

## EXAMINATION QUESTIONS

**NOV– 2023**

**Question 2(a)**

**(3 Marks)**

State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

- (i) Hire charges paid outside India for the use of machinery situated in India.
- (ii) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.
- (iii) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
- (iv) Salary paid by the Government to a citizen of India for the services rendered outside India.
- (v) Past period foreign untaxed income brought to India during the previous year.
- (vi) Gift received by a non-resident on the occasion of his wedding in India.

**Solution:**

- (i) Hire charges paid outside India for the use of machinery situated in India. It is accruing/arising in India because source of income is in India.
- (ii) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India. It is income accruing/arising abroad, provided the film is shown outside India.
- (iii) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India. It is accruing/arising in India because source of income is in India.
- (iv) Salary paid by the Government to a citizen of India for the services rendered outside India. It is accruing/arising in India.
- (v) Past period foreign untaxed income brought to India during the previous year. Such income is not taxable, hence not accruing/arising in India.
- (vi) Gift received by a non-resident on the occasion of his wedding in India. It is accruing/arising in India however it is exempt from income tax.

**NOV– 2023**

**Question 2(b)**

**(4 Marks)**

Mr. Sanjay has following incomes during the previous year 2022-23. Compute taxable income of Mr. Sanjay for the assessment year 2023-24 if he is a

- (i) Not Ordinarily resident      (ii) Non resident
- (i) Interest on England Development Bonds (1/3 received in India) ₹ 60,000.
- (ii) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.
- (iii) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹20,000.
- (iv) Income from business in Sri Lanka ₹ 25,000 out of which ₹ 15,000 were received in India. The business is controlled from India.

**Solution:**

	<b>NOR</b>	<b>NR</b>
(i)(a) Income accruing/arising abroad and received abroad ₹40,000	Nil	Nil
(i)(b) Income received in India ₹20,000	20,000	20,000
(ii) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.	5,000	5,000
(iii) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹20,000.	<i>Nil</i>	<i>Nil</i>
(iv)(a) Income accruing/arising abroad and received abroad ₹10,000	10,000	Nil
(iv)(b) Income received in India ₹15,000	15,000	15,000
<b>Taxable Income</b>	<b><i>50,000</i></b>	<b><i>40,000</i></b>

**CORRECTION IN INCOME TAX VOLUME 1 (50<sup>th</sup> Edition) PAGE NO. 153**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Situation 2****Computation of Gross Annual Value**

(a) Fair Rent	1,56,000
(13,000 x 12)	
(b) Municipal Valuation	1,32,000
(11,000 x 12)	
(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent	1,44,000
(12,000 x 12)	
(e) Expected Rent {Lower of (c) or (d)}	1,44,000
(f) Rent Received/Receivable	1,25,000
(12,500 x 10)	

In this case, if there was no vacancy, rent received/receivable would have been ₹12,500 x 12 = ₹1,50,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,25,000
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**Situation 3****Computation of Gross Annual Value**

(a) Fair Rent	1,92,000
(16,000 x 12)	
(b) Municipal Valuation	2,16,000
(18,000 x 12)	
(c) Higher of (a) or (b)	2,16,000
(d) Standard Rent	2,04,000
(17,000 x 12)	
(e) Expected Rent {Lower of (c) or (d)}	2,04,000
(f) Rent Received/Receivable	1,36,000
(17,000 x 8)	

If there was no vacancy, in that case rent received/receivable would have been ₹17,000 x 11 = ₹1,87,000 and It was still less than expected rent, therefore GAV shall be expected rent.

Gross Annual Value	2,04,000
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**Situation 4****Computation of Gross Annual Value**

(a) Fair Rent	1,68,000
(14,000 x 12)	
(b) Municipal Valuation	1,08,000
(9,000 x 12)	
(c) Higher of (a) or (b)	1,68,000
(d) Standard Rent	96,000
(8,000 x 12)	
(e) Expected Rent {Lower of (c) or (d)}	96,000
(f) Rent Received/Receivable	1,68,000
(21,000 x 8)	

In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R

Gross Annual Value	1,68,000
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**Illustration 6:** Mr. X has let out one house property to Mr. Y @ ₹ 80,000 p.m. Fair rent ₹90,000 p.m. Municipal valuation ₹80,000 p.m. and Standard rent of the house ₹76,000 p.m. The house remained vacant for 2 months and there was unrealised rent for 3 months. Mr. X has paid municipal tax of ₹60,000 and interest on loan for construction of house property is ₹69,000. He has income under the head ***Business/Profession*** ₹2,00,000.

Compute his Income and Tax Liability for A.Y.2024-25.

