

Paper 7- Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

All Questions relate to Income Tax Assessment Year 2022-23 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the Question.

PART – I

Answer Question Number 1. All parts of this question are compulsory.

1. (a) Choose the most appropriate alternative for the following: [1×10=10]
- (i) The return of income tax of PF Ltd. has been filed on 30th December, 2022 for A.Y. 2022-23. As per section 143(3) the notice for scrutiny assessment can be served on the assessee up to-
 - (a) 31st December 2023
 - (b) 30th June 2023
 - (c) 31st March 2023
 - (d) 30th September 2024
 - (ii) Which of the following can be carried forward though the return of income has not been filed?
 - (a) Unabsorbed depreciation
 - (b) Current year depreciation
 - (c) Brought forward business loss
 - (d) All of the above.
 - (iii) In which of the following cases, deduction u/s 80JJA is available to the assessee?
 - (a) Assessee is engaged in scientific research
 - (b) Assessee sets up an industrial unit in a backward area
 - (c) Assessee is engaged in agriculture business
 - (d) Assessee is engaged in the business of collecting and processing biodegradable waste.
 - (iv) From the following, find out the exception of 'Cost of acquisition of self-generated asset is nil':
 - (a) Goodwill
 - (b) Route permit
 - (c) Bonus Shares acquired before 01-04-2001
 - (d) Loom hours
 - (v) How much deduction an assessee can claim u/s 24(a)?
 - (a) 30% of net annual value of the house property
 - (b) 30% of gross annual value of house property
 - (c) 30% of actual rent received
 - (d) None of the above
 - (vi) In case of children hostel allowance, what is the maximum amount of exemption allowed?
 - (a) ₹ 300 annually per child (to the maximum of two children)
 - (b) ₹ 600 per month per child
 - (c) ₹ 300 per month per child (to the maximum of two children)
 - (d) ₹ 500 per month per child (to the maximum of two children)

- (vii) What is the taxability of Interest on delayed compensation or enhanced compensation?
- Taxable on accrual basis
 - Taxable on receipt basis
 - Exempt from tax
 - Taxable as per method of accounting of the assessee
- (viii) If the amount of interest on loan does not exceed _____, TDS is not required to be deducted u/s 194A.
- ₹5,000
 - ₹2,500
 - ₹7,500
 - ₹20,000
- (ix) As per sec. 57(iia), what is the maximum amount of standard deduction allowed for family pension?
- ₹ 15,000
 - ₹ 50,000
 - ₹ 25,000
 - ₹ 75,000
- (x) Form No. _____ is to be used for filing the return of income by an individual having business income.
- 1
 - 2
 - 5
 - 3

Answer:

- (b)
- (d)
- (d)
- (c)
- (a)
- (c)
- (b)
- (a)
- (a)
- (d)

(b) Match the following (sufficient to give the corresponding item in column 3 for column1: reproducing columns 2 and 4 are not required): [5×1=5]

1	2	3	4
(i)	ICDS VI	A.	TDS @ 10%
(ii)	Sec.194H	B.	Not deductible while computing income from property
(iii)	Section 80P	C.	Income from co-operative society
(iv)	Ground rent	D.	TDS @ 5%
(v)	Sec.194EE	E.	Effects of changes in foreign exchange rates

Answer:

- | | |
|-------|-----|
| (i) | (E) |
| (ii) | (D) |
| (iii) | (C) |
| (iv) | (B) |
| (v) | (A) |

(c) State True or False for the following question: [5×1=5]

- (i) An example of non-agro income is income from sale of trees and grasses grown spontaneously (without any human effort).
- (ii) An individual whose gross total income does not exceeds ₹ 2,50,000, fails to furnish return of income u/s 139 within the due date shall pay fee of ₹ 1,000.
- (iii) In respect of each minor child whose income is clubbed u/s 64(1A), income up to ₹ 2,500 is exempt.
- (iv) The depreciation in respect of an asset which is acquired by the assessee during the previous year and is put to use in the same previous year for less than 180 days is restricted to 50% of the normal depreciation.
- (v) Cash gift of ₹ 2,00,000 received from uncle's son is not taxable.

