Paper 7- Direct Taxation

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

All Questions relate to Income Tax Assessment Year 2019-20 and the provisions stated relate to the Income-tax Act,1961, unless otherwise stated in the Question.

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

1.(a) Choose the most appropriate alternative for the following : [1x10=10]

(i) Pelf Finstock Ltd. Filed its return of income tax for A.Y. 2019-20 on 30th March,2020. The notice for making scrutiny assessment under section 143(3) can be served on the assessee up to-

(a) 31st December 2020
(b) **30th September 2020**
(c) 31st March 2020
(d) 30th September 2021

(ii) _____ can be carried forward even return of income has not been filed.

(a) **Unabsorbed depreciation**
(b) Current year depreciation
(c) Brought forward business loss
(d) Both (a) & (c)

(iii) Deduction u/s 80JJA is available if the assessee:

(a) Is engaged in scientific research
(b) Sets up an industrial unit in a backward area
(c) Is engaged in agriculture business
(d) **Is engaged in the business of collecting and processing biodegradable waste.**

(iv) Cost of acquisition of self-generated asset is nil, the exception is:

(a) Goodwill
(b) Route permit
(c) **Bonus Shares acquired before 01-04-2001**
(d) Loom hours

(v) The quantum of deduction u/s 24(a) is:

(a) **30% of net annual value of the house property**
(b) 30% of gross annual value of house property
(c) 30% of actual rent received
(d) None of the above

(vi) The maximum amount of exemption allowed under children hostel allowance is:

(a) ₹ 300 annually per child(to the maximum of two children)
(b) ₹ 600 per month per child
(c) **₹ 300 per month per child(to the maximum of two children)**
(d) ₹ 500 per month per child (to the maximum of two children)

(vii) Interest on delayed compensation or enhanced compensation is
(a) Taxable on accrual basis
(b) **Taxable on receipt basis**
(c) Exempt from tax
(d) Taxable as per method of accounting of the assessee

(viii) TDS is not required to be deducted u/s 194A if the amount of interest on loan does not exceed:
(a) **₹ 5,000**
(b) ₹ 2,500
(c) ₹ 7,500
(d) ₹ 20,000

(ix) The maximum amount of standard deduction allowed for family pension u/s 57(iia) is:
(a) **₹ 15,000**
(b) ₹ 50,000
(c) ₹ 25,000
(d) ₹ 75,000

(x) Which of the following form number is to be used for filing the return of income by an individual having business income?
(a) Form no.1
(b) Form no.2
(c) Form no.5
(d) **Form no.3**

(b) Match the following (sufficient to give the corresponding item in column 3 for column1: reproducing columns 2 and 4 are not required): [5×1=5]

1	2	3	4
(i)	Ground rent	**A.**	TDS @ 5%
(ii)	Section 80P	**B.**	Effects of changes in foreign exchange rates
(iii)	Sec.194H	**C.**	TDS @ 10%
(iv)	Sec.194EE	**D.**	Income from co-operative society
(v)	ICDS VI	**E.**	Not deductible while computing income from property

Answer:

(i)E	(ii)D	(iii)A	(iv)C	(v)B

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

(i) An assessee whose total income does not exceeds ₹ 5,00,000, fails to furnish return of income u/s 139 within the due date shall pay fee of ₹10,000.
(ii) Cash gift of ₹ 2,00,000 from uncle's son is not taxable.
(iii) Income from sale of trees and grasses grown spontaneously (without any human effort), is non–agro income.

(iv) Income up to ₹ 2,500 is exempt in respect of each minor child whose income is clubbed u/s 64(1A).

(v) The depreciation in respect of an asset which is acquired by the assessee during the previous year and is put to use in the same previous year for less than 180 days is restricted to 50% of the normal depreciation.

Answer:

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

(d) Fill in the blanks: **[5×1=5]**

(i) Discount on issue of Zero Coupon Bonds shall be allowed on _____ basis having regard to the period of life of such bond.

(ii) An assessee, who fails to comply with the provision of sec.44AA, shall be liable to pay penalty u/s 271A of _____.

(iii) Deduction u/s 80GG is available in respect of _____.

(iv) An assessee who fails to pay advance tax or defers the payment of advance tax on specified date, shall be liable to pay _____ u/s 234B & 234C.

