INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2012

Paper-7 : APPLIED DIRECT TAXATION

Time Allowed : 3 Hours **Full Marks :** 100

The figures in the margin on the right side indicate full marks.

Answer **Question No. 1**, *which is compulsory and* **any five** *questions from the rest.*

Wherever necessary, suitable assumptions may be made by the candidate and state clearly in the answers.

Working notes should form part of the answers.

Q. 1. (a) Choose the correct alternative : [1×13]

(i) The basic exemption limit for a non-resident woman above the age of 60 years for the assessment year 2012-13 is

(a) ₹ 1,90,000 (b) ₹ 1,80,000 (c) ₹ 2,40,000 (d) ₹ 2,50,000

(ii) When a person retires from a profession and receives any amount towards self-generated goodwill, it is

(a) Taxable as income from profession (b) Exempt income under section 10

(c) Not taxable since there is no cost of acquisition (d) Taxable as capital gain

(iii) Mr. Xavier received ₹ 2,00,000 from the prospective employer before joining duty in order to resign from the present employer. Subsequently, he joined the new employer. The amount received is

(a) Taxable as income from business (b) Taxable as salary income

(c) Exempt from tax u/s 10 (d) Exempt being capital receipt

(iv) Jain introduced his motor car costing ₹ 3,00,000 acquired in April, 2009 into the business newly commenced by him from 01.04.2011. The actual cost of car for the purpose of depreciation would be :

(a) ₹ 3,00,000 (b) ₹ 2,16,750 (c) ₹ 1,50,000 (d) ₹ 'Nil' not eligible for depreciation

(v) For non-Government employee governed by Payment to Gratuity Act, 1972, the monetary limit for exemption is

(a) ₹ 5,00,000 (b) ₹ 3,50,000 (c) ₹ 10,00,000 (d) Limitless

(vi) Unrealised rent of ₹ 50,000 was received in June, 2011. The property was sold before April, 2011. How much of unrealized rent is taxable?

(a) ₹ 50,000 (b) ₹ 35,000 (c) ₹ 30,000 (d) Not taxable

(vii) A registered charitable trust meant for educational purpose has annual aggregate receipt of ₹ 80,00,000. Its income after expenses is ₹ 20,00,000. The income liable to income-tax would be

(a) ₹ 80,00,000 (b) ₹ 60,00,000 (c) 'Nil' (d) ₹ 30,00,000

(viii) Pravin received ₹ 1,000 per month as transport allowance. The amount eligible for exemption would be

(a) ₹ 1,000 p.m. (b) ₹ 200 p.m. (c) ₹ 800 p.m. (d) ₹ 'Nil' fully taxable

(ix) Jayant working in a college received ₹ 2,000 per month as research allowance for pursuing research. The taxable portion of allowance would be

(a) ₹ 2,000 pm. (b) ₹ 'Nil' (c) ₹ 1,000 p.m. (d) ₹ 'Nil' fully exempt

(x) Pankaj was provided accommodation in a hotel by the employer for 10 days consequent to his transfer from Mumbai to Kolkata. The cost of accommodation was ₹ 30,000 to the employer. The value of perquisite is

(a) ₹ 'Nil' (b) ₹ 30,000 (c) ₹ 15,000 (d) ₹ 20,000

(xi) A & Co., a partnership firm, contributed ₹ 1,00,000 towards family planning programme among the employees. The amount eligible for deduction would be

(a) ₹ 1,00,000 (b) ₹ 20,000 (c) ₹ 1,50,000 (d) ₹ 'Nil' not eligible for deduction

(xii) A sum of ₹ 50,000 was written off as bad debt in the assessment year 2008-09 and was disallowed. During financial year 2011-12 ₹ 20,000 was recovered. Out of the recovery how much is taxable?

(a) ₹ 20,000 (b) ₹ 'Nil' (c) ₹ 30,000 (d) ₹ 70,000

(xiii) Pon Ltd. incurred ₹ 35,00,000 towards voluntary retirement compensation paid to its employees in the financial year 2011-12. How much is deductible for the assessment year 2012-13 out of the said payment?