**CORRECTION IN INCOME TAX VOLUME 1 (50<sup>th</sup> Edition) PAGE NO. 154**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Solution:****Computation of income under the head house property**

Gross Annual Value	₹ 9,12,000.00
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Working Note:	₹
(a) Fair Rent (90,000 x 12)	10,80,000
(b) Municipal Valuation (80,000 x 12)	9,60,000
(c) Higher of (a) or (b)	10,80,000
(d) Standard Rent (76,000 x 12)	9,12,000
(e) Expected Rent {Lower of (c) or (d)}	9,12,000
(f) Rent received /receivable (80,000 x 7)	5,60,000
If there was no vacancy, in that case rent received receivable would have been ₹7,20,000 and it was still less than expected rent ,therefore GAV shall be expected rent	
GAV	9,12,000

Less: Municipal Tax	(60,000.00)
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Net Annual Value	8,52,000.00
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Less: 30% of NAV u/s 24(a)	(2,55,600.00)
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Less: Interest on capital borrowed u/s 24(b)	(69,000.00)
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Income under the head House Property	5,27,400.00
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<b>Income under the head Business/Profession</b>	<b>2,00,000.00</b>
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Gross Total Income	7,27,400.00
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Less: Deduction under Chapter VI-A	NIL
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Total Income	7,27,400.00
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**Computation of Tax Liability**

<b>Tax on ₹ 7,27,400 at slab rate</b>	<b>27,740.00</b>
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**Less: Marginal Relief**

**Tax on 7,27,400 = 27,740**

**Tax on 7,00,000 = 25,000 Less Rebate 25,000 = Nil**

**Excess of Tax (27,740 – Nil) = 27,740**

**Less: Excess of income = 27,400**

**Marginal Relief = 27,740 – 27,400 = 340**

**(340.00)**

**Tax before HEC**

**27,400.00**

**Add: HEC @ 4%**

**1,096.00**

**Tax Liability**

**28,496.00**

**Rounded off u/s 288B**

**28,500.00**

**Illustration 7:** Mr. X has let out one house at ₹70,000 per month fair rent ₹80,000 per month municipal valuation ₹60,000 per month, Standard Rent ₹ 65,000 per month. Municipal tax paid ₹40,000, Interest u/s 24 (b) ₹50,000. Assessee has recovered unrealized rent of ₹60,000 plus interest ₹7,000. He has incurred legal expenses ₹12,000 compute his Income and Tax Liability A.Y.2024-25. He has income from STCG u/s 111A ₹5,00,000

**Solution:****Computation of income under the head house property**

Gross Annual Value	₹ 8,40,000.00
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Working Note:	₹
(a) Fair Rent (80,000 x 12)	9,60,000
(b) Municipal Valuation (60,000 x 12)	7,20,000
(c) Higher of (a) or (b)	9,60,000
(d) Standard Rent (65,000 x 12)	7,80,000
(e) Expected Rent {Lower of (c) or (d)}	7,80,000
(f) Rent received /receivable (70,000 x 12)	8,40,000
(g) Higher of (e) or (f) shall be GAV	8,40,000

Less: Municipal Tax	(40,000.00)
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Net Annual Value	8,00,000.00
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**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 155**

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Income under the head House Property	5,52,000.00
<b>Income under the head other sources</b>	
Interest from unrealized rent	7,000.00
<b>Income under the head Capital Gains</b>	
Income from STCG u/s 111A	5,00,000.00
<b>Gross Total Income</b>	<b>10,59,000.00</b>
Less: Deduction under Chapter VI-A	NIL
<b>Total Income</b>	<b>10,59,000.00</b>
<b>Computation of Tax Liability</b>	
Tax on ₹ 5,59,000 at slab rate	12,950.00
Tax on STCG u/s 111A ₹5,00,000 @ 15%	75,000.00
Tax before health and education cess	87,950.00
Add: HEC @ 4%	3,518.00
Tax Liability	91,468.00
Rounded off u/s 288B	91,470.00

**Question 6: Write a note on Statutory Deduction or Standard Deduction.****Answer: Statutory Deduction or Standard Deduction Section 24(a)**

*Under section 24(a)*, every assessee shall be allowed a notional expenditure equal to thirty per cent of the net annual value of the house for the various expenditures incurred by him.

Actual expenditure incurred by the assessee shall not be taken into consideration.

**Example**

Net annual value of one house is ₹3,00,000 and actual expenditure incurred on repairs are ₹75,000, deduction allowed under section 24(a) shall be ₹90,000.

**Question 7: Write a note on deduction for interest on the capital borrowed.****Answer: Interest on borrowed capital is allowed as deduction under section 24(b)**

If any assessee has taken a loan or advance for purchase/ construction / renovation / addition / alteration / substitution or repair etc. of the house property, interest on such loan shall be allowed to be deducted under section 24(b) from NAV and interest is allowed on due basis but only simple interest is allowed i.e. interest on interest is not allowed. The assessee can take any number of loan. Interest for the year for which income is being computed shall be allowed in the same year and shall be called current period interest. Interest for the period prior to the year in which the house was purchased or constructed shall be called prior period interest and such interest shall be allowed in 5 annual equal instalments starting from the year in which the house was purchased or constructed. E.g. If Mr. X had taken a loan of ₹5,00,000 for construction of property on 01.10.2022 and interest is payable @ 10% p.a. and the construction was completed on 30.06.2023, in this case interest allowed under section 24(b) shall be:

Interest for the year (01.04.2023 to 31.03.2024) = 10% of ₹ 5,00,000 = ₹ 50,000

Prior period interest = 10% of ₹ 5,00,000 for 6 months (from 01.10.2022 to 31.03.2023) = ₹ 25,000

Prior period interest to be allowed in 5 equal annual installments of ₹ 5,000 from the year of completion of construction i.e. in this case, P.Y.2023-24.

