Paper 7- DIRECT TAXATION

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Full Marks: 100 **Time allowed: 3 hours**

All questions relate to Income Tax Assessment Year 2023-24 and the provisions stated relate to the Income-tax Act, 1961, unless otherwise stated in the question.

Answer Question Number 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) Rate of Interest accruing to a particular employee by virtue of his employer's contribution to Recognized Provident Fund is 12.5% p. a. In such a case:

(a) Total Interest accrued is taxable
(b) Total Interest accrued is exempt
(c) Only 10% Interest is taxable
(d) Only 3% of interest is taxable

(ii) Net Annual Value of a self-occupied property treated as such is:

(a) Fair Rent
(b) Nil
(c) Reasonable Expected Rent as reduced by municipal tax paid during the previous year.
(d) None of the Above

(iii) Deduction u/s 24(a) is computed as:

(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

(iv) Deduction u/s 35AD is available in respect of expenditure on specified business provided such business commenced its operation on or after 01-04-2009 subject to an exception that:

(a) Business of industrial undertaking may be commenced at any time on or after 01-04-2007
(b) Business of laying and operating a cross-country natural gas pipeline network may be commenced at any time on or after 01-04-2007
(c) Business of cold chain facility may be commenced at any time on or after 01-04-2007
(d) All of the above

(v) An individual purchased a painting on 01-11-2022 for ₹ 5,00,000 though fair market value of the asset is ₹ 5,25,000. Income taxable u/s 56(2)(x) is:

(a) ₹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 ₹ 50,000

(d) The provision of sec. 56(2)(x) is not applicable for any transaction entered during P.Y. 2022-23.

(vi) The maximum amount of leave salary not chargeable to tax as specified by the Government in case of a non-Government employee is:

(a) ₹ 75,600

(b) ₹ 77,760

(c) ₹ 2,40,000

(d) ₹ 3,00,000

(vii) 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

(viii) Tax is deducted at source on winning from lottery, the rate for such deduction in case of resident individual deductee is:

(a) 30.9%

(b) Maximum marginal rate of tax

(c) 30% if such winning exceeds ₹ 10,000

(d) 33.99%

(ix) Short term capital gain on sale of equity share through stock exchange:

(a) is exempt u/s 10(38)

(b) is exempt u/s 10(37)

(c) is covered u/s 111A, hence liable to tax @ 15%

(d) is taxable @ 20% and @ 10% if index benefit is not claimed.

(x) The preliminary expenses that can be amortized under the Income Tax Act, 1961 has to be restricted to _________ of the cost of project.

(a) 3%

(b) 5%

(c) 8%

(d) 20%

Answer:

(i) d
(ii) b
(iii) a
(iv) b
(v) c
(vi) d
(vii) b
(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)	Section 80P	(a)	20%
(ii)	Contribution of Employer to Pension Fund of Central Government	(b)	Compulsory filing of loss return
(iii)	Section 80	(c)	Includible as Salary income of employee
(iv)	Sec. 194E	(d)	₹ 10,000
(v)	Deduction u/s 80TTA	(e)	Income of co-operative societies

Answer:

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

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

(i) Telephone provided to an employee at his residence is a tax-free perquisite.
(ii) Expenses of purchasing lottery tickets are deducted out of winning from lottery under the head income from other sources.
(iii) A firm resident in India having total income of ₹ 1,46,000/- is eligible to claim deduction u/s 80D.
(iv) Zero-coupons bonds shall be treated as 'short-term capital asset' if held for more than 12 months but not more than 36 months.
(v) Capital gain arising from compulsory acquisition of a property under law is taxable in the year of receipt of compensation or part thereof.

Answer:

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

(D) Fill in the blanks: **[5×1=5]**

(i) Mr. A holds 25% of the equity shares in LMN Ltd., a listed company. He has borrowed a sum of ₹ 10 lakhs from this company on 21.03.2023. As on this date, the accumulated profits and free reserves are ₹ 8 lakhs. The deemed dividend taxable u/s 2(22) (e) of the Income Tax Act, 1961 is ₹ ______ (8,00,000/ 10,00,000 / Nil).

(ii) Exemption u/s. 10(32) in respect of income of minor child included in the hands of assesses under Section 64(1A) is restricted to ₹ _____ per child.