(a) ₹ 7,00,000 (b) ₹ 5,00,000 (c) ₹ 35,00,000 (d) ₹ 3,50,000

(b) Fill up the blanks : [1×12]

(i) Salary expenditure not recorded in the books is taxable as unexplained expenditure and at the same time it is __________ (deductible/not deductible) for computing total income as per section 69C.

(ii) Amount received under keyman insurance policy including bonus thereon is __________ (income/exempted income) under the Income-tax Act, 1961.

(iii) Income of minor child when subjected to clubbing, a sum of ₹ __________ is exempt.

(iv) Deposit in public provident fund in the name of minor child is __________ (deductible/not deductible) under section 80C in the hands of contributing parent.

(v) An individual can avail the benefit of exemption in respect of leave travel concession offered by his employer __________ in a block of four years.

(vi) The maximum amount of exemption in respect of encashment of earned leave is ₹ __________ .

(vii) A charge created consequent to the decree of a Court of law is __________ (application/ diversion) of income.

(viii) Amount recovered by an employer from the employees towards the latter's share of provident fund contribution is __________ (income/not an income) of the assessee-employer.

(ix) Loss from non-speculation business __________ (can/cannot) be set off against profits derived from speculation business.

(x) Salary foregone is __________ (taxable/not taxable) in computing the income from salaries in the hands of the concerned employee.

(xi) The monetary ceiling limit for exemption for gratuity received w.e.f. 21.05.2011 under the Payment of Gratuity Act, 1972 is ₹ __________ .

(xii) Fixed medical allowance of ₹ 2,000 per month paid by an employer is __________ (taxable/ exempt) in the hands of the employee.

Answer 1. (a)

(i) (b)

(ii) (c)

(iii) (b)

(iv) (a)

(v) (c)

(vi) (a)

(vii) (c)

(viii) (c)

(ix) (d)

(x) (a)

(xi) (a)

₹ 2000/- (As per section 10(14) read with rule 2BB, which states maximum amount of allowance exempt from tax is to the extent the allowance is utilised for the purpose specified. The question is silent about utilisation of allowance).

(xii) (b)

(xiii) (a)

Answer 1. (b)

(i) Not deductible

(ii) income

(iii) 1500

(iv) Deductible

(v) Twice

(vi) 3,50,000

(vii) Diversion

(viii) Income

(ix) Can

(x) Taxable

(xi) 10,00,000

(xii) taxable

Q. 2. (a) Following details are furnished by Mr. Appaji for the year ended 31.3.2012 :

		₹
(i)	Profit on sale of shares in Indian company, sold in India but proceeds received in France	30,000
(ii)	Dividend from a Korean company received in France	50,000
(iii)	Rent from property in Sri Lanka deposited in Sri Lanka but later remitted to India through approved banking channel-Gross	1,00,000
(iv)	Dividend from ABC (P) Ltd.	20,000
(v)	Income from nursery in Gujarat	40,000

Compute the total income of Mr. Appaji if he is

(i) Resident and ordinarily resident;

(ii) Resident but not ordinarily resident;

(iii) Non-resident. [9]

(b) Ms. Monisha, a Sikkimese woman, married Mr. Atul of Surat in June, 2006. She has income from let out property at Sikkim being ₹ 10,000 per month. She is employed in a bank at Surat and her salary income for the year ended 31.03.2012 was computed at ₹ 3,12,000. Determine her total income.

What would be your answer if she got married on 30th June, 2010? [4]

(c) Is any income of Khadi and Village Industries Board exempt from tax? If not, state taxable and exempted items of income. [2]

Answer 2. (a)

Computation of total income of Mr. Appaji for the assessment year 2012-13

	ROR	**RNOR**	**NR**
Profit on sale of shares in Indian company, sold in India but proceeds received in France	30,000	30,000	30,000
Dividend from a Korean company received in France	50,000	Nil	Nil
Rent from property in Sri Lanka deposited in Sri Lanka but later remitted to India through approved banking channel	70,000*	Nil	Nil
Dividend from ABC (P) Ltd.	Exempt	Exempt	Exempt
Income from nursery in Gujarat	Agri income	Agri income	Agri income
Total Income	1,50,000	30,000	30,000

Note : * Taking ₹ 1,00,000 (Gross) as NAV, standiard deduction u/s 24(a) is applicable.

