Intermediate
Group I
Paper 7 : DIRECT TAXATION
(SYLLABUS – 2016)

Objectives

1. (a) Multiple Choice Questions:

1. **When the shares are held in unlisted company , it is trusted as long term capital assets when the holding period exceeds**
   A. 36 months
   B. 12 months
   C. 6 months
   D. 24 months
2. **Personal effect do not cover the following**
   A. Jewellery
   B. Immovable property
   C. Drawings
   D. All of the above
3. **TDS on interest on securities is covered under section**
   A. Section 192
   B. Section 192A
   C. Section 193
   D. None of the above
4. **Rate of TDS on dividend u/s 194**
   A. 5%
   B. 10%
   C. 20%
   D. None of the above
5. **Income of minor child is exempt upto ______.**
   A. ₹ 1,000
   B. ₹ 1,500
   C. ₹ 2,500
   D. None of the above.
6. **The accounts of the political party shall be audited by a __________.**
   A. Cost Accountant
   B. Chartered Accountant
   C. Company Secretary
   D. None of the above.
7. **Loss from specified business covered u/s 35AD can be adjusted against the income of**
   A. Any other business income

B. Cannot be adjusted
C. Any income other than salary
D. Income from other specified business

8. ICDS-II stands for _______.
   A. Accounting policies
   B. Construction Contract
   C. Revenue recognition
   D. Valuation of inventories
9. ICDS-IV stands for _______.
   A. Accounting policies
   B. Construction Contract
   C. Revenue recognition
   D. Valuation of inventories
10. TDS on income of FII from securities
    A. 5%
    B. 10%
    C. 20%
    D. 30%
11. TDS on commission other than insurance commission
    A. 5%
    B. 10%
    C. 20%
    D. 30%
12. As per ICDS-II “Valuation on Inventories” there recognises _____ costing formulae.
    A. 2
    B. 3
    C. 4
    D.5
13. Mr Pankaj, partner of PKJ, is assessable as
    A. Firm
    B. Individual
    C. HUF
    D.None of the above
14. In case of local authority the return of income is verified by
    A. Karta
    B. Managing director
    C. Principal officer
    D. Partner
15. In case of self occupied house property, following category of person are considered.
    A. All assessee
    B. All assessee other than company
    C. All Assessee other than HUF
    D. Individual and HUF
16. Amortization of preliminary expenses has been restricted to ___ of the cost of project.

A. 2%
B. 3%
C. 5%
D. 8%

17. Unabsorbed business losses cannot be carried forward for more than
A. 5 A.Y
B. 6 A.Y
C. 8 A.Y
D. 10 A.Y

18. Coverage of best judgment assessment is under which section.
A. 143
B. 139(1)
C. 147
D. 144

19. Monetary limit for exemption in the case of encashment of earned leave on superannuation received by private sector employee is
A. 1 Lakh
B. 2 Lakh
C. 3 Lakh
D. None of the above

20. Deduction is not allowed to the assessee while computing income from other sources for
A. Direct Tax
B. Interest payable outside India without TDS
C. Personal expenditure
D. All of the above

Answer:

Sl/No.	Answer
1.	D
2.	D
3.	C
4.	B
5.	B
6.	B
7.	D
8.	D
9.	C
10.	B
11.	A
12.	B
13.	B
14.	C
15.	D
16.	C
17.	C

18.	D
19.	C
20.	D

1.(b). Fill in the blanks:

1. **Failure to apply for PAN or to quote PAN in prescribed documents attracts penalty of ₹ ______ u/s 272B.**
2. **___________ means the transfer of one or more undertaking for a lump sum consideration without assigning values to the individual assets and liabilities in such sales.**
3. **________ on sale of equity share through stock exchange is exempt u/s 10(38).**
4. **___________ available for donations made to Research Associations.**
5. **Form _____ is to be used for filling the return of income by an individual having business income.**
6. **The maximum limit for deduction u/s 80TTA is ₹ ________.**
7. **Salary forgone is _________ in computing the income from salaries in the hands of the concerned employee.**
8. **Advance tax is required to be paid by all assessee only if estimated advance tax liability is ₹ _______ or more.**
9. **Rebate u/s 87A is available only if the income doesn't exceed ₹ _______.**
10. **________ Company means a company which is not a domestic company.**

Answer:

Sl/No.	Answer
1.	₹ 10,000
2.	Slump sale
3.	Long term capital gain
4.	Section 80GGA
5.	Form no.3
6.	₹10,000
7.	taxable
8.	₹ 10,000
9.	₹ 3,50,000
10.	Foreign company

1.c. Match the followings:

	Column I		Column-II
1.	Rounding of Total Income	A	Section 87A
2.	Failure to apply PAN	B	Section 44A
3.	Entry No 46 of State List	C	Section 139AA
4.	Rebate	D	₹ 10,000 u/s 272B
5.	Quoting of Aadhaar number	E	Taxes on Agricultural Income
6.	Scrutiny Assessment	F	Section 87A
7.	ICDSX	G	Section 143(3)

8.	Maintenance of books of account.	H	30% Plus Surcharge, Education cess and SHEC
9.	Rate of TDS on winning from lotteries for Non Resident	I	Contingent Assests
10.	Rounding of tax	J	Section 288A

Answer:

Sl/No.	Answer
1.	J
2.	D
3.	E
4.	A
5.	C
6.	G
7.	I
8.	B
9.	H
10.	F

1.d. State whether the following statement is true or false.

1. **Every person shall intimate the Assessing Officer (A.O), in the prescribed manner, any change in his address or in the name & nature of his business on his business on the basis of PAN was allotted to him.**
2. **The provision of Alternate Minimum Tax (AMT) shall not apply to an individual or an AOP or a BOI, whether incorporated or not, or an artificial judicial person, if the adjusted total income of such person doesn't exceed ₹ 20 lakh.**
3. **ICDS-1 stands for valuation of inventory.**
4. **A return furnished without paying self assessment tax and interest, if any shall be treated as defective return.**
5. **Apart from TDS another device applied for quicker collection of tax is Tax collection at source (TCS) u/s 141.**
6. **Deduction in respect of interest on loan taken for education is covered under section 80U.**
7. **Unabsorbed business loss cannot be carried for more than 7 assessment year.**
8. **Unabsorbed deprecation can be carried forward for any number of the years.**
9. **A person is deemed to have substantial interest in a company if he is the owner of at least 51% of equity capital of the company.**
10. **Long term capital gain on sale of equity share through stock exchange is exempt under section 10(38).**

Answer:

Sl/No.	Answer
1.	True. Section 139A(5)(d)
2.	True. Section 115JC
3.	False. Accounting Policies
4.	True.
5.	False. Section 206C

6.	False. Section 80E
7.	False. 8 Assessment Year
8.	True.
9.	False. 20% holding is required
10.	True.

Income Which do not form part of Total Income

Question No.: 2

Exemption of long-term capital gain arising from sale of shares and units [Section 10(38)].

Answer: Any income arising from the transfer of a long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or unit of a business trust shall be exempt provided—

(a) the transaction of sale of such equity share or unit is entered into on or after 1 -10-2004, and
(b) such transaction is chargeable to securities transaction tax (STT). However, for a transaction undertaken on a recognised stock exchange located in any International Financial Services Centre, STT is not required to be paid.

Exemption under section 10(38) shall not be allowed if STT was not paid on the equity shares which have been acquired on or after 1.10.2004. However, the Central Government may give exemption in certain cases by notification even if STT was not paid at the time of acquisition of such shares.

In other words, exemption of income arising on transfer of equity share acquired or on after 1.10.2004 shall be available only if the acquisition of share is chargeable to Securities Transactions Tax.

"Equity oriented fund" means a fund—

(i) where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65% of the total proceeds of such fund; and
(ii) which has been set up under a scheme of a Mutual Fund specified under clause (23D):

The percentage of equity share holding of the fund shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.

Residential Status

Question No.: 3

Indian citizen and businessman Shri Pankaj, who resides in Jaipur, went to Germany for purposes of employment on 15.8.2017 and came back to India on 10.11.2018. He has never been out of India in the past.

(a) Determine residential status of Shri Pankaj for the assessment year 2018-19.
(b) Will your answer be different if he had gone on a leisure trip?

Answer:

(a) The previous year for the assessment year 2018-19 is 2017-18. During this period he was in India for 137 days (30 + 31 + 30 + 31 + 15 i.e. from 1.4.2017 to 15.8.2017). As he is not in India for 182 days, he does not satisfy the first condition of category (A).

The second condition of category (A) is not applicable in his case as he is a citizen of India and leaves India during the previous year for employment outside India.

Therefore, he is a non-resident. Conditions of category (B) need not be examined.

(b) When he had gone for a leisure trip: In this case, although he does not satisfy the first condition of category (A), he satisfies the second condition as he was in India for more than 60 days in the relevant previous year i.e. 2017-18 and was also here for more than 365 days during four preceding previous years (i.e. previous year 2012-13 to 2016-17). He is therefore, resident in India. The exception will not be applicable to him because he did not leave India for the purpose of employment. He satisfies both the conditions of category (B) because he has always been in India before 15.8.2017.

The status of the assessee for the assessment year 2018-19 will in this case be resident and ordinarily resident in India.

Question No.: 4

The following is the income of Shri Amit for the previous year 2017-18:

	Particulars	**₹**
(a)	**Profits from business in Iran received in India.**	**5,00,000**
(b)	**Income from house property in Iran received in India.**	**1,20,000**
(c)	**Income from house property in Sri Lanka deposited in a bank there.**	**1,80,000**
(d)	**Profits of business established in Sri Lanka deposited in a bank there, this business is controlled in India (out of ₹ 2,00,000 a sum of ₹ 1,00,000 is remitted in India).**	**2,00,000**
(e)	**Income from profession in India but received in England.**	**2,40,000**
(f)	**Profits earned from business in Kanpur.**	**1,60,000**
(g)	**Income from agriculture in England, it is all spent on the education of children in London.**	**2,70,000**

From the above particulars ascertain the taxable income of Shri Amit for the previous year 2017-18, if Shri Amit is

(i) a resident and ordinarily resident,
(ii) not ordinarily resident, and

(iii) a non-resident.