(iii) A company incorporated outside India is said to be resident in India, if place of ___________________ is situated in India.

(iv) Mr. A, a senior citizen, has total income of ₹ 8 lacs, earned by way of interest from secured debentures. The advance tax payable by him is ₹_____________.

(v) The maximum amount of retrenchment compensation exempt u/s 10 (10B) in the hands of a person, when received from a private scheme not approved by the Board, is ₹_____________.

Answer:

(i) Nil
(ii) ₹ 1,500
(iii) effective management
(iv) Nil
(v) ₹5,00,000

2. (a) (i) State How to determine the first previous year in case of a newly set-up business or profession or for a new source of income. **[3]**

(ii) Mention the exceptions to the general rule that income of a Previous Year is taxed in its Assessment Year. **[3]**

(iii) State the taxability of Income of Professional Institutions [Sec. 10(23A)] **[3]**

(b) Mr. Rajesh owns two house properties both of which are let out. Compute his income from the following details:

Particulars	H1 (₹)	H2 (₹)
Situated at	Gaya	Mumbai
Gross Municipal value	1,00,000	2,00,000
Fair rent	95,000	2,10,000
Standard rent	90,000	2,00,000
Actual rent receivable	1,00,000	1,80,000
Unrealised rent of current year	8,000	2,000
Municipal tax	10%	1,000
Fire insurance	2,000	1,200
Repairs	Nil	2,000
Interest on loan for construction (@ 12%)	10,000	Nil

Other Information:

1) Loan taken for construction is still unpaid.

2) Municipal tax of H1 is still unpaid, while, that of H2 is half paid by tenant. **[6]**

Answer:

2. (a) (i) Determination of the first previous year in case of a newly set-up business or profession or for a new source of income

In case of	Previous year is the period
Business or profession being newly set-up	Beginning with the date of setting up of the business & ending on 31st March of that financial year.
A source of income newly coming into existence	Beginning with the date on which the new source of income comes into existence & ending on 31st March of that financial year.

Notes:

1. Above explanation signifies that the first previous year may be a period of less than 12 months but in any case it cannot exceed a period of 12 months. However, next and subsequent previous years shall always be a period of 12 months.
2. Where an assessee has an existing regular income from various sources and he earns an income from a new source during the financial year, his previous year shall commence -
   - For the existing income: From 1st April of previous year; and
   - For new income: From the date when on which the new source of income comes into existence.

   However, assessee is liable to tax on aggregate income from all the sources, therefore, all the income will be included in the previous year.

(ii) Exceptions to the general rule that income of a Previous Year is taxed in its Assessment Year:

This is the general rule that income of the previous year of an assessee is charged to tax in the immediately following assessment year. However, in the following cases, income of the previous year is assessed in the same year in order to ensure smooth collection of income tax from the taxpayer who may not be traceable, if assessment is postponed till the commencement of the Assessment Year:

1. Income of a non-resident assessee from shipping business (Sec. 172)
2. Income of a person who is leaving India either permanently or for a long period (Sec. 174)
3. Income of bodies, formed for a short duration (Sec. 174A)
4. Income of a person who is likely to transfer property to avoid tax (Sec. 175)
5. Income of a discontinued business (Sec. 176). In this case, the Assessing Officer has the discretionary power i.e. he may assess the income in the same previous year or may wait till the Assessment year.

(iii) Any income (other than income chargeable under the head "Income from house property" or any income received for rendering any specific services or income by way of interest or dividends derived from its investments) of professional association shall be exempt provided –

1. Such association or institution is established in India having as its object the control, supervision, regulation or encouragement of the profession of law, medicine, accountancy, engineering or architecture or other specified profession;
2. Such association or institution applies its income, or accumulates it for application, solely to the objects for which it is established; and
3. The association or institution is approved by the Central Government.

