

## **Paper 7- DIRECT TAXATION**

## Paper 7 - Direct Taxation

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: [10x1=10]

- (i) In case of loss, a partnership firm may claim deduction in respect of remuneration to partner to the extent of:
  - (a) Rs.1,50,000
  - (b) Rs.1,50,000 or remuneration paid, whichever is lower
  - (c) Rs.1,50,000 or 90% of book profit, whichever is lower
  - (d) Nil
- (ii) Which of the following is taxable under the head 'salaries'?
  - (a) Salary received by a Member of State Legislature.
  - (b) Commission received by an employee director of a company
  - (c) Family pension received
  - (d) Both (a) and (b) above
- (iii) A Zero Coupon Bond shall be treated as Long term capital asset if it is held by the transferor for \_\_\_\_\_ :
  - (a) more than 12 months
  - (b) more than 36 months
  - (c) 12 months
  - (d) 36 months
- (iv) Quoting 'Permanent Account Number' (PAN) is compulsory in the following transaction –
  - (a) Payment to LIP exceeding Rs.50,000 in a financial year
  - (b) Sale or purchase of any immovable property valued at Rs.4,00,000
  - (c) Time deposit upto Rs.35,000 with a bank
  - (d) None of the above
- (v) An individual purchased a painting on 01-11-2021 for Rs.5,00,000 though fair market value of the asset is Rs.5,25,000. Income taxable u/s 56(2)(x) is:
  - (a) Rs.25,000 i.e., difference between market value and actual consideration
  - (b) Nil as this is not gift

- (c) Nil as difference between market value and actual consideration does not exceed Rs.50,000
  - (d) The provision of sec. 56(2)(x) is not applicable for any transaction entered during P.Y. 2021-22.
- (vi) Interest relating to pre-construction period is allowable:
- (a) In 5 equal installments from the year in which it was incurred.
  - (b) In the year in which it was incurred
  - (c) In the year in which house property was constructed
  - (d) None of the above
- (vii) The maximum amount of leave salary not chargeable to tax as specified by the Government in case of a non-Government employee is
- (a) Rs.75,600
  - (b) Rs.77,760
  - (c) Rs.2,40,000
  - (d) Rs.3,00,000
- (viii) On donation to whom of the following a 50% deduction is allowable u/s 80G of the Income Tax Act?
- (a) National Defence Fund
  - (b) Prime Ministers National Relief Fund
  - (c) Rajiv Gandhi Foundation
  - (d) National foundation for Communal Harmony
- (ix) Best Judgment assessment is covered u/s
- (a) 143(3)
  - (b) 143(1)
  - (c) 144
  - (d) 147
- (x) Unabsorbed business losses cannot be carried for more than
- (a) 7 assessment years
  - (b) 8 assessment years
  - (c) 10 assessment years
  - (d) 12 assessment years

**Answer:**

- (i) b
- (ii) b
- (iii) a
- (iv) a
- (v) c
- (vi) d

- (vii) d
- (viii) c
- (ix) c
- (x) b

- (B) Match the following (sufficient to give the corresponding item in column 3 for column 1 reproducing columns 2 and 4 are not required): [5x1=5]

1	2	3	4
(i)	Scrutiny Assessment	a.	Rate of TDS @5%
(ii)	Sec. 194H	b.	Not Eligible for deduction u/s 80G
(iii)	Deduction u/s 80EEB	c.	Deductible as business expenditure
(iv)	Donation in Kind	d.	Sec. 143(3)
(v)	Securities Transaction Tax	e.	Purchase of Electric Vehicle

**Answer:**

- (i) d.
- (ii) a.
- (iii) e.
- (iv) b.
- (v) c.

- (C) Say True or False for the following question: [5x1=5]

- (i) No tax is required to be deducted from winning from race-horse, if such winning does not exceed Rs.10,000
- (ii) Allowances payable to Central Government employees for serving outside India is not exempted.
- (iii) Short-term capital gains arising from sale of listed shares through a recognized stock exchange, for which security transaction tax has been paid, will be charged to tax at a concessional rate of 15%.
- (iv) Income arising from the accretion of transferred property shall not be clubbed.
- (v) Loss from speculation as well as non-speculation business can be carried forward to a maximum of four consecutive assessment years immediately succeeding the assessment year for which loss was first computed.

**Answer:**

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

(D) Fill in the blanks:

[5×1=5]

- (i) The cost of acquisition of 100 bonus shares, where the original shares (100 nos.) were acquired for Rs.30,000 is \_\_\_\_\_.
- (ii) Assessee's own contribution to the National Pension Scheme is eligible for a maximum deduction of Rs.\_\_\_\_\_.
- (iii) In the case of a payee not having PAN for whom tax is to be deducted at source u/s 194A, the rate applicable is \_\_\_\_\_.
- (iv) ICDS \_\_\_\_\_ deals with effects of changes in foreign exchange rates.
- (v) Receipts from TV serial shooting in farm house is \_\_\_\_\_ (agricultural/non agricultural) income.

