

Paper 7- DIRECT TAXATION

Paper 7 - Direct Taxation

Full Marks: 100

Time allowed: 3 hours

All questions relate to Income Tax Assessment Year 2020-21 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the question

Answer Question No. 1, which is compulsory and any five from Question No.2 to 8.

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 01-11-2019 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. 2019-20.

- (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): [5×1=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: [5×1=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 in 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) Interest on loan taken for certain House Property gets deduction U/s _____.
- (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) 80EEA
- (ii) Rs. 50,000
- (iii) 20%
- (iv) ICDS VI
- (v) non-agricultural

- 2. (a) (i) What is Tax Evasion? [2]**
- (ii) Lasith Malinga, a Sri Lankan cricketer has been coming to India for 100 days every year since 2006-07:**
- 1. Determine his residential status for the assessment year 2020-21.**
 - 2. Will your answer be different if he has been coming to India for 110 days instead of 100 days every year? [4]**

- (b) Girish 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 Act | 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 01.06.2015)
Date of repayment of loan 30.06.2019.**
- (ii) Rs. 30,00,000 @ 9% p.a. for construction of House III (Date of borrowing 01.06.2015)
Date of payment of loan 30.06.2019. [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) 1.** Lasith Malinga satisfies the second condition of category A because he is in India for more than 60 days during the relevant previous year and for 400 days during four years preceding the relevant previous year. Therefore, he is a resident.
- Further, in this case, although he satisfies the first condition of Category B of being resident for at least 2 out of 10 preceding previous years but he does not satisfy the second condition of Category B as during 7 years preceding the previous year, he is India for only 700 days. He shall, therefore, be a resident but not ordinarily resident in India.

2. Yes, He will, in this case, be resident of India. He satisfies both conditions of category B as he was in India for 770 days in the last seven years and he was resident for at least 2 previous years out of 10 previous years immediately preceding the relevant previous year.

(b)

Determination of Income from House property

| | | Rs. |
|---|--------------|----------|
| Income from House I (Deemed to be let out) (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 |

Working Note:

Step I :

| | Rs. | House-I Rs. | Rs. | House-II Rs. | Rs. | House-III 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 01.06.2015 to 31.03.2016 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 01.06.2015 to 31.03.2016 | | | | | 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 | | 17,750 |

3. (a) Mr. Vasudev is an officer in a company in Jaipur. He furnished the following particulars regarding his income for previous year 2019-20:

- (i) Basic salary Rs.17,000 p.m.;
- (ii) Bonus Rs.5,000;
- (iii) Dearness Allowance Rs.3,000 p.m.;
- (iv) Travelling allowance Rs.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 Vasudev Rs.21,600.

Compute his taxable income from salary for the assessment year 2020-21. 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 crop by Mr. Aman for Rs. 2 lakhs and after cutting canes, selling them for Rs. 2,40,000.
- (ii) Income from milk dairy runs by Mr. Rajesh 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 Prakriti Nursery.
- (iv) Conversion of Sugarcane into Gur.
- (v) Income from sale of rubber Rs. 3,20,000 realised by Mr. Ram Nair who owns rubber estate and cultivates rubber.
- (vi) Income from grazing of cattles allowed in the land owned by Mr. Richard 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 |
| Income from 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 cattles. 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.
- (v) 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 cattles in vacant land does not involve any basic or subsequent operations and the grass so grown spontaneously is not income from agriculture.

4. (a) Y submits you the following particulars:

| Particulars | Date of acquisition | Cost Amount (Rs.) | Market value as on 01.04.2001 (Rs.) | Date of sale | Sales Price (Rs.) |
|----------------------------|---------------------|-------------------|-------------------------------------|--------------|-------------------|
| Urban Agricultural land | 03.05.1978 | 50,000 | 4,25,000 | 16.07.2019 | 15,00,000 |
| Rural agricultural land | 05.04.1982 | 1,00,000 | 6,50,000 | 15.08.2019 | 12,00,000 |
| Listed shares | 05.07.2018 | 60,000 | 40,000 | 04.06.2019 | 80,000 |
| Gold | 05.08.2002 | 2,05,000 | 1,80,000 | 05.02.2020 | 7,00,000 |
| Residential house property | 08.07.1964 | 30,000 | 25,00,000 | 25.02.2020 | 70,00,000 |

He deposited a sum of Rs.4,00,000 on 25.06.2020 in the capital gain scheme as he intends to buy an agricultural land later. Out of the sale proceeds of gold, he has invested Rs.1,96,000 on the purchase of residential house property on 15.05.2020. The shares were sold through recognised stock exchange and therefore STT was paid. The FMV of these shares as on 31.01.2018 was Rs.75,000.