(b) Computation of income from house property of Mr. Rajesh for the A.Y. 2023-24

Particulars	Details (₹)	Amount (₹)	Amount (₹)
H1: <u>Let out</u>			
Gross Annual Value#		92,000	
Less: Municipal tax		Nil	
Net Annual Value		92,000	
Less: Deduction u/s 24			
(i) Standard deduction (30% of NAV)	27,600		
(ii) Interest on loan	10,000	37,600	54,400
H2: <u>Let out</u>			
Gross Annual Value#		2,00,000	
Less: Municipal tax		500	
Net Annual Value		1,99,500	
Less: Deduction u/s 24			
(i) Standard deduction (30% of NAV)	59,850		
(ii) Interest on loan	Nil	59,850	1,39,650

Income from House Property	1,94,050

Note: Unpaid municipal tax and municipal tax paid by tenant is not allowed.

#. Computation of Gross Annual Value

Particulars	Details	H1	H2
Reasonable Expected Rent	Higher of GMV or FR subject to SR	90,000	2,00,000
Actual Rent Receivable – Unrealised Rent		92,000	1,78,000
Gross Annual Value	Higher of above	92,000	2,00,000

3. **(a)** Sri Ashutosh has been provided with a furnished accommodation in a city having population of 14,00,000 as per last census. Municipal Value of the house (owned by employer) is ₹ 80,000 whereas Fair rent of the house is ₹ 1,00,000. His salary details are as under:

Basic	₹ 25,000 p.m.
Allowance for increased cost of living	₹ 5,000 p.m.
Children Education allowance	₹ 3,000 p.m. [He has one son and two married daughters]

Furniture details as under:

Furniture	Hired by the employer (Hire charge) (₹)	Owned by the employer (Original Cost) (₹)
T.V.	2,000 p.a.	-
Refrigerator	-	10,000
Washing Machine	-	5,000
Other furniture	1,000 p.m.	20,000
Furniture	Hired by the employer (Hire charge)	Owned by the employer (Original Cost)
T.V.	2,000 p.a.	-
Refrigerator	-	10,000

Calculate gross taxable salary of Sri Ashutosh for the A.Y. 2023-24. **[10]**

(b) Parikshit (aged 25 years) is engaged in growing and manufacturing tea in India. His profit for the previous year 2022-23 amounts to ₹10,00,000 which includes profit of ₹2,00,000 from sale of green leaves plucked in his own garden. He has no other income during the year. Compute the total income and total tax payable by Parikshit. **[5]**

Answer:

3. **(a)** Computation of gross taxable salary of Sri Ashutosh for the A.Y. 2023-24

Particulars	**Amount (₹)**	**Amount (₹)**
Basic Salary		3,00,000
Dearness allowance (Allowance for increased cost of living)		60,000
Children Education Allowance	36,000	
Less: Exemption (₹ 100 x 2 x 12)	2,400	33,600
<u>Rent Free Furnished Accommodation</u>		
Value of Accommodation (10% of Salary[1])	39,360	

Value of furniture[2]	17,500	56,860
Gross Taxable Salary		4,50,460

[1.] Salary for valuation of rent- free accommodation: (₹)

Basic Salary	3,00,000
Dearness allowance	60,000
Education Allowance	33,600
Total	3,93,600

[2.] Valuation of taxable perquisite for furniture: (₹)

Furniture	Perquisite for hired furniture	Perquisite for owned furniture	Total Taxable value of furniture
T.V.	2,000	-	2,000
Refrigerator	-	10% of 10,000	1,000
Washing Machine	-	10% of 5,000	500
Other furniture	12,000	10% of 20,000	14,000
Total			17,500

Municipal value and Fair rent are irrelevant.

(b) If the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 40% of profit on sale of tea is taxable as business income under the head "profits and gains from business or profession" and the balance 60% is agricultural income, which is exempt from income-tax under section 10(1).

Computation of tax payable by Parikshit for the Assessment Year 2023-24

Particulars	₹
Profit	10,00,000
Less: profit on sale of green leaves being 100% agricultural income, exempted fully under section 10(1)	2,00,000
Composite business income	8,00,000
Less: 60% deemed to be agricultural income	4,80,000
Total income	3,20,000
The tax liability is to be computed applying the concept of partial integration since total income comprises of both agricultural income and non-agricultural income and agricultural income exceeds ₹ 5,000 and non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000	
Tax on aggregate of agricultural income and non-agricultural income (₹ 2,00,000 + ₹ 4,80,000 + ₹ 3,20,000)	1,12,500
Less: Tax on agricultural income and basic exemption limit (₹ 6,80,000 + ₹ 2,50,000) i.e. ₹ 9,30,000	98,500
	14,000
Health and education cess (4%)	560
Total tax liability	14,560

4. (a) Mr. Shankar purchased 100 equity shares of M/s Goldi Co. Ltd. on 01-04-2006 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2021. He has also received dividend of ₹ 10 per share on 01.05.2022.