(v) Permanent Account Number (PAN) is an _____ code given to a person by income tax department for the purpose of identification of the assessee.

Answer:

(i) Pro rata	(ii) ₹ 25,000	(iii) House rent paid	(iv) Interest	(v) alpha-numeric

2.(a) XYZ Ltd. has an undertaking(unit X) in special economic zone(SEZ) and another undertaking (unit Y) in Free Trade Zone(FTZ) for manufacturing of computer software. It furnishes the following particulars of its 2nd year of operations ending March 31, 2019:

₹ (in lakh)

	Unit X	Unit Y
Total sales	280	220
Export sales (inclusive of ₹ 10 lakh onsite development of computer software outside India by Unit X)	100	20
Profit earned [after claim of bad debts under section 36(1)(vii) in unit X]	60	40

Plant and machinery used in the business has been depreciated at 15% on straight line Method basis and depreciation of ₹ 12 lakh was charged to P & L A/c in the proportion of sales during the previous year. ₹ 100 lakh were realized out of export sales in time and balance ₹ 20 lakh becomes irrecoverable due to bankruptcy of one of the foreign buyers in Unit X.

Compute the deduction under section 10AA and taxable income of XYZ Ltd. for the assessment year 2019-20. **[8]**

2.(b) Parimal owns a residential property in Kolkata. It is let out to Zee Ltd. (rent being ₹ 50,000 per month). Municipal value of the property is ₹ 3,20,000, fair rent is ₹ 5,00,000. Zee Ltd. pays municipal tax. On April 10, 2018, rent is increased from ₹ 50,000 per month to ₹ 55,000 per month with retrospective effect from April 1, 2017. Parimal gets ₹ 60,000 (being arrears of rent for the financial year 2017-18) on May 10, 2018. Find out the net income of Parimal for the assessment year 2019-20 on the assumption that his income from other sources is ₹ 4,00,000. **[7]**

Answer 2.(a)

Computation of Income of XYZ Ltd

	Unit X ₹	Unit Y ₹
Profit earned	60,00,000	40,00,000
Add: Depreciation debited in P & L A/c(₹ 12,00,000 in the ratio of 3:2)	7,20,000	4,80,000
Less: Depreciation under section 32 (see W.N 2) in the ratio of 3:2	6,12,000	4,08,000
Balance	61,08,000	40,72,000
Less: Deduction under section 10AA [profits of the business x Export turnover/ total turnover] [₹ 61,08,000x 100,00,000/280,00,000]	21,81,429	-
Net income	39,26,571	40,72,000

Note : It is assumed that Unit Y in FTZ was not converted into a SEZ unit.

Working notes:

1. Actual cost of plant and machinery:
   Rate of Depreciation : 15%
   Depreciation : ₹ 12,00,000
   Actual cost of plant & machinery: ₹ 80,00,000 [12,00,000/15%]
2. Depreciation under section 32:

	(₹)
Actual cost of Plant and machinery acquired during the previous year 2017-18	80,00,000
Less: Depreciation for previous year 2017-18 @ 15%	12,00,000
Depreciated value of the block as on 1/4/2018	68,00,000
Less: Depreciation for the previous year 2018-19 @15% (to be divided in the ratio 3:2 between Unit X and Unit Y)	10,20,000
Depreciated value of the block as on 1/4/2019	57,80,000

Answer 2.(b)

Computation of income under house property:

Assessee : Mr. Parimal

Previous year: 2018-19 **Assessment Year: 2019-20**

Steps	Particulars	(₹)	(₹)	(₹)
1st	**Calculation of RER:**			
	Gross municipal value	3,20,000		
	Fair rent	5,00,000		
	Higher of the above [A]	5,00,000		
	Standard rent [B]	NA		
	Reasonable Expected Rent [lower of (A) and (B)] [C]	5,00,000		
2nd	**Calculation of (ARR – Unrealised rent)**			
	Actual rent receivable p.a	6,60,000		
	Less: Unrealised rent	-		
	ARR – Unrealised rent [D]	6,60,000		
3rd	**Gross Annual Value(GAV)** [higher of (C) and (D)]	6,60,000		
	Less : Municipal taxes paid by the assessee [Paid by tenant not deductible]	-		
	Net Annual Value (NAV)	6,60,000		
	Deduction			
	• u/s 24(a) Standard deduction			