Answer:

(i) True	(ii) False	(iii) False	(iv) True	(v) False
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(d) Fill in the blanks: [5×1=5]

- (i) As per sec. 234B & 234C, _____ shall be payable, if an assessee fails to pay advance tax or defers the payment of advance tax on specified date.
- (ii) Permanent Account Number (PAN) is an _____ code given to a person by income tax department for the purpose of identification of the assessee.
- (iii) On issue of Zero Coupon Bonds, discount shall be allowed on _____ basis having regard to the period of life of such bond.
- (iv) Failure to comply with the provision of sec.44AA, shall be liable to pay penalty u/s 271A of _____.
- (v) Deduction u/s 80GG is available in respect of _____.

Answer:

(i) Interest	(ii) alpha-numeric	(iii) Pro rata	(iv) ₹ 25,000	(v) House rent paid
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PART – II

Answer any five questions from question numbers 2 to 8. Each question carries 15 marks.

(5×15=75)

2.(a)(i) How to determine the residential status of a company?

- (ii) Mr. A came to India first time during the P.Y. 2021-22. During the previous year, he stayed in India for (I) 50 days; (II) 183 days; & (III) 153 days. Determine his residential status for the A.Y. 2022-23. [2+6=8]

Answer:

- (i) An Indian company is always a resident in India.

A non-Indian company is said to be a resident in India, if its place of effective management, in that year, is in India.

If place of effective management, in that year, is not in India, the said company is non-resident in India for the relevant previous year.

(ii) (I) Since Mr. A resides in India only for 50 days during the P.Y. 2021-22, he does not satisfy any of the conditions specified in sec. 6(1). He is, therefore, a non-resident in India for the P.Y. 2021-22.

(II) Since Mr. A resides in India for 183 days during the previous year 2021-22, he satisfies one of the conditions specified in sec. 6(1). He is, therefore, a resident in India for the P.Y. 2021-22.

(III) Mr. A resides in India only for 153 days during the previous year 2021-22. Though he resided for more than 60 days during the previous year but in 4 years immediately preceding the previous year (as he came India first time), he did not reside in India. Hence, he does not satisfy any of the conditions specified in sec. 6(1). Thus, he is a non-resident for the P.Y. 2021-22.

- 2.(b) A residential property in Kolkata is owned by Mr. P and is let out to Zee Ltd., rent of which is being ₹ 50,000 per month. Municipal value of the property is ₹ 3,20,000, fair rent is ₹ 5,00,000. Zee Ltd. pays municipal tax. On April 10, 2021, rent is increased from ₹ 50,000 per month to ₹ 55,000 per month with retrospective effect from April 1, 2020. Mr. P gets ₹ 60,000 (being arrears of rent for the financial year 2020-21) on May 10, 2021. Find out the net income of Mr. P for the assessment year 2022-23 on the assumption that his income from other sources is ₹ 4,00,000. [7]

Answer:

Computation of Net Income of Mr. P

Previous year: 2021-22

Assessment Year: 2022-23

Steps	Particulars	(₹)	(₹)	(₹)
1 st	Calculation of RER:			
	Gross municipal value	3,20,000		
	Fair rent	5,00,000		
	Higher of the above [A]	5,00,000		
	Standard rent [B]	NA		
	Reasonable Expected Rent [lower of (A) and (B)] [C]	5,00,000		
2 nd	Calculation of (ARR – Unrealised rent)			
	Actual rent receivable p.a	6,60,000		
	Less: Unrealised rent	-		
	ARR – Unrealised rent [D]	6,60,000		
3 rd	Gross Annual Value(GAV) [higher of (C) and (D)]	6,60,000		
	Less : Municipal taxes paid by the assessee [Paid by tenant not deductible]	-		
	Net Annual Value (NAV)	6,60,000		
	Deduction			
	u/s 24(a) Standard deduction [30% on ` 6,60,000]	(1,98,000)		
	u/s 24(b) Interest on loan	-		
	Income from house property		4,62,000	
	Arrears of rent (pertaining to earlier year) received in the P.Y. 2021-22	60,000		
	Less: Standard deduction u/s 24(a) [30% of ₹ 60,000]	18,000		
	Income from house property u/s 25A		42,000	
	Total Income from house property			5,04,000
	Income from other sources			4,00,000
	Gross total income			9,04,000
	Less: Deductions u/s 80C to 80U			-
	Net Income			9,04,000