He has sold all the shares on 01.10.2022 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 70th birthday.

Compute his total income and tax liability for Assessment Year 2023-24, assuming that he is having no income other than given above. Fair market value of shares of M/s. Goldi Co. Ltd. on 31.1.2018 is ₹ 2,000. **[10]**

(b) Mr. X, is suffering from low-vision (certified as severe disability). He has following incomes details -

Net Salary ₹ 45,000

Short term capital gain ₹ 45,000

Long term capital gain ₹ 1,50,000

Mrs. X, suffering from leprosy (certified as 50% disable), is fully dependant on Mr. X. Compute his total income. **[5]**

Answer:

4. (a) Computation of total income and tax liability of Mr. Shankar for A.Y. 2023-24

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Goldi Co. Ltd. is taxable in the hands of shareholders [200 shares x ₹10 per share]	2,000
Total Income	5,94,000

Tax Liability	₹
Tax on dividend	Nil
15% of (₹ 3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)	14,700
10% of (₹ 1,96,000 - ₹ 1,00,000)	9,600
	24,300
Add: Health and education cess @4%	972
Tax payable	25,272
Tax payable (rounded off)	25,270

Notes:

(1) Long-term capital gains exceeding ₹ 1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.

(2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of:

- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.

So, the cost of acquisition of original share is ₹ 2,000 per share.

(3) Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax @15% as per section 111A after adjusting the unexhausted basic exemption limit (₹3,00,000 less ₹ 2,000, being the amount of dividend). Since Mr. Shankar is over 60 years of age, he is entitled for a higher basic exemption limit of ₹3,00,000 for A.Y. 2023-24.

(4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).

(5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.

(6) Securities transaction tax is not allowable as deduction.

(b) Since Mr. X is suffering from severe disability, he can claim deduction u/s 80U of ₹1,25,000. Further, Mrs. X is also a person with disability & dependent on Mr. X, therefore, Mr. X can also claim deduction u/s 80DD of ₹ 75,000.

Computation of total income of Mr. X for the A.Y. 2023-24

Particulars	Details (₹)	Amount (₹)
Salaries		45,000
Capital gains		
Short term capital gains	45,000	
Long term capital gains	1,50,000	1,95,000
Gross Total Income		2,40,000
Less: Deduction u/s		
80DD (Relative with disability)	75,000	90,000[1]
80U (Assessee is a person with severe disability)	1,25,000	1,50,000
Total Income		
[1]. Total deduction u/s 80C to 80U cannot exceed GTI excluding LTCG, STCG covered u/s 111A, and casual income like winning from lotteries, etc.		

5. (a) During the previous year 2022-23, Profit and Loss Account of Shri Raj, proprietor of Raj Enterprises engaged in the business of readymade garments, shows profits of ₹1,50,000. With the following information, compute his taxable income from business –

1) Interest on capital ₹ 5,000
2) Purchases include goods of ₹12,000 from his younger brother in cash. However, market value of such goods is ₹ 9,000.
3) Interest paid outside India ₹ 1,00,000 without deducting tax at source.
4) Penalty paid to Government for non-filing of GST return ₹ 5,000
5) Penalty paid to customer for non-fulfilling of order within time ₹ 10,000
6) Bad debts ₹ 1,00,000. Money has been advanced for purchase of Building.