Answer 2. (b)

As per section 10(26AAA) income accruing to a Sikkimese woman from any source in the State of Sikkim or by way of dividend or interest on securities is exempt from tax.

Therefore, the income from let out property at Sikkim is exempt from tax. However, her salary income from bank employment of ₹ 3,12,000 being the total income would be chargeable to tax.

As per proviso to section 10(26AAA) the exemption will not apply to a Sikkimese woman who marries a non-Sikkimese on or after 01.04.2008. Hence, the exemption in respect of let out property income would not apply if she got married on 30.06.2010, to a non-Sikkimese individual.

Her total income in such a case would be ₹ 3,96,000 (salary income of ₹ 3,12,000 plus property income of ₹ 84,000 i.e. ₹ 1,20,000 less adhoc deduction @ 30%.)

Answer 2. (c)

As per section 10(23BB) any income of an authority, whether known as Khadi and Village Industries Board established in a State by or under a State or Provincial Act for the development of khadi or village industries in the State is exempt from tax.

Therefore, the entire income of Khadi and Village Industries Board is exempt from tax regardless of the nature or source of income.

Q. 3. (a) State how the residential status of a company is determined under the Income-tax Act, 1961. [3]

(b) Mr. Rajan doing business, donated ₹ 50,000 to Madras University on 10.01.2012, to be used for scientific research programme approved by Principal Scientific Advisor to the Government of India.

(i) How much of such donation is deductible in computing business income of Mr. Rajan for the assessment year 2012-13?

(ii) If Mr. Rajan was an employee having only salary income, what would be your answer? [3]

(c) Mr. David is employed in Vertex Co. Ltd., Mumbai. His salary details for the financial year 2011-12 are given below :

(i) Basic salary ₹ 70,000 per month;

(ii) Dearness allowance 50% of basic salary (Eligible for retirement benefits);

(iii) House rent allowance ₹ 10,000 per month (Rent paid by employee ₹ 15,000 per month);

(iv) Bonus ₹ 30,000 per annum;

(v) Both David and his employer contribute ₹ 15,000 each per month towards pension scheme notified in section 80 CCD.

Calculate the total income of Mr. David for the assessment year 2012-13.

Determine the amount of contribution to the pension scheme eligible for deduction in the hands of employer. [9]

Answer 3. (a)

A company is a resident in India in any previous year in the following cases : [Sec 6(3) of Income Tax Act, 1963]

(i) It is an Indian company as defined under section 2(26) of the Act;

(ii) Its control and management is situated wholly in India during the previous year.

In the case of Indian company it shall be resident in India whether or not the control and management of affairs is in India or outside India.

In the case of a company other than an Indian company, it would be a resident only if the control and management is situated wholly in India during the relevant previous year.

Answer 3. (b)

As per section 35(2AA) any sum paid to a University with a specific direction that the sum shall be used for scientific research under a programme approved by the prescribed authority is deductible at 200%.

In view of this, assessee Mr. Rajan is eligible for a deduction of ₹ 1,00,000 being 200% of the actual amount of donation given to the University.

If the assessee Mr. Rajan is not engaged in business then it is deductible only under section 80 GGA if the donation is meant to be used for scientific research by the university. It is deductible at 100% of the amount of donation.

Therefore, the deduction in such case would be equal to the amount of donation i.e. ₹ 50,000.

Answer 3. (c)

Computation of total income of Mr. David for the assessment year 2012-13

			₹
Basic salary			8,40,000
Dearness allowance 50% of basic salary			4,20,000
Bonus			30,000
House rent allowance received		1,20,000	
Less: Exemption U/s. 10(13A)			
(a) Actual house rent allowance	1,20,000		
(b) Rent paid above 10% of salary			
₹ 1,80,000 – ₹ 1,26,000	54,000		
(c) 50% of salary	6,30,000		
Least of above is exempt		54,000	66,000
			13,56,000
Employers contribution to Pension fund of employee			1,80,000
Gross Total Income			15,36,000
Less : Deduction under section 80CCD			
Own contribution upto 10% of salary		1,26,000	
Employers contribution		1,80,000	
		3,06,000	
but limited in view of section 80 CCE			1,00,000
Total Income			14,36,000

In the hands of employer : Any sum paid by the assessee as an employer by way of contribution towards a pension scheme referred to section 80 CCD on account of an employee is deductible to the extent it does not exceed 10% of the salary of the employee in the previous year.