Answer:

- (i) Nil
- (ii) Rs.50,000
- (iii) 20%
- (iv) ICDS VI
- (v) non-agricultural

## PART – II

Answer any five questions from question numbers 2 to 8. Each question carries 15 marks.  
(5×15=75)

2. (a) (i) What is Tax Evasion? [2]  
 (ii) Miss Monica, a foreign national, comes India every year for 90 days since 2006-07.  
 a) Determine her residential status for the previous year 2022-23.  
 b) Will your answer differ, if she comes India for 100 days instead of 90 days every year.

- (b) Mr. G owns 3 identical houses in Mumbai, all of which are self-occupied. From the particulars given below, suggest which two houses should be treated as self-occupied.

	House I	House II	House III
	Rs.	Rs.	Rs.
Standard Rent under Mumbai Rent Control	3,35,000	3,35,000	3,35,000
Municipal Valuation	3,00,000	3,00,000	3,00,000
Fair Rent	3,60,000	3,60,000	3,60,000
Municipal Taxes (Paid)	35,000	15,000	25,000
Insurance Premium (Paid)	20,000	Nil	10,000

- (i) Rs.25,00,000 @ 9% p.a. for construction of House II (Date of borrowing 01.06.2017) Date of repayment of loan 30.06.2021.
- (ii) Rs.30,00,000 @ 9% p.a. for construction of House III (Date of borrowing 01.06.2017) Date of payment of loan 30.06.2021. [9]

**Answer:**

2. (a) (i) Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.
- (ii) a) Since Miss Monica stayed for 90 days during the previous year 2021-22 and for 360 days (90 days x 4 years) during the 4 years immediately preceding the previous year, hence, she is not satisfying any of the conditions of sec. 6(1). Thus, she is a non-resident for the previous year 2021-22.
- b) Since Miss Monica stayed for 100 days during the previous year 2021-22 and for 400 days (100 days X 4 years) during the 4 years immediately preceding the previous year, hence, she is satisfying sec. 6(1)(c). Thus, she is resident for the previous year 2021-22. Further, she resides for only 700 days (100 days x 7 years) during the 7 years immediately preceding the previous year. Hence, she does not satisfy one of the conditions of sec. 6(6). Thus, she is resident but not ordinarily resident for the previous year 2021-22.

(b)

**Determination of Income from House property**

		Rs.
Income from House I (Deemed to be let out) (working		2,10,000
Income from House II (self Occupied)	(-) 93,750	
Income from House III (self Occupied)	(-)	
But limited to Rs.2,00,000	2,06,250	2,00,000
Income from House Property		10,000

Working Note:

Step I :

		House-I		House-II		House-III
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Gross Annual Value		3,35,000		3,35,000		3,35,000
Less: Municipal Taxes paid		35,000		15,000		25,000
Net Annual Value		3,00,000		3,20,000		3,10,000
Less: Deduction u/s 24						
(a) Statutory Deduction @ 30%	90,000		96,000		93,000	

(b) Interest on loan for house II for three months Rs.56,250 + 1/5 of pre-construction period i.e. from 01.06.2017 to 31.03.2018 Rs.1,87,500 = Rs. 37,500	—		93,750		—	
Interest on loan for house III for three months Rs. 67,500 + 1/5 of pre-construction period i.e. from 01.06.2017 to 31.03.2018					1,12,500	
	---	90,000	---	1,89,750		2,05,500
		2,10,000		1,30,250		1,04,500

#### Step II

(i) Assume House I & II to be self-occupied and House-III deemed to be let out

	Rs.	Rs.
Income from house I (self-occupied)	Nil	
Income from house II (self-occupied)	(-) 93,750	(-) 93,750
Income from house III (deemed to be let out)		1,04,500
Income from House Property		10,750

(ii) Assume House I & III to be self-occupied and House-II deemed to be let out

	Rs.	Rs.
Income from house I (self-occupied)	Nil	
Income from house III (self-occupied)	(-) 1,12,500	(-) 1,12,500
Income from house II (deemed to be let out)		1,30,250
Income from House Property		17,750

(iii) Assume House II & III to be self-occupied and House-I deemed to be let out

	Rs.	Rs.
Income from house I (deemed to be let out) (see Working note)		2,10,000
Income from house II (self-occupied)	(-) 93,750	
Income from house III (self-occupied)	(-) 1,12,500	
But limited to Rs.2,00,000	2,06,250	(2,00,000)
Income from House Property		10,000