Therefore, total interest deduction under section 24(b) = 50,000 + 5000 = ₹ 55,000.

If any assessee has taken a new loan to repay the original loan, in such cases interest for such new loan shall be allowed in the similar manner.

**Unpaid purchase price would be considered as capital borrowed:**

Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 170**  
**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

She had taken a loan from Standard Chartered Bank in June, 2021 for purchasing this flat. Interest on loan was as under:

Period prior to 1.4.2023	₹49,200
1.4.2023 to 30.6.2023	₹50,800
1.7.2023 to 31.3.2024	₹1,31,300

Certificate confirming the amount of Interest has been deposited.

She had a house property in Bangalore, which was sold in March, 2019. In respect of this house, she received arrears of rent of ₹60,000 in March, 2024. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2024-25.

**Solution:** Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income. She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties. As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A.

It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction. Accordingly, the income from house property of Mrs. Rohini Ravi will be calculated as under:

**Self - occupied house at Los Angeles**

Gross Annual Value	Nil
<i>Less:</i> Municipal taxes	<u>Nil</u>
Net Annual Value	Nil
<i>Less:</i> Statutory deduction under section 24(a) @ 30% of NAV	Nil
<i>Less:</i> Interest on Housing Loan u/s 24(b)	Nil
Loss from House property	Nil

**Self - occupied property at Chennai**

Gross Annual Value	Nil
<i>Less:</i> Municipal taxes	<u>Nil</u>
Net Annual Value	Nil
<i>Less:</i> Statutory deduction under section 24(a) @ 30% of NAV	Nil
<i>Less:</i> Interest on Housing Loan u/s 24(b)	Nil
Loss from House property	Nil

**Arrears in respect of Bangalore Property (Section 25A)**

Arrears of rent received	60,000.00
<i>Less:</i> Deduction under section 25A @ 30%	<u>(18,000.00)</u>
Income from House property	42,000.00

**Note: Calculation of Interest**

<i>Interest for the current year (50,800+1,31,300)</i>	<i>1,82,100.00</i>
<i>Add: 1/5<sup>th</sup> of Prior period interest (49,200 x 1/5)</i>	<i>9,840.00</i>
<i>Interest deduction allowed u/s 24(b)</i>	<i>1,91,940.00</i>

## **MULTIPLE CHOICE QUESTIONS**

**1. Vacant site lease rent is taxable as**

- (a) Income from house property
- (b) Business income or income from house property, as the case may be
- (c) Income from other sources or business income, as the case may be
- (d) Income from other sources or income from house property, as the case may be

**2. Treatment of unrealized rent for determining income from house property**

- (a) To be deducted from expected rent
- (b) To be deducted from actual rent
- (c) To be deducted under section 24 from annual value
- (d) To be deducted from both expected rent and actual rent

**3. Municipal taxes to be deducted from GAV should be**

- (a) Paid by the tenant during the previous year
- (b) Paid by the owner during the previous year
- (c) Accrued during the previous year
- (d) Paid during the previous year either by tenant or owner

**4. Deduction under section 24(a) is**

- (a) 1/3<sup>rd</sup> of NAV
- (b) repairs actually incurred by the owner
- (c) 30% of NAV
- (d) Interest on borrowed capital

**5. Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is**

- (a) allowed as a deduction in the year of completion of construction
- (b) allowed in 5 equal annual installments from the year of completion of construction
- (c) allowed in the respective year in which the interest accrues
- (d) not allowed

**6. Leena received ₹30,000 as arrears of rent during the P.Y. 2023-24. The amount taxable under section 25A would be -**

- (a) ₹30,000
- (b) ₹21,000
- (c) ₹20,000
- (d) ₹15,000

**7. Vidya received ₹90,000 in May, 2023 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2021-22 for determining annual value. Legal expense incurred in relation to unrealized rent is ₹20,000. The amount taxable under section 25A for A.Y.2024-25 would be -**

- (a) ₹70,000
- (b) ₹63,000
- (c) ₹60,000
- (d) ₹49,000

**8. Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is ₹2,05,000. The amount of allowable deduction in respect of each co-owner is -**

- (a) ₹2,05,000
- (b) ₹1,02,500
- (c) Nil**
- (d) ₹1,00,000

**9. Mr. Zen owns a flat in Mumbai which was let out by him in the previous year 2023 – 24 on a rent of ₹20,000 p.m. upto December, 2023 and for ₹30,000 p.m. thereafter. The annual municipal value is of ₹3,00,000, Fair Rent is ₹2,50,000 and Standard Rent is ₹2,90,000. The Gross Annual Value of the flat shall be taken as:**