Answer:

Taxable Income of Shri Amit for the previous year 2017-18

	Particulars	R&OR (₹)	NOR (₹)	NR (₹)
(1)	Income received in India wherever accrues			
	(i) Profit from business in Iran received in India.	5,00,000	5,00,000	5,00,000
	(ii) Income from house property in Iran received in India.	1,20,000	1,20,000	1,20,000
(2)	Income accrued in India wherever received			
	(i) Profit earned from business in Kanpur	1,60,000	1,60,000	1,60,000
	(ii) Income from profession in India but received in England.	2,40,000	2,40,000	2,40,000
(3)	Income accrued and received outside India			
	(i) Income from house property in Sri Lanka deposited in bank there.	1,80,000	---	---
	(ii) Profit of business established in Sri Lanka	2,00,000	2,00,000	---
	(iii) Income from agriculture in England	2,70,000	---	---
	Total Income	16,70,000	12,20,000	10,20,000

Question No.: 5 PKJ earns the following income during the financial year 2017-18:

	Particulars	**₹**
(a)	**Interest from an Indian company received in London.**	**1,20,000**
(b)	**Pension from former employer in India received in USA.**	**1,80,000**
(c)	**Profits earned from a business in Paris which is controlled in India, half of the profits being received in India.**	**2,00,000**
(d)	**Income from agriculture in Bhutan and remitted to India.**	**1,25,000**
(e)	**Income from property in England received there.**	**4,00,000**
(f)	**Past foreign income brought to India.**	**10,000**

Compute his income for the assessment year 2018-19 if he is:

(i) Resident and ordinarily resident in India.
(ii) Not ordinarily resident in India.
(iii) Non-resident in India.

Answer:

	Particulars	Resident and Ordinarily resident	Not ordinarily resident	Non resident
		₹	₹	₹
(1)	Income deemed to accrue/arise in India			
	Interest from Indian Company.	1,20,000	1,20,000	1,20,000
	Pension from employer in India.	1,80,000	1,80,000	1,80,000
(2)	Income received in India			
	50% of profits of business in Paris.	1,00,000	1,00,000	1,00,000

(3)	Income earned and received outside India, from a business controlled from India			
	50% of profits of business in Paris.	1,00,000	1,00,000	—
(4)	Income earned and received outside India other than (3)			
	Income from Agriculture in Bhutan.	1,25,000	—	—
	Income from Property in England.	4,00,000	—	—
		10,25,000	5,00,000	4,00,000

Past foreign income is not to be included because it is not the income of the previous year 2017-18.

Income under Head Salaries

Question No.: 6

Compute his income under the head salary of PKJ the assessment year 2018-19 from the following information submitted to you:

Sl. No.	Particulars	₹
1.	**Basic Salary**	**20,000 p.m.**
2.	**D.A. (60% of which is part of retirement benefits)**	**10,000 p.m.**
3.	**Children education allowance (for two children)**	**200 p.m. per child**
4.	**Free lunch for 300 days in the office during office hours**	**80 per meal**
5.	**Reimbursement of expenses incurred on credit card provided by the employer**	**10,000**
6.	**Gift of Titan watch**	**12,000**
7.	**Rent free unfurnished accommodation at Delhi, the fair rent value of which is ₹ 84,000 p.a.**	
8.	**Motor car of 1.8 litre with driver both for official and private purposes**	
9.	**Watchman facility by the employer. Wages of watchman paid by employer 1,000 p.m.**	
10.	**Telephone facility at his residence. The employer has incurred expenses of ₹ 15,000 for the same.**	

Answer: Computation of income under the head salary of PKJ for the assessment year 2018-19

Particulars	₹	₹
Basic salary (20,000 x 12)		2,40,000
D.A.		1,20,000
Children education allowance (200 x 2 x 12)	4,800	
Less: Exempt (100 x 2 x 12)	2,400	2,400
Free lunch (₹ 80 - 50 = 30 x 300)		9,000
Credit card expenses reimbursed		10,000
Value of gift in kind (12,000 - 5,000)		7,000
Motor car (₹ 2,400 + 900 = 3,300 x 12)		39,600

Watchman (1,000x12)		12,000
Telephone facility		Tax free
Rent free unfurnished accommodation 15% of salary ₹ 3,14,400 (₹ 2,40,000 + 72,000 + 2,400)		47,160
Gross Salary		4,87,160
Less: Deduction		Nil
Income under the head salary		4,87,160

Note: Telephone facility shall be a tax free perquisite.

Question No.: 7

P, a Director of XYZ Pvt. Ltd. Pune is offered an employment with the following two alternative packages:

Particulars	**I (₹)**	**II (₹)**
Basic Pay per annum	**1,38,000**	**1,38,000**
Conveyance allowance for private use	**9,000**	**—**
Motor car facility for private use of P and his family members (valued)	**—**	**9,000**
Entertainment Allowance	**18,000**	**—**
Club facility (Valued)	**—**	**18,000**
Children Education Allowance (for 2 children)	**9,700**	**—**
Free Education Facility in an institution run by the employer for Children (Valued)		**9,700**
Rent Free unfurnished house with fair rental value	**30,000**	**30,000**

Which of the two packages should P opt for on the assumption that both employer and employee will contribute 20% of the basic pay towards an unrecognised provident fund? Assume the population of Pune is more than 25 lakhs as per 2001 census.

Answer:

The Taxable Income of P under the two options will be as under:

Particulars	I (₹)	II (₹)
Basic pay per annum	1,38,000	1,38,000
Conveyance allowance for private use	9,000	—
Motor car facility for private use of P and his family members	—	9,000
Entertainment allowance	18,000	—
Club facility	—	18,000
Children education allowance (9,700 - 2,400)	7,300	—
Free education facility for children	—	—

Rent free unfurnished house	25,845	20,700
	1,98,145	1085,700
Less: Deduction	Nil	Nil
Income from Salary	1,98,145	1,85,700

As the taxable income under the second package is less therefore, P should opt for the second package.

Question No.: 8

Mrs. Z has the following income during the previous year 2017-18:

Sl. No.	Particulars	₹
1	**Salary**	**3,10,000**
2	**Dearness Allowance (forming part of salary for retirement benefits)**	**72,000**
3	**Medical Allowance (Actual expenditure ₹ 28,000)**	**30,000**
4	**Education Allowance (for three children)**	**5,200**
5	**Rent free house in Delhi for which Z Ltd., the employer, paid ₹ 5,000 per month as rent. The house is equipped with rented furniture. The rent of the furniture is ₹ 3,000 per month.**	
6	**The employer had provided her a domestic servant, a sweeper and a watchman. The employer paid ₹ 500 per month to each.**	
7	**The employer spent ₹ 2,500 on her refresher course.**	
8	**The employer paid her telephone bills of**	**22,200**
9	**Profession tax paid by Mrs. Z**	**1,200**

Compute her taxable income for the assessment year 2018-19 assuming that she has no other income.

Answer:

Particulars	₹	₹
(i) Salary		3,10,000
(ii) Dearness Allowance		72,000
(iii) Medical Allowance		30,000
(iv) Education Allowance	5,200	
Less: Exempt (₹100 x 2 x 12)	2,400	2,800
Perquisites:		
(i) Value of rent free furnished house		96,000
(ii) Domestic servant @ ₹ 200 p.m.		6,000
(iii) Sweeper @ ₹ 200 p.m.		6,000
(iv) Watchman @ ₹ 200 p.m.		6,000
Gross Salary		5,28,800
Less: Professional tax u/s 16(iii)		1,200
Net income from salary		5,27,600

1. Medical allowance is fully taxable irrespective of the actual expenditure.
2. Salary for purpose of rent free accommodation is ₹ 3,10,000 + ₹ 72,000 (DA) + ₹ 30,000 (Medical Allowance) + ₹ 2,800 (Education Allowance) i.e. 4, 14,800.

3. Valuation of rent free accommodation is 15% of ₹ 4,14,800 i.e. ₹ 62,220 or ₹ 60,000 whichever is less. To this add ₹ 36,000 for furniture.

4. Amounts spent on refresher course and telephone bills are exempted perquisites.

Question No.: 9.a.

Mr. K. Sikri is Asstt. Manager of a Textile Company of Jaipur, since 1991. He has submitted the following particulars of his income for the financial year 2017-18:

(i) Basic salary ₹ 2,40,000.
(ii) Dearness Allowance ₹ 5,000 per month (₹ 200 p.m. enters into retirement benefits).
(iii) Education allowance for two children at ₹ 150 p.m. per child.
(iv) Commission on sales 1% of turnover of ₹ 10,00,000.
(v) Entertainment allowance ₹ 700 p.m.
(vi) Travelling Allowance for his official tours ₹ 30,000. The entire amount is spent on the official tour.
(vii) He was given cloth worth ₹ 1,000 by his employer free of cost.
(viii) He resides in the flat of the company. Its market rent is ₹ 12,000 p.m. A watchman and a cook have been provided by the company at the bungalow who are paid ₹ 400 per month each.
(ix) He has been provided with a motor car of 1.8 ltr. engine capacity for his official as well as personal use. The running and maintenance costs are borne by the Company.
(x) Employer's contribution to R.P.F. is ₹ 40,000 and the interest credited to this fund at 13% rate amounted to ₹ 16,250.
(xi) Contribution by Sikri to recognised provident fund ₹ 40,000.
(xii) Rent of house recovered from Sikri ₹ 1,500 p.m.
(xiii) Tax deducted at source from the above payments ₹ 6,000.

Compute income from salaries for the assessment year 2018-19. Assume the population of Jaipur is 26 lakhs as per 2001 census.

Answer:

Particulars	₹	₹
Basic Salary		2,40,000
Dearness Allowance @ ₹ 5,000 p.m.		60,000
Education Allowance	3,600	
Less: Exempt	2,400	1,200
Commission on Sales		10,000
Entertainment Allowance @ 700 p.m.		8,400
Travelling Allowance	30,000	
Less: Amount actually spent	30,000	Nil
Cloth given free of cost (tax free perquisites as it does not exceed ₹ 5,000)		—
Value of accommodation at concessional rate: 15% of salary of ₹ 2,62,000	39,300	
Less: Rent deducted	18,000	21,300
Value of facility of cook @ ₹ 400 p.m.		4,800

Value of facility of watchman @ ₹ 400 p.m.		4,800
Value of car facility (₹ 2,400 x 12)		28,800
Employer's contribution to RPF	40,000	
Less: 12% of salary i.e. of ₹ 2,52,400	30,288	9,712
Interest credited to RPF	16,250	
Less: Exempt 9.5% p.a.	11,875	4,375
Gross Salary		3,93,387
Less: Deduction u/s 16		Nil
Income from Salary		3,93,387

1. Commission on sales has been taken to be a part of salary as it is a fixed percentage on turnover.
2. Salary for purpose of accommodation will include Basic ₹ 2,40,000, DA ₹ 2,400, Education Allowance ₹ 1,200, Commission ₹ 10,000, Entertainment Allowance ₹ 8,400.