3. (a) Mr. V is an officer in a company in Jaipur. He furnished the following particulars regarding his income for previous year 2021-22:

(i) Basic salary Rs.17,000 p.m.;

- (ii) Bonus Rs.5,000;
- (iii) Dearness Allowance Rs.3,000 p.m.; (not forming part of Retirement Benefit)
- (iv) Travelling allowance `45,000. He spends Rs.30,000 for official purpose;
- (v) Reimbursement of medical bills Rs.15,000 (treatment was done in Government hospital in India);
- (vi) He lived in a bungalow belonging to the company. Its fair rent is Rs.15,000 p.m. The company has provided on this bungalow the facility of a watchman and a cook each of whom is being paid a salary of Rs.250 p.m. The company paid in respect of this bungalow Rs.4,500 for electric bills and Rs.3,500 for water bills.
- (vii) He has been provided 1.5 ltr. engine capacity for official and personal use. The maintenance and running expenses of the car (including driver) are borne by the company.
- (viii) The following amounts were deposited in his provident fund account;
  - (1) own contribution Rs.24,000,
  - (2) company's contribution Rs.30,000, and
  - (3) interest @12% p.a. Rs.12,600
- (ix) Rent of house recovered from Mr. V Rs.21,600.

Compute his taxable income from salary for the assessment year 2022-23. Assume the population of Jaipur is 26 lakhs as per 2001 census. [9]

- (b) State with brief reasons whether the following are agricultural income either in whole or in part:
- (i) Purchase of standing sugar cane by Mr. A for Rs. 2 lakhs and after cutting canes, selling them for Rs.2,40,000.
  - (ii) Income from milk dairy runs by Mr. R in his agricultural lands Rs. 50,000.
  - (iii) Income from sale of plants Rs.1,000,000 earned by Mr. Jain who maintains a nursery by name P Nursery.
  - (iv) Conversion of Sugarcane into Gur.
  - (v) Income from sale of rubber Rs. 3,20,000 realised by Mr. RN who owns rubber estate and cultivates rubber.
  - (vi) Income from grazing of cattle's allowed in the land owned by Mr. B Rs.70,000. [6]

Answer:

3. (a)

	Rs.	Rs.
Basic salary (Rs.17,000 × 12)		2,04,000
Bonus		5,000
Dearness Allowance		36,000
Travelling Allowance (Rs.45,000 – Rs.30,000)		15,000
Electricity bills paid by the employer		4,500



Water bills paid by the employer		3,500
Value of accommodation at concessional rate (being 15% of salary i.e. of Rs.2,24,000) (Rs.2,04,000 + Rs.5,000 + Rs.15,000)	33,600	
Less: Rent Paid	21,600	12,000
Benefit of Cook		3,000
Benefit of watchman		3,000
Benefit of car (Rs.1,800 + Rs.900) = Rs.2,700 x 12		32,400
Employer's contribution to RPF in excess of 12% of salary (Rs.30,000 - Rs.24,480)		5,520
Interest on PF @12%	12,600	
Less: Exempt @9.5%	9,975	2,625
Gross Salary		3,26,545
Less: Standard deduction under section 16(ia)		50,000
Taxable salary		2,76,545

Note: Medical reimbursement is exempt in full as treatment was done in a Government Hospital.

- (b) (i) To term an income as agricultural income, both basic operations and subsequent operations must be present. A standing crop purchase will not lead to agricultural activity and hence the profit earned cannot be termed as agricultural income.
- (ii) Income from dairy means income generated by maintaining cattle's. Therefore, there is no activity connected to land. Hence it is not an agricultural income.
- (iii) Running a nursery with plants seeks both basic operations and subsequent operations; further, as per definition, it is deemed to be agricultural income and therefore the entire income would be agricultural income.
- (iv) Conversion of sugarcane into Gur is non-agricultural income as it involves manufacturing activity which is of business nature.
- (iv) Income from rubber cultivation is partly agricultural income and partly non-agricultural income. 65% of the income is agricultural income and 35% of the income is non-agricultural income which is chargeable to income-tax.
- (vi) Permitting grazing of cattle's in vacant land does not involve any basic or subsequent operations and the grass so grown spontaneously is not income from agriculture.