- (a) ₹ 2,70,000

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 176**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Problem 6.**

Compute gross annual value in the following cases for the assessment year 2024-25:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	10,000	12,000	13,000	15,000
Municipal Valuation (p.m.)	11,000	10,000	8,000	17,000
Standard Rent (p.m.)	12,000	11,000	7,000	16,000
Rent received/ receivable (p.m.)	7,000	11,500	20,000	16,000
Vacancy	-	2 months	1 month	3 month
Unrealised rent	1 month	-	3 month	1 month

**Answer** = Gross Annual Value: Situation 1: ₹1,32,000; Situation 2: ₹1,15,000; Situation 3: ₹1,60,000; Situation 4: ₹1,92,000

**Problem 7.**

Mr. X has let out one house property @ ₹70,000 per month and there is unrealised Rent of 2 months and there is vacancy of 3 month. Fair rent ₹60,000 per month, municipal valuation ₹55,000 per month and standard rent ₹80,000 per month. Municipal tax paid ₹62,000. Interest on loan for construction of the house property is ₹75,000. The assessee has unrealised Rent of ₹2,00,000 in P.Y. 2021-22 and he has recovered ₹1,50,000 in P.Y. 2023-24 and interest of ₹18,000 and he has incurred ₹11,000 as legal expense. He has income from LTCG u/s 112 ₹4,00,000 and STCG u/s 111A ₹1,00,000.

Compute his tax liability for assessment year 2024-25.

**Answer:** Tax Liability: ₹1,09,650

**Problem 8.**

Mr. X (non-resident) has one house with fair rent ₹20,000 p.m., municipal valuation ₹10,000 p.m., standard rent ₹18,000 p.m. It was let out for ₹12,000 p.m. but it remains vacant for 1½ months and there was unrealised rent for 2 months. Municipal taxes paid are ₹11,000 and interest on capital borrowed for construction of the house is ₹3,00,000.

Mr. X has income under the head other sources ₹7,00,000.

Compute his total income and tax liability for the assessment year 2024-25.

**Answer** = Total Income: ₹7,00,000; Tax Liability: **₹26,000**

**Problem 9.**

Mrs. X has taken a loan of ₹ 11,00,000 on 01.07.2017 at a rate of 10% per annum from SBI for construction of one house which was completed on 31.03.2019 and the house was let out at a rate of ₹80,000 per month w.e.f. 01.11.2022 and fair rent is ₹1,00,000 per month. Municipal taxes paid in previous year 2023-2024 ₹30,000. She has taken a fresh loan of ₹11,00,000 on 01.07.2022 @ 11% per annum and it was utilized to repay the original amount. She has income from Causal income ₹8,00,000.

Compute her income tax liability for assessment year 2024-25.

**Answer:** Income Tax Liability: ₹2,75,390

**Problem 10.**

Mr. X took a loan of ₹ 6,10,500 @ 7% p.a. on 01.09.2020 from his friend for construction of one house which was completed on 01.06.2023 and it was let out @ ₹9,000 p.m. It remained vacant for 1½ month and there is unrealised rent of ₹1,000. The fair rent of house is ₹10,000 p.m. Assessee has repaid half of the loan amount on 01.07.2022 and remaining amount on 01.02.2024. He has also paid municipal tax of ₹3,000. His income under the head salary ₹8,65,000.

Compute his total income and tax liability for the assessment year 2024-25.

**Answer** = Total Income: ₹8,96,220; Tax Liability: ₹46,410

**Problem 11.**

Mr. X has taken a loan on 01.07.2020 from SBI @ 11% p.a. of ₹15,00,000 for construction of one house which was completed on 01.11.2022 and was self occupied and municipal taxes paid in previous year

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 177****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

2023-24 ₹32,000. He has given repayment of loan of ₹70,000 on 01.01.2024. He has submitted a certificate confirming the amount of interest.

He has income under the head Salary ₹10,50,000

Compute income tax liability for assessment year 2024-25.

**Answer:** Tax Liability: ₹70,200

**Problem 12.**

Mrs. X has taken a loan on 01.11.2019 from PNB @ 10% p.a. of ₹10,00,000 for purchase of one house which was purchased on 01.01.2020 and was self occupied and municipal taxes paid in previous year 2023-2024 ₹30,000. She has repaid the loan amount in annual installments of ₹50,000 starting from 01.01.2021. The house was vacant for 1 month in previous year 2023-24. She has submitted a certificate confirming the amount of interest.

She has short term capital gains under section 111A ₹10,00,000.

Compute Income Tax Liability for assessment year 2024-25.

**Answer:** Tax Liability: ₹1,09,200

**Problem 13.**

Mr. X has taken a loan of ₹15,00,000 from State Bank on 01.07.2021 @ 10% p.a. and the residential house was completed on 01.05.2023 and was let out w.e.f. 01.06.2023 @ 80,000 p.m. and fair rent of the house is ₹90,000 p.m.

He repaid half of the loan amount on 01.01.2024. He has income under the head Business/Profession ₹6,00,000.

