

**INTERMEDIATE EXAMINATION
GROUP - I
(SYLLABUS 2016)**

SUGGESTED ANSWERS TO QUESTIONS

JUNE - 2018

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
All questions are compulsory.

In Question No. 1, all sub-questions are compulsory.

In Question Numbers 2 to 8, student may answer any 5 questions.
Wherever necessary, you may make suitable assumptions
and state them clearly in your answer.

Working notes should form part of the answer.

All questions relate to the Income-tax Act, 1961 and
pertain to the AY-2018-19, unless stated otherwise.

1. (a) Choose the most appropriate alternative: 1×10=10
- (i) Which of the following is not a case of deemed ownership of house property?
(A) Transfer to spouse for inadequate consideration
(B) Transfer to minor child for inadequate consideration
(C) Co-owner of a Property
(D) None of the above
- (ii) Where assessment has not been completed, belated income tax return for the A.Y. 2018-19 can be filed up to:
(A) 31.03.2019
(B) 31.02.2019
(C) 31.03.2020
(D) Cannot be filed belatedly.
- (iii) An individual estimates that he is required to pay ₹ 1,00,000 as advance tax. By 15th of December, how much amount must be paid by the individual?
(A) ₹ 30,000
(B) ₹ 75,000
(C) ₹ 1,00,000
(D) Nil
- (iv) Section 80 RRB the Income-tax Act, 1961 deals with deduction from gross total income in respect of income by way of
(A) Interest on debentures of a government company
(B) Royalty income on authors
(C) Royalty on patents
(D) Royalty from text-books

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- (v) Preliminary expenses that can be amortized under the Income-tax Act 1961 has to be restricted to _____ of the cost of the Project.
 (A) 5%
 (B) 15%
 (C) 20%
 (D) None of the above
- (vi) Maximum Marginal Rate for the A.Y. 2018-19 is _____ .
 (A) 34.5%
 (B) 33.99%
 (C) 35.535%
 (D) None of the above
- (vii) Rebate u/s 87A can be claimed by
 (A) Any resident
 (B) Resident Individual
 (C) Any person
 (D) Any person other than non resident
- (viii) As per section 115BBDA dividend from Indian companies is taxable in the hands of certain recipients at _____ when the aggregate dividend exceeds ₹ _____.
 (A) 10%, 1 lakh
 (B) 15%, 10 lakhs
 (C) 10%, 10 lakhs
 (D) 5%, 5 lakhs
- (ix) ICDS VIII deals with _____.
 (A) Government Grants
 (B) Securities
 (C) Revenue recognition
 (D) Construction Contract
- (x) Income escaping assessment is covered under section _____.
 (A) 144
 (B) 156
 (C) 143(3)
 (D) 147

(b) Match the following:

1×5=5

(i)	Alternate minimum tax	(A)	Section 44AD
(ii)	Return by whom to be verified	(B)	Section 263
(iii)	Revision by commissioner	(C)	Section 140
(iv)	Presumptive tax	(D)	Section 80EE
(v)	₹ 50,000	(E)	Section 115JC

(c) State whether true or false:

1×5=5

- (i) All incomes that accrue to a minor child will be included in the total income of that parent whose total income is greater.
- (ii) Caution money forfeited by the assessee is taxable in the year of forfeiture under the head capital gains.
- (iii) Paintings are not considered as personal effects in the context of "capital asset" definition.
- (iv) In the hands of a manufacturer, factory building newly constructed is not eligible for additional depreciation.
- (v) Income from assets acquired by spouse out of pin money or household savings is not subject to clubbing.

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(d) Fill in the blanks:

1×5=5

- (i) Deduction under section 80GGB in respect of house rent paid is applicable to _____.
- (ii) Unabsorbed depreciation shall be allowed to be carried forward for any number of years and such carried forward unabsorbed depreciation may be set off against any income, other than _____.
- (iii) Income referred to in sec. 68 to sec. 69D shall be taxable @ _____.
(Excluding SC and Cess)
- (iv) _____ received by an electoral trust shall be exempted.
- (v) Income from sub-letting of a house property by a salaried employee is taxable under the head _____.