4. (a) **Balance sheet of Purva India (P) Ltd. as on 31/12/2021**

Liabilities	Amount Rs.	Assets	Amount Rs.
Equity Share capital of Rs. 10 each	8,00,000	Land	6,00,000
Preference Share capital	1,00,000	Building (WDV as per IT Act)	3,00,000

Reserves	2,00,000	Machinery (WDV as per IT Act)	4,00,000
Loan	6,00,000	Current Asset	10,00,000
Creditors	6,00,000		
	23,00,000		23,00,000

**Additional information**

Company went into liquidation on the balance sheet date and all current assets and building realized at book value. The realized money was applied in payment of outside liabilities and preference shareholder. Utkarsh is a holder of 10% equity share and 20% preference share of the company. Equity shares were originally acquired by him on 16/08/2002 at face value. However, he subscribed to preference share on 1-04-2020, which was issued at par. He received a part of land (MV Rs. 5,00,000) and cash (for preference share) Rs. 20,000. Compute capital gain in hands of company & Utkarsh.

(b) Compute deduction u/s 80EEA in the following cases: (Rs. in lakh)

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7
Assessee	P	Q	R	S	T	U	X (HUF)
Date of Sanction of Loan	01-10-16	01-10-16	01-10-16	01-10-16	01-10-16	01-10-15	01-10-16
Amount of loan	Rs. 30	Rs. 20	Rs. 40	Rs. 20	Rs. 10	Rs. 20	Rs. 20
Value of the property	Rs. 40	Rs. 55	Rs. 50	Rs. 35	Rs. 35	Rs. 35	Rs. 35
Other residential property owned by the Assessee on the date of sanction	No	No	No	Yes	No	No	No
Interest for P.Y.2018-19	Rs. 1.20	Rs. 1.20	Rs. 1.80	Rs. 1.20	Rs. 0.40	Rs. 1.00	Rs. 1.20

Answer:

4. (a) Computation of capital gain for the A.Y. 2021-22 in the hands of Purva India (P) Ltd

As per sec. 46(1), at the time of liquidation of company, any transfer by way of distribution of assets to its shareholders is not treated as transfer for the purpose of capital gain. However, if any asset is sold in the market the same shall be liable to capital gain.

In the given case, only one capital asset is sold i.e. building and the same being sold at book value, hence no capital gain liability arises in the hands of company. Computation of capital gain for the A.Y.2021-22 in the hands of Utkarsh

Particulars	Working	Details	Amount Rs.
In case of equity share			
Sale consideration			4,80,000
Less: Expenses on transfer			Nil
Net Sale Consideration			4,80,000
Less: i) Indexed cost of acquisition	(10% of Rs. 8,00,000) * 301/105	2,29,333	
ii) Indexed cost of improvement		Nil	2,29,333
Sale consideration			4,80,000
Less: Expenses on transfer			Nil
Long Term Capital Gain			1,71,667
In case of Preference share			
Sale consideration			20,000
Less: Expenses on transfer			Nil
Net Sale Consideration			20,000
Less: i) Cost of acquisition	20% of Rs. 1,00,000	20,000	
ii) Cost of improvement		Nil	20,000
Short Term Capital Gain			Nil
Market value of land received			5,00,000
Less: Dividend u/s 2(22)(c) being 10% of accumulated profit (10% of Rs. 2,00,000)			20,000
Sale consideration			4,80,000

(b) Compute deduction u/s 80EEA in the following cases: (Rs. in lakh)

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7
Assessee	P	Q	R	S	T	U	X (HUF)
Date of Sanction of Loan	01-10-16	01-10-16	01-10-16	01-10-16	01-10-16	01-10-15	01-10-16
Amount of loan	Rs. 30	Rs. 20	Rs. 40	Rs. 20	Rs. 10	Rs. 20	Rs. 20
Value of the property	Rs. 40	Rs. 55	Rs. 50	Rs. 35	Rs. 35	Rs. 35	Rs. 35
Other residential property owned by the Assessee on the date of sanction	No	No	No	Yes	No	No	No
Interest for P.Y.2018-19	Rs. 1.20	Rs. 1.20	Rs. 1.80	Rs. 1.20	Rs. 0.40	Rs. 1.00	Rs. 1.20
Deduction u/s 80EEA	Rs. 0.50	Nil	Nil	Nil	Rs. 0.40	Nil	Nil

Notes	1	2	3	4	5	6	7
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1. Assessee can claim Rs. 70,000 being excess interest, as deduction u/s 24(b)
2. As value of the property exceeds Rs.45 lac hence, deduction u/s 80EEA is not available. However, assessee can claim deduction u/s 24(b)
3. Deduction cannot exceed interest on loan.
4. As assessee owns other residential house property on the date of sanction of loan, hence, deduction u/s 80EEA is not available. However, assessee can claim deduction u/s 24(b).
5. Loan was not sanctioned during the specified time.
6. The deduction u/s 80EEA is not available to HUF, however, assessee can claim deduction u/s 24(b).

