INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER - 2017

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Wherever required, the candidate may make suitable assumption(s) and state the same clearly in the Answer.
Working Notes should form part of the relevant answer.
All questions relate to the Income-Tax Act, 1961.

All the questions relate to Assessment Year 2017-2018, unless otherwise stated.
Answer Question No. 1, which is compulsory and any five from Question No. 2 to Question No. 8.

1. (a) Choose the most appropriate alternative: **1×10=10**

(i) When Mr. Balu paid royalty to Dr. Peter of Sweden for use of know-how in India, such payment is
(A) exempt from tax.
(B) accruing in India.
(C) Accrues in Sweden.
(D) received in India.

(ii) In the case of foreign company with total income of more than ₹ 1 crore but less than ₹ 10 crores the surcharge leviable is at
(A) 5%
(B) 12%
(C) 2%
(D) 1%

(iii) Mr. Hari resident in India received ₹ 11 lakhs by way of dividend from Indian companies. Such dividend is
(A) exempt from tax.
(B) taxable at regular rates.
(C) taxable at maximum marginal rate.
(D) taxable at 10%.

(iv) When an employee receives money on closure of national pension system trust it is
(A) chargeable to tax.
(B) exempt from tax.
(C) 40% is exempt from tax.
(D) 60% is exempt from tax.

(v) When employer contributes to approved superannuation fund it is chargeable to tax as perquisite when the contribution exceeds
(A) ₹ 1,50,000
(B) ₹ 1,00,000
(C) ₹ 50,000
(D) ₹ 20,000

(vi) When the shares are held in unlisted company, it is treated as long term capital asset when the holding period exceeds
(A) 36 months.
(B) 24 months.
(C) 12 months.
(D) 6 months.

(vii) Long term capital gain arising from transfer of unlisted securities in the hands of non resident/foreign company is chargeable to tax at
(A) 10%
(B) 20%
(C) 30%
(D) 40%

(viii) Interest on housing loan taken by individual being his first residential house is eligible for deduction under section 80EE up to a maximum of
(A) ₹ 30,000
(B) ₹ 50,000
(C) ₹ 1,50,000
(D) ₹ 2,00,000

(ix) A start-up can claim deduction under section 80-IAC for ______ consecutive years beginning from the year in which the eligible start-up was incorporated.
(A) 1
(B) 2
(C) 3
(D) 5

(x) When the return of income for the assessment year 2017-18 is filed under section 139(4), the assesse can revise the return on or before
(A) 31.03.2018
(B) 31.12.2018
(C) 31.03.2019
(D) 31.12.2019

(b) Match the following: 1×5=5

(i)	Additional depreciation for plant used for more than 180 days	(a)	60%
(ii)	Basic exemption limit of income for resident individual being senior citizen	(b)	₹ 3,500
(iii)	Rate of tax for LLP	(c)	₹ 3,00,000
(iv)	Deprecation for computers	(d)	30%
(v)	Exemption in respect of Post office SB interest	(e)	20%

(c) State whether the following are True or False: 1×5=5
(i) Interest on deposit certificates issued under Gold Monetization Scheme, 2015 is exempt from tax.
(ii) The monetary limit of ₹ 5 lakhs in respect of gratuity received by an employee covered by Payment of Gratuity Act, 1972 is exempt from tax.
(iii) Medical insurance premium paid by son for parents who are senior citizens is deductible up to a maximum of ₹ 35,000.
(iv) In order to avail carry forward loss from house property, the return of income must be filed before the due date specified in section 139(3).
(v) 30% of the additional employee cost incurred by the employer is deductible under section 80JJAA.

(d) Fill in the blanks: 1×5=5
(i) When a director of a company received 30 lakhs by way of non-compete fee, it is taxable under the head ______________ .
(ii) When unrealized rent is received based on court decree but at the time of receipt the property was not owned by the assesse, it is taxable under the head __________ .
(iii) When Mr. Ashwin received ₹ 20,000 as scholarship for meeting the cost of education it is _______________.
(iv) The Income Computation Disclosure Standards (ICDS) will apply only when the assesse adopts ____________ method of accounting.
(v) Speculation loss can be carried forward for a maximum period of __________ (number of) years after the year of such loss.