In view of the above, though the employer has contributed ₹ 1,80,000 to the pension fund account of the employee David, the deduction under section 36(1)(iva) cannot exceed 10% of the salary of the employee.

Salary for this purpose means basic pay plus dearness allowance if the terms of employment so provided but excludes all other allowances and perquisites.

10% of basic salary and DA is ₹ 1,26,000 which is deductible against the business income of the employer. The excess contribution of ₹ 54,000 is inadmissible expenditure in the hands of employer.

Q. 4. (a) Under what head of income is family pension assessed? Is any deduction available for such amount received? [3]

(b) State the due dates for filing of return of income under section 139(1) of the Income-tax Act, 1961 in the following cases, for the assessment year 2012-13 :

(i) By a non-working partner of a LLP, whose accounts are required to be audited under section 44AB;

(ii) By a company which has entered into international transactions with a non-resident and is required to file audit report in this regard;

(iii) By a University whose gross fee receipts are ₹ 3 crores. [3]

(c) Write a brief note on the valuation of self-occupied house property for the purposes of the Wealth-tax Act, 1957. [4]

(d) The following are the income details of Padmaja Textiles LLP, for the assessment year 2012-13 :

	₹
Book profits of the LLP (before considering interest and remuneration to partners)	15,00,000
Interest to partners at 15%	2,10,000
Remuneration to working partners as per books	4,50,000
Permissible deduction u/s 80-ID	6,20,000

Compute the tax payable by the LLP for the assessment year 2012-13. [5]

Answer 4. (a)

Family pension :

Family pension is chargeable to tax under the head "Income from other sources".

Under section 57, of Income Tax Act, 1963, the least of the following is allowed as deduction :

(i) $33\frac{1}{3}$% of gross pension (ii) ₹ 15,000.

Answer 4. (b)

Due dates for filing return of income

The due dates are as under :

(i) 31st July, 2012

(ii) 30-11-2012 (As per amendment by FA, 2011)

(iii) 30th September, 2012

Answer 4. (c)

Valuation of self-occupied property

Schedule III contains rules for valuation of a building, which is primarily based on rent capitalization method, as increased for vacant space in excess of prescribe limits. A self occupied house can be valued on this basis.

If assessee owns a house (or a part of the house), being an independent residential unit and is used by the assessee exclusively for his residential purposes throughout 12 months ending on the valuation date, valuation will be as per provisions of section 7(2).

Assessee can either take value of the house as determined above on the valuation date relevant for the current assessment year or he take value of the house, as determined above, on the first valuation date next following the date on which he became the owner or the valuation relevant for the assessment year 1971-72, whichever is later. The choice is of the assessee.

Where the house has been constructed by the assessee, he shall be deemed to have become the owner thereof on the date on which the construction of such house was completed.

Answer 4. (d)

Particulars	₹
Book profits of the LLP	15,00,000
Less : Interest on capital at 12%	1,68,000
	13,32,000
Less : Remuneration to working partners u/s 40(b)	4,50,000
Gross profit	8,82,000
Less : Deduction u/s 80-ID	6,20,000
Total income as per normal provisions	2,62,000
Tax as per normal provisions at 30%	78,600
Add : Cess at 3%	2,358
Total tax payable	80,958
Alternate minimum tax	
Adjusted income (2,62,000 + 6,20,000)	8,82,000
MAT at 18.5%	1,63,170
Add : Cess at 3%	4,895
Total tax payable	1,68,065
Since MAT is more than normal tax, the same has to be paid.	
Tax payable by the LLP is	1,68,065

Working Note :

Remuneration working partners u/s 40(b)	
First 3,00,000 at 90%	2,70,000
Balance at 60%	6,19,200
	8,89,200

Remuneration as per books being lower, the same should be taken.