Compute his Income Tax Liability for assessment year 2024-25.

**Answer = Total Income: ₹11,09,250; Tax Liability: ₹79,440**

**Problem 14.**

Mr. X has taken a loan of ₹11,00,000 on 01.07.2020 @ 10% p.a. from his friend for construction of one house which was completed on 01.09.2022 and the house is self occupied during the previous year 2023-24 and Mr. X has paid municipal tax of ₹12,000.

The assessee has submitted a certificate confirming the amount of interest. Mr. X has short term capital gains under section 111A ₹120 lakhs.

Compute his income and Tax Liability for the assessment year 2024-25.

**Answer:** Total Income: ₹ 120,00,000; Tax Liability: ₹20,98,980

**Problem 15.**

Mr. X has 2 houses. First is self occupied with fair rent ₹20,000 p.a., municipal valuation is ₹55,000 p.a.. Fair rent as per Rent Control Act is ₹50,000 p.a.. However the house remains vacant for 2 months Architect has issued completion certificate on 01.07.2021. Mr. X has taken loan for addition to house ₹3,50,000 on 01.04.2023 @ 13% p.a. The loan was repaid on 01.03.2024 and assessee has submitted a certificate from the person from whom he has taken the loan certifying that the amount of interest claimed by Mr. X is correct. In the earlier years, the house was let out and the assessee has recovered unrealised rent of ₹2,000 in the previous year 2023-24. The assessee has also incurred legal expenses of ₹350.

The second house is also self-occupied. However its similar building rent is ₹64,000 p.a. and rent determined by municipality for charging house tax is ₹66,000 p.a. Its standard rent is ₹6,000 p.m. municipal tax payable are ₹5,000.

He has long term capital gains ₹20,00,000.

Compute his income tax liability for Assessment Year 2024-25.

**Answer = Income Tax Liability: ₹3,53,890**

**Problem 16.**

Mr. X has let out one house @ ₹45,000 p.m., but this house was vacated on 01.11.2023. The house was self occupied w.e.f. 01.01.2024. Fair rent of this house is ₹50,000 p.m., municipal valuation is ₹47,000 p.m. and standard rent is ₹48,000 p.m. The assessee has paid municipal taxes @ 10% of municipal valuation. Interest



**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 179****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

Y has availed a housing loan of ₹15 lakhs @ 10% p.a. on 01.07.2022 and has also submitted a certificate from the lender certifying the amount of interest.

***Following are the other information:***

		₹
(i) Fair rental value of each unit (Ground floor / first floor)		1,20,000 Per annum
(ii) Municipal value of each unit (Ground floor / first floor)		92,000 Per annum
(iii) Municipal taxes paid by	X	- 10,000
	Y	- 10,000
(iv) Repair and maintenance charges paid by	X	- 30,000
	Y	- 32,000

No repayment was made by either of them till 31.03.2024. Compute income from house property for Mr. X and Mr. Y for the previous year 2023-24 (assessment year 2024-25).

**Answer** = Mr. X: Nil; Mr. Y: ₹ (5,750)

**Problem 21.**

Mrs. X is the owner of a house property. She borrowed ₹60,000 from life insurance corporation of India on 1<sup>st</sup> September 2016 @ 15% p.a. for the construction of this house. The construction was completed on 31.03.2019. Since then the house is under her self-occupation. On 1<sup>st</sup> June 2023 the house was let out @ ₹3,000 p.m. The tenant vacated the house on 1<sup>st</sup> August 2023. She occupied the house for self-occupancy. The house is again let out @ ₹3,500 p.m. from 1<sup>st</sup> October 2023.

Other particulars of the house for the previous year 2023-24.

	₹
Municipal Valuation	22,000 p.a.
Municipal taxes disputed, hence not paid	2,200 p.a.
Ground rent for the previous year 2023-24 outstanding	3,200
Insurance premium paid	1,200
Refund of first loan instalment to LIC on 01.10.2023	15,000

Compute the income from house property for assessment year 2024-25.

**Answer** = Income under the head House Property: ₹11,025

**Problem 22.**

Mr. X owns a residential house property. It has two identical units—unit I and unit II. Unit I is self-occupied by Mr. X and his family members, unit II is let out (rent being ₹10,500 per month, this unit remained vacant for one month during which it was self-occupied). Municipal value of the property is ₹1,30,000. Standard rent is ₹1,40,000 and fair rent is ₹1,53,000. Municipal taxes is imposed @ 12% (on municipal value) which is paid by Mr. X. Other expenses for the previous year 2023-24 being repairs ₹5,100 and insurance ₹6,300.

Mr. X borrowed ₹9,00,000 on 01.07.2020 from LIC @ 12% p.a. to construct the property. Construction of the house was completed on 30.06.2022. The entire loan is still unpaid.

Compute the total income and tax liability of Mr. X for the assessment year 2024-25 on the assumption that income of Mr. X from other sources is **₹8,90,000**.