	[30% on ₹ 6,60,000]	(1,98,000)		
	• u/s 24(b) Interest on loan	-		
	Income from house property		4,62,000	
	Arrears of rent (pertaining to earlier year) received in the P.Y. 2018-19	60,000		
	Less: Standard deduction u/s 24(a) [30% of ₹ 60,000]	18,000		
	Income from house property u/s 25A		42,000	
	Total Income from house property			5,04,000
	Income from other sources			4,00,000
	Gross total income			9,04,000
	Less: Deductions u/s 80C to 80U			-
	Net Income			9,04,000

3.(a) Rahim is employed as resident engineer in CAT Automobiles Ltd. on basic salary of ₹ 92,000 per month. Rahim had no shares in the company and he was not related to any directors. During the previous year 2018-19, he gets the following perquisites from CAT Automobiles Ltd. :

1. Company pays ₹ 1,000 per annum on an accident insurance policy for the benefit of Rahim
2. On April 1, 2018 Rahim takes a car loan of ₹ 6,50,000 from CAT Automobiles Ltd. The company recovers interest ₹ 4 per cent per annum from Rahim (SBI lending rate : 9.25 per cent)
3. Company has reimbursed his club fee of ₹ 500 per annum and club bills aggregating to ₹ 4,000.
4. Rahim engages a domestic servant on monthly salary of ₹ 3,000. The entire salary (i.e., ₹ 36,000) is paid by CAT Automobiles Ltd to the domestic servant (or salary is paid by Rahim and the company reimburses the entire amount).
5. He purchased a furniture on August 3, 2018 at ₹ 4,000 (book value) from the company. The market value of the same is about ₹ 16,000. The furniture was purchased by the company on June 30, 2012 for ₹ 52,000.

Ascertain the taxability of the above mentioned items of Mr. Rahim for the assessment year 2019-20. **[10]**

3(b) LMN 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)	12
Sugarcane sold in market (1,000 tons)	4
Sugarcane used for sugar manufacturing (4,000 tons)	-
Cost of conversion	6
Sugar produced & sold in market	30

[5]

Compute income of LMN Ltd.

Answer 3.(a)

1. Rahim has no vested right in the accident insurance policy, as the benefit depends upon contingency of accident. It is therefore, not taxable.
2. The lending rate of SBI on April 1, 2018 for a similar loan is 9.25% per annum. ₹ 34,125[being interest @ 5.25% (i.e., 9.25%-4%) on ₹ 6,50,000 for one year] is taxable in the hands of Rahim.
3. Amount spent by the employer (i.e., ₹ 4,500) to pay club fees is taxable in the hands of employee as a perquisite.
4. In this case, the perquisite (i.e., ₹ 36,000) is taxable in the hands of Rahim under

section 17(2)(iv) in all cases, as the obligation of Rahim to pay salary to the domestic servant is met by his employer.

5. Taxable value of the perquisite shall be determined as under:

	(₹)
Cost of furniture	52,000
Less: Normal wear and tear for 6 years [10% of ₹ 52,000 for 6 years]	31,200
Balance	20,800
Less: Amount paid by Rahim	4,000
Taxable value of the perquisite	16,800

Answer 3.(b)

Computation of income of LMN Ltd. for the A.Y. 2019-20:

Particulars	Manufacturing ₹ in lacs	Agriculture ₹ in lacs
Sale of agro product in market	-	4
Sale of manufactured product in market	30	-
Notional sale of agro product used in the process of manufacturing (4,000 ton × ₹ 4 lacs per '000 ton)	-	16
Revenue **[A]**	30	20
Less: Expenses incurred		
Cost of conversion	6	-
Market value of sugarcane used (4,000 ton × ₹ 4 lacs per '000 ton)	16	-
Cost of cultivation	-	12
Expenditure **[B]**	22	12
Income **[A-B]**	8	8

4.(a) Virat kohli sells the following long term capital assets on January 11, 2019:

	Residential house property (₹)	Gold (₹)	Silver (₹)	Diamonds (₹)
Sales consideration	5,70,000	9,10,000	3,96,000	8,40,000
Indexed cost of acquisition	1,00,000	1,15,000	1,78,000	4,30,000
Expenses on transfer	20,000	40,000	16,000	42,000