7) Revenue expenditure on promoting family planning among employees ₹10,000.
8) Premium paid on health of employees ₹ 6,000 in cash
9) Premium paid on health of his relatives ₹ 6,000 in cheque
10) Employer's contribution to RPF ₹ 12,000. One-half of the amount is paid after due date as per relevant Act but before 31-3-2023.
11) Employees contribution to RPF ₹ 10,000. ½ of the amount is paid after due date as per relevant Act.
12) Interest on late payment of professional tax ₹ 1,000 (yet to be paid)
13) Interest on loan from State Bank of India ₹ 10,000 (₹ 5,000 is not paid till due date of filing of return)
14) Interest on late refund from income tax department ₹ 500
15) Sale includes sale to Raj ₹ 10,000. (Cost of such goods ₹ 8,000; Market value of such goods ₹ 12,000)
16) He received ₹ 80,000 from a debtor at a time in cash.
17) Recovery of bad debt ₹ 10,000 (out of which ₹ 8,000 was allowed as deduction during A.Y.2018-19)
18) Depreciation (being not debited in accounts) ₹ 20,000 allowed as deduction u/s 32 **[8]**

(b) Mr. Samir submits the following details of his income for the assessment year 2023-24:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2017-18)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	7,000

Calculate gross total income and losses to be carried forward, assuming that he does not opt for the provisions of section 115BAC. **[7]**

Answer:

5. (a) Computation of Profits and gains of business or profession of Shri Raj for the A.Y. 2023-24

Particulars	Note	Details (₹)	Amount (₹)
Net profit as per Profit and Loss Account			1,50,000
Add: Expenditure disallowed but debited in P/L A/c			

Interest on capital	1	5,000	
Payment to relative in excess of market value of goods	2	3,000	
Interest paid outside India without deducting tax at source	3	1,00,000	
Penalty paid to government for non-filing of GST return	4	5,000	
Bad debt	6	1,00,000	
Premium paid on health of employees in cash	8	6,000	
Premium paid on health of his relatives in cheque	9	6,000	
Employees contribution to RPF	11	5,000	
Interest on loan from State Bank of India	13	5,000	
Cost of goods sold to himself	14	8,000	2,43,000
			3,93,000
Less: Expenditure allowed but not debited in P/L A/c			
Depreciation u/s 32		20,000	
Less: Income not taxable but credited to P/L A/c			
Sales to himself (goods withdrawn for personal purpose)	14	10,000	
Recovery of bad debts	15	2,000	
Less: Income taxable under other head but credited to P/L A/c			
Interest on late refund from Income tax department	16	500	32,500
Profits and gains of business or profession			3,60,500

Note –

1. Interest on capital to proprietor is not allowed as no one can earn from a transaction with himself.
2. Any unreasonable payment to relative is disallowed u/s 40A(2). Hence, ₹ 3,000 is disallowed. Since cash payment towards allowed expenditure (i.e. ₹ 9,000) does not exceed ₹ 10,000, hence provision of sec. 40A(3) is not applicable.
3. Interest paid outside India without deducting tax at source is disallowed u/s 40(a).
4. Any payment made for infringement of law is disallowed.
5. Payment made for non-fulfilling of contract is not a payment for infringement of law. Hence, allowed u/s 37(1).
6. Bad debt is allowed only when such debt has been taken into account as income of previous year or any earlier previous year(s) [Sec. 36(1)(vii)]. Since, the debt is in respect of purchase of a building, which was not considered as income of any previous year, hence it is disallowed.
7. Any expenditure for promoting family planning is allowed to company assessee [Sec. 36(1)(ix)]. However, such expenditure (revenue in nature) incurred by assessee other than company shall be allowed u/s 37(1).
8. Payment of insurance premium on health of employees in cheque is allowed u/s 36(1)(ib).
9. Payment of insurance premium on health of relative is not related to business, hence disallowed.

10. Employer's contribution towards RPF is allowed if payment is made before due date of filing of return irrespective of fact that such payment was made after due date prescribed in the relevant Act.
11. Any sum received from employees as their contribution towards RPF is allowed only when such sum has been credited to such fund within the due date prescribed in the relevant Act [Sec. 36(1)(va)].
12. Interest on late payment of professional tax is not a penalty but compensatory in nature. Hence, it is allowed u/s 37(1). Further such interest is not governed by the provisions of sec. 43B.
13. Any interest payable to any scheduled bank is allowed on cash basis [Sec. 43B]. Hence, unpaid amount is disallowed.
14. Any expenditure of personal nature is not allowed. Further, no one can earn from a transaction with himself. Hence, sale made to himself is not treated as income.
15. Bad debt recovery is treated as income in the year of recovery to the extent of bad debt allowed in the earlier year [Sec. 41(4)]
16. Interest on late refund of income tax is taxable under the head 'Income from other sources'.
17. Receipt from debtor ₹ 80,000 in cash is not attracted by provision of sec. 40A(3).