Answer:

1. (a) (i) (C) Co-owner of a property
 (ii) (A) 31-03-2019
 (iii) (B) Rs. 75,000
 (iv) (C) Royalty on patents
 (v) (A) 5%
 (vi) (C) 35.535%
 (vii) (B) Resident individual
 (viii) (C) 10%, 10 lakhs
 (ix) (B) Securities
 (x) (D) 147

(b)

(i)	Alternate minimum tax	(E)	Section 115JC
(ii)	Return by whom to be verified	(C)	Section 140
(iii)	Revision by commissioner	(B)	Section 263
(iv)	Presumptive tax	(A)	Section 44AD
(v)	₹ 50,000	(D)	Section 80EE

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

- (d) (i) Individual (Section is wrongly quoted in the question paper)
 (ii) Income under the head "Salaries", Winning from lotteries, cross word puzzles, etc.
 (iii) 60%
 (iv) Any voluntary contributions
 (v) Income from Other Sources

2. (a) (i) Compute the tax liability of Sri A. Harichandraprakash whose total income is 5
 (A) ₹ 49,62,500
 (B) ₹ 51,00,000
 Note : (Source of income is Salary only)
- (ii) Explain the following concepts 3
- Tax Planning
 - Tax Avoidance
 - Tax Evasion

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(b) Two brothers Rama and Shankar are co-owners of a house property with equal shares. The property was constructed during the Financial Year 1998-1999. The property consists of 8 identical units and is situated at Salem. During the Financial Year 2017-2018 each owner occupied 1 unit for residence and balance 6 units were let out at a rent of ₹ 14,000 per unit per month. The municipal value of property is ₹ 9,00,000 and municipal tax are 10% of municipal value, paid during the year. The other expenses are as follows:

(i) Repairs	₹	90,000
(ii) Insurance premium paid	₹	15,000
(iii) Interest payable on loan taken	₹	3,50,000

One of the let out remained vacant for 4 months during the year. Rama could not occupy his unit for 6 months as he was transferred to Bangalore. He does not own any other house. The other income of Rama and Shankar are ₹ 3,50,000 and ₹ 1,80,000 respectively for the Financial Year 2017-2018.

The co-owners received during the year ₹ 1,40,000 as unrealized rent for 2014-2015 and ₹ 50,000 as arrears of rent.

Compute the income under the head "Income from House Property" and total income of the two brothers for the Assessment Year 2018-2019.

Answer:

2. (a) (i)

Particulars	Case A	Case B
Tax liability before rebate	13,01,250	13,42,500
Less : Rebate u/s 87A	-	-
Add: Surcharge	-	1,34,250
Tax and surcharge payable	13,01,250	14,76,750
Less: Marginal Relief	-	64,250
Tax after marginal relief	13,01,250	14,12,500
Add : Education & Secondary Education Cess	39,038	42,375
Total Tax Payable	13,40,288	14,54,875

(ii) Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

Tax avoidance is an exercise by which the assessee legally takes advantages of loopholes in the Act. Tax avoidance is a practice of bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. Most of the amendments are aimed to curb such loopholes.

Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.

(b)

Computation of Income from let out portion of House Property

Particulars	Amount (₹)	Amount (₹)
Let out portion (75%)	6,75,000	
Gross Annual Value		
(a) Municipal value (9,00,000*75/100)		
(b) Actual Rent (14,000*6*12)-(14,000*1*4)	9,52,000	9,52,000

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= ₹10,08,000 - ₹ 56,000 Whichever is higher		
Less : Municipal tax 75% of ₹ 90,000		67,500
Net annual value		8,84,500
Less : Deduction u/s 24		
(a) 30% of NAV	2,65,350	
(b) Interest on loan taken for the house (75% of ₹ 3,50,000)	<u>2,62,500</u>	5,27,850
		3,56,650
Add: Unrealised rent	1,40,000	
Arrears of rent	<u>50,000</u>	1,90,000
		5,46,650
Less : 30% standard deduction		57,000
Income from House property		4,89,650
50% share of each co-owner		2,44,825

Calculation of total income for the Assessment Year 2018-2019

Particulars	Rama (₹)	Shankar (₹)
(I) Self-Occupied House Property (Annual Value)	Nil	Nil
Less : Deduction u/s 24(b)	Nil	Nil
Interest on loan taken for construction ₹43,750 per person, restricted to ₹30,000, construction completed before 01.04.1999	30,000	30,000
Loss from house property	(30,000)	(30,000)
(II) Let out portion (75%) - see working note below	2,44,825	2,44,825
Income from house property	2,14,825	2,14,825
Other income	3,50,000	1,80,000
Total income	5,64,825	3,94,825

