



Paper 7- Direct Taxation

Paper-7: -Direct Taxation

Full Marks: 100

Time allowed:3 hours

All question relate to income –tax assessment Year 2018-19 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 question Question Nos.2 to 8.

1. (a) Choose the most Appropriate alternative for the following (Option to be given only in capital letters A,B,C or D ; entire answer need Not be reproduced);

1 X 10 =10

(i) Best Judgment assessment is covered u/s

- (a) 143(3)
- (b) 143(1)
- (c) **144**
- (d) 147

(ii)W.e.f. 01-04-2016, quoting 'Permanent Account Number' (PAN) is compulsory in the following transaction –

- (a) **Payment to LIP exceeding ₹ 50,000 in a financial year**
- (b) Sale or purchase of any immovable property valued at ₹ 4,00,000
- (c) Time deposit upto ₹ 35,000 with a bank
- (d) None of the above

(iii)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

(iv)Gift of a capital asset is not considered as transfer, however exception is:

- (a) **Shares acquired under Employees Stock Option Plan**
- (b) Jewellery
- (c) Immovable property
- (d) Nil

(v)A person is deemed to have substantial interest in a company if he is

- (a) **The owner of at least 20% of equity capital of the company**
- (b) The owner of at least 25% of equity capital of the company
- (c) Entitled to 10% of profits of the concern
- (d) An employee director

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(vi) While computing taxable interest on delayed compensation, a standard deduction is allowed @

- (a) 50 %
- (b) 30 %
- (c) 15%
- (d) Nil

(vii) A payment of ₹25,000 is made to the road transport-operator on 20-02-2019 in cash, consequently, amount disallowed u/s 40A(3) is

- (a) Nil
- (b) 25,000
- (c) 5,000
- (d) None of the above

(viii) 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 %

(ix) Income from sub-letting is:

- (a) Taxable under the head 'Income from House Property'
- (b) **Taxable under the head 'Income from Other Sources'**
- (c) Exempted
- (d) None of the above

(x) Statutory limit u/s.16(ii) for deduction of entertainment allowance in case of a non-Government employee is

- (a) 5,000
- (b) 12.5 % of employees' salary
- (c) 20% of employees' salary
- (d) **NIL**

**(b) Match The following(Sufficient to give the corresponding item in column 3 for column 1
Reproducing columns 2 and 4 are not required):**

1X=5

1	2	3	4
(i)	Section 80	(A)	Effect of changes in foreign exchange rates
(ii)	ICDS VI	(B)	Compulsory filing of loss return
(iii)	Section 80P	(C)	Zero Coupon Bonds
(iv)	Section 59	(D)	Income of co-operative societies
(v)	Section 2(48)	(E)	Profit chargeable to tax

Answer:

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(i) B	(ii) A	(iii) D	(IV) E	(v) C
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(c) State whether the following statements are True or False :

1 X5=5

- (i) Share of a private limited company held for 15 months before its sale is a long-term capital asset.
- (ii) It is not possible to have negative income under the head 'income from house property'.
- (iii) Any income derived from land situated in India is agricultural income.
- (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) Leave encashment received while in service is taxable.

Answer:

(i) False	(ii) False	(iii) False	(iv) False	(v) True
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(d) Fill in the blanks:

1 X5=5

- (i) A foreign company is liable to surcharge at 5%, if the total income exceeds _____.
- (ii) Maximum amount of exemption under section 10(10C) of the Income-tax Act in respect of compensation received for voluntary retirement is _____.
- (iii) Interest payable to a partner by a firm shall not exceed _____ (18% /12%) per annum.
- (iv) Deposit in public provident fund in the name of minor child is _____ u/s 80C in the hands of contributing parent.
- (v) Interest on refund on Income-tax paid in excess is a _____ receipt.

Answer:

(i) ₹ 10 Crore	(ii) ₹ 5,00,000	(iii) 12%	(iv) Deductible	(v) Taxable
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2(a) Mr John, a foreign national, comes India every year for 90 days since 2003-04.