5. (a) Find the gross total income of Mr. IKB on the basis of the following particulars-

**Extract of Profit and Loss Account for the year ended 31.03.2022**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
Interest	1,800	Gross profit b/d	1,22,700
Repairs and Renewals	2,200	Interest on debenture of an	
Insurance	4,200	Institution (Gross)	10,000
Depreciation	5,600	Rent from House Property	36,000
Compensation	10,200		
Law charges	5,100		
Labour welfare charges	3,800		
Subscriptions	5,800		
Net Profit	1,30,000		
	1,68,700		1,68,700

- (1) i. Interest includes Rs. 200 on loan taken for purchasing debentures of a company and Rs. 300 on loan taken for reconstruction of house property let out.
- ii. The expenses relating to house property let out are 40% of the repairs and renewal expenses.
- iii. Depreciation includes Rs. 1,200 on house property let out.
- iv. Compensation was paid to an employee whose dismissal was in business interest.
- v. Insurance includes 30% for fire insurance of the house property let out, 30% for workers accident insurance and the balance for life insurance.
- vi. Law charges include Rs. 2,000 relating to a petition filed against breach of contract and the balance regarding sales tax appeal.
- vii. Subscriptions include Rs. 2,000 given for election purpose to political parties.

- (2) The amount not debited to profit and loss account are as follows-
- Expenses incurred on the occasion of Festival Rs. 800
  - Theft of cash from locker Rs. 1,200.
  - Expenses for new telephone connection in the business Rs. 2,000. [7]
- (b) Determine the Gross Total Income of Y and his wife from the following particulars for the year ending 31.03.2022:
- Y and his wife are partners in a firm carrying on textile business, their respective shares of profit being Rs. 78,000 and Rs. 60,000.
  - Their 16 year old son has been admitted to the benefits of another firm, from which he received Rs. 70,000 as his share of profit in the firm and Rs. 90,000 as interest on capital. The capital was invested out of minor's own funds amounting to Rs. 9,00,000.
  - A house property in the name of Y was transferred to his wife on 01.12.2021 for adequate consideration. The property has been let at a rent of Rs. 30,000 p.m.
  - Debentures of a company of Rs. 1,40,000 and Rs. 1,12,000 purchased two years ago are in the names of Y and his wife respectively, on which interest is receivable at 10% p.a. His wife had in the past transferred Rs. 70,000 out of her income Y for the purchase of the debentures in Y's name.
  - Y had transferred Rs. 50,000 to his wife in the year 2015 without any consideration which was given as a loan by her to Z. She earned Rs. 20,000 as interest during the earlier previous years which was also given on loan to Z. During the financial year 2021-22, she received interest at 10% p.a. on Rs. 70,000.
  - Y transferred Rs. 65,000 to a trust, the income accruing from its investment as interest amounted to Rs. 6,500, out of which Rs. 5,000 shall be utilized for the benefit of his son's wife and Rs. 1,500 for the benefit of his son's minor child. [8]

Answer:

5. (a) Computation of Gross Total Income of Mr. IKB for the Assessment Year 2022 - 23

Particulars	Rs.	Rs.
Income from House Property		
Rent from house property		36,000
Less: Municipal taxes		Nil
		36,000
Less: (i) Standard deduction @30%	10,800	
(ii) Interest	300	11,100
		24,900
Profit and Gains of Business Profession:		
Net Profit as per P&L A/c		1,30,000
Add: Inadmissible expenses		

(i) Interest on loan for securities and house property (200+300)	500	
(ii) Repairs and renewals of property (40%)	880	
(iii) Depreciation on House Property	1,200	
(iv) Fire insurance premium on House Property	1,260	
(v) Life insurance premium	1,680	
(vi) Subscription to political parties	2,000	7,520
		1,37,520
Less: Income not taxable under this head		
(i) Interest on Debentures	10,000	
(ii) Rent from House Property	36,000	46,000
		91,250
Less: Expenses allowable but not debited to P&L a/c		
(i) Festival Expenses	800	
(ii) New telephone expenses	2,000	
(iii) Loss of cash due to theft	1,500	4,000
Business Income		87,520
Income from other sources		
Interest on debentures (10,000 - 200)		9,800
Computation of Gross Total Income		
(i) Income from House Property	24,900	
(ii) Profit and Gains of Business Profession	87,520	
(iii) Income from other sources	9,800	
	1,22,220	

Note –

- Subscription Rs. 2,000 paid to political party shall be allowed as deduction u/s 80GGC.
- LIP of Rs. 1,680 (40% of Rs. 4,200) shall be allowed as deduction u/s 80C.