(b) Computation of Gross Total Income of Mr. Samir for the A.Y. 2023-24:

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2017-18 to becarried forward to A.Y.2024-25		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	7,000	68,000
Gross Total Income		3,28,000
Losses to be carried forward to A.Y. 2024-25		

Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Notes:

1. Agricultural income is exempt under section 10(1)
2. It is presumed that loss from iron-ore business relates to P.Y. 2017-18, the year in which the business was discontinued.

6. **(a)** Mr. X, a grower and manufacturer of tea, purchased machinery (15%) on 10-04-2021 for ₹ 10 lakh. He computed depreciation for A.Y. 2023-24 as given below; needs your comment on his working:

Particulars	Amount (₹)
Opening W.D.V. as on 1/4/2021	Nil
Add: Assets purchased during the year	10,00,000
	10,00,000
Less: Depreciation for the P.Y. 2021-22 [₹ 10,00,000 * 15% * 40%]	60,000
(As he is engaged in the business of growing and manufacturing tea; hence 60% is considered as part of agricultural income)	
Opening W.D.V. as on 1/4/2022	9,40,000
Less: Depreciation for the P.Y. 2022-23 [₹ 9,40,000 * 15% * 40%]	56,400
Opening W.D.V. as on 1/4/2023	8,83,600

Further, compute his business income for A.Y. 2023-24 assuming that his income before depreciation and without reducing element of agricultural income is ₹8,00,000/- **[4+3=7]**

(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 31-3-2023

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:

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

	X	Y
Interest exempt u/s 10(15)	₹ 5,000	₹ 20,000
Interest on loan	₹ 25,000	₹ 2,49,000

Brought forward loss from house property	₹ 25,000	₹ 10,000

[4+4=8]

Answer:

6. (a) The method of computation of depreciation followed by Mr. X is not correct as Expl. 7 to sec.43(6) provides that:

"Where the income of an assessee is derived, in part from agriculture and in part from business chargeable to income-tax under the head "Profits and gains of business or profession", for computing the written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee under the head "Profits and gains of business or profession" and the depreciation so computed shall be deemed to be the depreciation actually allowed under this Act."

The correct computation of depreciation is as follow:

Particulars	Amount (₹)
Opening W.D.V. as on 1/4/2021	Nil
Add: Assets purchased during the year	10,00,000
	10,00,000
Less: Depreciation for the P.Y. 2021-22 [₹ 10,00,000 * 15%]	
(Considering the entire income as taxable income)	1,50,000
Opening W.D.V. as on 1/4/2022	8,50,000
Less: Depreciation for the P.Y. 2022-23 [₹ 8,50,000 * 15%]	1,27,500
Opening W.D.V. as on 1/4/2023	7,22,500

Computation of business income of Mr. X for A.Y. 2023-24

Particulars	Amount (₹)
Income before depreciation and without reducing element of agricultural income	8,00,000
Less: Depreciation	1,27,500
	6,72,500
Less: Agricultural Income being 60% of above	4,03,500
Profits and Gains of Business or Profession	2,69,000

(b) Computation of total income of AOP for the A.Y. 2023-24

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) [₹ 5,000 + ₹ 5,000]	10,000		
Interest on capital disallowed u/s 40(ba) [₹ 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 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
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. 2023-24

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 *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)** Mr. Alok, a dealer in shares, received the following without consideration during the P.Y. 2022-23 from his friend Mr. Bikash, -

(1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2022.

(2) Bullion, the fair market value of which was ₹60,000, on his birthday, 19th June, 2022.

(3) A plot of land at Faridabad on 1st July, 2022, the stamp value of which is ₹ 5 lakh on that date. Mr. Bikash had purchased the land in April, 2009.

Mr. Alok purchased from his friend Mr. Kanu, who is also a dealer in shares, 1000 shares of Y Ltd. @ ₹ 400 each on 19th June, 2022, the fair market value of which was ₹ 600 each on that date. Mr. Alok sold these shares in the course of his business on 23rd June, 2022.