3.(a) Mr. R is a resident engineer and he is employed in CAT Automobiles Ltd. His basic salary is ₹ 92,000 per month. Mr. R had no shares in the company and he was not related to any directors. Discuss the taxability of Mr. R on the following perquisites which he receives from CAT Automobiles Ltd. during the previous year 2021-22:

1. Company pays ₹1,000 per annum on an accident insurance policy for the benefit of Mr. R.
2. On April 1, 2021, Mr. R takes a car loan of ₹ 6,50,000 from CAT Automobiles Ltd. The company recovers interest ₹ 4 per cent per annum from R (SBI lending rate: 9.25 per cent)
3. Company has reimbursed his club fee of ₹ 500 per annum and club bills aggregating to ₹ 4,000.
4. R engages a domestic servant on monthly salary of ₹ 3,000. The entire salary (i.e., ₹ 36,000) is paid by CAT Automobiles Ltd to the domestic servant (or salary is paid by R and the company reimburses the entire amount).
5. He purchased a furniture on August 3, 2021 at ₹4,000 (book value) from the company. The market value of the same is about ₹16,000. The furniture was purchased by the company on June 30, 2015 for ₹ 52,000. [10]

Answer:

1. Mr. R has no vested right in the accident insurance policy, as the benefit depends upon contingency of accident. It is therefore, not taxable.
2. The lending rate of SBI on April 1, 2021 for a similar loan is 9.25% per annum. ₹ 34,125 [being interest @ 5.25% (i.e., 9.25% - 4%) on ₹ 6,50,000 for one year] is taxable in the hands of Mr. R.
3. Amount spent by the employer (i.e., ₹ 4,500) to pay club fees is taxable in the hands of employee as a perquisite.
4. In this case, the perquisite (i.e. ₹ 36,000) is taxable in the hands of Mr. R under section 17(2)(iv) in all cases, as the obligation of Mr. R to pay salary to the domestic servant is met by his employer.
5. Taxable value of the perquisite shall be determined as under:

	(₹)
Cost of furniture	52,000
Less: Normal wear and tear for 6 years [10% of ₹ 52,000 for 6 years]	31,200
Balance	20,800
Less: Amount paid by Mr. R	4,000
Taxable value of the perquisite	16,800

3.(b) LMN Ltd. is a sugar manufacturing company. It grows sugarcane to manufacture sugar. Compute the income of LMN Ltd. for the previous year 2021-22, from the following information:

	₹ in lacs
Cost of cultivation of sugarcane (5,000 tons)	12
Sugarcane sold in market (1,000 tons)	4
Sugarcane used for sugar manufacturing (1,000 tons)	—
Cost of conversion	6
Sugar produced & sold in the market	30

[5]

Answer:

Computation of income of LMN Ltd. for the A.Y. 2022-23

Particulars	Manufacturing ₹ in lacs	Agriculture ₹ in lacs
Sale of agro product in market	-	4
Sale of manufactured product in market	30	-
Notional sale of agro product used in the process of manufacturing (4,000 ton × ₹ 4 lacs per '000 ton)	-	16
Revenue [A]	30	20

Less: Expenses incurred		
Cost of conversion	6	-
Market value of sugarcane used (4,000 ton × ₹ 4 lacs per '000 ton)	16	-
Cost of cultivation	-	12
Expenditure [B]	22	12
Income [A-B]	8	8