(b) Computation of Gross Total Income of Y for the assessment year 2022 – 23

	Rs.	Rs.
1. Income from House Property:		
Rental value for 8 months (i.e. before transfer) (8 x 30,000)	2,40,000	
Less: 30% as statutory deduction	72,000	1,68,000
2. Profits from Business		
(i) Share from firm (Exempt)	Nil	
(ii) Minor's share in another firm (Exempt)	Nil	
(iii) Interest on Minor's capital with firm (Rs. 90,000- Exemption u/s 10(32) Rs. 1,500)	88,500	88,500
3. Income from Other Sources:		
(i) Interest @10% on Rs. 70,000 Debentures (only one-half of Rs. 1,40,000 were bought by own funds)	7,000	

(ii) Interest received by his wife @10% on Rs. 50,000 (being transferred without any consideration)	5,000	
(iii) Interest on Rs. 50,000 from his trust (interest income utilized for the benefit of son's wife)	5,000	17,000
		2,73,500

Computation of Gross Total Income of Mrs. Y for the assessment year 2022-23

	Rs.	Rs.
1. Income from House Property:		
Rental value for 4 months (i.e. after transfer) (4 x Rs. 30,000)	1,20,000	
Less: 30% as statutory deduction	36,000	84,000
2. Profits from Business		
(i) Share from firm (Exempt)	Nil	
3. Income from Other Sources:		
(i) Interest on Rs. 1,12,000 10% Debentures	11,200	
(i) Interest @10% on Rs. 70,000 Debentures in husband's name but funds invested by her	7,000	
(iii) Interest on Rs. 20,000 @10%	2,000	20,200
Gross total Income		1,04,200

Notes:

- Share of profit from a firm, which is assessed as such, is fully exempt u/s 10(2A) in the hands of the partners; although husband and wife may be partners in the same firm. Even in a case where one spouse gifts some amount to the other spouse to be invested as capital in the firm. Even in a case where one spouse gifts some amount to the other spouse to be invested as capital in the firm, the clubbing provisions though applicable, it will not affect the Total income since the share of profit is itself exempt. However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of transfer made without adequate consideration.
- Similarly, minor son's income though clubbed, but as the share of profit from the firm is exempt, will not affect the Total Income. However, if interest on capital contribution is received, it will be clubbed to the extent of the amount invested as capital contribution out of transfer made without adequate consideration.
- Where the asset is transferred to a trust for the benefit of son's wife, the income from such assets is taxable in the hands of the transferor. However, if interest utilized for the benefit of son's minor son shall be clubbed in the hands of that parent of the son's minor son, whose income is greater. It shall be therefore not be clubbed in the hands of the transferor i.e. Y.

6. (a) Mrs. P is a Professor in the Department of Commerce, in Calcutta University.

Following are the particulars of her income for the assessment year 2022-23:

- Basic pay Rs. 60,000 per month;
- Dearness allowance 30% of salary

- (iii) House rent allowance 30% of basic salary (Not forming part of retirement benefits)
- (iv) Medical allowance Rs. 6000 p.a. (amount actually spent on treatment Rs. 2000);
- (v) Warden ship allowance Rs. 1000 p.m.
- (vi) Rent from house property Rs. 2000 p.m.
- (vii) Interest received from Government securities Rs. 5,000;
- (viii) Dividend received from an Indian company Rs. 1,500;
- (ix) Interest on Saving Bank deposits Rs. 62,000.
- (x) Contribution to Recognized Provident Fund 10% of basic salary;
- (xi) Premium paid by cheque on medical insurance policy on health of dependent mother Rs. 5,000, Rs. 2,000 for dependent mother in law and Rs. 1,000 for dependent brother;
- (xii) Donation to an approved charitable institution Rs. 1,00,000;
- (xiii) House rent paid Rs. 28,000 p.m.

Compute her total income for assessment year 2022-23.

[8]

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

Profit and loss account for the year ended 31-3-2021.

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

Additional information:

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

	X	Y
Interest exempt u/s 10(15)	Rs. 5,000	Rs. 20,000



Interest on loan	Rs. 25,000		Rs. 2,49,000
Brought forward loss from house property	Rs. 25,000		Rs. 10,000

Answer:

6. (a)

Computation of Gross Total Income of Mrs. PM for the assessment year 2022-23

1. Income from Salary	Rs.	
Salary @60,000 p.m. (60000 x 12)	7,20,000	
D.A. @30% of salary	2,16,000	
Warden ship allowance @ Rs. 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	50,000	9,04,000
Income from House Property		
Rent from house property	24,000	
Less: Standard deduction @30%	7,200	
3. Income from Other sources		
Interest from Government Securities	5,000	
Dividend from Indian Company	Exempt	
Interest on Savings Bank Deposits	62,000	67,000
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 Donation—50% of 90,800 (see Below)	45,400	
U/s 80TTA	10,000	1,32,400
Total Income		8,55,400