Answer:

1. (a) (i) (B)
(ii) (C)
(iii) (D)
(iv) (C)
(v) (A)
(vi) (B)
(vii) (A)
(viii) (B)
(ix) (C)
(x) (C)

(b)

(i)	Additional depreciation for plant used for more than 180 days	(e)	20%
(ii)	Basic exemption limit of income for resident individual being senior citizen	(c)	₹ 3,00,000
(iii)	Rate of tax for LLP	(d)	30%
(iv)	Deprecation for computers	(a)	60%
(v)	Exemption in respect of Post office SB interest	(b)	₹ 3,500

(C) (i) True
(ii) False
(iii) False
(iv) False
(v) True

(d) (i) Profits and gains of business or profession
(ii) Income from house property
(iii) Exempt from tax (or exempt)
(iv) Mercantile (or accrual)
(v) 4

2. (a) Surbhi has two houses, both of which are self-occupied. You are required to compute Surbhi's income form house property for the Assessment Year 2017-18 and suggest which house should be opted by Surbhi to be assessed as self-occupied so that her tax liability is minimum. **6**

The particulars of these are given below:

	(Value in ₹)	
Particulars	**House-I**	**House-II**
Municipal Valuation per annum	**1,30,000**	**1,15,000**
Fair Rent per annum	**1,10,000**	**1,70,000**
Standard rent per annum	**1,00,000**	**1,65,000**
Date of completion	**31-03-1999**	**31-03-2001**
Municipal taxes payable during the year (paid for House II only)	**12%**	**8%**
Interest on money borrowed for repair of property during current year	**—**	**55,000**

(b) State the implications of the following transactions carried out by Kalai & Co. a partnership firm (Whose turnover always exceeded ₹ 500 lakhs) with reverence to the provisions applicable for the assessment year 2017-18: **9**

(i) Audit fees of ₹ 35,000 paid by electronic transfer but no tax was deducted at source.

(ii) Arrear salary of ₹ 60,000 paid in cash to an employee who was posted in a ship for 10 days continuously. Tax was deducted at source on the total salary paid to the employee during the year.

(iii) Lorry freight paid by cash ₹ 30,000.
(iv) ₹ 3 lakhs freight paid to Indian Railways without deduction of tax at source.
(v) Salary paid to a son of a partner ₹ 20,000 per month. The market rate of such salary for similar qualification is found to be ₹ 15,000 per month.
(vi) Income tax paid in cash ₹ 22,000.
(vii) Interest on term loan paid to Canara Bank ₹ 18,000 without deduction of tax at source.
(viii)Interest on capital paid to partners at 15% in accordance with the condition contained in the partnership deed.
(ix) Keyman insurance policy premium paid ₹ 40,000.

Answer:

2. (a) Surbhi has more than one house property for self-occupation. She can avail the benefit of self-occupation (i.e. benefit of "NIL" Annual Value) only in respect of one of the house properties, at her option. The other house property would be deemed to be let out property, in respect of which the expected rent would be the gross annual value. Surbhi should, therefore, consider the most beneficial option while deciding which house property should be treated by her as self-occupied.

Option 1 (House I opted to be self-occupied and house II deemed to be let out)

Income from house property for Assessment Year 2017-18

Particulars	₹
House I (Self-occupied) [Annual value is NIL]	Nil
House II (Deemed to be let-out) (See working note below)	54,060
Income from house property	54,060

Option 2 (House I -deemed to be let out and House II opted to be self-occupied)

Income from house property for Assessment Year 2017-18

Particulars	₹
House 1 deemed to be let out (see working below)	70,000
House II (Self-occupied) [Annual value is Nil, but deduction for interest would be available, subject to a maximum of ₹ 30,000 (loan being taken for repair of house property)	(30,000)
Income from house property	40,000

Since option 2 is more beneficial, Surbhi should opt to treat House II as self-occupied and house I is deemed to be let out, in which case her income from house property would be ₹ 40,000 for Assessment Year 2017-18.

Working note:
Computation of income from house I and house II assuming that both are deemed to be let out

Particulars	House 1 ₹	House II ₹
Gross Annual Value		
Expected rent is the gross annual value of house property.		
Expected rent = Higher of Municipal Value and Fair Rent, but restricted to Standard Rent	1,00,000	1,65,000
Less: Municipal tax (paid by the owner during the previous year)	Nil	9,200
Net Annual Value	1,00,000	1,55,800
Less: Deductions under section 24		
(a) 30% of NAV	30,000	46,740
(b)Interest on borrowed capital (allowed in full in case of	--	55,000

deemed let out property		
Income from house property deemed to be let out	70,000	54,060

(b) (i) **Audit fees of ₹ 35,000 paid by electronic transfer but no tax was deducted at source:** As the payment exceeded ₹ 30,000, tax is deductible at source under section 194J @10%. As the tax was not deducted, 30% of the expenditure is liable for disallowance as per section 40(a)(ia)

(ii) **Arrear salary of ₹ 60,000 paid in cash to an employee who was posted in a ship for 10 days continuously. Tax was deducted at source on the total salary paid to the employee during the year:** Where an employee is temporarily posted for a continuous period of 15 days or more in a place other than his normal place of duty or on a ship, payment of salary to such employee in cash is covered by rule 6DD, which provides exceptional circumstances where disallowance under section 40A(3) shall not be made. In this case, the employee was posted on a ship for 10 days continuously. Therefore, arrear salary of ₹ 60,000 shall be disallowed under section 40A(3).