- 4.(a) During the previous year 2021-22, Mr. X has sold the following assets, the details of which are as follows:

Items	Cost of acquisition	Sale consideration	Year of acquisition
Land	₹ 10 lacs	₹ 150 lacs	1998-99
Jewellery	₹ 30 lacs	₹ 120 lacs	2008-09

On 31/03/2022, he has purchased a residential house of ₹30,00,000 for self-occupation as he had no other house till date. Compute capital gain. [9]

Answer:

Computation of capital gains in the hands of Mr. X for the A.Y. 2022-23

Particulars	Details	Land	Jewellery
Sale Consideration		1,50,00,000	1,20,00,000
Less: Expenses on transfer		Nil	Nil
Net Sale Consideration		1,50,00,000	1,20,00,000
Less: Indexed cost of Acquisition	10,00,000 * 317 / 100	31,70,000	
Less: Indexed cost of Acquisition	30,00,000 * 317 / 137		69,41,606
Less: Indexed cost of improvement		Nil	Nil
Long Term Capital Gain		1,18,30,000	50,58,394
Less: Exemption u/s 54F	Working Note 1	23,66,000	Nil
Long Term Capital Gain		94,64,000	50,58,394

Working Note 1:

In the given case assessee can claim benefit u/s 54F, for any of the LTCG (land or jewellery).

A Comparative study is made under to decide from which LTCG such deduction should be claimed –

Particulars	Working	Land	Jewellery
Long Term Capital Gain	A	1,18,30,000	50,58,394
Net sale consideration	B	1,50,00,000	1,20,00,000
Benefit u/s 54F	A/B * ₹ 30,00,000	23,66,000	12,64,599
Since deduction is higher in case of Land hence the deduction u/s 54F is ₹23,66,000			

4. (b) Mrs. S is a 38 years old salaried employee. Her basic salary is ₹50,000 per month. She gets one month salary as bonus. A rent free unfurnished house which is owned by the employer company has been provided to her at the place of her posting i.e., Mumbai. She gets interest on fixed deposit of ₹ 25,000 in a Bank. She makes the following investments/ deposits every year:

	(₹)
Life insurance premium on his own life (sum assured: ₹1,00,000) (policy taken in July 2015)	12,000
Notified equity linked saving scheme of UTI	78,000
Repayment of loan taken on July 1, 2004 for purchasing a house property(which is self-occupied by his family at Mumbai)	35,000
Payment of interest on the above loan	40,000
Tuition fees of two children (₹24,000 + ₹36,000)	60,000
Notified bonds of infrastructure company	4,000
Deposit in home loan account scheme of NHB	10,000
Mediclaime insurance premium	30,000
Pension fund of LIC qualified for deduction under section 80CCC	15,000

Find out the net income and tax liability for the assessment year 2022-23

[6]

Answer:

Computation of tax liability:

Assessee: Mrs. S

Previous year: 2021-22

Assessment year: 2022-23

Particulars	(₹)	(₹)	(₹)
Income from Salary:			
Basic salary (50,000 × 12)	6,00,000		
Bonus	50,000		
Rent free unfurnished house	97,500		
Gross salary	7,47,500		
Less : Standard deduction u/s 16(ia)	50,000	6,97,500	
Income from house property		(40,000)	
Income from other sources		25,000	
Gross total income			6,82,500
Less: Deduction u/s			
80C [see note1]		1,50,000	
80CCC (pension plan of LIC)		15,000	
80CCD (Notified pension scheme)		-	
		1,65,000	
As per 80CCE, total deduction u/s 80C + 80D		25,000	1,75,000
Net income			5,07,500
Tax on net income			14,000
Less: Rebate u/s 87A [100% of tax or 2,500, whichever is less, applicable in the case of a resident individual if taxable income is 3,50,000 or less]			—
Balance			14,000
Add : Health & education cess(4% on 14,000)			560
Tax Liability			14,560