Note-

- Qualifying limit for Section 80G shall be 10% of adjusted Gross Total Income  
i.e., Rs. 9,87,800 - Rs. 72,000 - Rs. 5,000 - Rs. 10,000 = Rs. 9,00,800
- HRA is exempt to the extent of the minimum of following three limits:
  - Actual amount received Rs. 18,000 x 12 = 2,16,000
  - Rent paid – 10% of salary (Rs.3,36,000 - Rs.72,000) = Rs. 2,64,000
  - 50% of salary = 3,60,000

(b) Computation of total income of AOP for the A.Y. 2021-22

Particulars	Details	Amount Rs.	Amount Rs.
Profits and gains of business or profession			
Net profit as per profit and loss account		15,000	

<i>Add:</i> Expenditure disallowed but debited in P/L Account			
Salary to member disallowed u/s 40(ba) [Rs. 5,000 + Rs. 5,000]	10,000		
Interest on capital disallowed u/s 40(ba) [Rs. 5,000 + Rs. 7,000]	12,000		
Other expenses disallowed u/s 37	4,000	26,000	
		41,000	
<i>Less:</i> Income credited but taxable under other head			
Short term capital gain		6,000	35,000
<i>Capital Gains</i>			
Short term capital gain			6,000
<b>Total Income</b>			<b>41,000</b>
<b>Tax on above (using rates applicable on an individual)#</b>			<b>Nil</b>

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

Particulars	X	Y
Income from other sources		
Interest exempt u/s 10(15)	Nil	Nil
Interest on loan	25,000	2,49,000
<b>Total income excluding share from AOP</b>	<b>25,000</b>	<b>2,49,000</b>

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

Computation of total income of X & Y for the A.Y. 2021-22

Particulars	X		Y	
	Details	Amount	Details	Amount
Profits and gains of business or profession				
Salary from AOP	5,000		5,000	
Interest on capital	5,000		7,000	
Balance income other than short term capital gain in equal ratio	6,500	16,500	6,500	18,500
Capital Gains: Short term capital gain		3,000		3,000
Income from other sources				
Interest exempt u/s 10(15)	Nil		Nil	
Interest on loan	25,000	25,000	2,49,000	2,49,000

Total income		44,500		2,70,500
Tax on above <i>less</i> rebate <i>plus</i> cess (Slab rate) (R/off)		Nil		Nil

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

Computation of total income of AOP for the A.Y. 2020-21

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

Computation of X & Y excluding share from AOP

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

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

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

Particulars	X		Y	
	Details	Amount	Details	Amount
Profits and gains of business or profession				

Salary from AOP	5,000		5,000	
Interest on Capital	5,000		7,000	
Balance income other than short term capital gain in equal ratio	6,500	16,500	6,500	
Capital Gains: Short term capital gain		3,000		3,000
Income from other sources				
Dividend received [exempted u/s 10(34)]	Nil		Nil	
Interest on loan	25,000	25,000	2,49,000	2,49,000
Total		44,500		2,70,500
Tax on above less rebate plus cess (slab rate (R/off))		Nil		Nil

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

7. (a) Compute taxable income under the head Income from other sources of Mrs. X from the following data:

Particulars	Amount Rs.
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 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 C.A	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditures are Rs. 5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner Rs. 12,000)	20,000
Income tax paid	2,000
Payment made for personal expenses	18,000
Payment made to LIC as premium	2,000

[8]

- (b) Discuss the following in relation to TDS Provision: [3+4=7]
- Payment of certain sums by certain Individuals or Hindu Undivided Family [Sec. 194M]
  - Payment of certain amount in cash [Sec. 194N].

Answer:

7. (a) Computation of income of Mrs. X under the head Income from other source for the A.Y. 2021-22

Particulars	Details	Amount Rs.
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		
a) 1/3 <sup>rd</sup> of amount received (i.e. ₹ 8,333)		
b) ₹ 15,000	8,333	16,667
Interest on bank deposit		25,000
Directors fee		5,000
Letting out of vacant land		25,000
Remuneration for checking the examination copy of employer school	Taxable as Salary	---
Remuneration for checking examination copy of CA		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 in any case.

- (b) (i) Payment of certain sums by certain Individuals or Hindu Undivided Family [Sec. 194M]-
- Person responsible to deduct tax: An individual or a Hindu undivided family (other than those who are required to deduct income-tax as per the provisions of sec. 194C, 194H or 194J) responsible for paying following sum during the financial year:
    1. any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract,

2. any sum to any resident by way of commission (not being insurance commission referred to in section 194D) or brokerage or

3. any sum to any resident by way of fees for professional services

Note:

Tax cannot be deducted if the aggregate amount of such sum credited or paid to a resident during the financial year does not exceed Rs. 50 lakhs.