The due date of filing return of income for the assessment year 2019-20 is July 31, 2019. For claiming exemption under section 54 and 54EC, Virat kohli purchases the following assets :

Assets	Date of acquisition	Amount (₹)
Land(for constructing a residential house)	April 2, 2019	1,00,000
Bank deposit(for constructing house)	August 5, 2019	50,000
Bonds of Rural Electrification Corporation (redeemable on July 5, 2025)	July 5, 2019	7,50,000
Bonds of Naitonal Highways Authority of India(redeemable on August 10, 2030)	July 10, 2019	3,05,000

Find out the amount of capital gain chargeable to tax for the assessment year 2019-20. **[9]**

4.(b) Mrs. Sarita (38 years) is a salaried employee. Her basic salary is ₹ 50,000 per month. She gets one month salary as bonus. She has been provided a rent free unfurnished

house which is owned by the employer company at the place of her posting i.e., Mumbai. She gets bank fixed deposit interest of ₹ 25,000. She makes the following investments/ deposits every year:

	(₹)
Life insurance premium on his own life (sum assured: ₹ 1,00,000) (policy taken in July 2015)	12,000
Notified equity linked saving scheme of UTI	78,000
Repayment of loan taken on July 1, 2004 for purchasing a house property(which is self occupied by his family at Mumbai)	35,000
Payment of interest on the above loan	50,000
Tuition fees of two children (₹ 24,000 + ₹ 36,000)	60,000
Notified bonds of infrastructure company	4,000
Deposit in home loan account scheme of NHB	10,000
Mediclaim insurance premium	30,000
Pension fund of LIC qualified for deduction under section 80CCC	15,000

Find out the net income and tax liability for the assessment year 2019-20 **[6]**

Answer 4.(a):

Computation of Capital gain:

Assessee: Mr. Virat kohli

Previous year:2018-19 **Assessment year: 2019-20**

Particulars	**House property (₹)**	**Gold (₹)**	**Silver (₹)**	**Diamonds (₹)**
Sale consideration	5,70,000	9,10,000	3,96,000	8,40,000
Less: Expenses on transfer	20,000	40,000	16,000	42,000
Net sale consideration **[a]**	5,50,000	8,70,000	3,80,000	7,98,000
Less: Indexed cost of acquisition	1,00,000	1,15,000	1,78,000	4,30,000
Long term capital gain **[b]**	4,50,000	7,55,000	2,02,000	3,68,000
Exemption under section 54 [Note 1] **[c]**	1,00,000	-	-	-
Exemption under section 54EC[Note 2] **[d]**	3,50,000	-	-	-
Capital gain chargeable to tax[b-c-d]	Nil	7,55,000	2,02,000	3,68,000

Notes:

1. Exemption under section 54: since the due date of filing return of income is July 31, 2019, the deposit made on August 5, 2019 is not considered. Exemption under section 54 is limited to amount utilized for constructing residential house up to July 31, 2019(i.e., ₹ 1,00,000).
2. Exemption under section 54EC- Exemption under section 54EC is available only if the long-term capital asset which is transferred is land or building or both. It is not available in respect of other assets (e.g., gold, silver, diamonds, etc).

Answer 4.(b):

Computation of tax liability:

Assessee: Mrs.Sarita

Previous year: 2018-19 **Assessment year: 2019-20**

Particulars	**(₹)**	**(₹)**	**(₹)**
Income from Salary:			
Basic salary (50,000 × 12)	6,00,000		
Bonus	50,000		
Rent free unfurnished house	97,500		
Gross salary	7,47,500		
Less : Standard deduction u/s 16(ia)	40,000	7,07,500	
Income from house property		(50,000)	

Income from other sources		25,000	
Gross total income			6,82,500
Less: Deduction u/s			
• 80C [see note1]		1,50,000	
• 80CCC (pension plan of LIC)		15,000	
• 80CCD (Notified pension scheme)		-	
		1,65,000	
As per 80CCE, total deduction u/s 80C + 80CCC + 80CCD (other than employer's contribution) cannot exceed 1,50,000		1,50,000	
• 80D		25,000	1,75,000
Net income			5,07,500
Tax on net income			14,000
Less: Rebate u/s 87A [100% of tax or 2,500, whichever is less, applicable in the case of a resident individual if taxable income is 3,50,000 or less]			-
Balance			14,000
Add : Health & education cess(4% on 14,000)			560
Tax Liability			14,560