Note 1:

Gross qualifying amount u/s 80C:

(Amount `)

Life insurance premium[to the maximum of 10% on ₹ 1,00,000]	10,000
Notified equity linked saving scheme of UTI	78,000
Repayment of loan taken for purchasing a house property	35,000
Tuition fees of two children[₹ 24,000 + ₹ 36,000]	60,000
Home loan account scheme	10,000
Notified bonds of infrastructure company	4,000
Gross qualifying amount	1,97,000

Amount deductible under section 80C (100% of gross qualifying amount subject to maximum of ₹ 1,50,000)	1,50,000
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5. (a) Mr. K is a practicing Cost Accountant and he also runs a private coaching institute. The details of his bank account for the year ended 31/03/2022 is given below:

Receipts	₹	Payments	₹
To Balance b/f	20,000	By Office expenses	18,000
To Coaching fees	1,200	By Municipal tax on property	800
To Income from other professional work	1,00,000	By Coaching expense	800
To Audit Fees	2,00,000	By Membership fees	500
To Interest on investment	2,000	By Personal expenses	5,000
To Examiner's fees	1,000	By Life insurance premium	13,000
To Rent from property	5,000	By Income tax	5,000
		By Motor car purchased	1,80,000
		By motor car expenses	10,200
		By Insurance of property	1,600
		By Balance c/d	94,300
	3,29,200		3,29,200

Additional Information:

- 20% of motor car expenses is in respect of profession.
- Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
- Outstanding fees on 31-03-2022 ₹2,000. Whereas ₹500 receivable from M is considered as bad.
- Outstanding fees of P.Y. 2018-19 ₹ 10,000 received during the year, which is included in the audit fees.
- Office expenses include payment of ₹2,000 incurred during the previous year 2020-2021.

Compute the gross total income of Mr. K for the A.Y. 2022-23. Assume that he maintains accounts on cash basis. [10]

Answer:

Computation of Gross total income:

Assessee: Mr. K

Previous year: 2021-22

Assessment year: 2022-23

Particulars	Workings	Amount (₹)	Amount (₹)	Amount (₹)
Income from house property				
Gross annual value	Rent received		5,000	
Less: Municipal tax			800	
Net Annual value			4,200	
Less: Deduction u/s				
24(a) Standard deduction	30% of NAV	1,260		
24(b) Interest on loan		Nil	1,260	2,940
Profits & gains of business and profession				
Audit fees		2,00,000		
Income from other professional work		1,00,000	3,00,000	
Less: Expenses allowed				

Office expenses		18,000		
Membership fees		500		
Motor car expenses	20% of expenses (Note 2)	2,040		
Depreciation on motor car	20% of depreciation (Note 2)	5,400	25,940	2,74,060
Income from other sources:				
Interest on investment			2,000	
Coaching fees		1,200		
Less: coaching expenses		800	400	
Examiners fees			1,000	3,400
Gross Total Income				2,80,400

Notes

- Insurance premium on property is not deductible from income from house property w.e.f. A.Y. 2002-03.
- As 20% use of motor car is related to professional purpose, hence as per sec. 38 expenditure and depreciation is apportioned.
- Payment of LIC premium is a personal expense. However, deduction u/s 80C is available.
- Income tax is specifically disallowed u/s 40(a).
- As per sec. 145, income chargeable under the head "Profits & gains of business or profession" shall be computed only in accordance with the method of accounting regularly followed by the assessee. In this case, assessee follows cash system of accounting.