3. (a) Mr. Ashwin of Chennai sold a vacant site for ₹ 30 lakhs to Mr. Raina on 01.05.2017. The value of land for stamp duty purposes was ₹ 25 lakhs. The vacant site was acquired in April, 2000 for ₹ 3 lakhs. The fair market value of the vacant site on 01.04.2001 was ₹ 4 lakhs. The entire sale consideration plus a housing loan of ₹ 38 lakhs from a nationalized bank was availed for acquiring a residential building for ₹ 68 lakhs in Pune on 01.07.2017. The stamp duty paid for the purpose of acquisition was ₹ 2,90,000. The property was let out for a monthly rent of ₹ 10,000 from 01.07.2017. Interest on housing loan during the year till its closure, amounted to ₹ 2,80,000.

Mr. Ashwin sold yet another vacant site for ₹ 28 lakhs on 21.01.2018. This vacant site was acquired in October, 2015 for ₹ 20 lakhs. He utilized the entire sale proceeds realized in January 2018 for repaying the housing loan.

His other incomes are (i) Income from business (computed) ₹ 3,90,000 and (ii) Bank interest of ₹ 60,000 from term deposits and ₹ 15,000 from SB account.

Compute the total income of Mr Ashwin for the assessment year 2018-19.

Cost inflation index : F. Y. 2001-02 = 100; F.Y. 2015-16 = 254; F.Y. 2017-18 = 272. 7

- (b) State whether the following transactions attract tax deduction at source (TDS) provisions and the rate of tax & the amount of tax deductible in applicable cases:
- (i) Interest on recurring deposit of ₹ 12,000 paid by a nationalized bank to Mr. Dhoni.
 - (ii) Prize amount of ₹ 8,000 paid by Excellence Ltd. to Mr. Saha a winner of crossword puzzle contest conducted by the company.
 - (iii) Commission of ₹ 21,000 paid to Kumble & Co. by Dravid Co. Ltd for purchase of raw materials.
 - (iv) Chandra Ltd. paid ₹ 40,000 per month as generator rent from 1st August, 2017 and up to 31st March, 2018 to Mr. Shastri. 8

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Answer:

3. (a)

Computation of Total Income Mr. Ashwin for Assessment Year 2018-19

	₹	₹
Income from House Property:		
Rent for 9 months (₹10,000 × 9)	90,000	
Less: Deduction U/s. 24 @ 30%	27,000	
Interest on moneys borrowed	2,80,000	
	3,07,000	
	2,17,000	
Loss from House Property- but limited to		(2,00,000)
Income from Business: Computed		3,90,000
Capital Gain:		
Sale of vacant site -1	30,00,000	
Less: Indexed cost of acquisition (₹ 4,00,000 × 272 /100)	10,88,000	
Long term capital gain - (A)	19,12,000	
Sale of vacant site - 2	28,00,000	
Less: Indexed cost of acquisition (₹ 20,00,000 × 272 /254)	21,41,732	
Long term capital gain - (B)	6,58,268	
Total Capital Gain (A) + (B) =	25,70,268	
As the new residential house was acquired for ₹ 58 lakhs and the entire sale consideration is also ₹ 58 lakhs, the entire capital gain is exempt U/s.54 F	NIL	
Other Sources:		
Bank interest (Term Deposits)	60,000	
Bank SB interest	15,000	
		75,000
Gross Total Income		2,65,000
Deduction Chapter VI-A		
(i) Section 80 C in respect of stamp duty limited to ₹	1,50,000	
(ii) Section 80TTA for Bank SB interest	10,000	
		1,60,000
Total Income		1,05,000

- (b) (i) Section 194 A is applicable for recurring deposit interest paid by bank when it exceeds ₹ 10,000.
The tax deductible at source at 10% being ₹1,200.
- (ii) As per Section 194B winning by way of crossword puzzle is liable for tax deduction when the amount of winning exceeds ₹10,000
As the amount of winning is only ₹ 8,000, no tax is deductible at source
- (iii) Section 194H will apply when commission/brokerage exceeds ₹ 15,000
The tax deductible at 5% on ₹ 21,000 being ₹1,050
- (iv) Section 194-1 will apply when the rent paid during the year exceeds ₹ 1,80,000.
The tax is deductible at 2% being ₹ 6,400 (2% of ₹ 3,20,000)