**Answer** = Total Income: ₹8,92,490; Tax Liability: ₹46,020

**Problem 23.**

Mr. X has a house property situated in Mumbai which has two units. Unit I has a floor area of 70% whereas the unit II has a floor area of 30%. Both the units were self-occupied by the assessee. As the assessee was allowed a rent free accommodation by his employer w.e.f. 01.04.2023, he vacated both of the units and let out unit I at a rent of ₹13,000 p.m. and unit II for ₹5,000 p.m. unit I remained vacant for 1½ months whereas unit II was vacant for one month. Other particulars of the house property are asunder:

	₹
Municipal Valuation	1,55,000
Fair Rent	1,75,000
Standard Rent	1,65,000
Municipal taxes paid	35,000
Ground rent due	15,000

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 190**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Solution 8:**

₹

Gross Annual Value

2,16,000.00

**Working Note:**

₹

(a) Fair Rent (20,000 x 12)	2,40,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (18,000 x 12)	2,16,000
(e) Expected Rent {Lower of (c) or (d)}	2,16,000
(f) Rent Receivable = (12,000 x 8.5)	1,02,000

If there was no vacancy, in that case rent received/receivable would have been ₹1,20,000 and it was still less than expected rent, therefore GAV shall be expected rent.

GAV	2,16,000
-----	----------

Less: Municipal Tax

(11,000.00)

Net Annual Value

2,05,000.00

Less: 30% of NAV u/s 24(a)

(61,500.00)

Less: Interest on capital borrowed u/s 24(b)

(3,00,000.00)

Loss under the head House Property

(1,56,500.00)

***Income under the head Other Sources******7,00,000.00******Gross Total Income******7,00,000.00******Less: Deduction under Chapter VI-A******Nil******Total Income******7,00,000.00*****Computation of Tax Liability*****Tax on ₹7,00,000 at slab rate******25,000.00******Add: HEC @ 4%******1,000.00******Tax Liability******26,000.00******Loss under the head House Property to be carried forward******(1,56,500.00)*****Solution 9:**

₹

**Income under the head House Property**

Gross annual value

12,00,000.00

**Working Note:**

₹

Fair rent (1,00,000 x 12)	12,00,000
Rent received (80,000 x 12)	9,60,000
Higher shall be the GAV i.e.	12,00,000

Less: Municipal taxes paid

(30,000.00)

Net Annual Value

11,70,000.00

Less: 30% of NAV u/s 24(a)

(3,51,000.00)

Less: Interest on capital borrowed u/s 24(b)

(1,21,000.00)

**Working Note:**

Prior period interest

Nil

Current year interest 11,00,000 x 11% = 1,21,000

Income under the head House Property

6,98,000.00

Income under the head Other Sources (Casual income)

8,00,000.00

Gross Total Income

14,98,000.00

Less: Deduction under Chapter VI-A

Nil

Total Income

14,98,000.00

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 193**

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Gross Total Income	120,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	120,00,000.00
<b>Computation of Tax Liability</b>	
Tax on ₹117,00,000 (₹120,00,000 – 3,00,000) @ 15%	17,55,000.00
Add: Surcharge @ 15%	2,63,250.00
Tax before health & education cess	20,18,250.00
Add: HEC @ 4%	80,730.00
Tax liability	20,98,980.00

**Solution 15:**

₹

As per the amendments now two house shall be treated as self-occupied.

**House I & II is self-occupied**

Income from house I & II	Nil
Income under the head House Property	Nil
Add: Unrealised rent received (2,000 – 600)	1,400.00
Income under the head House Property	1,400.00
Income under the head Capital Gains (LTCG)	20,00,000.00
Gross Total Income	20,01,400.00
Less: Deduction under Chapter VI-A	Nil
Total Income	20,01,400.00

**Computation of Tax Liability****Normal Income ₹1,400****Nil****Tax on LTCG ₹17,01,400 (₹20,00,000 – ₹2,98,600) @ 20%****3,40,280.00**

Add: HEC @ 4%

13,611.20

Tax Liability

3,53,891.20

Rounded off u/s 288B

3,53,890.00

**Solution 16:**

₹

Gross Annual Value

5,76,000.00

**Working Note:**

₹

(a) Fair Rent (50,000 x 12)	6,00,000
(b) Municipal Valuation (47,000 x 12)	5,64,000
(c) Higher of (a) or (b)	6,00,000
(d) Standard Rent (48,000 x 12)	5,76,000
(e) Expected rent {Lower of (c) or (d)}	5,76,000
(f) Rent Receivable (45,000 x 7)	3,15,000
If there was no vacancy, in that case rent received/receivable would have been ₹4,05,000 and it was still less than expected rent, therefore GAV shall be expected rent	
GAV	5,76,000

Less: Municipal Tax

(56,400.00)

Net Annual Value

5,19,600.00

Less: 30% of NAV u/s 24(a)

(1,55,880.00)

Less: Interest on capital borrowed u/s 24(b)

(42,000.00)

Income under the head House Property

3,21,720.00

Income under the head Capital Gains (LTCG u/s 112)

7,50,000.00

Gross Total Income

10,71,720.00

Less: Deduction under Chapter VI-A

Nil

Total Income

10,71,720.00

**Computation of Tax Liability**

Tax on ₹3,21,720 at slab rate

1,086.00

Tax on LTCG u/s 112 ₹7,50,000 @ 20%

1,50,000.00

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 201****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

Municipal taxes of ₹4,00,000 for the financial year 2023-24 (10% rebate is obtained for payment before due date.) Arrears of municipal tax of financial year 2022-23 paid during the year of ₹1,40,000 which includes interest on arrears of ₹25,000.