Compute taxable capital gain for the assessment year 2020-21. CII for the previous year 2001-02, 2002-03 and 2019-20 was 100,105, 289 respectively. [9]

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

| | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 | Case 6 |
|--|----------|----------|----------|----------|----------|----------|
| Assessee | A | B | C | D | E | F |
| Date of Sanction of loan | 01.10.19 | 01.10.19 | 01.10.19 | 01.10.19 | 01.10.18 | 01.10.19 |
| Amount of loan | Rs.30 | Rs.30 | Rs.40 | Rs.30 | Rs.20 | Rs.20 |
| Stamp duty value of the property | Rs.40 | Rs.55 | Rs.45 | Rs.35 | Rs.35 | Rs.35 |
| Other residential property owned by the Assessee on the date of sanction | No | No | No | Yes | No | No |
| Interest for P.Y. 2019-20 | Rs.2.20 | Rs.1.20 | Rs.1.20 | Rs.1.20 | Rs.1.00 | Rs.1.20 |

[6]

Answer:

4. (a)

| Particulars | Urban Agricultural Land | Rural Agricultural Land (Not a capital asset) | Listed Shares | Gold | House Property |
|-----------------------------------|-------------------------|---|---------------|----------|----------------|
| Full Value of consideration | 15,00,000 | 12,00,000 | 80,000 | 7,00,000 | 70,00,000 |
| Less: Indexed cost of acquisition | 12,28,250 | N.A. | 60,000 | 5,64,238 | 72,25,000 |
| Long term capital gain/loss | 2,71,750 | Nil | --- | 1,35,762 | (-)2,25,000 |
| Short-term capital gain | --- | --- | 20,000 | --- | --- |
| Less: Capital gain exempt: | | | | | |
| u/s54B(limited Rs.2,71,750) | 2,71,750 | --- | --- | --- | --- |
| u/s 54F | --- | --- | --- | 38,013 | --- |
| Taxable LTCG/LTC Loss | Nil | N.A. | --- | 97,749 | (-)2,25,000 |
| Short term Capital gain | --- | --- | 20,000 | --- | --- |

Indexed cost of Urban Agricultural Land Rs. 4,25,000 × $\frac{289}{100}$ = ` 12,28,250

Indexed cost of gold Rs. 4,25,000 × $\frac{289}{105}$ = ` 12,28,250

Indexed cost of house property (Rs. 2,50,0000 × 289) ÷ 100 = Rs.72,25,000

Long term Capital Loss Rs.2,25,000 - Rs.97,749 = Rs.1,27,251

Short term Capital gain Rs.20,000

Note: On the date of transfer of gold i.e. 05.02.2020, Y owns only one residential house property. Therefore, he will be entitled to exemption of section 54F. The exempted amount has been calculated as under:

$$` 1,35,762 \times \frac{196000}{700000} = ` 38,013$$

(b)

| | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 | Case 6 |
|--|----------|----------|----------|----------|----------|----------|
| Assessee | A | B | C | D | E | F |
| Date of Sanction of loan | 01.10.19 | 01.10.19 | 01.10.19 | 01.10.19 | 01.10.18 | 01.10.19 |
| Amount of loan | Rs.30 | Rs.30 | Rs.40 | Rs.30 | Rs.20 | Rs.20 |
| Stamp duty value of the property | Rs.40 | Rs.55 | Rs.45 | Rs.35 | Rs.35 | Rs.35 |
| Other residential property owned by the Assessee on the date of sanction | No | No | No | Yes | No | No |
| Interest for P.Y. 2018-19 | Rs.2.20 | Rs.1.20 | Rs.1.20 | Rs.1.20 | Rs.1.00 | Rs.1.20 |
| Deduction u/s 80EEA | Rs.1.50 | Nil | Rs.1.20 | Nil | Nil | Nil |
| Notes | 1 | 2 | 3 | 4 | 5 | 6 |

Note -

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 previous year 2019-20
6. The deduction u/s 80 EEA is not available to HUF, however, assessee can claim deduction u/s 24(b).

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

Dr. Extract of Profit and Loss Account for the year ended 31.03.2020 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-
- i. Expenses incurred on the occasion of Festival Rs.800
 - ii. Theft of cash from locker Rs.1,200.
 - iii. 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 31.03.2020:

- (i) 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.
- (ii) 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.
- (iii) A house property in the name of Y was transferred to his wife on 01.12.2019 for adequate consideration. The property has been let at a rent of Rs.30,000 p.m.
- (iv) 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.
- (v) Y had transferred Rs.50,000 to his wife in the year 2013 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 2019-20, she received interest at 10% p.a. on Rs.70,000.
- (vi) 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)

| 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 2020 – 21

| | 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 2020-21

| | 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 | |
| (ii) 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. Priyanka Mehta is a Professor in the Department of Commerce, in Calcutta University.

Following are the particulars of her income for the assessment year 2020-21:

- Basic pay Rs.60,000 per month;**
- Dearness allowance 30% of salary**
- House rent allowance 30% of basic salary**
- Medical allowance Rs.6000 p.a. (amount actually spent on treatment Rs.2000);**
- Wardenship allowance Rs.1000 p.m.**
- Rent from house property Rs.2000 p.m.**
- Interest received from Government securities Rs.5,000;**
- Dividend received from an Indian company Rs.1,500;**
- Interest on Saving Bank deposits Rs.62,000.**
- 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 2020-21.