Income under Head House Property

Question No.: 9.b.

Mr. Pankaj has a house property in Cochin. The house property has two equal dimension residential units. Unit 1 is self occupied throughout the year and unit 2 is let out for 9 months for ₹ 10,000 p.m. and for remaining 3 months it was self-occupied. Compute his taxable income from the following details:
Municipal value ₹ 2,00,000, Fair Rent ₹ 1,60,000, Standard rent ₹ 3,00,000, Municipal tax 10% (60% paid by assessee), Interest on loan ₹ 40,000, Expenditure on repairs ₹ 20,000.

Answer:
<u>Working</u>

1. Computation of Gross Annual Value (GAV)

Particulars	Working	Unit 1	Unit 2
Municipal Value	1:1	1,00,000	1,00,000
Fair Rent	1:1	80,000	80,000
Standard Rent	1:1	1,50,000	1,50,000
Reasonable Expected Rent	Higher of MV & FR (RER cannot exceed SR)	Nil	1,00,000
Actual Rent Receivable	₹ 10,000 * 9	--	90,000
Gross Annual Value	Higher of Step 1 & 2	Nil	1,00,000

2. Municipal tax = 10% of ₹ 2,00,000 = ₹ 20,000 being divided in the ratio 1:1 between Unit 1 and Unit 2. Out of such Municipal tax only 60% is paid, therefore, Municipal tax allowed as deduction in case of Unit 2 is only ₹ 6,000 [i.e. ₹ 20,000 * ½ * 60%].

3. Interest on loan is divided in unit A and unit B in 1:1 as both units are of equal dimension.

Computation of income from house property of Mr. Pankaj for the A.Y. 2018-19

Particulars	Working	Unit 1		Unit 2	
		Details	Amount	Details	Amount
Gross Annual Value	1		Nil		1,00,000

Less: Municipal Tax	2		Nil		6,000
Net Annual Value			Nil		94,000
Less: Deduction u/s					
24(a) Standard Deduction		Nil		28200	
24(b) Interest on loan	3	20,000	20,000	20000	48,200
Income from house property			(-) 20,000		45,800

Conclusion: Income under the head Income from house property is ₹ 25,800 (being ₹ 45,800 – ₹ 20,000).

Income under Head Capital Gain and Clubbing of Income

Question No.: 10.a.

A acquired a plot of land on 15.6.2003 for ₹ 18,50,000, which was ₹ 65,00,000. The expenses of transfer were ₹ 1,00,000.

A made the following investments on 4.2.2018 from the proceeds of the above plot:

1. **Bonds of Rural Electrification Corporation Ltd. redeemable after a period of 3 years ₹ 12,00,000.**
2. **Deposits under Capital Gain Scheme for purchase of a residential house as he does not own any house ₹ 10,00,000.**

Compute the Capital Gain chargeable to tax for the assessment year 2018-19.

Answer:

Assessment year 2018-19

Particulars	Amount (₹)	Amount (₹)
Total consideration		65,00,000
Less: (i) Expenses of transfer	1,00,000	
(ii) Indexed cost of acquisition —₹ 18,50,000 × $\frac{272}{109}$	46,16,514	47,16,514
Long-term capital gain		17,83,486
Less: Exemption u/s 54EC	12,00,000	
Exemption u/s 54F (₹ 17,83,486 × 10,00,000/65,00,000)	2,74,382	14,74,382
Taxable long-term capital gain		3,09,104

Question No.: 10.b.

Mrs Nikita Jaiswal received the following amounts during the financial year 2017-18.

Particulars	**Amount (₹)**
Gross Salary	**5,30,000**
Family Pension (10,000 x 12)	**1,20,000**
Income of minor child	**49,000**

Accumulated balance in PF of her husband after his death	**1,00,000**
Gratuity received after the death of husband	**1,00,000**

Calculate taxable income of Mrs. Nikita Jaiswal and tax liability for the A.Y 2018-19.

Answer:

Computation of taxable income of Mrs Nikita Jaiswal for the A.Y 2018-19

	Amount (₹)	**Amount (₹)**
Gross Salary	5,30,000	
Less: Deduction	Nil	5,30,000
Income from other sources		
Family Pension	1,20,000	
Less: Deduction u/s 56 1/3 or ₹ 15,000 whichever is lower	15,000	1,05,000
Income of minor child	49,000	
Less: Exemption u/s 10(32)	1,500	47,500
Gross Total Income		6,82,500
Tax Payable		49,000
Add: Education cess and SHEC @ 3%		1,470
Tax Rounded off (288 B)		50,470
Note: Accumulated balance in PF and amount of gratuity received after the death of husband is exempt from tax as it is assumed to be within the limit prescribed by section 10(10).		

Set off and carry forward of Income

Question No.: 11.a

A sold on 31.10.2017 an agricultural land, which he has been using for agricultural purposes for several years, for ₹ 30,00,000. He acquired that land in 1978 for ₹ 1,00,000. The market value of such land as on 1.4.2001 was ₹ 8,50,000. He purchased rural agricultural land for ₹ 3,50,000 on 25.2.2018 which was sold for ₹ 5,00,000 on 15.5.2018. Further, a sum of ₹ 5,50,000 was invested by him in purchase of residential property on 25.5.2018. He owned only one house property before this date. The new house property was sold on 31.8.2018 for ₹ 6,50,000. Compute capital gain for assessment year 2018-19 and assessment year 2019-20.

Answer:

Assessment year 2018-19

Particulars	Amount (₹)	Amount (₹)
Value of consideration		30,00,000
Less: Indexed cost of acquisition — ₹ 8,50,000 × $\frac{272}{100}$		23,12,000
		6,88,000

Less: Capital gain exempt u/s 54B	3,50,000	
u/s 54F (₹ 5,50,000 × $\frac{688000}{3000000}$)	1,26,133	4,76,133
Long-term capital gain		2,11,867

Assessment year 2019-20

Particulars	**Amount**
Sale price of house property	6,50,000
Less: Cost of acquisition	5,50,000
Short-term capital gain	1,00,000

(1) ₹ 1,26,133 exempt earlier u/s 54F shall also be taxable as long-term capital gain in the previous year 2018-19 i.e., the year of sale of new house property.
(2) There will be no capital gain on the transfer of rural agricultural land although sold within 3 years from the date of its acquisition, as it is not a capital asset for capital gain purposes.

Question No.: 11.b.

From the following details, compute the Gross Total Income of Pankaj for the Assessment Year 2018-19.

	₹
Taxable Income from salary	**2,80,000**
Income from house property **House A(Let out)** **House B (Self occupied, interest on borrowed capital)**	 **(-)2,95,000** **(-)9,000**
Short term capital gain	**12,000**
Loss from long term assets	**25,000**
Interest on securities	**10,000**

Answer:

	₹	₹
Taxable income from salary	2,80,000	
Less: Loss under the head house property set off	2,00,000	80,000
Income from house property		
House A(Let out)	(-)2,95,000	
House B Self occupied	(-)9,000	
	(-)3,04,000	
Less: Set off from salary	2,00,000	
Loss to be allowed to the maximum of ₹ 2,00,000, balance carried forward	1,04,000	Nil
Income from capital gain		
Short term capital gain		12,000
Long term capital loss to be carried forward (not allowed to be sett off from STCG)	(-)25,000	
Income from other sources		
Interest on securities		10,000

Gross Total Income		1,02,000
Loss from long term capital assets cannot be set off against short term capital gain or income under head of income. Such a loss of ₹ 25,000 which could not be adjusted in the A.Y 2017-18 will be carried forward to the subsequent A.Y. Loss from House property amounting ₹ 1,04,000 shall be carried forward.		

Deductions under chapter VIA

Question No.: 12.a

R enters into a partnership with G on 1.5.2017 to start an export business. The following assets have been introduced by R as his capital contribution which he was using in his business earlier:

(A) Land; (B) Plant and Machinery

The particulars of the above assets are given below:

Particulars	**Land**	**Plant and Machinery**
Date of Acquisition	**6.6.1978**	**7.7.1991**
	Amount (₹)	**Amount (₹)**
Fair Market Value as on 1.5.2017	**10,00,000**	**5,00,000**
Amount recorded in the books of accounts	**7,40,000**	**7,00,000**
Cost of acquisition	**30,000**	**—**
WDV of Plant & Machinery as on 1.4.2017	**—**	**3,00,000**
Fair Market Value as on 1.4.2001	**2,10,000**	**—**

On 25.3.2018 he purchased a residential house property for ₹ 4,20,000. The said property was sold on 28.3.2020 for ₹ 7,00,000. Compute the capital gain for various assessment years.

Assume CII of financial year 2019-20 shall be 300.

Answer: Assessment year 2018-19

Particulars	Land Amount (₹)	Plant & Machinery Amount (₹)
Full Value of consideration (Amount recorded in books of accounts)		
	7,40,000	7,00,000
Less: Indexed cost of acquisition — ₹ 2,10,000 × $\frac{272}{100}$	5,71,200	
Cost of acquisition (WDV as on 1.4.2017)	—	3,00,000
Long-term capital Gain	1,68,800	—
Short-term capital Gain	—	4,00,000

Less: Capital gain exempt: U/s 54F (₹ 1,68,800 × $\frac{420000}{740000}$)	95,805	---
Long-term capital gain/Short-term Capital Gain	72,995	4,00,000

Assessment year 2020-21

Particulars	Amount (₹)
Sale price of residential house property	5,00,000
Less: Indexed cost of acquisition (assume CII of 2019-20 is 300) (₹ 4,20,000 x 300/272)	4,63,235
Long-term capital gain (as the house property is sold after 24 months)	36,765

In addition, ₹ 95,805 exempt u/s 54F earlier will be taxable as LTCG in the assessment year 2020-21.

Question No.: 12.b.