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4. (a) Mr. Kamal employed in Rajini Mfg. Co. Ltd., Mumbai as General Manager furnishes the following information for the year ended 31.03.2018:

Particulars	Amount (₹)
Basic salary (per month)	50,000
Dearness Allowance (eligible for retirement benefits)	80% of basic salary
House Rent Allowance (per month)	10,000
Rent paid by him ₹ 15,000 per month for 6 months and ₹ 20,000 per month for balance 6 months (at Mumbai)	
City Compensatory Allowance (per month)	2,500
Medical reimbursements (annual)	13,000
Gymkhana club annual membership fee reimbursed by employer	20,000
Mobile phone bill reimbursed by the employer (Used for both official and personal use)	37,500
Motor car (cubic capacity of engine 2.2 litres) owned by the employee but the maintenance expenses fully met by the employer (Motor car was used both for personal and official use)	85,800
Cash gift paid by the employer in appreciation of performance on 01.01.2018	30,000
Contribution to recognized provident fund :	
Employee	1,20,000
Employer	90,000
Contribution to National Pension Trust:	
Employee	60,000
Employer	55,000
Medical insurance premium paid by means of uncrossed cheque	18,000

You are requested compute the total income of Mr. Kamal for the assessment year 2018-19. 10

- (b) State with brief reasons whether the following are agricultural income either in whole or in part: 1x5=5
- (i) Purchase of standing sugarcane crop by Mr. Amin for ₹ 2 lakhs and after cutting the canes, selling them for ₹ 2,50,000.
 - (ii) Income from milk dairy run by Mr. Raj in his agricultural lands ₹ 50,000.
 - (iii) Income from sale of plants ₹ 1,00,000 earned by Mr. Jain who maintains a nursery by name Soundarya Nursery.
 - (iv) Income from sale of rubber ₹ 3,20,000 realised by Mr Ram Nair who owns rubber estate and cultivates rubber.
 - (v) Income from grazing of catties allowed in the land owned by Mr. Richard ₹ 60,000.

Answer:

4. (a)

Computation of Total Income of Mr. Kamal for the Assessment Year 2018-19

	₹	₹
Basic salary		6,00,000
Dearness allowance @ 80% of basic pay		4,80,000
City Compensatory Allowance		30,000
House rent allowance:		
Allowance received	1,20,000	
Less: Exemption U/s.10(13A)		
50% of salary + DA	5,40,000	
Actual HRA	1,20,000	
Excess rent paid over 10% of salary (₹ 2,10,000 = ₹1,08,000) (Lower of the following)	1,02,000	1,02,000
		18,000

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Medical reimbursement - below ₹15,000 hence not taxable			Nil
Gymkhana club membership fee taxable			20,000
Mobile phone bill reimbursed by employer			37,500
Cash gift for employer taxable as 'salary'			30,000
Motor car perquisite: Actual expenses		85,800	
Less: Tax free @ ₹ 2,400 per month (assuming chauffeur is not provided)		28,800	
			57,000
Employer's contribution to NPS			55,000
Employer's contribution to RPF less than 12% of Basic + DA, hence not taxable			Nil
			13,27,500
Less: Deduction U/s. 80 C in respect of RPF		1,20,000	
Deduction U/s. 80 CCD:			
Employer's contribution ₹ 55000		Nil	
Employee's below 10%, hence allowed		50,000	
Deduction U/s. 80 D: Paid by cheque		18,000	
			1,88,000
Total Income			11,39,500

(b)

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

5. (a) Ahuja Industries Ltd. engaged in manufacturing activity and generation of power, gives you the following information for the year ended 31st March, 2018:

Description	Op. WDV (01.04.2017)	Acquisition/ Date	New acquisition used from	Sold during the year
Plant	₹ 5,00,000	₹ 60,000 (01.05.2017)	01.11.2017	₹ 80,000 (01.01.2018)
Windmill	—	₹ 60,00,000 (01.06.2017)	01.09.2017	—
Computer	₹ 3,00,000	₹ 90,000 (01.10.2017)	01.11.2017 (Office use)	₹ 40,000 (01.03.2018)
Patent	—	₹ 4,00,000 (01.12.2017)	01.12.2017	—

Compute the depreciation and additional depreciation for the assessment year 2018-19. The computation must be such that the same is most beneficial to the assessee. 9

(b) State with one line reason, the due date for filing the return of income in the following cases:

(i) Mr. Solkar, engaged in trade, has total turnover of ₹ 220 lakhs for the year ended

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31.03.2018.