5.(b) Mr. K and Mrs. K are resident Indians. R and S are their minor sons. Business income of Mr. K is ₹ 4,50,000. Income from house property of Mrs. K is ₹ 2,50,000. Income of R and S from stage acting is ₹ 50,000 and ₹ 75,000, respectively. Besides, interest on company deposits of R and S (deposit was made out of income from acting) is ₹ 30,000 and ₹ 10,000 respectively. The following birthday gifts have been received by R and S:

On May 20, 2021 gift received by S from his grandfather : ₹ 60,000

On September 14, 2021 gift received by R from K's friend : ₹ 90,000

Gift from relative : ₹ 45,000

Compute the income of Mr. K, Mrs. K, R and S for the assessment year 2022-23. [5]

Answer:

Computation of taxable income for the assessment year 2022-23

Particulars	Mr. K	Mrs. K	R	S
Income from house property	-	2,50,000	-	-
Business Income	4,50,000	-	-	-
Income from stage acting			50,000	75,000
Income from other sources				
□ Gift received by S from grandfather on September 1, 2021 (gift from a relative not chargeable to tax)	-	-	-	-
□ Gift received by R on September 14, 2021 from K's friend (to be clubbed in the hands of Mr. K after giving exemption of ₹ 1,500)	88,500	-	-	-
□ Gift received by R on September 14, 2021 from relatives (gift from a relative is not taxable)	-	-	-	-

□ Interest from company deposit received by R (to be clubbed in the hands of Mr. K)	30,000	-	-	-
□ Interest from company deposit received by S (to be clubbed in the hands of Mr. K after giving exemption of ₹ 1,500, amount to be clubbed is ₹ 10,000 - ₹ 1,500)	8,500	-	-	-
Net Income	5,77,000	2,50,000	50,000	75,000

- 6.(a) Mr. R is the karta of a Hindu Undivided Family (HUF). He was appointed as the Managing Director of the company and was paid a remuneration of ₹3.6 lakhs for the year ended 31.03.2022. He invested family funds of ₹5 lakhs in the shares of H Couriers Pvt. Ltd. You are required to discuss whether the said remuneration will be assessed in the individual hand of Mr. R or in the hands of the HUF, for the assessment year 2022-23. [6]

Answer:

Mr. R did not become the managing director of the company for the mere reason that his family had purchased considerable shares in the firm. He was elected as a managing director by the board of directors. He has received his salary for his personal services. It is not material to hold that he was elected managing director on behalf of the family. He was not appointed as managing director as a result of any outlay or expenditure of or detriment to the family property. Further, the managing directorship was an employment of personal responsibility and ability. Hence, such remuneration shall be considered as his personal income. The same view was upheld by the Apex Court in the case of Raj Kumar Singh Hukam Chandji –vs.– CIT.

- 6.(b) Mr. A and Mrs. B are the members of an AOP. They have equal share. Compute tax liability of AOP, after considering the following details:

Profit and loss account for the year ended 31-03-2022

Particulars	Amount(₹)	Particulars	Amount(₹)
Bonus to employee	50,000	Gross Profit	6,96,000
Bonus to A	10,000	Interest on drawings	
Bonus to Mrs. B	5,000	A	16,000
Other Expenses	40,000	Mrs. B	8,000
Salary to -			
A	44,000		
Mrs. B	88,000		
Interest on Capital @ 15%			
A	15,000		
Mrs. B	20,000		
Depreciation	30,000		
Donation to National Relief	10,000		
Net Profit	4,08,000		
	7,20,000		7,20,000

Additional information:

- Depreciation for the year u/s 32 ₹20,000
- Other expenses include expenditure of ₹5,400, which is disallowed u/s 40A(2).
- Other personal income of A & Mrs. B

	A	Mrs. B	
Interest exempted u/s 10(15)	₹5,000	₹20,000	
Interest on loan	₹2,45,000	₹2,22,000	[9]

Answer:

Computation of total income of AOP for the A.Y. 2022-23

Particulars	Details	Amount
<u>Profits and gains of business or profession</u>		
Net profit as per profit and loss account		4,08,000
<u>Add: Expenditure disallowed but debited in P/L Account</u>		
Remuneration to member disallowed u/s 40(ba)		
Salary [₹ 44,000 + ₹ 88,000]	1,32,000	
Bonus [₹ 10,000 + ₹ 5,000]	15,000	
Interest on capital in excess of interest on drawing disallowed u/s 40(ba)		
A [Net interest is negative]	Nil	
Mrs. B [₹ 20,000 – ₹ 8,000]	12,000	
Other Expenses disallowed u/s 40A(2)	5,400	
Depreciation	30,000	
Donation to National Relief Fund	10,000	2,04,400
		6,12,400
<u>Less: Expenditure allowed but not debited in P/L Account</u>		
Depreciation		20,000
Gross Total Income		5,92,400
<u>Less: Deduction u/s 80G (Donation to National Relief Fund)</u>		10,000
Total Income		5,82,400
Tax on above including cess (using rates applicable on an individual)# [Rounded off]		30,140

Computation of total income of A & Mrs. B excluding share from AOP

Particulars	A	Mrs. B
<u>Income from other sources</u>		
Interest Exempted u/s 10(15)	Nil	Nil
Interest on loan	2,45,000	2,22,000
Total income excluding share from AOP	2,45,000	2,22,000

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

Computation of total income of A & Mrs. B for the A.Y. 2022-23

Particulars	A		Mrs. B	
	Details	Amount	Details	Amount
<u>Share from AOP</u>				
<u>Profits and gains of business or profession</u>				
Salary from AOP	44,000		88,000	
Bonus from AOP	10,000		5,000	
Interest on capital	-		12,000	
Balance income	2,11,700\$	2,65,700	2,11,700\$	3,16,700
<u>Other income</u>				
<u>Income from other sources</u>				
Interest Exempted u/s 10(15)	Nil		Nil	
Interest on loan	2,45,000	2,45,000	2,22,000	2,22,000
Total income		5,10,700		5,38,700

\$ Computation of balance income

Particulars	Amount	Amount
Total income of AOP		5,82,400
Less: Remuneration to members:		
- Salary	1,32,000	
- Bonus	15,000	
Interest on capital in excess of interest on drawing	12,000	1,59,000
Balance income of AOP		4,23,400
Share of A		2,11,700
Share of Mrs. B		2,11,700

Computation of tax liability of A & Mrs. B for the A.Y. 2022-23

Particulars	A	Mrs. B
Total income	5,10,700	5,38,700
Tax on above (slab rate)	14,640	20,240
Less: Rebate u/s 87A	-	-
	14,640	20,240
Add: Health & Education cess @ 4%	586	810
	15,226	21,050
Less: Rebate u/s 86		
$[(15,226 / 5,10,700) \times 2,65,700]$	7,922	
$[(21,050 / 5,38,700) \times 3,16,700]$		12,375
Tax liability (Rounded off)	7,300	8,680

7.(a) The following information are available with respect to Mrs. X for the previous year 2021-22:

Particulars	(₹)
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show)[Gross]	3,20,000
Pension from employer of deceased husband	25,000
Interest received on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employer's school	10,000
Remuneration for checking the examination copy of Cost Accountants	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditure are ₹5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner ₹12,000)	20,000
Income tax paid	2,000
Payment made to personal expenses	18,000
Payment made to LIC as premium	2,000

Compute the taxable income under the head income from other sources of Mrs. X. [9]

Answer:

Computation of income under the head income from other source

Assessee: Mrs. X

Previous year: 2021-22

Assessment year: 2022-2023

Particulars	Amount(₹)	Amount(₹)
Private tuition fee received		10,000
Casual income :		
• Winning from lottery		2,000
• Award from KBC (a TV show) [Gross]		3,20,000
• Pension	25,000	
Less: Standard deduction (lower of the following)		
• 1/3 rd of amount received (i.e., ` 8,333)		
• ₹15,000	8,333	16,667
Interest on bank deposit		25,000
Directors fee (Gross)		5,000
Letting out of vacant land		25,000
Remuneration for checking the examination copy of Employer's school	Taxable as salary	-
Remuneration for checking the examination copy of Cost Accountants		10,000
Income tax refund	Not an income	
Interest on income tax refund		100
Composite rent	10,000	
Less : Expenditure	5,000	5,000
Rent on sub-letting of house property	20,000	
Less: Rent paid to original owner	12,000	8,000
Income from other source		4,26,767

Note: Payment of income tax and personal expenses is not deductible.