Mr. Amit (38 years) has incurred following expenses:

Particulars	**₹**
Mediclaim Insurance premium paid for himself	**9,000**
Mediclaim Insurance premium paid for spouse	**8,000**
Mediclaim Insurance premium paid for dependent children	**6,000**
Mediclaim Insurance premium paid for father (62 years)	**18,000**
Preventive health-check up expenditure for father	**6,000**
Preventive health-check up expenditure for himself (paid in cash)	**4,000**

Answer:

Computation of deduction u/s 80D available to Mr. Amit

Particulars		**Amount**	**Amount**
Mediclaim Insurance premium paid for himself			9,000
Mediclaim Insurance premium paid for spouse			8,000
Mediclaim Insurance premium paid for dependent children			6,000
Qualifying amount **(A)**			23,000
Add: Additional deduction for parents			
Mediclaim Insurance premium paid for father **(B)**			18,000
Add: Expenditure incurred for preventive health check up	**Incurred**	**Max. Limit**	
Preventive health-check up expenditure for father Max. limit	6,000	5,000	
Preventive health-check up expenditure for himself [₹ 25,000 – (A)]	4,000	2,000	

	7,000	
Restricted to overall maximum limit for preventive health check ups **(C)**		5,000
Deduction u/s 80D (A + B + C)		46,000

Question No.: 13

R acquired shares of G Ltd., on 15.12.2008 for ₹ 8,00,000 which were sold on 15.5.2017 for ₹ 19,50,000. Expenses of transfer were ₹ 20,000. He invests ₹ 3,00,000 in the bonds of Rural Electrification Corporation Ltd. on 16.10.2017.

(a) Compute the capital gain for the assessment year 2018-19.
(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 R takes a loan against the security of such bonds?

Answer:

Particulars	Amount (₹)	Amount (₹)
(a) Sales consideration		19,50,000
Less: (i) Expenses of transfer	20,000	
(ii) Indexed cost of acquisition — ₹ 8,00,000 × $\frac{272}{137}$	15,88,321	16,08,321
Long-term capital gain		3,41,679
Less: Exemption under section 54EC		3,00,000
Taxable long-term capital gain		41,679

(b) R should not transfer or convert (otherwise then 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 ₹ 3,00,000 exempt under section 54EC earlier, will be 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 the security of such bonds, it will be treated as if it is converted into money as such capital gain exempt earlier on such bonds, shall be long-term capital gain of the previous year in which such loan is taken against the security of such bonds.

Income under Head Profit and Gains of Business or Profession

Question No.: 14

Particulars	**Amount (₹)**
Depreciated value of the block of assets (consisting of Plants A, B and C) on 1.4.2017	**14,80,000**
Addition of eligible Plant D made on 1.9.2017 (it is put to use on 8.9.2017)	**1,60,000**

Cost of eligible Plant E purchased on 24.12.2017	**3,10,000**
Sale proceeds of Plant A (sold on 3.3.2018) which was originally purchased on 1.4.2008 for 1,20,000	**16,30,000**

Assuming that the assessee is an industrial undertaking and rate of depreciation is 15%, find out the admissible depreciation and income under the head 'Capital gains' for the assessment year 2018-19.

Answer:

Particulars	Amount (₹)	Amount (₹)
Block- Plant 15%:		
Written down value of block as on 1.4.2017		14,80,000
Add: Additions during the previous year		
Plant D (for 180 days or more)	1,60,000	
Plant E (for less than 180 days)	3,10,000	4,70,000
		19,50,000
Less: Assets sold during the previous year Plant A		16,30,000
Written down value as on 31.3.2018		3,20,000
Less: Normal depreciation		
On ₹ 3,10,000 × 7.5%	23,250	
On ₹ 10,000 × 15%	1,500	
	24,750	
Add: Additional depreciation		
On ₹ 1,60,000 @ 20%	32,000	
On ₹ 3,10,000 @10%	31,000	87,750
WDV as on 1.4.2018		2,32,250

No capital gain on sale of plant A because sale proceeds are less than the written down value of block of asset. Hence no short-term capital *gain u/s 50(2)*.

Question No.: 15

Sri Sagar is the owner of a business. Following is his P&L A/c for the year ended on 31.3.2018:

Profit and Loss Account for the year ended 31.03.2018

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Establishment charges	**5,110**	**Gross profit**	**50,870**
Rent, rates and taxes	**2,900**	**Interest on Govt. Securities (Gross)**	**5,350**
Sundry expenses	**7,050**	**Rent from property**	**5,400**
Household expenses	**1,880**		

Provision for bad debts	**1,200**		
Loss on sale of motor car (used for private purpose)	**1,800**		
Insurance premium (including life insurance of ₹ 1,790)	**2,880**		
Interest on bank loan	**1,380**		
Provision for Depreciation	**6,400**		
Net profit	**31,020**		
	61,620		**61,620**

Additional information:

(i) Bad debts written off during the year — ₹ 650

(ii) Admissible depreciation as per Income-tax rules — ₹ 1,600

(iii) The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹ 2,400 in respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 is on account of municipal tax paid for property given on rent.

Compute the Gross Total Income of Shri Sagar for the assessment year 2018-19.

Answer:

Particulars	₹	₹
Income from house property		
Rent received		5,400
Less: Municipal taxes		500
		4,900
Less: Standard deduction @ 30%		1,470
		3,430
Profit and Gains from Business or Profession		
Profit as per P&L Account		31,020
Add: Inadmissible expenses		
Rent (50% for personal use)	1,200	
Household expenses	1,880	
Provision for bad debts	1,200	
Loss on sale of car	1,800	
Life insurance premium	1,790	
Provision for depreciation	6,400	
M. Taxes for let out house property	500	14,770
Less: Expenses allowed but not debited to P&L A/c.		45,790
Bad debts	650	
Depreciation	1,600	2,250
		43,540
Less: Incomes not taxable under this head but credited to P&L A/c. Interest on govt. securities	5,350	
Rent from property	5,400	10,750

Income from Business		32,790
Income from other sources:		
Interest on Govt. securities		5,350
Gross Total Income (3,430 + 32,790 + 5,350)		41,570

Assessment of Cooperative Societies

Question No.: 16.a.

Shri Pankaj is practicing as a Chartered Accountant in Delhi. He deposits all receipts in his bank account and pays all expenses by account payee cheque. Following is the analysis of his bank account for the year ending 31.3.2018:

Particulars	(₹)	Particulars	(₹)	(₹)
Balance b/f	7,250	Salaries		30,14,000
Professional Receipts	51,40,000	Rent of Chamber		6,84,500
Dividend from U.T.I.	8,000	Professional Expenses		23,000
House Rent	22,500	Telephone Expenses		51,000
Horse race Income (Gross)	12,000	Misc. Office Exp.		55,500
Share of Income in HUF	6,750	Motor car exp.		8,000
Loan from wife for Purchase of car	1,00,000	Purchase of car		1,15,000
		Advance Income-tax		40,000
		Donation to Delhi University		10,000
		Personal Expenses		45,500
		House Property Exp.		
		Taxes	5,000	
		Repairs	1,500	
		Insurance	1,500	
		Collection Charges	2,000	10,000
		Balance c/d		12,40,000
	52,96,500			52,96,500

Compute the Gross Total Income of Shri Pankaj after taking into account the following:

(i) **1/4th of the motor car expenses relate to personal use**
(ii) **Car was purchased on 15.6.2017 and rate of depreciation on car is 15%.**
(iii) **He stays in his house, the municipal value of which is ₹ 8,000. Following are the expenses which have been included in the above account in respect of this house: Insurance premium ₹ 500; Municipal tax ₹ 2,400.**

Answer:

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

Particulars	Amount (₹)	Amount (₹)	Amount (₹)

Income from house property:			
Annual Value (Rent received)		22,500	
Less: Municipal taxes		2,600	
Net Annual Value		19,900	
Less: Standard deduction 30%		5,970	13,930
Profit and Gains from Business or Profession:			
Professional receipts		51,40,000	
Less: Expenses incurred			
Salary	30,14,000		
Rent of chamber	6,84,500		
Audit fee	23,000		
Telephone expenses	51,000		
Misc. Office exp.	55,500		
Motor car expenses ($\frac{3}{4}$th of ₹ 8,000) to be allowed	6,000		
Depreciation on car (₹ 1,15,000 × $\frac{15}{100}$ × $\frac{3}{4}$)	12,938	38,46,938	12,93,062
Income from other sources:			
Dividend from U.T.I.		Exempt	
Horse racing income		12,000	*12,000*
Gross Total Income			13,18,992

1. Income from self-occupied house property shall be Nil.
2. Donation to Delhi University can be claimed under section 80G.

Question No.: 16.b.

AD Consumer Co-operative Society furnishes the following particulars of its income in respect of financial year ended on 31-3-2018, find tax liability of the co-operative society.

	₹
Income from business	**2,50,000**
Interest received on company deposits	**50,000**
Interest on deposit with banks	**10,000**
Income from letting of godown for storage of commodities (computed)	**20,000**

Answer:

Computation of taxable income of AD Consumer Co-operative Society for the A.Y. 2018-19

Particulars	**Amount**	**Amount**

Income from house property		
Income from letting of godown for storage of commodities		20,000
Profit and gains from business or profession		2,50,000
Income from other sources		
Interest received on company deposits	50,000	
Interest on deposit with banks	10,000	60,000
Gross total income		3,30,000
Less: Deduction u/s 80P		
Income from letting of godown for storage of commodities	20,000	
Income from activity other than specified activity (consumer co-operative society)	1,00,000	1,20,000
Total income		2,10,000
Tax liability (including education cess)		61,800

Question No.: 17

Shri Pankaj furnished the following information relevant for the assessment year 2018-19:

Profit & Loss A/c for the year ending 31.3.2018

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Household expenses	11,200	Gross Profit	2,69,000
Bad debts	600	Commission	5,000
Provision for bad debts	4,800	Sundry receipts	8,000
Fire insurance	1,000	Bad debts recovered (earlier allowed as deduction)	2,000
Salary to Staff	8,000	Interest on Govt. securities	17,000
Salary to Raman	3,000		
Contribution towards Unrecognised Provident fund	32,000		
Interest on overdraft from bank	6,000		
Interest on capital	13,000		
Interest on loan given by Raman's brother	1,000		
Depreciation on building and furniture	13,600		
Advertisement Revenue expenses	3,800		
Expenses on Neon sign board	1,000		
General expenses	4,700		

Net profit	**1,97,300**		
	3,01,000		**3,01,000**

Other information

1. **General expenses include personal expenses of ₹ 1,700.**
2. **Business income of ₹ 3,000, accrued during previous year ending 31.3.2018 is not recorded in the Profit and loss A/c.**
3. **Raman contributes ₹ 14,000 towards public provident fund**
4. **Depreciation on building and furniture comes to ₹ 3,000 according to the tax provisions.**

Determine the taxable income of Shri Pankaj for the assessment year 2018-19.