Further, on 1st November, 2022, Mr. Alok took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on1st November, 2022 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2023, he sold the plot of land at Faridabad for ₹ 8 lakh.
Compute the income of Mr. Alok chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2023-24. **[9]**

(b) State the circumstances when TDS cannot be deducted on payment made to contractor as per Sec. 194C. **[6]**

Answer:

7. (a) Computation of "Income from other sources" of Mr. Alok for the A.Y. 2023-24

	Particulars	Amount (₹)
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds ₹50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of ₹2 lakh in the value of shares of Y Ltd. purchased from Mr. Kanu, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Alok. Since Mr. Alok is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. Alok.	--
(5)	Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
	Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. Alok for the A.Y.2023-24

Particulars	Amount (₹)
Sale Consideration	8,00,000
Less: Cost of acquisition[deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	3,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

(b) TDS cannot be deducted on payment made to contractor as per Sec. 194C in the following cases:

► Case 1:
When following conditions are satisfied then tax cannot be deducted:
(i) Any sum credited or paid in pursuance of any contract, the consideration for which does not exceed ₹ 30,000; and
Note: The limit of ₹ 30,000 is on individual contract.
(ii) Where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year does not exceed ₹ 1,00,000

► Case 2:
When following conditions are satisfied then tax cannot be deducted:
a. Amount is paid or payable to a resident contractor during the course of plying, hiring or leasing goods carriage (here-in-after referred to as transport operator).
b. Such operator furnishes his Permanent Account Number (PAN) to the payer.
c. Where such contractor owns 10 or less goods carriages at any time during the previous year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

Note: Tax is not required to be deducted even if amount of payment exceeds ₹ 1,00,000/-

8. Short Note: (any three) [5x3=15]

(a) Verification of return of income in the case of an individual, HUF and political party
(b) Belated return under section 139(4)
(c) ICDS-I on "Accounting Policies"
(d) Scrutiny assessment

Answer:

8. (a) Verification of return of income:
The return shall be verified:
In the case of an individual –
(i) By the individual himself; or
(ii) Where he is absent from India, by the individual himself or by some person duly authorized by him on his behalf; or
(iii) Where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf and
(iv) Where, for any other reason it is not possible for the individual to verify the return, by any person duly authorized by him this behalf.

Note: When return is verified by any authorized person in that case, the return should be accompanied with power of attorney.

In the case of a Hindu Undivided Family — only by the Karta.
However, in the following two cases it can be verified by any other adult member of the family:
Where the karta is absent from India; or where the Karta is mentally incapacitated from attending to his affairs.

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

(b) Belated return under section 139(4):

If an assessee fails to file return of income • within the time limit allowed u/s 139(1) or • within the time allowed under a notice issued u/s 142(1), he can file a belated return.
Time limit: Assessee may file such return – • on or before 31st December of the relevant assessment year; or • before the completion of assessment (u/s 144), - whichever is earlier.
However, if an assessee files a belated return, he would be liable to pay late fee u/s 234F and interest u/s 234A.

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

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

Fundamental Accounting Assumptions:
The fundamental accounting assumptions i.e., Going Concern, Consistency and Accrual are assumed as followed. No specific disclosure is required, if these assumptions are followed. However, if such assumption are not followed, the fact shall be disclosed.
Change in Accounting Policies:
An accounting policy shall not be changed without reasonable cause.
Disclosure of Accounting Policies:

- ❖ All significant accounting policies adopted by a person shall be disclosed.
- ❖ Any change in an accounting policy which has a material effect shall be disclosed (with quantum of the effect, if ascertainable). Where such amount is not ascertainable, the fact shall be indicated.

- ❖ Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

(d) Scrutiny assessment:

Where the Assessing Officer or the prescribed income-tax authority (here-in-after collectively referred to as 'Assessing Officer') considers it necessary to ensure that the assessee has not - ➢ understated his income; or ➢ declared excessive loss; or ➢ under paid the tax.
He can make a scrutiny in this regards and gather such information and evidence as he deems fit and on the basis of such information and evidence so collected, he shall pass an assessment order. Such order shall be treated as regular assessment order.
Conditions for Scrutiny Assessment: ➢ A return has been furnished u/s 139 or in response to a notice u/s 142(1); and ➢ Assessing Officer considers it necessary or expedient to ensure that the assessee has not understated his income, declared excessive loss or under-paid the tax.