- (ii) Krish Srikanth, an advocate, has aggregate professional receipts of 12,40,000 opting to admit income under section 44ADA.
- (iii) Mr. Abid Ali, having 5 heavy goods transport vehicles which are run on hire, opting to admit income under section 44AE.
- (iv) M/s. Jayantilal & Mankad, a firm engaged in hotel business with annual turnover of ₹130 lakhs preferring to offer income based on applicable presumptive provisions.
- (v) Vaman Kumar Charitable Trust registered under section 12AA having total income of ₹12 lakhs. (before giving effect to the provisions of section 11 and 12, and before seeking accumulation of income for application in the future years.) 6

Answer:

5. (a)

Computation of Depreciation and Additional Depreciation
Ahuja Industries Ltd. for the Assessment Year 2018-19

Description	Closing WDV before depreciation ₹	Depreciation / Addl. Depreciation	Depreciation ₹	Addl. Depreciation ₹
Plant	4,80,000 (i.e. 5,00,000 + 60,000 – 80,000)	@ 15% on ₹ 4,20,000 @ 7.5% on ₹ 60,000	63,000 4,500	
		@ 10% on ₹ 60,000		6,000
Windmill	60,00,000	@ 40% on ₹ 60,00,000 @ 20% on ₹ 60,00,000	24,00,000	12,00,000
Computer	3,50,000 (i.e. 3,00,000 + 90,000 – 40,000)	@ 40% on ₹ 2,60,000 @ 20% on ₹ 90,000	1,22,000	
		Additional depreciation		Nil
Patent	4,00,000	Depreciation @ 25% on ₹ 4,00,000 (1/2 thereon)	50,000	
		Additional depreciation		Nil
		Total claim	26,39,500	12,06,000

(b)

(i)	As the turnover has exceeded ₹100 lakhs, the books of have to be audited under section 44AB and the due date is 30.09.2018.
(ii)	In the case of professionals, who opt for section 44ADA, the due date for filing the return is 31.07.2018.
(iii)	In the case of persons engaged in plying of goods vehicle for hire, the due date for filing the return is 31.07.2018.
(iv)	Where a firm desires to offer income as per presumptive provisions contained in section 44AD, the due date for filing the return is 31.07.2018.
(v)	In the case of charitable trust where the total income before giving effect to provision of section 11 & 12 exceeds the maximum amount not chargeable to tax, it has to be audited as mentioned in section 12A(I)(b) and the return has to be furnished on or before 30.09.2018

6. (a) The Profit & Loss Account of ABC & Associates, a partnership firm for the previous year 2017-18 is given below:

Particulars	₹	₹	Particulars	₹
Establishment and other expenses		96,00,000	Gross Profit	1,56,40,000

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Interest to partners @ 15%			Profit on sale of equity shares (Sold after 2 years through recognized stock exchange)	2,80,000
A	1,80,000			
B	2,40,000			
C	1,20,000	5,40,000		
Salary to working partners		8,40,000	Rent from house property	1,20,000
A	4,80,000			
B	3,60,000			
			Interest on bank deposit	20,000
			Profit on sale of equity shares (after 10 months through recognized stock exchange)	2,40,000
Net Profit		53,20,000		
		1,63,00,000		1,63,00,000

Additional information:

- (i) Establishment expenses include bonus ₹ 2,40,000 which was paid on 30-12-2018.
- (ii) The firm is eligible for deduction under section 80-IC.
- (iii) Establishment expenses also included securities transaction tax of ₹ 2,000.