Answer:

Computation of Taxable Income of Shri Pankaj for the assessment year 2018-19

Profit and Gains from Business or Profession	₹	₹
Net Profit as per P & L A/c.		1,97,300
Add: Expenses/Payments not admissible:		
(1) Household expenses	11,200	
(2) Provision for bad debts	4,800	
(3) Salary to Raman	3,000	
(4) Contribution towards URPF	32,000	
(5) Interest on capital	13,000	
(6) Depreciation (in excess of tax provision i.e. ₹ 13,600 - ₹ 3,000)	10,600	
(7) General Expenses to the extent of personal expenses	1,700	76,300
		2,73,600
Add: Income not recorded in P&L A/c.		3,000
		2,76,600
Interest on Government securities		17,000
Business Income		2,59,600
Income from Other Sources: Interest on Government Securities		17,000
Gross Total Income		2,76,600
Less: Deduction under sections 80C (PPF)		14,000
Taxable Income		2,62,600

Expenses on neon sign and glow board shall be treated as revenue expenditure.

Assessment of Various Entities

Question No.: 18

Mr. X, a Government employee and a citizen of India, was sent to London on official duty, on 1.6.2017. He stayed there upto 31.1.2018. The salary and allowance drawn by him during this period are given below.

Particulars	**Amount (₹)**
4 months salary in India	**1,80,000**
8 months salary in London	**3.60,000**
Overseas allowance	**2,40,000**
Free residence in London (Rent ₹ 40,000 per month for 8 months)	**3,20,000**

He has a house property situated in Delhi which is self-occupied. During his stay in London his wife and children were staying in this property throughout the previous year. The fair rental value of the house is ₹ 56,000. He has paid ₹ 6,000 as municipal taxes and ₹ 2,000 as ground rent during the year.
He received dividend from and Indian company amounting to ₹ 2,200.
He has donated a sum of ₹ 60,000 to an institution to which section 80G is applicable.
Compute his Total Income for the assessment year 2018-19.

Answer:

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

	Particulars	**Amount (₹)**	**Amount (₹)**
I.	Income from Salary:		
	Salary in India	1,80,000	
	Salary in London	3,60,000	
	Overseas allowance (Exempt)	Nil	
	Value of free residence in London (Exempt)	Nil	
		5,40,000	
	Less: Deductions	Nil	5,40,000
II.	Income from House Property:		
	Self-occupied house		Nil
III.	Income from Other Sources:		
	Dividend		Exempt
	Gross total income		5,40,000
	Less: Deductions:		
	U/s 80G, 50% of ₹ 54,000 in respect of donation		27,000
	Total income		5,13,000

Allowances and perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India are exempt u/s 10(7). However salary paid outside India shall be taxable.

Question No.: 19

The following particulars are submitted by Mr. Ajay Baweja, aged 61 years for the assessment year 2018-19.

Particulars	**Amount (₹)**
1/2 share of profit of a firm	80,000
Income from House Property (computed)	1,35,000
Long term capital gains on transfer of equity shares sold on 2.12.2017 through a recognised stock exchange	40,000
Long-term capital gains on transfer of house	1,30,000
Lottery winning (Net, after TDS)	11,200
Life Insurance premium paid	25,000
Donations to National Children Fund	10,000
Royalty from books of literary nature	4,14,000

You are required to compute his total taxable income and his tax liability.

Solution

Computation of Total Income of Mr. Ajay Baweja for the assessment year 2018-19

Particulars	**Amount (₹)**	**Amount (₹)**
1. Income from House property {computed)		1,35,000
2. Income from profession		
Royalty from books		4,14,000
3. Capital Gains:		
Long term capital gains on transfer of shares	Exempt	
Long term capital gains on transfer of house	1,30,000	1,30,000
4. Income from Other Sources - Gross winning of lottery ₹ 11,200 × $\frac{100}{70}$		16,000
Gross Total Income		6,95,000
Less: Deduction		
U/s 80C	25,000	
U/s 80G (100% of ₹ 10,000)	10,000	
U/s 80QQB	3,00,000	3,35,000
Total Income		3,60,000
Computation of tax:		
Tax on lottery — 30% of ₹ 16,000		4,800
Tax on long-term capital gain [₹ 1,30,000 - 86,000 (₹ 3,00,000 - 2,14,000) 20% of ₹ 44,000]		8,800
Tax on balance income of ₹ 3,00,000		Nil
Total tax		13,600
Less: Rebate u/s 87A (Nil as the total income exceed ₹ 3,50,000)		---
		13,600
Add: Education cess & SHEC @ 3%		408
Total tax payable		14,008

Tax rounded off		14,010

Share of profit from a firm is exempt.

Question No.: 20

Mrs. Nikita is a Professor in the Department of Economics, in Delhi University. Following are the particulars of her income for the assessment year 2018-19:

(i) **Basic pay ₹ 60,000 per month;**
(ii) **Dearness allowance @ 30% of salary;**
(iii) **House Rent allowance 30% of basic salary;**
(iv) **Medical Allowance ₹ 500 p.m. (amount actually spent on her own treatment is ₹ 2,000);**
(v) **Wardenship Allowance ₹ 1,000 p.m.;**
(vi) **Rent from House property ₹ 2,000 p.m.;**
(vii) **Interest received from Government securities ₹ 5,000;**
(viii) **Dividend received from an Indian company ₹ 1,200;**
(ix) **Interest on Saving Bank Deposits ₹ 12,000.**
(x) **Contribution to Recognised Provident Fund 10% of basic salary;**
(xi) **Premium paid by cheque on medical insurance policy on health of dependent mother ₹ 5,000, ₹ 2,000 for dependent mother in law and ₹ 1,000 for dependent brother;**
(xii) **Donation to an approved charitable institution ₹ 1,00,000;**
(xiii) **House rent paid ₹ 28,000 p.m.**

Compute her total income for assessment year 2018-19.

Answer:

Computation of Total Income of Mrs. Nikita Gupta for the assessment year 2018-19

1.	Income from salary	**Amount** (₹)	**Amount** (₹)
	Salary @ ?60,000 p.m. (60,000 x 12)	7,20,000	
	D.A. @ 30% of salary	2,16,000	
	Wardenship allowance @ ₹ 1,000 p.m. (1,000 x 12)	12,000	
	House Rent allowance (see note below)	Nil	
	Medical Allowance (₹ 500 x 12)	6,000	
		9,54,000	
	Less: Deduction	Nil	9,54,000
2.	Income from House property		
	Rent from house property	24,000	
	Less: Standard deduction 30%	7,200	16,800
3.	Income from Other Sources		
	Interest from Government Securities	5,000	
	Dividend from an Indian company	Exempt	
	Interest on Saving Bank Deposits	12,000	17,000
	Gross Total Income		9,87,800
	Less: Deductions:		
	U/s 80C (RPF)	72,000	

	U/s 80D for Medical Insurance	5,000	
	U/s 80G for Donations — 50% of ₹ 90,800 {see Below)	45,400	
	U/s 80TTA	10,000	1,32,400
	Total Income		8,55,400

1. Qualifying limit for section 80G shall be 10% of Adjusted Gross Total Income i.e. ₹ 9,87,800 - ₹ 72,000 - ₹ 5,000 - ₹ 10,000 = ₹ 9,00,800

2. HRA is exempt to the extent of the minimum of following three limits:

(1)	Actual amount received 18,000 x 12	2,16,000
(2)	Rent paid — 10% of salary ₹ 3,36,000 - 72,000	2,64,000
(3)	50% of salary	3,60,000

Question No.: 21

From the following information, compute the total income and the tax payable by an individual for the assessment year 2018-19.

(a) Salary @ ₹ 30,000 p. m.
(b) Dearness allowance ₹ 10,000 p.m.
(c) He contributes 20% of his salary & D.A. to a recognised provident fund.
(d) Employers contribution to provident fund is 14% of salary and dearness allowances.
(e) Rent from house property ₹ 12,000 p.m.
(f) Interest from an Indian company, ₹ 50,000 (Gross)
(g) Life Insurance premium paid ₹ 4,000.

Answer:

Computation of Total Income of an Individual for the assessment year 2018-19

1. Income from Salary:	Amount (₹)	Amount (₹)
Salary (₹ 30,000 x 12)	3,60,000	
Dearness allowance (₹ 10,000 x 12)	1,20,000	
Contribution to R.P.F. by employer in excess of 12% (₹ 4,80,000 x 2/100)	9,600	
Gross salary	4,89,600	
Less: Deduction u/s 16	Nil	4,89,600
2. Income from house property		
Actual rent (₹ 12,000 x 12)	1,44,000	
Less: Standard deduction @ 30%	43,200	1,00,800
3. Income from Other Sources		
Interest from Indian Co.		50,000
Gross Total Income		
		6,40,400
Less: Deductions under section 80C (LIP — ₹ 4,000 + RPF — ₹ 96,000)		1,00,000

Total Income		5,40,400
Computation of tax:		
Tax on ₹ 5,40,400		20,580
Add: Education cess & SHEC @ 3%		618
Total tax payable		21,198
Tax rounded off		21,200

Question No.: 22

Mr. Rajat carries on his own business. For the year ending 31.3.2018 his Trading/Profit and Loss Account was as follows:—

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening stock	**2,20,000**	**Sales**	**2,12,89,000**
Purchases	**1,86,09,000**	**Closing stock**	**2,52,000**
Salaries	**2,56,000**	**Interest on Jay Co. Ltd. Debentures**	**2,000**
Rent	**2,31,000**	**Dividend from UTI**	**2,000**
Audit fee	**3,30,000**	**Discount received**	**12,000**
Bonus	**3,000**	**Race winning (Gross)**	**12,000**
Printing, Postage and stationery	**4,000**		
Miscellaneous expenses	**4,000**		
Advertisement expenses	**22,000**		
Drawings	**12,000**		
LIC premium	**5,000**		
Car expenses:			
Driver's salary	**6,000**		
Petrol & repairs	**12,000**		
Property tax	**4,000**		
Cost of NSC (VIII series)	**6,000**		
Net profit	**18,45,000**		
	2,15,69,000		**2,15,69,000**

Additional information

(a) Advertisement expenses included cost of 20 gift packs of ₹ 1,100 each presented to leading esteemed customers on occasion of Diwali.

(b) The car was used both for business and personal purposes. 2/3rd is for business purposes.

(c) The property tax of ₹ 4,000 was in respect of his self-occupied house whose rental value is ₹ 18,000.

(d) Rent paid includes ₹ 4,00,000 from which tax was deducted at source on 31-3-2018 but the same was deposited on 16-10-2018.

Compute the Gross Total Income and Total Income of Mr. Rajat for assessment year 2018-19 showing the incomes under various heads.