- Tax shall be deducted at the time of payment or crediting the payee, whichever is earlier.
- Rate of TDS: 5%
- The payer is not required to obtain TAN. He shall deposit the tax deducted under this section by using his PAN.
- Exemption or relaxation from the provision: When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorizing the payer to deduct tax at lower rate or deduct no tax.

(ii) Payment of certain amount in cash [Sec. 194N]-

- Person responsible to deduct tax: Every person, being, —
  1. a banking company to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act);
  2. a co-operative society engaged in carrying on the business of banking; or
  3. a post office, Who is responsible for paying cash (in aggregate) in excess of Rs. 1 crore during the previous year, to any person from one or more accounts maintained by the recipient with it.
- Tax shall be deducted at the time of payment.
- Rate of TDS: 2% on payment in excess of `1 crore.
- Exception: The provision is not applicable if payment is made to:
  1. the Government;
  2. any banking company or co-operative society engaged in carrying on the business of banking or a post office;
  3. any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the guidelines issued in this regard by the Reserve Bank of India under the Reserve Bank of India Act, 1934;
  4. any white label automated teller machine operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007;

5. such other person or class of persons, which the Central Government may, by notification in the Official Gazette, specify in consultation with the Reserve Bank of India.
- Tax deducted u/s 194N is not considered as deemed receipt of income.

**8. Short Note: (any three)**

**[5x3=15]**

- (a) Interchangeability of PAN and Aadhar [Sec. 139A(5E)]**
- (b) Provision regarding furnishing of return in case of high volume transaction.**
- (c) Scope and Disclosure requirement of ICDS III.**
- (d) Issue of notice to the assessee U/s 42 (1) .**

**Answer:**

- 8. (a) Interchangeability of PAN and Aadhar [Sec. 139A(5E)]-**  
Every person who is required to furnish or intimate or quote his PAN, and who,—
- (i) has not been allotted PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of the PAN, and such person shall be allotted a PAN in such manner as may be prescribed;
  - (ii) has been allotted a PAN, and who has intimated his Aadhaar number in accordance with provisions of sec. 139AA, may furnish or intimate or quote his Aadhaar number in lieu of the PAN.
- (b) Furnishing of return in case of high volume transaction:** A person (other than firm and company), who is not required to furnish a return as per provision, and who during the previous year:
- (1) has deposited an aggregate amount exceeding Rs. 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
  - (2) has incurred expenditure of an aggregate amounts exceeding Rs. 2 lakh for himself or any other person for travel to a foreign country; or
  - (3) has incurred expenditure of an aggregate amount exceeding Rs. 1 lakh towards consumption of electricity; or
  - (4) fulfils such other conditions as may be prescribed, shall furnish a return of his income on or before the due date in such form and verified in such manner and setting forth such other particulars, as may be prescribed.
- (c) ICDS III- Construction**  
Contracts- Scope:
- 1. The Standard should be applied in determination of income for a construction contract of a contractor.
    - (i) Construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes:

- (A) contract for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects;
  - (B) contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.
- 2. Construction contracts are formulated in a number of ways which are classified as fixed price contracts and cost plus contracts.
  - (i) Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which may be subject to cost escalation clauses.
  - (ii) Cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark-up on these costs or a fixed fee.

Disclosure requirement -

- 1. A person shall disclose:
    - a. the amount of contract revenue recognised as revenue in the period; and b. the methods used to determine the stage of completion of contracts in progress.
  - 2. A person shall disclose the following for contracts in progress at the reporting date:
    - a. amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
    - b. the amount of advances received; and
    - c. the amount of retentions.
- (d) Issue of notice to the assessee U/s 142(1): For the purpose of making assessment, the Assessing Officer may serve a notice on any person –
- (i) who has submitted a return u/s 139; or
  - (ii) in whose case the time allowed u/s 139(1) for furnishing the return has expired.

Such notice may relate to any of the following matter -

- 1. Notice to submit a return [Sec. 142(1)(i)]: If the assessee has not submitted a return of income within specified time, the Assessing Officer may require him to submit a return in the prescribed form on or before the date specified in the notice.
- 2. Notice to produce accounts, documents etc. [Sec. 142(1)(ii)]: The Assessing Officer may ask the assessee to produce such documents or accounts as he may require.  
Exception: Assessing Officer shall not require the production of any accounts pertaining to a period more than 3 years prior to the previous year.



3. Notice to furnish information [Sec. 142(1)(iii)]: Assessing Officer may require the assessee to furnish in writing information in such form and on such points or matters as he may require (including a statement of all assets and liabilities of the assessee, whether included in the accounts or not). However, prior approval of the Joint Commissioner shall be obtained before requiring the assessee to furnish a statement of all assets and liabilities not included in the accounts.