(iii) **Lorry freight paid by cash ₹ 30,000:** As per proviso to section 40A(3) cash payment made for plying, hiring or leasing goods carriages exceeding ₹ 35,000 shall only be liable for disallowance. As the payment was made in cash for ₹ 30,000, the payment is eligible for deduction.

(iv) **₹ 3 lakhs paid to Indian Railways without deduction of tax at source:** As the payment was made to Indian Railways i.e. Government, tax is not deductible at source. Hence, the entire expenditure is allowable as deduction.

(v) **Salary paid to son of a partner ₹ 20,000 per month. The market rate of such salary for similar qualification is found to be ₹ 15,000:** Where payment is made to a relative of a partner and the Assessing Officer is of the opinion that such payment is excessive or unreasonable having regard to the market value of goods or services received, such excess or unreasonable amount is disallowed under section 40A(2). Hence, the excess salary of ₹ 60,000 is to be disallowed.

(vi) **Income tax paid in cash ₹ 22,000:** It is liable for disallowance regardless of mode of payment, as income tax is disallowed under section 40(a)(ii).

(vii) **Interest of term loan paid to Canara Bank ₹18,000 without deduction of tax at source:** As per section 194A, tax is not required to be deducted at source from interest paid to bank governed by Banking Regulation Act, 1949. Hence, no disallowance under section 40(a)(ia) is called for.

(viii) **Interest on capital paid to partners at 15% in accordance with the condition contained in the partnership deed:** Though the payment of interest is in accordance with partnership deed, the excess of interest over 12% is liable for disallowance, since section 40(b) prescribes the ceiling at 12%.

(ix) **Keyman insurance policy premium paid ₹ 40,000:** The payment of insurance premium under keyman insurance policy is made wholly and exclusively for the purpose of business and hence the same is eligible for deduction u/s 37(1).

3. (a) Mr. Rajiv, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.03.2017:

Sl. No.	Particulars	₹	₹
(i)	**Interest on capital received from XYZ & Co., at 15%**		**1,50,000**
(ii)	**Interest form bank on fixed deposit (Net of TDS ₹ 1,500)**		**13,500**
(iii)	**Income-tax refund received relating to assessment year 2014-15 including interest of ₹ 2,300**		**34,500**
(iv)	**Net Profit from wholesale business Amounts debited include the following:**		**5,60,000**
	Depreciation as per books	**34,000**	
	Motor car expenses	**40,000**	
	Municipal taxes for the shop (For two half years: payment for one half year made on 12.07.2017 and for the other on 31.12.2017)	**7,000**	

	Salary to manager by way of a single cash payment	**21,000**	
(v)	**The WDV of the assets (as on 01.04.2016) used in above wholesale business is as under:**		
	Computers	**1,20,000**	
	Motor Car (20% used for personal use)	**3,20,000**	
(vi)	**LIP paid for independent son**	**60,000**	
	PPF of his wife	**70,000**	

You are required to compute the total income of the Mr. Rajiv for the assessment year 2017-18 and the closing WDV of each block of assets. **9**

(b) Examine the applicability of TDS provisions for the financial year 2016-17 and amount of tax, if any, to be deducted in the following cases: **6**

(i) Payment of fee for technical services of ₹ 22,000 and royalty of ₹ 25,000 to Mr. Ram who is having PAN.

(ii) Payment of ₹ 2,00,000 made to Mr. X for purchase of diaries made according to specifications of M/s ABC Ltd. However, no material was supplied for such diaries to Mr. X by M/s ABC Ltd.

(iii) Rent paid for plant and machinery ₹ 1,50,000 by a partnership firm having sales turnover of ₹ 25,00,000 and net loss of ₹ 15,000.