- i) Determine her residential status for the previous year 2018-19.
- ii) Will your answer differ, if he comes India for 100 days instead of 90 days every year. [6]

2(b) Mr. Ajnabi has a house property in Cochin. The house property has two equal dimension residential units. Unit 1 is self occupied throughout the year and unit 2 is let out for 9 months for ₹10,000 p.m. and for remaining 3 months it was self-occupied. Compute his taxable income from the following details:

Municipal value ₹2,00,000, Fair Rent ₹1,60,000, Standard rent ₹3,00,000, Municipal tax 10% (60% paid by assessee), Interest on loan ₹ 40,000, Expenditure on repairs ₹ 20,000 [9]

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Answer:2(a)

i) Since Mr. John stayed for 90 days during the previous year 2018-19 and for 360 days (90 days × 4 years) during the 4 years immediately preceding the previous year, hence, he is not satisfying any of the conditions of sec. 6(1). Thus, he is a non-resident for the previous year 2018-19.

ii) Since Mr. John stayed for 100 days during the previous year 2018-19 and for 400 days (100 days × 4 years) during the 4 years immediately preceding the previous year, hence, he is satisfying sec. 6(1)(c). Thus, he is resident for the previous year 2018-19. Further, he resides for only 700 days (100 days × 7 years) during the 7 years immediately preceding the previous year. Hence, he does not satisfy one of the conditions of sec. 6(6). Thus, he is resident but not ordinarily resident for the previous year 2018-19

2(b) Working

1. Computation of Gross Annual Value (GAV)

Particulars	Working	Unit 1 (₹)	Unit 2 (₹)
Municipal Value	1:1	1,00,000	1,00,000
Fair Rent	1:1	80,000	80,000
Standard Rent	1:1	1,50,000	1,50,000
Reasonable Expected Rent	Higher of MV & FR (RER cannot exceed SR)	Nil	1,00,000
Actual Rent Receivable	₹ 10,000 * 9	--	90,000
Gross Annual Value	Higher of Step 1 & 2	Nil	1,00,000

2. Municipal tax = 10% of ₹ 2,00,000 = ₹ 20,000 being divided in the ratio 1:1 between Unit 1 and Unit 2. Out of such Municipal tax only 60% is paid, therefore, Municipal tax allowed as deduction in case of Unit 2 is only ₹ 6,000 [i.e. ₹ 20,000 * ½ * 60%].

3. Interest on loan is divided in unit A and unit B in 1:1 as both units are of equal dimension.

Computation of income from house property of Mr. Ajnabi for the A.Y. 2018-19

Particulars	Working	Unit 1		Unit 2	
		Details	Amount (₹)	Details	Amount (₹)
Gross Annual Value	1		Nil		1,00,000
Less: Municipal Tax	2		Nil		6,000
Net Annual Value			Nil		94,000
Less: Deduction u/s					
24(a) Standard Deduction		Nil		28200	
24(b) Interest on loan	3	20,000	20,000	20000	48,200
Income from house property			(-) 20,000		45,800

Conclusion: Income under the head Income from house property is ₹ 25,800 (being ₹45,800 – ₹ 20,000).

3(a) Sri Pabir 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 daughters]

Furniture details as under:

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Furniture	Hired by the employer (Hire charge) (₹)	Owned by the employee (Original Cost) (₹)
T.V.	2,000 p.a.	-
Refrigerator	-	19,000
Washing Machine	-	6,000
Other furniture	1,000 p.m.	25,000

Calculate gross taxable salary of Sri Pabir for the A.Y. 2019-20.

[9]

(b)XYZ Ltd. grows sugarcane to manufacture sugar. Details for the previous year 2018-19 are as follows:

Particulars	₹ in lacs.
Cost of cultivation of sugarcane (5,000 tons)	20
Sugarcane sold in market (1,000 tons)	6
Sugarcane used for sugar manufacturing (4,000 tons)	-
Cost of conversion	10
Sugar produced & sold in market	50

Compute income of X Ltd.

[6]

Answer:3(a)

Computation of gross taxable salary of Sri Pabir for the A.Y. 2019-20

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 * 2 * 12)	2,400	33,600
Rent Free Furnished Accommodation		
Value of Accommodation (10% of Salary ¹)	39,360	
Value of furniture ²	19,000	58,360
Gross Taxable Salary		4,51,460

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 19,000	1,900
Washing Machine	-	10% of 6,000	600
Other furniture	12,000	10% of 25,000	14,500
Total			19,000

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Municipal value and Fair rent are irrelevant.