Compute the tax liability of the firm for the assessment year 2018-19. Assume that no extension of time has been granted u/s 139(1) for filing the return of income. 10

- (b) Aswini's accounts are not required to be audited under section 44AB. He furnished his return of income for Assessment Year 2018-19 on 1st August, 2018. He has the following losses during the previous year 2017-18:

Loss from house property let out: ₹ 12,000

Loss from business: ₹ 60,000

Unabsorbed depreciation: ₹ 15,000

Short-term capital loss from sale of shares: ₹ 8,000

State, with reason, whether Aswini is entitled to carry forward above losses and unabsorbed depreciation. 5

Answer:

6. (a)

Computation of total income of ABC & Associates for the Assessment Year 2018-19

Particulars	₹	₹
Income from house property:		
Actual rent	1,20,000	
Less: Deduction under section 24 @ 30%	36,000	84,000
Profits and gains from business or profession:		
Net profit as per Profit & Loss Account		
Add: Expenses disallowed		53,20,000
Bonus as per section 43B	2,40,000	
Securities Transaction Tax	2,000	
Interest to partner in excess of 12%	1,08,000	
Salary to partners	8,40,000	11,90,000
		65,10,000
Less: Rent	1,20,000	
Profit on sale of shares sold after 2 years	2,80,000	
Interest on bank deposit	20,000	
Profit on sale of shares sold after 10 months	2,40,000	6,60,000
Book Profit		58,50,000
Less Partners' Remuneration		
90% of first ₹ 3,00,000	2,70,000	
60% of balance 55,50,000	33,30,000	

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Restricted to remuneration as per partnership deed	36,00,000	8,40,000
		50,10,000
Capital gain-short-term capital gain		2,40,000
Income from other sources		20,000
Gross Total Income		53,54,000
Less: Deduction under section 80-IC		50,10,000
Total Income		3,44,000

Computation of adjusted total income

Total Income	3,44,000
Add: Deduction under section 80-IC	50,10,000
Adjusted total income	53,54,000

Computation of tax payable

Regular income tax:	
On short-term capital gain of ₹ 2,40,000 @15%	36,000
On balance income of ₹ 1,04,000 @ 30%	31,200
	67,200
Alternate minimum tax @ 18.5% on ₹ 53,54,000	9,90,490
As AMT is higher than regular tax payable, adjusted total income is deemed to be the total income.	
Thus tax payable = ₹ 9,90,490 + ₹ 29715(education cess) = ₹10,20,205	

- (b)** As per section 139(1), due date for filing return of income in case of individual having income exceeding basic exemption limit but not liable to tax audit under section 44AB is 31st July of the assessment year.

Section 139(3) provides that return showing loss is to be filed in the same manner as in the case of a return of income within the time allowed under section 139(1). Hence, even though Aswini has loss, he is required to file loss return before the due date i.e. 31st July, 2018

As he has filed the return after the due date, his return is a belated return under section 139(4).

As per section 80 filing of return of loss or before the due date specified in section 139(1) is mandatory for carry forward of business loss under section 72(10), speculation business loss under section 73(2), loss from specified business under section 74(1), loss under the head "capital gains" and loss from the activity of owning and maintaining race horses under section 74A(3).

In view of above provisions, Aswini will be not be entitled to carry forward loss from business ₹ 60,000 and short-term capital loss ₹ 8,000.

Section 80 does not prohibit carry forward of loss under the head "income from house property" under section 71B and unabsorbed depreciation under section 32(2) in case of belated return.

Therefore, Aswini is entitled to carry forward loss from house property ₹ 12,000 and unabsorbed depreciation ₹15,000, even though return was filed beyond due date.

- 7. (a) Discuss the taxability or otherwise in the hands of the recipients: 2x5=10**
- (i) PQR Private Limited issued 15,000 shares at ₹ 150 per share (face value ₹ 100 per share). The fair market value of the share is ₹ 130 per share.**
- (ii) Mr. Sakshitha received a sum of ₹ 92,000 being proceeds at the time of maturity of a life insurance policy (taken 5 years back) and ₹ 1,10,000 being proceeds of maturity value of a Key-man insurance policy.**

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- (iv) Nilay, a member of his father's HUF, gifted a house property to the HUF. The stamp duty value of the house is ₹ 8 lakhs.
- (iv) Rashmi received a cell phone worth ₹ 60,000 as gift from her friend on the occasion of her birth day.
- (v) On the occasion of her marriage Tripti received cash gifts of ₹ 1,30,000, which includes ₹ 60,000 from her friends.

- (b) ABC & Co., a partnership firm, consisted of 4 equal partners up to 31.03.2017. It had accumulated business losses of ₹ 8 lakhs and unabsorbed depreciation of ₹ 6 lakhs relating to assessment year 2016-17. On 01.04.2017 one partner retired. The firm, for the previous year ended 31st March, 2018, made a turnover of ₹ 150 lakhs. The firm wishes to opt for presumptive taxation.