[8]

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

Profit and loss account for the year ended 31-3-2020

| Particulars | Amount | Particulars | Amount |
|--------------------------|--------|-------------------------|--------|
| 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 (Rs.) | Y (Rs.) |
|--|------------|------------|
| Dividend received | 5,000 | 20,000 |
| Interest on loan | 25,000 | 2,49,000 |
| Brought forward loss from house property | 25,000 | 10,000 |

[7]

Answer:

6. (a)

Computation of Gross Total Income of Mrs. Y for the assessment year 2020-21

| | Rs. | Rs. |
|--|----------|----------|
| 1. Income from Salary | | |
| 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 (Rs.500 x 12) | 6,000 | |
| | 9,54,000 | |
| Less: Deduction | 50,000 | 9,04,000 |

| | | |
|---|--------|----------|
| 2. 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 Rs.90,800 (see Below) | 45,400 | |
| U/s 80TTA | 10,000 | 1,32,400 |
| Total Income | | 8,55,400 |

Note-

1. 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
2. HRA is exempt to the extent of the minimum of following three limits:
 - (i) Actual amount received Rs. 18,000 x 12 = 2,16,000
 - (ii) Rent paid – 10% of salary (Rs.3,36,000 - Rs.72,000) = Rs. 2,64,000
 - (iii) 50% of salary = 3,60,000

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

| Particulars | 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 head | | | |
| Short term capital gain | | 6,000 | 35,000 |
| Capital Gains | | | |
| Short term capital gain | | | 6,000 |
| Total Income | | | 41,000 |
| Tax on above (using rates applicable on an individual) | | | NIL |

Computation of X & Y excluding share from AOP

| Particulars | 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. 2020-21

| 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 Income | | 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 gross interest/dividend and net interest/dividend on securities and shares in the following cases:

- (i) 10% Bonds of Industrial Development Bank of India of Rs.3,20,000.
- (ii) 10% Debentures of PQR Ltd. listed on Kolkata Stock Exchange purchased at Rs.96 (Face Value Rs.100) Rs.1,34,400.
- (iii) Interest received from debentures issued by Y Ltd. listed on Stock Exchange- Rs.29,700.
- (iv) Interest received from debentures issued by a Ltd. Company not listed on Stock Exchange- Rs.21,600
- (v) Dividend received from A Ltd. on 19.05.2019- Rs.2,400
- (vi) Dividend declared by the company on 05.06.2019 on shares of B Ltd. @ 50% on 1,000 shares of Rs.10 each purchased at Rs.60 per share.
- (vii) 10% Dividend on preference shares of Rs.10 each amounting to Rs.2,25,000 paid on 31.03.2020.

Also compute the income under the head other sources.

[8]

(b) Discuss the following in relation to TDS Provision:

[3+4=7]

(i) Payment of certain sums by certain Individuals or Hindu Undivided Family [Sec. 194M]

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

Answer:

7. (a)

| Particulars | Gross Interest/ Dividend | Rate of TDS | TDS Amount | Net Interest after TDS |
|--|-----------------------------|----------------|---------------|---------------------------|
| 1. 10% Bonds of IDBI | 32,000 | 10% | 3,200 | 28,800 |
| 2. 10% Debentures of PQR Ltd. (Listed) | 14,000 | 10% | 1,400 | 12,600 |
| 3. Interest received on debentures of Y Ltd. (Listed) Rs. 29,700 x 100/90 | 33,000 | 10% | 1,400 | 12,600 |
| 4. Interest received on debentures (not Listed) Rs. 21,600 x 100/90 | 24,000 | 10% | 2,400 | 21,600 |
| 5. Dividend received from A. Ltd | 2,400 | Nil | | 2,400 |
| 6. Dividend on shares of B Ltd. | 5,000 | Nil | | 5,000 |
| 7. Preference shares dividend | 22,500 | Nil | | 22,500 |

Computation of Income under the head Other Sources

| Particulars | Amount (Rs.) |
|---|--------------|
| 1. 10% Bonds of Industrial Development Bank of India of Rs. 3,20,000. | 32,000 |
| 2. 10% Debentures of PQR Ltd. listed on Kolkata Stock Exchange purchased at Rs.96 (Face Value Rs.100) Rs.1,34,400 | 14,000 |
| 3. Gross Interest received from debentures issued by Y Ltd. listed on Stock Exchange | 33,000 |
| 4. Gross Interest received from debentures issued by a Ltd. Company not listed on Stock Exchange. | 24,000 |
| 5. Dividend received by A Ltd. | Exempt |
| 6. Dividend on shares of B Ltd. @50% on 1,000 shares of Rs.10 each purchased at Rs.60 per share. (Net dividend Rs.5,000) | Exempt |
| 7. 10% Dividend on preference Shares of Rs. 2,25,000. | Exempt |
| Income from Other Sources | 1,03,000 |

Note:

TDS of Rs. 3,200 + Rs.1,400 + Rs.3,300 + Rs.2,400 totaling to Rs.10,300 deducted on the above investments will be deducted from total tax due.

(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 Rs.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 142 (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.