Note 1:

Gross qualifying amount u/s 80C:

Life insurance premium[to the maximum of 10% on ₹ 1,00,000]	10,000
Notified equity linked saving scheme of UTI	78,000
Repayment of loan taken for purchasing a house property	35,000
Tuition fees of two children[₹ 24,000 + ₹ 36,000]	60,000
Home loan account scheme	10,000
Notified bonds of infrastructure company	4,000
Gross qualifying amount	1,97,000
Amount deductible under section 80C(100% of gross qualifying amount subject to maximum of ₹ 1,50,000)	1,50,000

5.(a) Mr. Sunil is a practicing Cost Accountant. He also runs a private coaching institute. his bank account 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 expense	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 :

- 20% of motor car expenses is in respect of profession.

- Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.
- Outstanding fees on 31-3-2019 ₹ 2,000.Whereas ₹500 receivable from Mita is considered as bad.
- Outstanding fees of P.Y. 2015-16 ₹10,000 received during the year, which is included in the audit fees.
- Office expenses include payment of ₹2,000 incurred during the previous year 2017- 2018.

Compute his gross total income for the A.Y. 2019-20 assuming he maintains accounts on cash basis. **[10]**

5.(b) Ram and Shyam are minor sons of Mr. Sekhar and Mrs. Sekhar. Business income of Mr. Sekhar is ₹ 4,50,000. Income from house property of Mrs. Sekhar is ₹ 2,50,000. Income of Ram and Shyam from stage acting is ₹ 50,000 and 75,000, respectively. Besides, interest on company deposits of Ram and Shyam (deposit was made out of income from acting) is ₹ 30,000 and ₹ 10,000 respectively. Ram and Shyam have received the following birthday gifts:

On May 20, 2018 gift received by Shyam from his grandfather : ₹ 60,000
On September 14, 2018 gift received by Ram from Sekhar's friend : ₹ 90,000
Gift from relative : ₹ 45,000

Find out the income of Mr.Sekhar , Mrs. Sekhar, Ram and Shyam for the assessment year 2019-20. **[5]**

Answer 5.(a):

Computation of Gross total income:

Assessee : Mr. Sunil

Previous year : 2018-19 Assessment year : 2019-20

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

Answer 5.(b)

Computation of taxable income for the assessment year 2019-20

Particulars	Mr. Sekhar	Mrs. Sekhar	Ram	Shyam
Income from house property	-	2,50,000	-	-
Business Income	4,50,000	-	-	-
Income from stage acting			50,000	75,000
Income from other sources				
• Gift received by Shyam from grandfather on September 1, 2018(gift from a relative not chargeable to tax)	-	-	-	-
• Gift received by Ram on September 14, 2018 from Sekhar's friend (to be clubbed in the hands of Mr. Sekhar after giving exemption of ₹ 1,500)	88,500	-	-	-
• Gift received by Ram on September 14, 2018 from relatives(gift from a relative is not taxable)	-	-	-	-
• Interest from company deposit received by Ram (to be clubbed in the hands of Mr. Sekhar)	30,000	-	-	-
• Interest from company deposit received by Shyam(to be clubbed in the hands of Mr.Sekhar after giving exemption of ₹1,500, amount to be clubbed is ₹ 10,000 - ₹ 1,500)	8,500	-	-	-
Net Income	5,77,000	2,50,000	50,000	75,000

6.(a) Mr. Ram, the karta of a Hindu Undivided Family (HUF) invested family funds of ₹ 5 lakhs in the shares of H Couriers Pvt. Ltd. He was appointed as the Managing Director of the company and was paid a remuneration of ₹ 3.6 lakhs for the year ended 31.3.2019. Discuss whether the said remuneration will be assessed in the individual hand of Mr. Ram or in the hands of the HUF, for the assessment year 2019-20. **[6]**

6.(b) Mr. A and Mrs. B, being members of an AOP with equal share, furnishes the following details, compute tax liability of AOP-

Profit and loss account for the year ended 31-3-2019

Particulars	Amount(₹)	Particulars	Amount(₹)
Bonus to employee	50,000	Gross Profit	6,96,000