Answer:

3. (a)

Computation of total income of Mr. Rajiv for Assessment Year 2017-18

Particulars	₹	₹
A. Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books		5,60,000
Add: Depreciation as per books	34,000	
Disallowance of municipal tax for second half under section 43B, as the payment was made after the due date for filing the return of income (₹ 7,000/2)	3,500	
Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 20,000	21,000	
20% of car expenses for personal use disallowed u/s 37(1)	8,000	66,500
		6,26,500
Less: Depreciation allowable under the Income-tax Act		
On computers: ₹ 1,20,000 x 60%	72,000	
On Motor Car : ₹ 3,20,000 x 15% ₹ 48,000		
Less: Disallowance for personal use (20%) ₹ 9,600	38,400	1,10,400
		5,16,100
Income from firm: Interest from partnership firm to the extent of 12% allowed in the hands of the firm (₹ 1,50,000x12/15)		1,20,000
Business Income (A)		6,36,100
B. Income from other sources:		
Interest on bank fixed deposit	15,000	
Interest on income-tax refund	2,300	17,300
Gross total income (A + B)		6,53,400
Less: Deduction under section 80C		
LIP for independent son	60,000	
Contribution to PPF in wife's name	70,000	
Since the maximum deduction under section 80C and 80CCE is ₹ 1,50,000, the entire sum of ₹ 1,30,000 is deductible	1,30,000	1,30,000
Total income		5,23,400

Closing WDV as on 31-03-2017:

Computers (₹ 1,20,000 - ₹ 72,000)	₹ 48,000
Motor Car (₹ 3,20,000 - ₹ 38,400)	₹ 2,81,600

(b) (i) As per section 194J, liability to deduct tax is attracted only in case the amount paid or payable as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year.
In the given case, since the individual payment for fees for technical services i.e. ₹ 22,000 and that for royalty i.e. ₹ 25,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source.

(ii) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.
Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. X, since the contract is a contract for sale.

(iii) As per section 194-I, tax is to be deducted at source @ 2% on payment of rent for plant and machinery, only if the payment exceeds ₹1,80,000 during the financial year.
Since rent of ₹ 1,50,000 paid by a partnership firm does not exceed ₹ 1,80,000, tax is not deductible.
Amount of turnover and the amount of profit/loss are not relevant.

4. (a) Following is the Profit and Loss Account of Mr. Abdul for the year ended 31.03.2017:

Particulars	**₹**	**Particulars**	**₹**
To Staff Salary	**4,85,000**	**By Gross Profit**	**14,48,800**
To Shop rent	**1,20,000**	**By Post office SB A/c interest**	**14,200**
To Admin. Expenses	**2,96,000**	**By Dividend from listed Indian Companies**	**43,000**
To Drawings	**96,000**	**By Bank SB interest**	**12,000**
To Depreciation	**2,22,000**		
To Medical Expenses	**37,000**		
To Net Profit	**2,62,000**		
	15,18,000		**15,18,000**

Additional information:

(i) Shop rent was paid to wife of Mr. Abdul and ₹ 60,000 is found to be excessive payment considering its size and location.

(ii) Depreciation allowable under the income-tax rules works out to ₹ 1,81,000.

(iii) Medical expenses include expenditure for family members of ₹ 16,000. Balance relate to staff medical expenses.

(iv) Drawings denote personal expenses of the proprietor.

(v) During the year he acquired a residential house for ₹ 20 lakhs which included stamp duty and registration fee of ₹ 1,60,000.

You are requested to compute the total income of Mr. Abdul for the assessment year 2017-18. 7

(b) Mr. Mohan is sales manager in Steel King (P) Ltd. at Chennai. During the financial year 2016-17, he gets the following emoluments from his employer:

Particulars	**₹**
Basic salary upto 30.09.2016	**20,000 p.m.**
From 01.10.2016	**30,000 p.m.**
Dearness allowance @ 50% basic salary [it is not eligible retirement benefits]	
Transport allowance	**2,000 p.m.**
Children education allowance (for 2 children)	**1,000 p.m.**
Tiffin allowance (actual expenses ₹ 9,000)	**15,000**
Tax paid on employment	**3,000**

Contribution to recognized provident fund by the employer @ 15% of basic salary.	
An unfurnished accommodation taken on lease by the employer was given to the employee for the whole year. Lease rent paid by the employer ₹1,80,000. Amount recovered from the employee ₹2,000 per month.	
Domestic servant salary reimbursed by the employer as per employment agreement.	**5,000 p.m.**

Compute the salary income of Mr. Mohan for the assessment year 2017-18. **8**

Answer:

4. (a)