3(b) Computation of income of XYZ Ltd. for the A.Y. 2019-20

₹ in lacs

Particulars	Manufacturing	Agriculture
Sale of agro product in market	-	6
Sale of manufactured product in market	50	-
Notional sale of agro product used in the process of manufacturing (4,000 ton * ₹ 6 lacs per '000 ton)	-	24
Revenue [A]	50	30
<i>Less: Expenses incurred</i>		
Cost of conversion	10	-
Market value of sugarcane used (4,000 ton * ₹ 3 lacs per '000 ton)	24	-
Cost of cultivation	-	20
Expenditure [B]	34	20
Income [A – B]	16	10

4(a) T Ltd. grants option to its employee Rajat on 1st April, 2014 to apply for 1000 shares of the company for making available right in the intellectual property to the employer-company at a pre-determined price of ₹ 300 per share with date of vesting of the option being 1st April, 2016 and exercise period being 1st April, 2016 to 31st March, 2019. Mr. Rajat exercises his option on 31st May, 2018 and shares are allotted/transferred to him on 13th June, 2018. Fair market value of such share on different dates are as under:

01-04-2014	01-04-2016	31-05-2018	13-06-2018
₹ 940	₹ 1,780	₹ 2,500	₹ 2,940

On 31-12-2018, Mr. Rajat gifted 25 shares to his brother and sold balance shares at market value of ₹ 4,360 per share. Compute taxable value of perquisite, if any, and capital gain in hands of Mr. Rajat for A.Y. 2019-20. **[8]**

(b) X completed his studies on 1-04-2018 and was immediately employed by the Government on the following terms –

Basic Salary	₹ 20,000 p.m.
DA	₹ 5,000 p.m. (forming a part of retirement benefit)

During the year, his employer contributed ₹ 33,000 to the pension scheme being notified u/s 80CCD of the Income Tax Act, 1961. X also contributed similar amount. His income from house property is ₹ 50,000. During the year he contributed ₹ 15,000 to pension plan of LIC, to PPF ₹ 1, 00,000 and paid LIC premium of ₹ 16,000 (Policy value ₹ 1, 20,000). Compute his total income. **[7]**

Answer:4(a)

Computation of taxable value of perquisite for A.Y. 2019-20

Particulars	Amount(₹)
The fair market value of the such shares on the date on which the option is exercised [2,500 * 1000 shares]	25,00,000

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Less: The amount actually paid by assessee in respect of such shares [300 * 1,000 shares]	3,00,000
Value of perquisite	22,00,000

Computation of Capital Gain

Computation of capital gain in the hands of Mr. Rajat for the A.Y. 2019-20

Particulars	Working	Details (₹)	Amount(₹)
Full Value of Consideration	4,360 * 100 [§]		43,60,000
Less: Expenses on transfer			Nil
Net Sale Consideration			43,60,000
Less: i) Cost of acquisition	₹ 2,500 * 1000 [§]	25,00,000	
ii) Cost of improvement		Nil	25,00,000
Short term Capital gain			18,60,000

[§] Even gift of shares received through ESOP shall be considered as transfer.

(b) Computation of total income of X for the A.Y.2019-20

Particulars	Amount(₹)	Amount(₹)	Amount(₹)
Salaries			
Basic (₹20,000 * 12)		2,40,000	
Dearness allowances (₹5,000 * 12)		60,000	
Contribution to pension scheme		33,000	3,33,000
Income from house property			50,000
Gross Total Income			3,83,000
Less: <u>Deduction u/s</u>			
80C - LIC premium to maximum of 10% of Policy value (i.e. 10% of ₹ 1,20,000)	12,000		
- Contribution in PPF	1,00,000	1,12,000	
80CCC (Pension plan of LIC)		15,000	
80CCD (Notified pension scheme)			
- Own contribution being lower of:			
a) Amount contributed i.e. ₹33,000			
b) 10% of (Basic and DA forming part of retirement benefit), i.e., 10% of (₹ 2,40,000 + ₹ 60,000)		30,000	
		1,57,000	
As per sec.80CCE, total deduction u/s 80C + 80CCC + 80CCD (other than employer's contribution) cannot exceed ₹ 1,50,000		1,50,000	
80CCD(1B): Contribution to NPS (Amount not claimed above subject to max. of ₹ 50,000/-)		3,000	
- Employer contribution			

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a) Amount contributed i.e. ₹ 33,000			
b) 10% of (Basic and DA forming part of retirement benefit), i.e., 10% of (₹ 2,40,000 + ₹ 60,000)		30,000	1,83,000
Total Income			2,00,000