Bonus to A	10,000	Interest on drawings	
Bonus to Mrs. B	5,000	A	16,000
Other Expenses	40,000	Mrs. B	8,000
Salary to -			
A	44,000		
Mrs. B	88,000		
Interest on Capital @ 15%			
A	15,000		
Mrs. B	20,000		
Depreciation	30,000		
Donation to National Relief Fund	10,000		
Net Profit	4,08,000		
	7,20,000		**7,20,000**

Additional information:

a. Depreciation for the year u/s 32 ₹ 20,000.
b. Other expenses include expenditure of ₹ 5,400, which is disallowed u/s 40A(2).
c. Other personal income of A & Mrs. B

	A	Mrs. B
Dividend received	₹ 5,000	₹ 20,000
Interest on loan	₹ 45,000	₹ 22,000

[9]

Answer 6.(a)

Mr. Ram did not become the managing director of the company for the mere reason that his family had purchased considerable shares in the firm. He was elected as a managing director by the board of directors. He has received his salary for his personal services. It is not material to hold that he was elected managing director on behalf of the family. He was not appointed as managing director as a result of any outlay or expenditure of or detriment to the family property. Further, the managing directorship was an employment of personal responsibility and ability. Hence, such remuneration shall be considered as his personal income. The same view was upheld by the Apex Court in the case of Raj Kumar Singh Hukam Chandji –vs.– CIT.

Answer 6.(b)

Computation of total income of AOP for the year 2019-20:

Particulars	Amount(₹)	Amount(₹)
Profits and gains of business or profession		
Net profit as per profit and loss account		4,08,000
Add: Expenditure disallowed but debited in P/L Account:		
• Remuneration to member disallowed u/s 40(ba)		
Salary[₹ 44,000 + ₹ 88,000]	1,32,000	
Bonus[₹ 10,000 + ₹ 5,000]	15,000	
• Interest on capital in excess of interest on drawing disallowed u/s 40(ba)		
A [Net interest in negative]	Nil	
Mrs. B [₹ 20,000- ₹ 8,000]	12,000	
• Other expenses disallowed u/s 40A(2)	5,400	
• Depreciation	30,000	
• Donation to National Relief Fund	10,000	2,04,400
		6,12,400
Less : Expenditure allowed but not debited in P/L Account:		
• Depreciation		20,000

Gross Total Income		5,92,400
Less : Deduction u/s 80G (Donation to National Relief Fund)		10,000
Total Income		5,82,400
Tax on above including cess(using rates applicable on an individual)*[Rounded off]		30,140

7.(a) Compute taxable income under the head income from other sources of Mrs. X from the following data :

Particulars	(₹)
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 expenditure 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 to personal expenses	18,000
Payment made to LIC as premium	2,000

[9]

7.(b) Who is responsible to collect tax at source? When tax has to be collected at source?

[6]

Answer 7.(a)

Computation of income under the head income from other source:

Assessee: Mr. X

Previous year: 2018-19 Assessment year: 2019-2020

Particulars	Amount(₹)	Amount(₹)
Private tuition fee received		10,000
Casual income :		
• Winning from lottery		2,000
• Award from KBC (a TV show)[Gross]		3,20,000
Pension	25,000	
Less: Standard deduction(lower of the following)		
• 1/3rd of amount received(i.e., ₹ 8,333)		
• ₹ 15,000	8,333	16,667
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	Taxable as salary	-
Remuneration for checking the examination copy of C.A		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.

Answer 7.(b):

1. Every seller, shall collect tax from the buyer of any specified goods, at the time of –
   - Debiting the amount payable by the buyer to the account of the buyer; or
   - Receipt of such amount from the buyer,
     - whichever is earlier.
2. Every person, who grants a lease or a license or enters into a contract or otherwise transfers any right or interest in –
   - any parking lot; or
   - toll plaza; or
   - mine or quarry excluding mines or quarrying of mineral oil (mineral oil includes Petroleum and Natural gas), to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purpose of business shall collect tax from the licensee or lessee at the time of:
   - Debiting the amount payable by the licensee or lessee to the account of the licensee or lessee; or
   - Receipt of such amount from the licensee or lessee,
     - whichever is earlier.