7.(b) Write the significance of Tax Deduction and Collection Account Number as per sec. 203A.

[6]

Answer:

Every person, deducting tax or collecting tax, who has not been allotted a tax-deduction account number or tax-collection account number, shall within specified time, apply to the Assessing Officer for the allotment of a "tax-deduction and collection-account number" in Form 49B. Where such number has been allotted to a person, such person shall quote such number—

1. in all challans for the payment of tax deducted or collected;
2. in all certificates furnished u/s 203 or sec. 206C(5);
3. in all the statements prepared and delivered u/s 200(3) or 206C(3);
4. in all the returns delivered u/s 206 or 206C(5A) or (5B) to any income-tax authority; and
5. in all other documents pertaining to such transactions as may be prescribed in the interests of revenue.

Note: The section is not applicable to the person deducting tax u/s 194-IA or 194-IB.

8. Short note: (any three)

[5×3=15]

- (a) Return of Loss
- (b) Relief [Sec. 89]
- (c) ICDS VIII: Securities
- (d) Self-Assessment u/s 140A.

Answer:

(a) Return of loss [Sec.139(3)]:

An assessee, other than few, is not compulsorily required to furnish return of loss. However, the following losses cannot be carried forward if the return of loss is not submitted within the time allowed u/s 139(1) –

- A. Business loss (speculative or otherwise);
- B. Capital loss;
- C. Loss from the activity of owning and maintaining race horses
- d. Loss from business specified u/s 35AD.

Notes:

- a. Loss declared in belated return cannot be carried forward. However, set-off of losses of current year is not prohibited while computing the total income, even if the return of loss is filed after the due date.
- b. Delay in filing the return of loss may be condoned in certain cases.
- c. Unabsorbed depreciation u/s 32 and loss under the head "Income from house property" can be carried forward even if the loss return is filed after the due date u/s 139(1).
- d. Although the loss of the current year cannot be carried forward unless the return of loss is submitted before the due date but the loss of earlier years can be carried forward if the return of loss of that year was submitted within the due date.

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

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

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

Conditions to be satisfied:

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

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

Method of calculation of relief [Rule 21A]:

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

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

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

(c) ICDS VIII: 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:
 - a. the bases for recognition of interest and dividends on securities;
 - b. securities held by a person engaged in the business of insurance;
 - c. 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.

Subsequent Measurement of Securities:

- ◆ 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 category wise (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) Self-Assessment u/s 140A:

In self-assessment, assessee itself is responsible to determine its taxable income, tax liability and to pay tax accordingly. Provision of sec. 140A is as follows –

- a) Where any tax is payable (after deducting relief, rebate, advance payment of tax or tax deducted or collected at source or MAT or AMT credit, if any) on the basis of return furnished the assessee is required to pay such tax before filing the return.

Note: A return furnished without paying self-assessment tax & interest, if any, shall be treated as defective return.

- b) If any interest is payable for delayed filing of return (u/s 234A) or default in payment of advance tax (u/s 234B) or for deferment of advance tax (u/s 234C) or fee (u/s 234F) is payable for filing return after due date, then such interest or fee should be paid along with self-assessment tax.

Note: While calculating above interest for the purpose of self-assessment, tax on the total income declared in the return shall be considered.

- c) Where the amount paid by the assessee falls short of the aggregate of tax, interest and fee, the amount so paid shall first be adjusted towards fee and thereafter towards interest payable and the balance, if any, shall be adjusted towards tax payable.
- d) After assessment, any amount paid under this section shall be deemed to have been paid towards such assessment.
- e) If an assessee fails to pay whole or any part of such tax or interest or both in accordance with the provisions of sec. 140A, he shall be deemed to be an assessee in default.