5(a) Mr. Sunil is a practicing Cost Accountant. He also runs a private coaching institute. His bank accounts for the year ended 31/3/2019 is given below:

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

Additional Information

- (a) 20% of motor car expenses is in respect of profession.
 - (b) Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
 - (c) Outstanding fees on 31-3-2019 ₹ 2,000. Whereas ₹ 500 receivable from Mita is considered as bad.
 - (d) Outstanding fees of P.Y. 2015-16 ₹ 10,000 received during the year, which is included in the audit fees.
 - (e) Office expenses include payment of ₹ 2,000 incurred during the previous year 2017-18.
- Compute his gross total income for the A.Y. 2019-20 assuming he maintains accounts on cash basis. **[10]**

5(b) Mr. & Mrs. X working in A Ltd. without possessing any qualification. From the following details compute their income for the A.Y. 2019-20:

Particulars	Mr. X	Mrs. X
Share of holdings	15%	6%
Taxable salary from A Ltd.	₹ 1,20,000	₹ 60,000
Case 1) Other income	₹ 50,000	₹ 80,000
Case 2) Other income	₹ 90,000	₹ 65,000
Case 3) Other income	Nil	Nil

[5]

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Answer:5(a)

Computation of total income of Mr. Sunil for the A.Y. 2019-20

Particulars	Workings	Details	Details(₹)	Amount(₹)
<u>Income from house property</u>				
Gross Annual Value	Rent received		5,000	
Less: Municipal tax			800	
Net Annual Value			4,200	
<u>Less: Deduction u/s</u>				
24(a) Standard Deduction	30% of NAV	1,260		
24(b) Interest on loan		Nil	1,260	2,940
<u>Profits & gains of business or profession</u>				
Audit fees		2,00,000		
Income from other professional work		1,00,000	3,00,000	
<u>Less: Expenses allowed</u>				
Office expenses		18,000		
Membership fees		500		
Motor car expenses	20% of expenses ²	2,040		
Depreciation on motor car	20% of depreciation ₂	5,400	25,940	2,74,060
<u>Income from other sources</u>				
Interest on investment			2,000	
Coaching fees		1,200		
Less: Coaching expenses		800	400	
Examiners' fees			1,000	3,400
Gross Total Income				2,80,400

Notes

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

5(b)

Computation of gross total income of Mr. X and Mrs. X for the A.Y. 2019-20

(i)

Particulars	Case 1		Case 2		Case 3	
	Mr. X	Mrs. X	Mr. X	Mrs. X	Mr. X	Mrs. X
Salary of Mr. X	-	1,20,000	1,20,000	-	1,20,000	-
Salary of Mrs. X	-	60,000	60,000	-	-	60,000
Other Income	50,000	80,000	90,000	65,000	Nil	Nil
Gross Total income	50,000	2,60,000	2,70,000	65,000	1,20,000	60,000

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Notes

1. When both, husband and wife, have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification, remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is higher.
2. In case 3, when both husband and wife have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification and both are not having any other income apart from said remuneration, then clubbing shall not be made.

6(a) Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2018, he owns 10 trucks (out of which 6 are heavy good vehicles of (unladen weight of each is 20 ton). On 2/5/2018, he sold one of the heavy goods vehicles & purchased a light goods vehicle on 6th May, 2018. This new vehicle could however be put to use only on 15-6-2018.

Compute the total income of Mr. Sukhvinder for the A.Y. 2019-20
taking note of the following data:

Particulars	Amount(₹)	Amount(₹)
Freight Charges collected		8,70,000
Less: Operational expenses	6,25,000	
Depreciation as per Sec. 32	1,85,000	
Other Office expenses	15,000	8,25,000
Net Profit		45,000
Other business and non-business income		70,000

[9]

6(b) P Co-operative Society furnishes following details of income, compute taxable income for the purpose of A.Y. 2019-20:

Income from collective disposal of labour	₹ 25,000
Income from marketing of the agricultural produce grown by its member	₹ 30,000
Income from marketing of the agricultural produce grown by outsider	₹ 3,000
Dividend from another co-operative society	₹ 15,000
Dividend from X Ltd.	₹ 3,000
Income from processing of agricultural produce of its member with aid of power	₹ 50,000

[6]

Answer:6(a)

Alternative 1) Direct estimation of income u/s 44AE

Vehicle	No. of vehicle	Details	Amount(₹)
Light	4	₹ 7,500 * 4 vehicles * 12 months	3,60,000
Heavy	5	₹ 1,000 * 5 vehicles * 12 months * 20 ton	12,00,000

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Heavy	1	₹ 1,000 * 1 vehicle * 2# months * 20 ton	40,000
Light	1	₹ 7,500 * 1 vehicles * 11# months	82,500
Income from business of plying goods carriage			16,82,500
Add: Other business and non-business income			70,000
Total Income			17,52,500

Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not. For this purpose, any fraction of the month shall be considered as month.