Q. 5. (a) Vaibhav Solvents Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the setting up of a new industrial unit :

	₹
Preparation of project report	4,00,000
Feasibility report expenses	6,00,000
Expenses for raising additional capital required for the new unit	3,00,000
The following additional data are given :	
Factory construction cost	12,00,000
Cost of project	40,00,000
Capital employed in the new unit	30,00,000

Compute the deduction admissible to the company under section 35D of the Income-tax Act, 1961 for the assessment year 2012-13. [5]

(b) State the conditions to be fulfilled for claiming deduction of unrealized rent while computing the income from house property. [5]

(c) A domestic company derives the following income for the year ended 31.3.2012 :

Income from business	₹ 90 lakhs
Chargeable long-term capital gains from sale fo vacant site	₹ 30 lakhs

Compute the total income and tax payable by the company for the assessment year 2012-13. Ignore MAT provisions. [5]

Answer 5. (a)

The deduction admissible under section 35D is one-fifth of the expenditure incurred for the project. This works out to ₹ 2,60,000. [one-fifth of (4+6+3) lacs: factory construction cost is to be ignored here]

However, such expenditure should not exceed the following limits as prescribed in section (3) :

(a) 5% of cost of the project or

(b) 5% of the capital employed in the new industrial undertaking (being a company) —

whichever is higher.

In this case

(a) 5% of the project cost is ₹ 2,00,000 and

(b) 5% of the capital employed is ₹ 1,50,000.

Hence, the expenditure eligible for amortization under section 35D would be ₹ 2,00,000.
And the admissible deduction for the current assessment year is ₹ 2,00,000 × 1/5 = ₹ 40,000

Answer 5. (b)

Unrealized Rent : Rule 4

Unrealized Rent means the rent not paid by the tenant to the owner and the same shall be deducted from the Actual Rent Receivable from the property before computing income from that property, provided the following conditions are satisfied :

1. The tenancy is bona fide;
2. The defaulting tenant should have vacated the property;
3. The assessee has taken steps to compel the defaulting tenant to vacate the property;
4. The defaulting tenant is not in occupation of any other property owned by the assessee;
5. The assessee has taken all reasonable steps for recovery of unrealised rent or satisfies the Assessing Officer that such steps would be useless.

Answer 5. (c)

Computation of total income and income-tax liability of a domestic company ₹

Business income	90,00,000
Long term capital gain	30,00,000
Total Income	1,20,00,000
Computation of tax liability :	
On business income @ 30%	27,00,000
On long term capital gain @ 20%	6,00,000
	33,00,000
Add: Surcharge @ 5%	1,65,000
	34,65,000
Add: Education & higher education cess @ 3%	1,03,950
Total tax liability	35,68,950

Note : As the total income of the company exceeded ₹ 100 lakhs it is liable for surcharge at 5% of the income-tax.

Q. 6. (a) What are the circumstances the Assessing Officer may refer the valuation of the capital asset to the Valuation Officer under section 55A of the Income-tax Act, 1961? [5]

(b) Mr. Ram, the kartha of a Hindu Undivided Family (HUF) invested family funds of ₹ 5 lakhs in the shares of Hanumaan Couriers P. Ltd. He was appointed as the Managing Director of the company and was paid a remuneration of ₹ 3.6 lakhs for the year ended 31.3.2012. Discuss whether the said remuneration will be assessed in the individual hands of Mr. Ram or in the hands of the HUF, for the assessment year 2012-13. [4]

(c) R Ltd., which had taken up a building on lease, sub-leased the building along with the Furniture to T Ltd. on 01.04.2009. The monthly lease rent is ₹ 10,000 for building and ₹ 4,000 for furniture upto 31.03.2011 and 50% increase in each, for the year ended 31.03.2012. The entire amount was in arrears and only on 31.03.2012, the whole of the lease amount was paid by T Ltd. to R Ltd.

Discuss the obligation of T Ltd. to deduct tax at source from the above payment. What is the rate of TDS and the amount of tax to be deducted? When should this TDS amount be remitted? [6]

Answer 6. (a)

Reference to Valuation Officer [Section 55A]

Under the following circumstances the Assessing Officer may refer the valuation of the capital asset to the Valuation Officer and his valuation report shall be binding on the Assessing Officer —

1. Where the value of the asset is estimated by the registered valuer but the Assessing Officer is of the opinion that the **value so determined is less than its fair market value**.

