment. Assessing Officer issued notice to Mr. X demanding Interest u/s 234B as no Advance Tax was paid by him. Your opinion is sought on the following aspects,
(a) Is the action of AO valid
(b) If not, is there any other means available to AO to recover the Interest?

Answer:

1. In the given case, since MNO Ltd has failed to deduct tax at source for the salary paid to Mr. X, it shall be liable to pay Interest u/s 234B. Mr. X is liable to pay only the tax and not the Interest u/s 234B.
2. The action of the Assessing Officer is not valid. However, the Assessing Officer can recover the Interest from the Employer (MNO Ltd).
   [DTT vs Maersk Co. Ltd. (2011) 334 ITR 79 (Uttarakhand - FB)]

(iii) A Foreign Company seconded some employees to the Assessee, an Indian Collaborator. The Assessee had not deducted Tax at source on the Home Salary / Special Allowance/s (Education Allowance or Retention Allowance) payments made by Foreign Company / HO to its employees (expatriated to India) outside India in Foreign Currency. The Revenue Authorities, holding the Assessee as an 'Assessee-in-default' u/s 201 of the Income Tax Act, 1961, levied Interest and Penalty on it. Is the same justified?

Answer:

1. **Provision:** TDS is to be deducted u/s 192 on Retention Salary provided by Foreign Company to its employees who work in India for the Joint Venture in which such Foreign Company is arise a partner, as the Retention Salary is deemed to accrue or arise in India u/s 9(1).
2. **Conclusion:** In the given case, as the Salary Income to the seconded employees are deemed to Accrue or arise in India, Indian Collaborator is liable to deduct TDS. Since TDS is not deducted by the Assessee, Revenue is justified in treating the Assessee as an Assessee-in-default'.

Question 29:

(i) Maya Bank credited ₹73,50,000 towards interest due on time deposits in a separate account for macro-monitoring only by using Core-branch Banking Solutions (CBS) software. No tax was deducted at source in respect of interest on deposits so credited even where the interest payable in respect of some deposits exceeded the limit of ₹ 10,000.
The Assessing Officer disallowed the entire interest expenditure where the interest due on time deposits exceeded the limit of ₹10,000 and also levied penalty u/s 271C. Decide the correctness of action of the AO.
Answer:

1. TDS need not be deducted by Banks if they create Provision for Interest accrued on time deposits on daily or monthly basis, using Core Branch Banking Solutions (CBS), for the purpose of macro monitoring.

2. In such cases, TDS shall be made on accrual of Interest at the earliest of the following dates - (a) End of the Previous Year, (b) Periodic Intervals as per Bank's Practice, (c) As per Depositor's / Payee's requirement, and (d) On Maturity / Encashment of Time Deposits.
3. Hence in the given case, Maya Bank will not be liable to deduct tax at source for Interest accrued based on CBS software. Consequently, there is no disallowance / Liability for Penalty, subject to compliance with Point 2 above.

(ii) Mrs. Hemalatha has made payments of ₹5 Lakhs to a Contractor (for business purposes) during the last two quarters of the Previous Year. Her turnover for the preceding financial year was ₹105 Lakhs. Is there any obligation to deduct tax at source?

Answer:

1. **Principle:**
   (a) Assessees whose Gross Turnover exceeds the limit during the Previous Year are subject to audit u/s 44AB. Section 194C is applicable to Individuals and HUF who are subject to tax audit u/s 44AB during the preceding financial year. (Limit is ₹1 Crore)
   (b) U/s 194C, tax has to be deducted in respect of payments made to Contractors or Sub-Contractors if the sum credited or paid or likely to be credited or paid exceeds ₹ 30,000 for single contract, or the aggregate of sum credited during the financial year exceeds ₹75,000.
   (c) Payments made to a Contractor by Individual or HUF shall be subject to TDS at 1% (for Individuals/ HUF)/ 2% (for others)
2. **Analysis and Conclusion:**
   (a) In the given case, Turnover of Mrs. Hemalatha during the preceding Financial Year exceeds ₹1 Crore. Hence, she would be subject to Tax audit u/s 44AB during the preceding financial year.
   (b) Since the payments made to the Contractor for business purpose during the financial year exceeds ₹75,000, she is under an obligation to deduct tax as provisions of Section 194C are attracted.

(iii) Bharathi Cements Ltd, the Assessee, purchases jute bags from Raj Kumar & Co. The latter has to supply the jute bags with the logo and address of the Assessee, printed on it. From 01.09.2014 to 20.03.2015, the value of jute bags supplied is ₹8,00,000, for which the invoice has been raised on 20.03.2015. While effecting the payment for the same, is the Assessee bound to deduct tax at source, assuming that the value of the printing component involved is ₹60,000. You are informed that the Assessee has not sold any material to Raj Kumar & Co. and that the latter has to manufacture the jute bags in its plant using Raw Materials purchased by it from outsiders.