Answer:

Computation of Total Income of Mr. Rajat for the Assessment Year 2018-19

Profit and Gains from Business or Profession	₹	₹	₹
Net Profit as per P&L A/c.		18,45,000	

Add: Expenses/Payments not admissible			
Drawings	12,000		
LIC Premium	5,000		
Car expenses			
Driver salary (1/3)	2,000		
Petrol (1/3)	4,000		
Property Tax	4,000		
Cost of NSC	6,000		
30% of the rent of ₹ 4,00,000, TDS on account of which was deposited after due date of return u/s 13 9(1)	1,20,000	1,53,000	
		19,98,000	
Less: Incomes which are not taxable under this head			
Interest on debentures	2,000		
Dividend from U.T.I.	2,000		
Horse race income	12,000	16,000	
Income from Business			19,82,000
Income from Other Sources			
Interest	2,000		
Dividend from U.T.I.	Exempt		
Horse race income	12,000		14,000
Gross Total Income			19,96,000
Less: Deductions under Chapter VIA			
U/s 80C (LIC - ₹ 5,000 + NSC - ₹ 6,000)			11,000
Taxable income			19,85,000

Question No.: 23

X furnishes the following particulars for the previous year relevant to the assessment year 2018-19.

Profit and Loss A/c for the year ending 31.3.2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To salary to staff	22,000	By Gross Profit	2,50,00
To entertainment expenses	13,000		
To general expenses	11,000		
To bad debts	4,500		
To reserve for bad debts	10,000		
To advertisement expenses	7,000		
To interest on X's capital A/c.	3,000		

To expenditure on acquisition of patent's rights	**28,000**		
To telephone expenses	**12,000**		
To depreciation	**10,000**		
To provision for income-tax	**4,000**		
To net profit	**1,25,500**		
	2,50,000		**2,50,000**

Other information

1. **Salary to staff includes salary paid to a relative which is unreasonable to the extent of ₹ 3,100.**
2. **Provision for income-tax is excessive to the extent of ₹ 3,000.**
3. **Depreciation on tangible assets according to the income-tax provisions comes to ₹ 9,500.**
4. **During the previous year 2017-18 the following payments were made and the same have not been debited to profit and loss account of 2017-18.**
   (a) ₹ 3000 paid on 10.9.2017 on account of outstanding customs duty of the previous year 2016-17, and
   (b) ₹ 5,000 paid on 15.12.2017 on account of outstanding sales-tax of the previous year 2016-17.
5. **Patents were acquired on 4.11.2017**

Find out the taxable income of X for the assessment year 2018-19. Due date of filing return of income of assessment years 2017-18 and 2018-19 is 30th September of the relevant assessment year.

Answer:

Computation of Taxable Income of X for the assessment year 2018-19

Particulars	(₹)	(₹)
Profit and gains from business or profession		
Net Profit as per P & L A/c.		1,25,500
Add: Expenses/payments not admissible		
(1) Salary to a relative	3,100	
(2) Reserve for bad debts	10,000	
(3) Interest on X's capital A/c.	3,000	
(4) Expenditure on acquisition of patent rights	28,000	
(5) Depreciation (in excess of income-tax provisions)	500	
(6) Provision for income-tax (full amount)	4,000	48,600
		1,74,100
Less: Sales-tax for assessment year 2017-18	5,000	
Depreciation on patent rights 121/2% of ₹ 28,000	3,500	8,500

Income from business/Gross total income		1,65,600

1. ₹ 3,000 due on 31.3.2017 towards custom duty was paid on 10.9.2017 i.e. before 30th September, the due date of filing of the return of income and as such deduction must have been allowed in the assessment year 2017-18 itself.
2. ₹ 5,000 due on 31.3.2017 towards sales tax was paid on 15.12.2017 i.e., after the due date of filing the return of income of assessment year 2017-18 and as such deduction was not allowed in the assessment year 2017-18 as per provisions of section 43B. The deduction will however, be allowed in the previous year in which such payment is made.
3. Since the patents were acquired in November, 2017, it is put to use for less than 180 days, 50% of normal rate is applicable.

Question No.: 24

From the following information, compute the tax payable by R for the assessment year 2018-19:

(1) Listed share purchased on 31.08.2002 for ₹ 40,000 sold for ₹ 2,00,000 on 1.11.207 through a recognised stock exchange.

(2) Gold ornaments purchased for ₹ 2,00,000 on 1.9.2001 sold for ₹ 4,80,000 on 1.12.2017.

(3) His gross salary for the previous year ending 31.3.2018 was ₹ 2,60,000.

Answer:

Computation of total income and tax payable by R for the assessment year 2018-19.

Particulars	₹	₹	₹
Income under head "Salaries"			
Gross Salary	2,60,000		
Less: Deduction	Nil		2,60,000
Long term capital gain			
(a) From Shares			
Sold through recognized stock exchange		Exempt	
Long term capital gain/Loss from gold ornaments:			
Consideration price	4,80,000		
Less: Indexed Cost of acquisition 2,00,000x 272/100	5,44,000	(-)64,000	–
Total Income			2,60,000
Tax on 2,60,000			500
Less: Rebate u/s 87A			500
Tax payable			Nil

Notes:

1. LTCG on listed securities shall be exempt u/s 10(38)
2. LTCL of ₹ 64,000 on gold is not allowed to be set off from other sources. Hence, it shall be carried forward to claim it as set off from LTCG in subsequent years.

Income under Head Income from Other Sources

Question No.: 25

'R', a resident of India, purchased 1000 listed equity shares of ₹ 10 each at ₹ 115 per share from a broker on 5.4.2001. He paid ₹ 2,000 as brokerage. On 2.3.2003 he was given bonus shares by the company on the basis of one share for every 2 shares held. On 24.2.2017 he was given a right to acquire 1,000 right share @ ₹ 60 per share. He acquired 50% of the right shares offered and sold the balance 50% of the right for a sum of ₹ 60,000 on 3.4.2017. The right shares were allotted to him on 20.4.2017.

All the shares held by him were sold on 24.3.2018 @ ₹ 400 per shares.

Please compute capital gain and tax for the assessment year 2018-19 assuming that his income from other sources is ₹ 1,12,000.

Answer:

Particulars		₹	₹
Capital gain on original shares i.e. 1000 shares			
Full Value of consideration (₹ 1000 x 400)			4,00,000
Less: Indexed cost of acquisition ₹ 117000 x 272/100			3,18,240
Long-term capital gain after indexation			81,760
Long term capital gain (without indexation) ₹ 4,00,000 - 1,17,000 = 2,83,000			
Capital Gain on Bonus shares			
Full Value of consideration (₹ 500 x 400)			2,00,000
Less: Indexed cost of acquisition			Nil
Long-term capital gain with indexation			2,00,000
Long-term capital (without indexation) ₹ 2,00,000 - Nil = 2,00,000			
Capital Gain on right shares			
Full Value of consideration (₹ 500 x 400)			2,00,000
Less: Cost of acquisition (₹ 500 x 60)			30,000
Short-term capital gain			1,70,000
Capital gain on the sale of right			
Sale price			60,000
Less: Cost of acquisition			Nil
Short-term capital gain			60,000
Tax on long-term capital gain on shares	@ 20%	@ 10%	
	(after indexation)	(without indexation	
(i) Original shares	16,352	28,300	
(ii) Bonus shares	40,000	20,000	
Take in each case whichever is minimum			
Thus it will be ₹ 16,352 + 20,000			36,352
Tax on other income ₹ 1,12,000 + 1,70,000 + ₹ 60,000 =₹ 3,42,000			4,600

Tax			40,952
Add: Education cess & SHEC - @ 3%			1,229
Total tax payable			42,181
Total tax payable (rounded off)			42,180

Agricultural Income

Question No.: 26

The Total Income of Mrs. A, resident in India, computed for assessment year 2018-19 is ₹ 3,20,000 which includes long-term capital gains of ₹ 30,000 and winning of lotteries ₹ 20,000 and short-term capital gain covered under section 111A ₹ 10,000. Compute the tax payable assuming his agricultural income for the previous year was ₹ 2,50,000.

Answer:

Particulars	₹	₹
Step-1		
Add: Agricultural Income and Non Agricultural Income (2,50,000 + 3,20,000)		5,70,000
Tax on above income		
Tax on long-term capital gain of ₹ 30,000 @ 20%	6,000	
Tax on lottery income of ₹ 20,000 @ 30%	6,000	
Tax on short-term capital gain covered under section 111A 15% of ₹ 10,000	1,500	
Tax on balance income of ₹ 5,10,000 (including agricultural income)	14,500	28,000
Step-2		
Add maximum exemption limit to agricultural income (₹ 2,50,000 + ₹ 2,50,000)	5,00,000	
Tax on ₹ 5,00,000		12,500
Step-3		
Tax on non-agricultural income		
Tax under Step 1 - Tax under Step 2 (₹ 28,000 - ₹ 12,500)		15,500
Less: Rebate u/s 87A		2,500
		13,000
Add: Education cess and SHEC @ 3%		390
Total Tax Payable(Rounded off)		13,390

TDS,TCS, Administrative Procedure and ICDS

Question No.: 27

Write Short notes on the followings

a. **Return by whom to be verified**
b. **PAN**

c. **ICDS-1 on "Accounting Policies"**
d. **Deduction u/s 80E.**

Answer:

a. The return under section 139 shall be verified:

(a) in the case of an individual — (i) by the individual himself; or (ii) where he is absent from India, by the individual himself or by some person duly authorised by him on his behalf; or (iii) where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf and (iv) where, for any other reason it is not possible for the individual to verify the return, by any person duly authorised by him in this behalf.

In case of (ii) and (iv) above, the person verifying the return should hold a valid power of attorney from the individual to do so, which shall be attached to the return.

(b) in the case of a Hindu Undivided Family — only by the Karta. However, in the following two cases it can be verified by any other adult member of the family:

(i) where the Karta is absent from India; or

(ii) where the Karta is mentally incapacitated from attending to his affairs.

(c) in the case of a company — (i) by the managing director thereof, or (ii) where for any unavoidable reason such managing director is not able to verify the return, or where there is no managing director, by any director thereof or (iii) in the case of a company being wound up, by the liquidator or (iv) in case of a company whose management has been taken over by the Central Government or the State Government, by the Principal Officer thereof. However, if the company is non-resident in India, the return may be verified by a person who holds a valid power of attorney from such company to do so.

(d) in the case of a firm — (i) by the managing partner thereof, or (ii) where for any unavoidable reason, such managing partner is not able to verify the return, or where there is no managing partner as such, by any partner thereof, not being a minor;

(e) in the case of a limited liability partnership—by the designated partner thereof, or where for any unavoidable reason such designated partner is not able to verify the return, or where there is no designated partner as such, by any partner thereof;

(f) in the case of a local authority — by the principal officer thereof;

(g) in the case of a political party — by the chief executive officer of such party (whether such Chief Executive Officer is known as Secretary or by any other designation).