Computation of Total Income of Mr. Abdul for the Assessment Year 2017-18

Particulars	₹	₹
A. Profits and gains of business or profession		
Net profit as per Profit & Loss Account		2,62,000
Add: Depreciation debited to Profit & Loss Account	2,22,000	
Rent to wife-excess payment disallowed u/s 40A(2)	60,000	
Medical expenses for family members-disallowed u/s 37(1)	16,000	
Drawings debited to Profit & Loss Account	96,000	3,94,000
		6,56,000
Less: Depreciation as per Income-tax rules	1,81,000	
Post office SB A/c interest	14,200	
Dividend from Indian companies-exempt u/s 10(34)	43,000	
Bank SB Interest	12,000	2,50,200
Business income		4,05,800
B. Income from other sources		
Post office SB account interest ₹14,200 less exemption under section 10(15) of ₹ 3,500	10,700	
Bank SB interest	12,000	22,700
Gross Total Income		4,28,500
Less: Deduction under section 80C in respect stamp duty on residential house ₹1,60,000, but deduction is limited to ₹ 1,50,000	1,50,000	
Deduction under section 80TTA in respect of Bank SB Interest	10,000	1,60,000
Total Income		2,68,500

(b)

Computation of salary income of Mr. Mohan for the Assessment Year 2017-18

Particulars	₹	₹
Basic salary (₹ 20,000 x 6) + (₹ 30,000 x 6)		3,00,000
Dearness allowance @ 50% of basic salary		1,50,000
Transport allowance ₹ 2,000 x 12	24,000	
Less: Exemption under section 10(14): ₹ 1,600 x 12	19,200	4,800
Fixed Tiffin allowance-fully taxable		15,000
Children education allowance	12,000	
Less: Exemption under section 10(14): ₹ 100 x 2 x 12	2,400	
		9,600
Tax on employment paid by the employer-perquisite u/s 17		3,000
Contribution of employer to employees' provident fund in excess of 12% is taxable [3% of ₹ 3,00,000]		9,000
Value of rent free accommodation:		
Actual amount of lease rent ₹ 1,80,000		
15% of salary (i.e. ₹3,00,000+ ₹4,800 + ₹15,000+₹9,600) ₹ 49,410		
Lower of above	49,410	

Less: Amount recovered from the employee @ ₹ 2,000 per month	24,000	
		25,410
Reimbursement of salary of domestic servant (₹ 5,000 x 12)		60,000
Gross salary		5,76,810
Less: Deduction under section 16 in respect of professional tax paid		3,000
Taxable salary		5,73,810

5. (a) State the taxability of the following transactions for the assessment year 2017-18: **2x6=12**

(i) Mr. Ashok acquired a vacant site from Mr. Brijesh (non relative) for ₹ 6 lakhs when the stamp duty valuation of the vacant site on the date of registration of document was ₹ 10 lakhs.

(ii) Rosy & Co. a partnership firm engaged in trading of vacant lands. It sold vacant land for ₹ 40 lakhs when the stamp duty valuation of the lands was ₹ 55 lakhs.

(iii) Ms. Janaki received family pension of ₹ 84,000.

(iv) Ms. Jency got gift of 500 listed equity shares of a company from her husband when the market value of the share was ₹ 150 per share. After a month, the company issued bonus shares in 1:1 ratio. The original shares were acquired by her husband 4 months before the date of gift for ₹ 50,000. All the 1000 shares were sold for ₹ 1,50,000 through off-market transaction. How much is taxable and in whose hands it is taxable as income?

(v) Mr. Jayaram retired from a nationalized bank on 30.11.2016, sold his motor car for ₹ 5 lakhs. The Car was used by him for the last 5years and was received as gift from his brother who acquired the car for ₹ 10 lakhs on 10.01.2010.

(vi) Mr. Vasu acquired an agricultural land situated in a village (rural area) for ₹ 10 lakhs from Mr. Sundar (non relative) when the stamp duty valuation on the date of registration of document was ₹ 12 lakhs.

(b) Mr. Vidyasagar received following gifts during the financial year 2016-17:

(i) Gift on the occasion of marriage from friends ₹ 70,000.

(ii) Gift on the occasion of birthday from friends ₹ 55,000.

(iii) Gift from maternal uncle on birthday ₹ 35,000.

(iv) Gift of motor car by grandfather's younger brother. Fair market value of the car on the date of gift ₹ 3,50,000.

Compute the amount of gifts includible in the total income of Mr. Vidyasagar for the financial year 2016-17. **3**

Answer:

5. (a) (i) ₹ 4 lakhs is taxable under the head "income from other sources" in the hands of Ashok under section 56(2).
For the purpose of computing capital gain in the hands of Mr. Brijesh, the deemed sale consideration would be ₹ 10 lakhs as per section 50C.