The entire sale proceeds were realized through banking channel.

Compute the total income of the firm for the assessment year 2018-19.

5

Answer:

7. (a) (i) As per section 56(2)(viib) where a closely held company issues shares at a premium, the excess of the issue price of the shares over the fair market value is taxable in its hands under the head "Income from other sources".

Therefore, ₹ 3,00,000 [i.e. 15,000 x (₹150 - ₹ 130)] shall be taxable as income in the hands of PQR Private Ltd under the head "Income from other sources".

- (ii) Any amount received at the time of maturity of a life Insurance Policy (not being key-man insurance policy) will be exempt u/s 10(10D).

Hence ₹ 92,000 will be exempt and there being no exemption for the latter, ₹ 1,10,000 will be taxed as income from other sources.

- (iii) As per section 56(2)(vii), immovable property received without consideration by a HUF from its relative is not taxable.

In the instant case, since Nilay is a member of his father's HUF, he is a relative of the HUF. Hence, ₹ 8 lakhs, being the stamp duty value of the house property received by HUF, without consideration, will not be taxable in the hands of the HUF.

- (iv) Cell phone is not included in the definition of property as per Explanation to section 56(2)(vii).

Therefore, the value of cell phone received by Rashmi is not taxable as income in her hands.

- (v) As per section 56(2)(vii) gifts received on the occasion of marriage are not taxable. Therefore, cash gifts received by Tripti are not taxable in her hands, whether the same are received from relatives or non-relatives.

(b)

Computation of Total Income of ABC & Co U/s.44 AD

	₹
Presumptive income @ 6% of the turnover of ₹150 lakhs	9,00,000
Less:	
Unabsorbed depreciation of ₹ 6 lakhs deemed to have been allowed and hence is not deductible. [unabsorbed depreciation is deemed to be part of current depreciation as per section 32(2)]	

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Unabsorbed business loss brought forward ₹ 8 lakhs. Since one partner retired from the firm, 25% being his share in the firm is not eligible for set off.	
The amount eligible for set off ₹ 8 lakhs × 3/4	6,00,000
Total income of the firm	3,00,000

8. Write short notes on any three of the following: 5×3=15
- (a) Fee for delay in furnishing the return of income;
 (b) Scrutiny assessment
 (c) ICDS : Accounting policies
 (d) Adjustments during the course of processing of return of income u/s 139(1).

Answer:

8. (a)

Particulars	
Where a person required to furnish a return of income u/s 139, fails to do so within the due date, he shall pay fee of	
Case	Fee
Total income does not exceed ₹ 5 lakhs	₹ 1,000
Total income exceeds ₹ 5 lakhs	
- if the return is furnished on or before 31st December of the assessment year	₹ 5,000
- In any other case	₹ 10,000

Note:

If the return is filed within due date Section 234F is not applicable.

- (b)

Particulars
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 -
<ul style="list-style-type: none"> ➤ 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
<ul style="list-style-type: none"> ➤ 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.

- (c) ICDS I: 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 or 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 recognized unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standards.

The fundamental accounting assumptions i.e., going concern. Consistency and accrual are assumed as followed. However, if any such assumption is not followed, the fact shall be disclosed.

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An accounting policy shall not be changed without reasonable cause.

All significant accounting policies adopted by a person shall be disclosed.

Any change in accounting policy which has a material effect shall be disclosed with monetary impact. If such impact is not ascertainable, the fact must be disclosed.

(d) Adjustments in course of processing of return under section 143(1) (wrongly stated as 139(1) in the question paper)

In course of processing the return of income the Assessing Officer shall make the following adjustments:

- (a) any arithmetical error in the return.
- (b) an incorrect claim, if such incorrect claim is apparent from any information in the return.
- (c) disallowance of loss claimed, if the return of the previous year for which set off of loss is claimed was furnished after due date.
- (d) disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return.
- (e) Disallowance of deduction claimed under sections 10AA, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID or 80-IE, if the return is furnished after the due date.
- (f) addition of income appearing in Form 26AS or Form 16A or Form 16 which had not been included in computing the total income in the return.

Such adjustments shall not be made unless an intimation is given to the assessee of such adjustments either in writing or in electronic mode. The response received from the assessee, if any shall be considered before making any adjustment and in a case where no response is received within 30 days of the issue of such intimation, such adjustments shall be made.