8.Short note: (any three) **[5×3=15]**

(a) When a return of loss should be filed [Sec.139(3)]:

An assessee, other than few, is not compulsorily required to furnish return of loss. However, the following losses cannot be carried forward if the return of loss is not submitted within the time allowed u/s 139(1) –

a. Business loss (speculative or otherwise);
b. Capital loss;
c. Loss from the activity of owning and maintaining race horses
d. Loss from business specified u/s 35AD

Notes

a. Loss declared in belated return cannot be carried forward. However, set-off of losses of current year is not prohibited while computing the total income, even if the return of loss is filed after the due date.
b. Delay in filing the return of loss may be condoned in certain cases.
c. Unabsorbed depreciation u/s 32 and loss under the head "Income from house property" can be carried forward even if the loss return is filed after the due date u/s 139(1).
d. Although the loss of the current year cannot be carried forward unless the return of loss is submitted before the due date but the loss of earlier years can be carried forward if the return of loss of that year was submitted within the due date.

(b) Steps to calculate relief u/s 89 against receipt of taxable gratuity, where past services extend over a period of 15 years:

	Particulars
1	Calculate total income and tax liability considering taxable gratuity of the relevant previous year.
2	Calculate total income and tax on total income in respect of each of the 3 previous years immediately preceding the relevant previous year, adding 1/3rd of the taxable gratuity in each of the 3 years.
3	Calculate average rate of tax for each year Average rate of tax (in %) =

	$\frac{\text{Tax, surcharge and education cess after rebate of respective year} \times 100}{\text{Total Income}}$
4	Calculate average of "average rate of tax" of 3 previous years immediately preceding the relevant previous year.
5	Calculate tax on taxable gratuity by applying average rate of tax of the relevant previous year.
6	Calculate tax on taxable gratuity by applying average of average rate of tax (as computed in step 4)
7	Relief u/s 89 = Tax as per Step 5 – Tax as per Step 6

(c) ICDS VIII Securities:

Scope

- This part of the Standard deals with securities held as stock-in-trade. However, this part of the Standard does not deal with:
  a. the bases for recognition of interest and dividends on securities;
  b. securities held by a person engaged in the business of insurance;
  c. securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013
- Securities shall have the meaning assigned to it in sec. 2(h) of the Securities Contracts (Regulation) Act, 1956 and shall include share of a company in which public are not substantially interested but shall not include derivatives.

Recognition and Initial Measurement of Securities

- A security on acquisition shall be recognised at actual cost i.e., its purchase price + acquisition charges such as brokerage, fees, tax, duty or cess.
- Where a security is acquired in exchange for other securities or other asset, the fair value of the security so acquired shall be its actual cost.
  ▲ Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
- Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

Subsequent Measurement of Securities

- At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower.
- The comparison of actual cost initially recognised and net realisable value shall be done category wise (viz., shares; debt securities; convertible securities; and any other securities) and not for each individual security.
- Securities not listed on a recognised stock exchange or listed but not quoted on a recognised stock exchange shall be valued at actual cost initially recognised.

(d) Self-Assessment u/s 140A :

In self-assessment, assessee itself is responsible to determine its taxable income, tax liability and to pay tax accordingly. Provision of sec. 140A is as follows –

a). Where any tax is payable (after deducting relief, rebate, advance payment of tax or tax deducted or collected at source or MAT or AMT credit, if any) on the basis of return furnished the assessee is required to pay such tax before filing the return. Taxpoint: A return furnished without paying self-assessment tax & interest, if any, shall be treated as defective return.

b) If any interest is payable for delayed filing of return (u/s 234A) or default in payment of advance tax (u/s 234B) or for deferment of advance tax (u/s 234C) or fee (u/s 234F) is payable for filing return after due date, then such interest or fee

should be paid along with self-assessment tax.
Note: While calculating above interest for the purpose of self-assessment, tax on the total income declared in the return shall be considered.

c) Where the amount paid by the assessee falls short of the aggregate of tax, interest and fee, the amount so paid shall first be adjusted towards fee and thereafter towards interest payable and the balance, if any, shall be adjusted towards tax payable.
d) After assessment, any amount paid under this section shall be deemed to have been paid towards such assessment.
e) If an assessee fails to pay whole or any part of such tax or interest or both in accordance with the provisions of sec. 140A, he shall be deemed to be an assessee in default.