Alternative 2) Computation of income as per the provision of sec. 28 to 38

Particulars	Amount(₹)	Amount(₹)
Freight charges collected		8,70,000
<u>Less: Expenditure related to business</u>		
Operational expenses	6,25,000	
Depreciation u/s 32	1,85,000	
Other office expenses	15,000	8,25,000
Income from business of plying goods carriage		45,000
Add: Other business and non-business income		70,000
Total Income		1,15,000

Since Mr. Sukhvinder has lower taxable income in alternative 2 hence his total income is ₹ 1,15,000. But to claim such lower income than the estimated income (computed in alternative 1) as per provision of section 44AE, he will have to —

- Maintain books of account as required u/s 44AA; and
- Get his accounts audited.

6(b)

Computation of total income of P Co-operative Society for the A.Y. 2019-20

Particulars	Amount(₹)	Amount(₹)
Income from collective disposal of labour		25,000
Income from marketing of the agricultural produce grown by its member		30,000
Income from marketing of the agricultural produce grown by outsider		3,000
Dividend from another co-operative society		15,000
Dividend from X Ltd. [Exempt u/s 10(34)]		Nil
Income from processing of agricultural produce of its member with aid of power		50,000
Gross Total Income		1,23,000
<u>Less: Deduction u/s 80P</u>		
Income from collective disposal of labour	25,000	
Income from marketing of the agricultural produce grown by its member	30,000	

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Dividend from another co-operative society	15,000	
Income from activity other than specified activity (co-operative society)	50,000	1,20,000
Total income		3,000

7(a)

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

Particulars	Amount(₹)
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 ₹ 5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner ₹ 12,000)	20,000
Income tax paid	2,000
Payment made for personal expenses	18,000
Payment made to LIC as premium	2,000

[10]

(b) TDS on Payment from Employees Provident Fund [Sec. 192A]-Discuss

[5]

Answer 7(a)

Computation of income of Mrs. X under the head Income from other source for the A.Y. 2019-20

Particulars	Details(₹)	Amount(₹)
Private tuition fee received		10,000
<u>Casual income</u>		
Winning from lottery		2,000
Award from KBC (a TV show) [Gross]		3,20,000
Pension	25,000	
Less: Standard deduction		
a) 1/3 rd of amount received (i.e. ₹ 8,333)		
b) ₹ 15,000	8,333	16,667
Interest on bank deposit		25,000

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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) TDS on Payment from Employees Provident Fund [Sec. 192A]

Who is responsible to deduct tax: The trustees of the Employees' Provident Fund Scheme, 1952, framed u/s 5 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 or any person authorised under the scheme to make payment of accumulated balance due to employees.

When tax shall be deducted: At the time of making of payment.

Tax is deducted on: The accumulated balance due to an employee participating in a recognised provident fund includible in his total income owing to the not applicability of the provisions of rule 8 of Part A of the Fourth Schedule.

Rule 8 of Part A of the Fourth Schedule provides the accumulated balance due and becoming payable to an employee participating in a recognised provident fund shall be exempted:

- a. if he has rendered continuous service with his employer for a period of 5 years or more; or
- b. if, though he has not rendered such continuous service, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee; or
- c. if, on the cessation of his employment, the employee obtains employment with any other employer, to the extent the accumulated balance due and becoming payable to him is transferred to his individual account in any recognised provident fund maintained by such other employer.

Taxpoint: If the accumulated balance paid to the assessee is exempt then tax is not required to be deducted.

Rate of TDS: 10%

➤ Any person entitled to receive any amount on which tax is deductible shall furnish his Permanent Account Number (PAN) to the person responsible for deducting such tax, failing which tax shall be deducted at the maximum marginal rate

When TDS is not applicable: Aggregate amount of such payment to the payee is less than ₹50,000.

8(a) When a return is termed defective (any five)

(b) Forms – Return of income

(c) Treatment of Government Grants-As per ICDS VII

(d) Revocable Transfer u/s 61.