(ii) Even where the immovable property being land or building or both is dealt with as stock-in-trade of a business, as per section 43CA the difference between stamp duty value and the actual consideration would be taxable as income from business.
Hence, ₹ 15 lakhs would be taxable as business income under section 43CA in the hands of Rosy & Co.

(iii) As per section 57(iia) on family pension a standard deduction shall be allowed to Mr. Janaki @ 33 1/3% of such pension or ₹ 15,000, whichever is less.
Therefore, the balance amount of ₹ 69,000 is taxable under the head "income from other sources in the hands of Ms. Janaki.

(iv) Short-term capital gain arising from sale of original shares gifted i.e., ₹ 25,000 (₹

75,000 - ₹ 50,000) shall be taxed in the hands of husband of Ms. Jency under section 64.

Capital gain attributable to bonus shares will not be liable for clubbing under section 64 since it is an accretion to the original shares. Therefore, ₹ 75,000 being the sale consideration from sale of bonus shares whose cost of acquisition is Nil is taxable in the hands of Ms. Jency as short-term capital gain.

(v) As per section 2(14), "capital asset" does not include personal effects (i.e. moveable property held for personal use).

Since Mr. Jayaram was an employee, the motor car constituted his personal effect. Therefore, sale of motor car shall not result in capital gain.

(vi) The term "property" as defined in section 56(2)(vii) does not include rural agricultural land which is not a "capital asset".

Regardless of whether the transaction is between relatives or not, the difference between the stamp duty value and the sale consideration is not liable to tax.

(b)

Particulars	₹
Gift on occasion of marriage from relatives and friends-fully exempt	Nil
Gift on the occasion of birth day from friends-taxable	55,000
Gift from maternal uncle who is covered by the definition of relative. Hence, it is exempt	Nil
Grandfather's younger brother is not covered by the definition of "relative". However, motor car is not covered by in the definition of the term "property" in Explanation to section 56(2)(vii)	Nil
	55,000
As the aggregate amount of gift chargeable to tax exceeds ₹ 50,000, the entire amount is includible in the total income of Mr. Vidyasagar.	

6. (a) Mr. Rahman furnishes you the following information for the financial year 2016-17:

Particulars	**₹**
Loss from speculation business-A	**80,000**
Profit from speculation business-B	**40,000**
Loss from self occupied house property	**1,80,000**
Income from let out house property	**4,00,000**
Income from trading and manufacturing business @ 8%	**2,00,000**
Salary income	**3,70,000**
Interest on PPF deposit	**65,000**
Long term capital gain on sale of vacant site	**1,10,000**
Short term capital loss on sale of jewellery	**50,000**
Investment in tax saver deposit on 31.03.2017	**60,000**
Brought forward loss of business of assessment year 2011-12	**1,00,000**
Donation to a charitable trust recognized under section 12AA and approved under section 80G	**1,40,000**
Enhancement compensation received from Government for compulsory acquisition of lands in the year 2004.	**3,00,000**

You are requested to compute the total income of Mr. Rahman for the financial year 2016-17 and any loss eligible for carry forward. 8

(b) Mr. Gangai Amaran (age 50) incurred following expenditures during the financial year: 2016-17:

Sl. No.	**Particulars**	**₹**
(i)	**Medical expenditure on the treatment of his non-dependent father (age 82)**	**30,000**
(ii)	**Medical expenditure on treatment of his non-dependent mother (age 73)**	**25,000**
(iii)	**Medical expenditure for a surgery undergone by himself**	**50,000**

(iv)	**Medical insurance premium for non-dependent mother (age 73)**	**35,000**
(v)	**Medical insurance premium for self (paid by cheque)**	**27,000**
(vi)	**Preventive medical health check-up paid in cash for himself.**	**7,000**

Compute the amount eligible for deduction under section 80-D for the financial year 2016-17. **7**

Answer:

6. (a)

Computation of total income of Mr. Rahman for the Assessment Year 2017-18

Particulars	₹	₹
Salary income		3,70,000
Income from house property:		
Income from let out property	4,00,000	
Loss from self-acquired property	(1,80,000)	
		2,20,000
Profits and gains from business or profession:		
Loss from speculation business-A	(80,000)	
Profit from speculative business-B	40,000	
Loss to be carried forward	(40,000)	
Income from trading and manufacturing business	2,00,000	
Less: brought forward business loss of Assessment Year 2011-12	1,00,000	
		1,00,000
Capital Gain:		
Long-term capital gain on sale of vacant site	1,10,000	
Less: set-off of short-term capital loss on sale of jewellery	50,000	
	60,000	
Enhanced compensation received from Government for compulsory acquisition of land u/s 45(5)-Cost is deemed to be Nil	3,00,000	
		3,60,000
Income from other sources:		
Interest of PPF deposit - exempted		Nil
Gross Total Income		10,50,000
Less: Deduction u/s 80C in respect of tax saver deposit		60,000
		9,90,000
Less: Deduction under section 80G in respect of donation to approved charitable institution : Amount of donation	1,40,000	
Limited to 10% of total income before deduction under section 80G which is ₹ 99,000	99,000	
Deduction @ 50% of ₹ 99,000		49,500
Total Income		9,40,500