Answer:

1. **Definition of Work for TDS u/s 194C**: 'Work' includes, manufacturing or supplying a product according to the requirement or specification of a customer, by using material purchased from such customers.
2. If the Contractor purchases such materials from a person other than the customer, then such "manufacture or supply" is not work, for TDS purpose (i.e. Such Contract is a Contract for Sale).
3. **Conclusion:** Hence the sale of jute bags to the Assessee is a contract for sale, and hence it shall not be liable for TDS u/s 194C.

Question 30:

(i) Discuss whether tax has to be deducted at source under the provisions of the Income Tax Act, 1961 in the following situations, which have taken place during the year ended 31.03.2015:

(a) M/s Jiva & Co. a Partnership Firm, pays a sum of ₹43,000 as Interest on Loan borrowed from Indian Branch of a Foreign Bank.

(b) Above Firm has paid ₹14,000 as Interest on Capital to Partner Mr. A, a Resident in India and ₹ 22,000 as Interest on Capital to Partner Mr. B, a Non-Resident.

Answer:

1. **Principle:**

   (a) Under Sec.195, TDS needs to be deducted on payment of Interest (excluding Interest u/s 194LB /194LC/194LD), including Interest on Securities, or any other sum chargeable to Income-Tax in India, not being Salaries.

   (b) U/s 194A, TDS is not required on Interest credited or paid to a Partner (who is resident), by the Firm.

2. **Conclusion:** In the above case, TDS needs to be deducted u/s 195 on Payment made to a Indian Branch of a Foreign Bank, and on Interest Paid to Mr. B being non-Resident.

(ii) R Ltd paid ₹5 Lakhs as Sales Commission to Mr. Francis (Non-Resident) who acted as its Agent for booking orders from various customers who are outside India. The Assessee has not deducted tax at source on the commission payment for the year ended 31.03.2015. On these facts:

(a) Decide whether the Commission is chargeable to tax in the hands of Mr. Francis in India.

(b) Decide about the deductibility of the Commission Payment in the assessment of R Ltd.

Answer:

1. **Taxability of Commission**: The Non-Resident has acted as an agent for R Ltd for getting orders from customers who are outside India. Such Commission Income shall not be deemed to accrue or arise in India, and hence the amount of Commission is not taxable in India for the Non-Resident Agent.
2. **Sec.195 Scope**: TDS obligation u/s 195 arises only if the Income is taxable in India. Hence, in this case, Tax need not be deducted u/s 195 by R Ltd on its Commission Payments to the Non-Resident.
3. **Allow ability of Deduction**: Since the payment is not subject to TDS, there is no question of disallowance of expenditure u/s 40(a)(i) for the said Assessment Year.

(iii) Compute the amount of TDS on the following payments made by M/s S Ltd during the Previous Year 2014- 2015 as per the provisions of the Income Tax Act, 1961 –

(a)	**01.10.2014**	**Payment of ₹2,00,000 to Mr. "R" a transporter who is having PAN.**
(b)	**01.11.2014**	**Payment of Fee for Technical Services of ₹25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.**
(c)	**30.06.2014**	**Payment of ₹ 25,000 to M/s X Ltd for repair of building.**

(d)	**01.01.2015**	**Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd.**
(e)	**01.01.2015**	**Payment of ₹ 80,000 made to Mr. Bharat for Compulsory Acquisition of his House as per Law of the State Government.**
(f)	**01.02.2015**	**Payment of Commission of ₹ 6,000 to Mr. Y.**

Solution:

Assessee: M/s. S Ltd. **Previous year: 2014 – 2015** **Assessment year: 2015 – 2016**

Computation of amount of Tax to be Deducted at Source

Date	Particulars	TDS (₹)	Reason
01.10.2014	Payment of ₹2,00,000 to Mr. R, a transporter, having PAN	Nil	TDS need not be deducted u/s 194C irrespective of the type/ size of transporter, if he submits PAN.
01.11.2014	Payment of Fee for Technical Services ₹25,000 and Royalty ₹20,000 to Mr. Shyam who is having PAN	Nil	TDS need not be deducted u/s 194J since Payments does not exceed ₹30,000 on Fees for Technical Services and Royalty considered separately.
30.06.2014	Payment of ₹25,000 to M/s. X Ltd for Repair of Building	Nil	U/s 194C, TDS is to be deducted for payment exceeding ₹30,000 only. Payment is below the limit, and hence No TDS need to be deducted.
01.01.2015	Payment to Mr. A for purchase of diaries but no material was supplied for such diaries to Mr. A by M/s S Ltd	Nil	The transaction is a Contract of Sale u/s 194C and does not attract TDS. Where material is not supplied by Customer, it is not Works Contract.
01.01.2015	Payment of ₹80,000 made to Mr. Bharat for compulsory acquisition of his house	Nil	TDS is not attracted u/s 194LA, since payment does not exceed ₹2,00,000
01.02.2015	Payment of Commission of ₹6,000 to Mr. Y	600 (₹ 6,000 ×10%)	Since aggregate Commission paid exceeds ₹ 5,000, TDS is to be deducted at 10%
	Total	600	