Answer:8(a)

A return of income is said to be defective where all the following conditions are not fulfilled:

- The return is furnished without paying self-assessment tax along with interest, if any.
- The annexure, statements and columns in the return of income have been duly filled in.
- The return is accompanied by the following documents –
 - a. a statement showing the computation of tax liability;
 - b. the audit report u/s 44AB (where the report has been submitted prior to the furnishing of return, a copy of audit report together with proof of furnishing the report);
 - c. the proof of tax deducted or collected at source, advance tax paid and tax paid on self-assessment;
 - d. where regular books of account are maintained by the assessee :
 - i. copies of Manufacturing A/c, Trading A/c, Profit and Loss A/c or Income and Expenditure A/c or any other similar account and Balance Sheet;
 - ii. in the case of –
 - A proprietary business or profession - the personal account of the proprietor;
 - A firm, AOP or BOI - personal account of the partners or members;
 - A partner or member of the firm, AOP or BOI - his personal account in the firm, association of persons or body of individuals;
 - e. where regular books of account are not maintained by the assessee:
 - i. a statement indicating the amount of turnover or gross receipts, gross profit, expenses and net profit of the business or profession and the basis on which such amount have been computed; and
 - ii. the amount of sundry debtors, sundry creditors, stock and cash balance as at the end of the previous year.
 - f. where the accounts of the assessee have been audited, copies of the audited Profit and Loss A/c, Balance Sheet and a copy of the Auditor's report;
 - g. Cost audit report u/s 233B of the Companies Act, 1956 (if any)

(b) Rule 12 provides following Form for filing return of income for different assessee:

ITR - 1 (Sahaj) - For Individuals having Income from Salaries, one house property (does not have any brought forward loss), other sources [Interest (does not have any loss under the head) etc. but except winnings from lottery or income from race horses] and having total income upto ₹ 50 lakh

ITR – 2 - For Individuals and HUFs not carrying out business or profession under any proprietorship

ITR – 3 - For individuals and HUFs having income from a proprietary business or profession

ITR – 4 (Sugam) - For presumptive income from Business & Profession

ITR – 5 - For person other than (i) Individual; (ii) HUF; (iii) Company; & (iv) Person filing Form ITR-7

ITR – 6 - For Companies other than companies claiming exemption u/s 11

ITR – 7 - For persons including companies required to furnish return u/s 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4F)

ITR – V - Income Tax Return Verification Form [Where the data of the aforesaid Return of Income has transmitted electronically without digital signature]

(c) Treatment of Government Grants

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Grant Relates to	Treatment
Depreciable fixed asset	The grant shall be deducted from the actual cost of the asset or from the written down value of block of assets
Non-depreciable asset requiring fulfillment of certain obligations	The grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.
Not directly relatable to the asset acquired	Proportionate amount shall be deducted from the actual cost of the assets or shall be reduced from the written down value of block of assets to which the assets belonged to.
Receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs	grant shall be recognised as income of the period in which it is receivable
The In other case	Grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate

◆The Government grants in the form of non-monetary assets, given at a concessional rate, shall be accounted for on the basis of their acquisition cost

(d) Revocable Transfer u/s 61

If an assessee transfers an asset under a revocable transfer, then income generated from such asset, shall be clubbed in the hands of the transferor.

Revocable transfer

As per sec. 63(a), a transfer shall be deemed to be revocable if –

- It contains any provision for the retransfer (directly or indirectly) of any part or whole of the income/assets to the transferor; or
- It, in any way, gives the transferor a right to re-assume power (directly or indirectly) over any part or whole of the income/assets.

Exceptions [Sec. 62]

As per sec. 62(1), the provision of sec. 61 shall not apply to an income arising to a person by virtue of –

(i)A transfer by way of creation of a trust which is irrevocable during the lifetime of the beneficiary;

(ii)Any transfer which is irrevocable during the lifetime of the transferee; or

(iii)Any transfer made before 1.4.61, which is not revocable for a period exceeding 6years

In any case, the transferor must not derive any benefit (directly or indirectly) from such income.

Note:As per sec. 62(2), income, in any of the above exceptional case, shall be taxable as under–

Situation	Taxable in hands of
When the power to revoke the transfer arises (whether such power is exercised or not)	Transferor

When the power to revoke the transfer does not arise	Transferee
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