(b)

Computation of deduction under section 80-D for the Assessment Year 2017-18

	Particulars	Reason	₹
(i)	Medical expenditure on the treatment of his non-dependent father (age 82)	Eligible for deduction as he is a very senior citizen. Also because no amount was paid towards his health insurance.	30,000
(ii)	Medical expenditure on treatment of his non-dependent mother (age 73)	Not deductible as she is not a very senior citizen.	Nil
(iii)	Medical expenditure for a surgery undergone by himself (age 50)	Not deductible as he is not a very senior citizen	Nil
(iv)	Medical insurance premium for non-dependent mother (age 73)	It is deductible even though she is not dependent on him. But limited to ₹	Nil

		30,000 but since the limit has been exhausted in (i) above, no further deduction is allowable.	
(v)	Medical insurance premium for himself paid by cheque.	Eligible, but limited to ₹ 25,000	25,000
(vi)	Preventive medical health check up paid in cash for himself	Eligible but limited to ₹ 5,000. But as the entire amount of Rs. 25,000 has already been exhausted in (v) above, no further deduction is allowed	Nil
		Total deduction	55,000

7. (a) MSV Ltd. gives you the following information for the year ended 31.03.2017:

Particulars	**₹**
Net profit as per Statement of Profit and Loss	**50,00,000**
The following expenses are debited to statement of Profit and Loss:	
Capital expenditure incurred for promoting family planning among employees	**2,00,000**
Interest paid for delayed payment of consideration for purchase of machinery to the supplier being a unit under the MSMED Act, 2006. The machinery is eligible for depreciation @ 15%.	**3,00,000**
Donation to political parties (by cheque)	**1,00,000**
Expenditure incurred for issue of bonus shares	**75,000**
Cost of know-how acquired from Dr. Singhania on 01.06.2016	**4,00,000**
The following items are credited to Profit and Loss Account:	
Electricity subsidy refunded during the year	**60,000**
Bad debt written off and was allowed earlier, recovered now.	**90,000**
Dividend received from subsidiary company Vijay (P) Ltd.	**50,000**

You are requested to compute the income of the company for the Assessment Year 2017-18. **7**

(b) You are requested to state whether the following will attract penalty provisions for the financial year 2016-17. **4x2=8**

(i) Mr. Jayant whose turnover was ₹ 150 lakhs for the financial year 2016-17 admitted income as per books of account as ₹ 6,50,000. The return was filed without getting the books of account audited under section 44AB.

(ii) Mr. Maheswari received ₹ 5 lakhs by cash on 01.10.2016 for sale of an apartment at Thane to Mr. Mahesh. As the agreement between the parties got cancelled, Mr. Maheswari refunded the advance by account payee cheque on 01.02. 2017.

Answer:

7. (a)

Computation of total income of MSV Ltd for the Assessment Year 2017-18

Particulars	₹
Net profit as per Statement of Profit and Loss	50,00,000
Add:	
Capital expenditure incurred for promoting family planning among employees is eligible for deduction in 5 annual installments under section 36(1)(ix). Hence 4/5th disallowed	1,60,000
Interest paid for delayed payment of consideration for purchase of machinery to the supplier being MSMED Act, 2006 is not deductible	3,00,000
Donation to political parties by cheque considered separately under section 80GGB	1,00,000
Expenditure incurred for issue of bonus shares is a revenue expenditure	Nil

deductible under section 37(1) as the issue does not expand the capital base of the company through fresh inflow of funds	
Cost of know how acquired from Dr. Singhania on 01.06.2016 being a capital expenditure is not allowable under section 37(1)	4,00,000
	59,60,000
Less:	
Electricity subsidy refunded during the year being a revenue subsidy chargeable to tax. As the amount has already been credited to Statement of Profit and Loss, no adjustment is required.	Nil
Bad debts written off and allowed recovered now is chargeable to tax under section 41(4). As the amount has already been credited to the Statement of Profit and Loss, no adjustment is required	Nil
Dividend received from subsidiary company, Vijay (P) Ltd. is exempted under section 10(34) and hence the same is to be excluded.	50,000
Depreciation on know-how @25% under section 32	1,00,000
Gross Total Income	58,10,000
Less: Deduction under section 80GGB in respect of donation to political parties	1,00,000
Total Income	57,10,000