2. In any other case, the Assessing Officer is of the opinion that
   (a) The **fair market value** of the asset **exceeds the value of the** 'assets declared by the assessee either **by more than 15% or by ₹ 25,000** (Rule 111AA); or
   (b) The nature of the asset and other relevant circumstances are such that, it is necessary to do so.

Answer 6. (b)

Remuneration as M.D. : Individual income or income of HUF

Even though it may prima facie appear that the appointment of Mr. Ram as Managing Director in the company was on account of investment of family funds in the company, the payment of remuneration involves a consideration for services rendered by Mr. Ram, in his individual capacity, to the company.

The remuneration received by the HUF cannot be considered as return on investment by the HUF.

The work of Managing Director requires involvement in the day to day working of the company and the remuneration is paid for the individual skill and services rendered. The designation or post of Managing Director is not an ornamental one.

As a consequence, the remuneration received as Managing Director is assessable as the individual income of Mr. Ram and not as that of the HUF.

Answer 6. (c)

TDS from rent

In the given situation, T Ltd. has to consider the obligation towards TDS under sec 194-I. This section covers rent for building, as well as rent for furniture, plant, machinery, etc., where such amount which is credited or paid during the year is ₹ 1,80,000 or more.

T Ltd. is a company and the payment of rent is to a resident assessee (assumed) and hence the provisions are prima facie attracted, if the monetary ceiling condition is fulfilled.

The obligation to deduct tax at source arises when the amount is credited in any account. T Ltd. is a company and hence it is logical to assume that it follows accrual method of accounting, as mandated by the Companies Act, 1956. In each year, T Ltd. would have credited the lease rent payable to a separate account and hence the TDS obligation is to be considered for each year separately, for each of those years.

As far as AY 2012-13 is concerned, T Ltd. has to consider only the rent for the Year 31-3-2012. The same is ₹ 21,000 × 12 = ₹ 2,52,000, which is above the limit of ₹ 1,80,000.

T Ltd. has to deduct tax at source at 10%, assuming that R Ltd. has PAN; if not, it shall be at 20%.

Assuming that the amount was credited as well as paid on 31-3-2012, the TDS amount should be remitted on or before 7-4-2012.

Q. 7. (a) Explain the tax treatment for set off and carry forward of loss from house property. [5]

(b) Dinesh having a proprietary concern by name 'Dinesh Jewellers' has the following assets and liabilities as on 31.03.2012 :

	₹ in lakhs
Assets	
Plot of land (600 sq. mts) at Indore on which a building has been constructed without the approval of appropriate authority	30
Building constructed on the above said land at Indore without the approval of the appropriate authority and used for his business purpose	40
Jewellery held as stock in trade	60
Gold jewellery meant for personal use brought into India from Malaysia, where he was residing, on his return to India on 1.11.2008 for permanently residing in India	10
Motor car (WDV)—₹ 5 lakhs, Market value	6
Interest in the coparcenary property of the Hindu Undivided Family of which he is a member	20
Cash in hand recorded in the books of account	2.5
Fixed deposits in a nationalised bank	8
Liabilities	
Loan borrowed for marriage of daughter	5
Loan borrowed for construction of building at Indore	8

The amounts stated against the assets, except cash in hand, are the values determined as per section 7 of the Wealth-tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Dinesh as on 31.03.2012. [10]

Answer 7. (a)

Section 71B — Carry forward and set off of loss from house property

Where for any assessment year, the net result of computation under the head "Income from house property" is a loss to the assessee and such loss cannot be or is not wholly set off against lncome from any other head of income in accordance with the provisions of section 71 so much of the loss as has not been so set-off or where he has no income under any other head, the whole loss shall subject to the other provisions of this Chapter, be carried forward to the following assessment year and—

(i) be set off against the income from house property assessable for that assessment year; and

(ii) the loss, if any, which has not been set off wholly, the amount of loss not so set off, shall be carried forward to the following assessment year, not being more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

Answer 7. (b)