Lift maintenance expenses of ₹2,40,000 which includes a payment of **₹9,000** which made in cash.

Salary of ₹88,000 paid to staff for collecting house rent and other charges. .

Compute the total income of Mr. Ravi for the assessment year 2024-25.

**Answer**

**Computation of total income of Mr. Ravi for A.Y. 2024-25**

Gross Annual Value		29,40,000
(a) Fair Rent	₹ 30,00,000	
(b) Municipal Value	₹ 27,00,000	
(c) Higher of (a) or (b)	₹ 30,00,000	
(d) Standard Rent	₹ 29,80,000	
(e) Expected Rent {Lower of (c) or (d)}	₹ 29,80,000	
(f) Rent Received/Receivable	₹ 29,40,000	
	[30,00,000 - (₹ 2,40,000 x 4/12 x 3/4)]	
In this case, if there was no vacancy, rent received/receivable would have been ₹30,00,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be rent received/receivable		
Less: Municipal Taxes		(4,75,000)
	[₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000	
	[₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000	
Net Annual Value		24,65,000
Less: 30% of NAV u/s 24(a)		(7,39,500)
Less: Interest on capital borrowed u/s 24(b)		Nil
Income under the head House Property		17,25,500
<b>Income from Other Sources</b>		
Rent for amenities		10,00,000
Less: Loss due to vacancy [₹ 2,40,000 x 4/12 x ¼]		(20,000)
Less: Lift maintenance expenses		(2,40,000)
Less: Salary to staff [₹ 88,000 x 1/4, being the proportion pertaining to amenities]		(22,000)
Income under the head Other Sources		7,18,000
Gross Total Income		24,43,500
Less: Deduction under Chapter VI-A		Nil
Total Income		24,43,500

**JULY – 2021****Question 3(a)****(6 Marks)**

Mr. Ramesh constructed a big house (construction completed in Previous Year 2018-2019) with 3 independent units.

Unit-1 (50% of floor area) is let out for residential purpose at monthly rent of ₹15,000. A sum of 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant and also a suit was filed for recovery of rent. No other property of Mr. Ramesh is occupied by the tenant. Unit- 1 remains vacant for 2 months when it is not put to any use.

Unit – 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business.

Unit – 3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows: Municipal valuation - ₹ 1,88,000, fair rent - ₹2,48,000, Standard rent under the Rent Control Act - ₹ 2,28,000, Standard rent under the Rent Control Act - ₹2,28,000, Municipal taxes paid - ₹ 20,000, repairs - ₹ 5,000, Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent – 6,000 and fire the insurance premium paid - ₹60,000.

# DEDUCTION FROM GROSS TOTAL INCOME

## CHAPTER VI-A

### SECTION 80C TO 80U

Under **optional** regime all the deductions are allowed but under **default** regime u/s 115BAC, only three deductions shall be allowed under Chapter VI-A.

1. Section 80JJAA
2. Section 80CCD(2)
3. Section 80CCH(2)

#### **Optional regime**

Deductions under section 80C to 80U are allowed from gross total income to compute total income however such deduction is allowed only from normal income.

- ❖ As per section 112, such deductions are not allowed from long term capital gains.
- ❖ As per section 58(4), such deductions are not allowed from casual income.
- ❖ As per section 111A, such deduction are not allowed from short term capital gains on the sale of short term equity shares or short term units of equity oriented mutual funds provided securities transaction tax has been paid.
- ❖ As per section 112A, such deduction are not allowed from long term capital gains on the sale of long term equity shares or long term units of equity oriented mutual funds provided securities transaction tax has been paid.

#### **Example**

Mr. X has income under the head salary ₹75,000, income from long term capital gains ₹2,10,000 and casual income ₹35,000, in this case maximum amount of deductions allowed shall be ₹75,000.

#### **Section 80C**

Deduction under section 80C shall be allowed only to (i) an individual (ii) Hindu Undivided Family to the extent of the investment given below:

1. **Investment in NSC:** Deduction shall be allowed if amount has been invested in **National Saving Certificate (NSC)** and NSC are just like a fixed deposit with a bank. Amount can be invested in the name of self, spouse or minor children and HUF can invest the amount in the name of any of its members. Deduction shall be allowed equal to the amount invested and amount received on maturity shall be exempt from income tax but interest shall be taxable every year on accrual basis but payment of interest shall be received on maturity. Deduction under section 80C shall also be allowed for such accrued interest but no deduction shall be allowed for accrued interest of the year in which assessee has received payment. NSC are issued for 5 years.