(h) in the case of any other association — by any member of the association or the principal officer.

(i) in the case of any other person — (i) by that person or (ii) by some person competent to act on his behalf.

b. Permanent account number [Section 139A]

(1) Who has to apply for PAN? [Section 139A(1)]: Every person who has not been allotted a permanent account number shall, within such time, as may be prescribed, apply to the Assessing Officer for the allotment of a permanent account number in the following cases:

(a) if his total income or the total income of any other person in respect of which he is assessable under this Act during any previous year exceeded the maximum amount which is not chargeable to income-tax; or

(b) if he is carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ` 5,00,000 in any previous year; or

(c) he is required to furnish a return of income under section 139(4A), *i.e.*, return of trust and charitable institutions.

(2) Power delegated to the Central Government to notify class or classes of persons for whom it will be obligatory to apply for permanent account number (*PAN) [Section 139A(1A)]*.

(3) Prescribing new class of persons for allotment of PAN and suo-moto allotment of PAN [Section 139A(1B)] The Central Government may, for the purpose of collecting any information which may be useful for or relevant to the purposes of this Act, by way of notification specify any class or classes of persons, and such persons shall within the prescribed time apply to the Assessing Officer for allotment of a permanent account number.

(4) PAN may be allotted by the AO [Section 139A(2)]: The Assessing Officer having regard to the nature of transactions as may be prescribed may also allot a permanent account number to any other person (whether any tax is payable by him or not) in the manner and in accordance with the procedure as may be prescribed.

(5) Person other than falling under section 139A(1) or (2) may apply for PAN [Section 139A(3)] Any person, not falling under section 139A(1) or section 139A(2) above, may apply to the Assessing Officer for the allotment of a permanent account number and, thereupon, the Assessing Officer shall allot a permanent account number to such person forthwith.

(c). ICDS-I on "Accounting Policies"

- Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation.
- The treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form.
- Marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

Fundamental Accounting Assumptions

The fundamental accounting assumptions i.e., Going Concern, Consistency and Accrual are assumed as followed. No specific disclosure is required, if these assumptions are followed, however, if such assumption are not followed, the fact shall be disclosed.

Change in Accounting Policies

An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies

- ✓ All significant accounting policies adopted by a person shall be disclosed.
- ✓ Any change in an accounting policy which has a material effect shall be disclosed (with quantum of the effect, if ascertainable). Where such amount is not ascertainable, the fact shall be indicated.
- ✓ Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

(d). Deduction u/s 87E

Applicable to

An Individual (irrespective of residential status and citizenship of the individual).

Conditions to be satisfied

1. Loan from specified institution: The assessee had taken a loan from -

- a financial institution; or

  Financial Institution means a banking company to which the Banking Regulation Act, 1949 applies (including any banking institution referred to in sec. 51 of that Act) or any other specified financial institution.
- an approved charitable institution

  Approved Charitable Institution means an institution established for charitable purposes and approved by the prescribed authority u/s 10(23C) or an institution referred to in Sec. 80G(2)(a)

2. Purpose of loan: The loan must have been taken for the purpose of pursuing higher education of himself/herself or for any other following persons:

a. Spouse **b.** Children (dependent or not); or **c.** the student for whom the individual is the legal guardian

"Higher education" means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorised by the Central Government or State Government or local authority to do so.

3. Payment of interest: The assessee pays interest on such loan.

4. Payment out of taxable income**:** The amount must be paid out of income chargeable to tax. However, it is not necessary that such income relates to the current year.

Quantum of deduction

Amount paid during the year by way of payment of interest.

Maximum permissible period for which deduction is available [Sec.80E(2)]

Deduction under this section shall be allowed for the initial assessment year and 7 assessment years immediately succeeding the initial assessment year$ or until interest is paid by the assessee in full, whichever is earlier.

$ *Initial Assessment Year* means the assessment year relevant to the previous year, in which the assessee starts repaying the loan or interest thereon.

Taxpoint

- ✓ *The deduction is available for a maximum period of 8 consecutive years.*
- ✓ *The period starts from the year in which the assessee starts paying the interest on such loan.*

Question No.: 28

Write short notes on the followings

a. Best Judgment Assessment

b. Retrenchment Compensation

c. ICDS-8 on "Securities"

d. Clubbing of Income of minor child

Answer:

a. Best Judgment Assessment (Section 144)

Under this section, assessment shall be made by the Assessing Officer to the best of his judgment after considering all relevant materials which he has gathered. Assessing Officer cannot reduce the tax liability of the assessee by assessment under this section.

Taxpoint: A refund cannot be granted u/s 144.

Situation in which it is applicable: In the following situations assessment shall be made under this section -

a. If the person fails to file the return u/s 139(1), 139(4) or 139(5); or

b. If the person fails to comply with the terms of notice u/s 142(1); or

c. If the person fails to comply with the directions u/s 142(2A) requiring him to get his accounts audited; or

d. If the person fails to comply with the terms of notice u/s 143(2), requiring his presence or production of evidence and documents.

Note: In any of the given situation, the Assessing Officer is under an obligation to make an assessment under this section. In other words, Best judgment assessment is not the discretionary power of the Assessing Officer but mandatory in nature.

Opportunity of being heard

The assessment u/s 144 can only be made after giving the assessee a reasonable opportunity of being heard. Such opportunity shall be given by serving a "Show cause notice" calling upon the assessee to show cause(s), on a date and time specified in the notice, why the assessment should not be completed to the best of judgment of the Assessing Officer.

Exception: Such opportunity need not be given, where notice u/s 142(1) has already been issued.

Time limit for completion of assessment [Sec. 153(1)]

18 months (from A.Y. 2019-20: 12 months) from the end of relevant assessment year

Other points

Non-maintenance of proper accounts: As per sec. 145(3), if the Assessing Officer is not satisfied with the correctness or the completeness of the accounts of the assessee or if no regular method of accountancy or accounting standards [as notified by the Central Government u/s 145(2)] is followed by the assessee, the Assessing Officer may make an assessment in the manner provided u/s 144.

b. Retrenchment Compensation

Retrenchment means cancellation of contract of service by employer.

Tax Treatment [Sec. 10(10B)]: Any compensation received by a worker at the time of retrenchment is exempted to the extent of minimum of the following:

a) Actual amount received;

b) ₹ 5,00,000; or

c) An amount calculated in accordance with the provisions of sec. 25F(b) of Industrial Dispute Act, 1947 (Under the said Act a workman is entitled to retrenchment compensation equivalent to 15 days' average pay, for every completed year of service or any part thereof in excess of 6 months).

Notes

- ✓ In case, where the compensation is paid under any *scheme approved by the Central Government* nothing shall be taxable.
- ✓ Compensation received by a workman at the time of closing down of the undertaking in which he is employed is treated as compensation received at the time of his retrenchment.

(c) ICDS-8 on "Securities"

Scope

- ✓ This part of the Standard deals with securities held as stock-in-trade. However, this part of the Standard does not deal with:
  - ❖ the bases for recognition of interest and dividends on securities;
  - ❖ securities held by a person engaged in the business of insurance;
  - ❖ securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013
- ✓ *Securities* shall have the meaning assigned to it in sec. 2(h) of the Securities Contracts (Regulation) Act, 1956 and shall include share of a company in which public are not substantially interested but shall not include derivatives.

Recognition and Initial Measurement of Securities

- ✓ A security on acquisition shall be recognised at actual cost i.e., its purchase price + acquisition charges such as brokerage, fees, tax, duty or cess.
- ✓ Where a security is acquired in exchange for other securities or other asset, the fair value of the security so acquired shall be its actual cost.
- ✓ *Fair value* is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
- ✓ Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

<u>Subsequent Measurement of Securities</u>

- ✓ At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower.
- ✓ The comparison of actual cost initially recognised and net realisable value shall be done categorywise (viz., shares; debt securities; convertible securities; and any other securities) and not for each individual security.

- ✓ Securities not listed on a recognised stock exchange or listed but not quoted on a recognised stock exchange shall be valued at actual cost initially recognised.

d. Clubbing of Income of minor child

Income of a minor child shall be clubbed with income of the parent whose total income (excluding this income) is higher.

Exceptions

The above clubbing provision shall not apply in the following cases -

1. The income arises or accrues to the minor child due to any manual work done by him; or

2. The income arises or accrues to the minor child due to his skill, talent, specialised knowledge or experience; or

3. The minor child is suffering from any disability of nature specified u/s 80U.

Exemption [Sec. 10(32)]

In case income of a minor child is clubbed in hands of parent as per provision of sec. 64(1A), the assessee (parent) can claim exemption of an amount being minimum of the following -

a) ₹ 1,500; or

b) Income so clubbed

Taxpoint: Such exemption shall be available for each child (irrespective of the number of children) whose income is so clubbed.

When marriage does not subsist between parents

In case marital relationship does not subsist at the time of accrual of income to the minor child, income of minor child shall be clubbed with income of that parent who maintains the minor child during the previous year.

Taxpoint: Income of the minor child shall be clubbed in hands of parent in the following manner -

Relation between parents	Tax treatment
When marriage subsists	With the income of that parent whose total income excluding this income is higher
When marriage does not subsist	With the income of that parent who maintains the minor child in the previous year

Notes

Clubbing in subsequent year(s)	Where any such income is once clubbed with the total income of either parent, then any such income arising in any subsequent years shall not be clubbed with the total income of the other parent, unless the Assessing Officer is satisfied. However, the Assessing Officer will do so only after giving an opportunity of being heard to the other spouse.
Child	Child in relation to an individual includes a stepchild & adopted child but does not include a grandchild [Sec. 2(15B)]
Income of married daughter	Though sec. 27(i) [Deemed owner of house property] specifically excludes married daughter but sec. 64(1A) does not have this exception, hence income arising to minor married daughter shall be clubbed in the hands of parent.
When neither	

<table>
<tr><td>of the parent is alive</td><td>Income of minor child cannot be added with the income of the guardian if the guardian is not the parent of the minor.</td></tr>
<tr><td>Capital gain</td><td>Profit on sale of the property, which is gifted to minor child, shall be clubbed in hands of parent as per the provision of sec. 64(1A)</td></tr>
<tr><td>Income of the year when minor attains majority</td><td>Income of that year shall be treated as under:
<table>
<tr><th>Income arose to the period</th><th>Clubbing provision</th></tr>
<tr><td>When child does not attain age of majority</td><td>Such income shall be clubbed in hands of parent</td></tr>
<tr><td>When child attains the age of majority and afterwards</td><td>Such income shall not be clubbed and taxable in hands of assessee himself (i.e. child)</td></tr>
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Question No.: 29
a. Quoting of Aadhaar Number
b. Deduction from salary
c. ICDS-IX on "Borrowing Cost"
d. Agricultural Income

Answer.

a. Quoting of Aadhaar number [Section 139AA] [W.e.f. 1.7.2017]

(1) Eligible person to quote Aadhaar Number [Section 139AA(1)]: Every person who is eligible to obtain Aadhaar number shall, on or after 1.7.2017, quote Aadhaar number—

(i) in the application form for allotment of permanent account number;

(ii) in the return of income:

However, where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted in the application for permanent account number or. as the case may be, in the return of income furnished by him.