(b) (i) In the case of an assessee whose turnover exceeds ₹ 100 lakhs, the books of account have to be audited under section 44AB.
Where the assessee opts to admit income under section 44AD, then the turnover up to ₹ 200 lakhs is eligible for presumptive income determination at 8%.
In this case, Mr. Jayant's turnover is ₹ 150 lakhs and hence can offer income under section 44AD at 8% of the turnover. (The presumptive income shall be 6% of the turnover where the sale proceeds are received through banking channel)
However, without getting the books of account audited Mr. Jayant has filed the return by admitting the income at ₹ 6,50,000 which is less than 8% of ₹ 150 lakhs.
As the books of account were not audited then the penalty imposable would be 0.5% of the turnover or ₹ 1,50,000, whichever is less. (Section 271B)

(ii) When a person receives money whether as advance or otherwise, in relation to transfer of immovable property and the sum is ₹ 20,000 or more it must be by means of account payee cheque or account payee bank draft or use of electronic clearing system through a bank account (Section 269SS)
For contravention of section 269SS the penalty imposable under section 271D is equivalent to the sum so accepted.
Therefore, Mr. Maheswari who accepted ₹ 5 lakhs in cash as advance for transfer of immovable property will be liable for penalty of ₹ 5 lakhs under section 271D.
He has repaid the amount by account payee cheque and hence the repayment is not in contravention of section 269T and hence is not liable for penalty.

8. Write short notes on any three of the following: 5×3=15

(a) State the type of assesses to whom the Income Computation Disclosure Standards (ICDS) apply?

(b) Who must sign the return of income in the following cases:
(i) Hindu undivided family when karta is bedridden.
(ii) Local authority.
(iii) Political party.
(iv) Limited Liability Partnership.
(v) Association of persons

(c) Revised return.

(d) Advance tax for senior citizens being resident / non-resident.

Answer:

8. (a) Applicability of ICDS

It is applicable to persons having income under the head "profits and gains of business or profession" and / or "Income from other sources".

it is applicable only to those who follow mercantile system of accounting. It does not apply to those who follow cash system of accounting.

It is applicable for limited purpose of adjusting the income chargeable to tax and does not mandate maintenance of books of account as per ICDS,

Wherever there is conflict between the provisions of law and ICDS, the provisions of law would prevail.

Wherever there is conflict between the court decisions and ICDS, the ICDS being latest one would prevail over the court decisions. It is applicable from Assessment Year 2017-18 onwards.

(b) (i) **Hindu undivided family when Karta is bedridden:** Where the Karta is absent from India or is mentally incapacitated from attending to his affairs, any other adult member of such family must sign the return of income-section 140.

(ii) **Local authority:** Return of income is to be signed by the Principal Officer - section 140.

(iii) **Political Party:** Chief executive officer of such party (whether known as secretary or any other designation) must sign the return of income-section 140.

(iv) **Limited Liability Partnership:** Return of income is to be signed by a designated partner or where for any unavoidable reason such designated partner is not able to sign or where there is no designated partner, it can be signed by any partner thereof-section 140.

(v) **Association of persons:** Return must be signed by any member of the association or the principal Officer thereof-section 140.

(c) Revised Return [section 139(5)]

When a person has furnished a return under section 139(1) (i.e. within prescribed time limit) or a belated return under section 139(4) he can file a revised return.

The filing of revised return is to correct any omission or wrong statement therein.

The time limit is any time before expiry of one year from the end of the assessment year or before the completion of assessment, whichever is earlier.

Assessment for this purpose means regular assessment under section 143(3) or best judgment assessment under section 144. In other words the assessee can file a revised return of income after completion of summary assessment under section 143(1) but before completion of regular assessment under section 143(3) or best judgment assessment under section 144.

The assessee can revise his return for more than once within the time prescribed in section 139(5).

(d) Advance tax for senior citizen

Advance tax is payable by an assessee where the total tax liability after deduction of TDS/TCS is more than ₹ 10,000-section 208.

However, individuals, who are resident, are exempted from paying advance tax in the following cases (section 207):

(i) They do not have income chargeable under the head "profits and gains from business or profession and

(ii) They have attained the age of 60 years or more at any time during the previous year.

In the case of non-resident there is no exemption from payment of advance tax.

Whether or not such non-resident senior citizen has business or professional income has to pay advance tax, when tax liability exceeds ₹ 10,000.