Computation of net wealth of Mr. Dinesh as on the valuation date i.e. 31.03.2012

	₹ in lakhs
Plot of land (600 sq.mts) at Indore is includible in the net wealth. As the plot size is more than 500 sq.mts it is not eligible for exemption under section 5(vi)	30
Building constructed at Indore without the approval of the appropriate authority not an asset since it is used for business purpose.	Nil
Jewellery held as stock in trade - not an asset	Nil
Gold jewellery meant for personal use brought into India from Malaysia, where he was residing, on his return to India on 01.11.2008 for permanently residing in India — exempt u/s 5(v)	Nil
Motor car (M.V) — liable to tax	6
Interest in the coparcenary property of the HUF — exempt u/s 5(ii)	Nil
Cash in hand in excess of ₹ 50,000	2
Fixed deposits in a nationalised bank - not an asset	Nil
	38
Less : Loan borrowed for marriage of daughter - not deductible	Nil
Loan borrowed for construction of building at Indore - not deductible	Nil
Net wealth	38

Q. 8. (a) Mr. Arvind (aged 45 years) has total income of ₹ 7,80,000 for the previous year ended 31.03.2012. He has credit by way of tax deducted at source of ₹ 20,000. He paid advance tax of ₹ 20,000, ₹ 25,000 and ₹ 20,000 before 15th of September, December and March during the financial year 2011-12.

Assume he would be filing his return of income on 31.10.2012 after paying self assessment tax, compute interest payable by him under sections 234B and 234C of the Income-tax Act, 1961. [7]

(b) Compute total income of Mr. Malik for the assessment year 2012-13 from the following particulars : [8]

	₹
Income from house property (computed)	(1,40,000)
Income from salary (computed)	4,60,000
Long-term capital gain from sale of vacant site (computed)	2,00,000
Business loss—computed (automobile business)	80,000
Income from growing and manufacturing coffee (cured and roasted)	1,00,000
Tuition fees for higher education pursued by Mrs. Malik	25,000
Tax saver deposit in the name of Mrs. Malik	10,000
Public provident fund deposit in the name of minor son Pervez	15,000

Answer 8. (a)

Computation of interest under sections 234B and 234 C for Mr. Arvind

	₹	₹
Total income earned		7,80,000
Tax on above (Including cess at 3%)		90,640
Less : TDS		20,000
Advance tax liability for AY 2012-13		70,640
Advance tax due for September 2011 is 30% of ₹ 70,640	21,192	
Less : Advance tax paid	20,000	
Shortfall	1,192	
Interest u/s 234C @1% per month for 3 months		36
Advance tax due in December 2011 is 60% of ₹ 70,640	42,384	
Less : Advance tax paid	45,000	
Shortfall	Nil	
Interest u/s 234C @1% per month for 3 months		Nil
Advance tax due in March 2012 is 100% of ₹ 70,640	70,640	
Less : Advance tax paid	65,000	
Shortfall	5,640	
Interest u/s 234C @1%		56
Total interest u/s 234C is		92
Interest u/s 234B		
Advance tax payable (Assessed tax after TDS)	70,640	
Advance tax paid	65,000	
% of advance tax paid	92%	
As more than 90% of assessed tax has been paid by way of advance tax, there will be no liability to pay interest u/s 234B		

Answer 8. (b)

Computation of total income of Mr. Malik for the assessment year 2012-13

	₹	₹
Income from salary - computed		4,60,000
Income from house property - set off		(1,40,000)
		3,20,000
Long term capital gain from sale of vacant site (computed)	2,00,000	
Business loss -computed (automobile business)*	55,000	1,45,000
*Business loss ₹ 80,000 of which ₹ 25000 set off against income from growing and manufacturing coffee and the balance is set off against capital gain		
Income from growing and manufacturing coffee (cured and roasted)	1,00,000	
Less : Income eligible for exemption under rule 7B @75%	75,000	
Business income	25,000	
Less : Automobile business loss	25,000	Nil
Gross total income		4,65,000
Tuition fees for higher education pursued by Mrs. Malik — eligible for deduction under section 80C	25,000	
Tax saver deposit in the name of Mrs. Malik ₹ 10,000 not eligible for deduction	Nil	
Public provident fund deposit in the name of minor son Pervez ₹ 15,000 eligible for deduction	15,000	40,000
Total income		4,25,000
Tax on regular income ₹ 2,80,000		10,000
On long term capital gain ₹ 1,45,000 @ 20%		29,000
		39,000
Add : Cess @3%		1,170
Tax liability		40,170