(2) Eligible person to intimate Aadhaar Number [Section 139AA(2)]: Every person who has been allotted permanent account number as on 1.7.2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority in such form and manner as may be prescribed, on or before a date to be notified by the Central Government in the Official Gazette.

However, in case of failure to intimate the Aadhaar number, the permanent account number allotted to the person shall be deemed to be invalid and the other provisions of this Act shall apply, as if the person had not applied for allotment of permanent account number.

(3) Provisions not to apply to certain persons or a State [Section 139AA(3)]: The provisions of this section shall not apply to such person or class or classes of persons or any State or part of any State, as may be notified (See Notification No. 37/2017 in the box below) by the Central Government in this behalf, in the Official Gazette.

b. Deduction from salary

So far, we have discussed what are the various incomes, allowances and perquisites which are exempt and which are to be included in gross salary. From the gross salary so computed, the following two deductions are allowed under section 16:

(i) Entertainment allowance [Section 16 (ii))]

(ii) Tax on employment [Section 16(iii)]

Entertainment Allowance [Section 16(ii)]

Entertainment allowance is first included in computation of the gross salary. A deduction is then allowed under section 16(ii) if conditions prescribed have been satisfied.

Tax on Employment (Professional Tax) [Section 16(iii)]

As per the Constitution of India, the State Governments/Local Authorities are empowered to make law and collect taxes on professions, trades, callings and employment.

As per section 16(iii), a deduction of any sum paid by the assessee, on account of a tax on employment, shall be allowed. The deduction will be allowed in the year in which the tax is actually paid by the employee.

1. Where professional tax is paid by the employer on behalf of the employee, it will first be included in his gross salary as a perquisite, being a monetary obligation of the employee discharged by the employer. Thereafter, a deduction on account of such professional tax will be allowed to the employee from his gross salary.
2. Professional tax due but not paid shall not be allowed as deduction.

c. ICDS-IX on "Borrowing Cost"

Scope

The Standard deals with treatment of borrowing costs. However, the Standard does not deal with the actual or imputed cost of owners' equity and preference share capital.

- *Borrowing costs* are interest and other costs incurred by a person in connection with the borrowing of funds and include:
  a) commitment charges on borrowings;
  b) amortised amount of discounts or premiums relating to borrowings;
  c) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
  d) finance charges in respect of assets acquired under finance leases or under other similar arrangements.

Recognition

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.

- Qualifying asset means:
  a. land, building, machinery, plant or furniture, being tangible assets;
  b. know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;
  c. inventories that require a period of 12 months or more to bring them to a saleable condition.

Borrowing Costs Eligible for Capitalisation

Specific Borrowing: The extent to which funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.

Other than specific borrowing: The amount of borrowing costs to be capitalised shall be computed in accordance with this formula: A x B / C

A Borrowing costs incurred during the previous year except on specific borrowings

B
  i. the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year
  ii. in case the qualifying asset does not appear in the balance sheet of a person on the first day, half of the cost of qualifying asset; or
  iii. in case the qualifying asset does not appear in the balance sheet of a person on the last day of the previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be,

  excluding the extent to which the qualifying assets are directly funded out of specific borrowings

C the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than assets to the extent they are directly funded out of specific borrowings

Commencement of Capitalisation

The capitalisation of borrowing costs shall commence

- In case of specific borrowing : from the date on which funds were borrowed
- In case of other borrowing : from the date on which funds were utilised

Cessation of Capitalisation

Capitalisation of borrowing costs shall cease:

➢ In case of asset other than inventory	When such asset is first put to use
➢ In case of inventory	When substantially all the activities necessary to prepare such inventory for its intended sale are complete.

Disclosure

The following disclosure shall be made in respect of borrowing costs, namely:—

a) the accounting policy adopted for borrowing costs; and
b) the amount of borrowing costs capitalised during the previous year.

d. Agricultural Income

By virtue of sec. 2(1A), agricultural income means -

1. Any rent or revenue derived from a land, which is situated in India & is used for agricultural purposes;

Taxpoint:

- Rent may be in cash or in kind.
- Assessee may be the owner or tenant of such land.

2. Any income derived from such land by agriculture $

3. Any income derived from such land by the performance by –

a) a cultivator;

b) receiver of rent in kind;

- of any process ordinarily employed by a them to render the produce raised or received by him fit to be taken to market.

4. Any income derived from such land by the sale by

a) a cultivator of the produce raised by him; or

b) receiver of rent-in-kind of the produce received by him;

- in respect of which no process has been performed other than a process required to render it fit for the market.

Taxpoint: The process must be employed only to convert 'the produce or rent in kind' in marketable form. If marketing process is performed on the 'produce or rent in kind', which can be sold in its raw form in market, then income derived from such product is partly agricultural & partly non-agricultural income. (Detail discussion is given later in this chapter)

5. Any income derived from a building subject to fulfillment of the following conditions -

a) The building should be occupied by the cultivator or receiver of rent in kind.

b) The building should be on or in the immediate vicinity of the land, being situated in India and used for agricultural purposes.

c) The building should be used as dwelling house or store-house or other out building.

d) The land is either situated in –

i) Rural area; or

ii) Urban area[1] and assessed to land revenue / local rates.

Taxpoint:

- Where such land or building is used for non-agricultural purpose then any income derived from such land or building shall not be treated as agricultural income.
- Income derived from land being let out for storing crop shall not be agricultural income.
- Building should be owned and occupied by the land-holder if he receives rent or revenue from the land. On the other hand, in case of cultivator or receiver of rent in kind, it is enough that the building is occupied by him.

Question No.: 30.

a. Return of Income of Political Party

b. Is tax audit u/s 44AB is compulsory even if the accounts are audited under any other law or any other provision of IT Act

c. ICDS-X on "Contingent Assets"

d. Cost of Improvement.

Answer:

a. Return of Income of Political Party

The Chief Executive Officer of every political party, shall , if the total income of the political party (computed before allowing exemption under section 13A) exceeds the maximum amount not chargeable to income tax furnish a return of such income. It must submitted with the time period prescribed under section 139(1).

Note:

1. The due date of filing of return of income in case of a political party is 30th September, if it want to seek exemption under section 13A as in that case audit is compulsory. Otherwise the due date is 31st July.

2. Although income of a charitable trust or a political party may be exempt but retun of income must be filed if their income before claiming exemption under section 11,12,13A exceeds the maximum exemption limit

b. Is Tax Audit u/s 44AB is compulsory even if the accounts are audited under any other law or any other provision of IT Act

(i) Where accounts are audited under any other law: As per proviso 2 to section 44AB, in a case where such / person is required by or under any other law to get his accounts audited, it shall be sufficient compliance with the provisions of this Section, if such person gets the accounts of such business or profession audited under such law before the specified date and furnishes by that date the report of the audit as required under such other law and a

further report in the form prescribed (Form No. 3CA and 3CD) under this section.

(ii) Where accounts are audited and/or report/certificate of an accountant are required under other provisions of Income-tax Act: Under the provisions of sections 12A, 33AB, 33ABA, 35D, 35E, 36(1)(xi), 80-IA, 80-IB, 80-IC, 80-ID, 80JJA, 80JJAA and 142(2A) audit has to be conducted by a chartered accountant and the assessee has to obtain a report/ certificate from him and file the same along with the return of income. In this case also, if the accounts of the assessee are audited by the chartered accountant under any other law, it will be a sufficient compliance but separate report/certificate will have to be obtained for the relevant sections. However, if the accounts are audited only as per the above sections, a separate tax audit u/s 44AB shall be necessary. Conversely, if the audit is conducted u/s 44AB, a separate audit shall have to be conducted for the purpose of other sections.

c. ICDS-X on “Contingent Assets”

Scope

The Standard deals with provisions, contingent liabilities and contingent assets, except those:

a. resulting from financial instruments;
b. resulting from executory contracts;
c. arising in insurance business from contracts with policyholders; and
d. covered by another ICDS.

- *Provision* is a liability which can be measured only by using a substantial degree of estimation.
- Liability is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.
- Obligating event is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.

- Contingent liability is:
  a. a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the person; or
  b. a present obligation that arises from past events but is not recognised because:
     A. it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or
     B. a reliable estimate of the amount of the obligation cannot be made.
- Contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the person.
- Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
- Present obligation is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

Recognition

Provisions

A provision shall be recognised when:

a. a person has a present obligation as a result of a past event;
b. it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c. a reliable estimate can be made of the amount of the obligation.

No provision shall be recognised for costs that need to be incurred to operate in the future. It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions.

Contingent Liabilities

A person shall not recognise a contingent liability.

Contingent Assets

A person shall not recognise a contingent asset. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.

Measurement

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.

An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Review

Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

Use of Provisions

A provision shall be used only for expenditures for which the provision was originally recognised.

Disclosure

Following disclosure shall be made in respect of each class of provision:

a) a brief description of the nature of the obligation;
b) the carrying amount at the beginning and end of the previous year;
c) additional provisions made during the previous year, including increases to existing provisions;
d) amounts used, that is incurred and charged against the provision, during the previous year;
e) unused amounts reversed during the previous year; and
f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

d. Cost of Improvement.

(a) Where the capital assets become the property of the previous owner or the assessee bwfore 1.4.2001, it will be all capital expenditure incurred in making any additions or alterations to the capital assets on or after 1.4.2011 by the previous owner or the assessee.

Expenditure incurred by the assessee or the previous owner 1.4.2001 is to be completely ignored, whether the assessee opts for the market value as on 1.4.2001 or not.

(b) In other cases i.e assets acquired after 1.4.2001, all capital expenditure incurred in making any additions or alterations to the capital assets by the assessee after it became his property and where the capital asets became the property of the assessee by any mode specified in section 49(1), capital expenditure incurred by the previous owner also be treated as cost of Improvement.