#### **Example**

Mr. X has income under the head House Property ₹10 lakh and he invested ₹50,000 in NSC on 01.10.2023. He has invested ₹40,000 in previous year 2022-23 also and there is accrued interest of ₹4,000 in previous year 2023-24. He has also received ₹1,00,000 on maturity of NSC which were invested in the earlier year and original amount is ₹60,000 and interest for current year is ₹8,000, in this case his tax liability shall be

Income under the head House Property	10,00,000
Income under the head Other Sources (4,000+ 8,000)	12,000
Gross Total Income	10,12,000
Less: Deduction u/s 80C	
Investment in current year	50,000
Accrued interest	4,000
	(54,000)

**CORRECTION IN INCOME TAX VOLUME 1 (50<sup>th</sup> Edition) PAGE NO. 261**

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Income under the head house property	3,00,000
<b>Gross Total Income</b>	<b>6,40,000</b>
Less: Deductions under Chapter VI-A	Nil
<b>Total Income</b>	<b>6,40,000</b>
Agricultural income (1,80,000 – 1,20,000) =	60,000
<b>Computation of tax liability</b>	
<b>Step 1:</b> Tax on (₹6,40,000 + ₹ 60,000 = ₹ 7,00,000)	25,000
<b>Step 2:</b> Tax on (₹ 3,00,000 + ₹ 60,000) = ₹ 3,60,000)	(3,000)
<b>Step 3:</b> ₹ 25,000 – ₹ 3,000	22,000
Tax before health & education cess	22,000
<b>Less: Rebate u/s 87A</b>	<b>(22,000)</b>
<b>ADD: HEC @ 4%</b>	<b>880</b>
<b>Tax Liability</b>	<b>22,880 Nil</b>

**Illustration 3:** Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹14 lacs and the market value of the same is ₹22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Mr. X's business income and agricultural income.

**Solution:**

Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales – Market value of 70% of sugarcane produce – Manufacturing expenses  
= ₹25 lacs – ₹22 lacs - ₹1.5 lacs = ₹1.5 lacs.

Agricultural income = Market value of sugarcane produce – Cost of cultivation  
= [₹10 lacs + ₹22 lacs] – [₹5 lacs + ₹14 lacs]  
= ₹32 lacs – ₹19 lacs  
= ₹13 lacs.

**Illustration 4:** Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹30 lacs. The cost of growing rubber plants is ₹10 lacs and that of manufacturing rubber is ₹8 lacs. Compute his total income.

**Solution:**

The total income of Mr. X comprises of agricultural income and business income.

Total profits from the sale of rubber = ₹30 lacs – ₹10 lacs – ₹8 lacs = ₹12 lacs.

Agricultural income = 65% of ₹12 lacs. = ₹7.8 lacs

Business income = 35% of ₹12 lacs. = ₹4.2 lacs

**Illustration 5:** Mr. X has estates in rubber, tea and coffee. He derives income from them. He has a nursery wherein he grows and sells the plants. For the previous year ending 31.03.2024, he furnishes the following particulars of his income from estates and sale of plants. You are requested to compute the taxable income and tax liability for the assessment year 2024-25:

	₹
(i) Growing and manufacturing of rubber	5,00,000
(ii) Sale of coffee grown and cured	3,50,000
(iii) Growing and manufacturing of tea	7,00,000
(iv) Sale of plants from nursery	1,00,000

He has long term capital gain on the sale of agricultural land in Delhi ₹3,13,500. He has received rent of ₹9,000 p.m. by letting out one farm house near Delhi and he has incurred ₹20,000 on the repairs of the farm house. He has not paid municipal taxes for the last ten years in connection with farm house and MCD has issued him a notice for selling of farm house, hence he has paid municipal tax of ₹90,000.

**Solution:**

	Agricultural Income	Business Income
(a) Income from growing and manufacturing of Rubber {Rule 7A} [Agricultural income 65% and business income 35%]	3,25,000	1,75,000
(b) Income from Coffee grown and cured {Rule 7B}		

## PRACTICE PROBLEMS

### TOTAL PROBLEMS 6

#### **Problem 1.**

Mr. X (non-resident, aged 68 years) has incomes as given below:

- (i) Income under the head Salary ₹3,00,000
- (ii) Income under the head House Property ₹1,20,000
- (iii) Income from long term capital gains ₹50,000
- (iv) Casual income ₹30,000
- (v) Agricultural income ₹60,000
- (vi) Deductions under chapter VI-A ₹1,40,000
- (vii) He has invested ₹40,000 in Kisan Vikas Patra, ₹20,000 in equity shares of infrastructure development companies.

Compute his total income and tax liability for the assessment year 2024-25.

**Answer:** Total Income: ₹5,00,000; Tax Liability: ₹26,000

#### **Problem 2.**

Mrs. X (aged 58 years) has income and losses as given below:

- (i) Income from growing and manufacturing of Rubber ₹3,00,000
- (ii) Income from growing and curing coffee ₹2,00,000
- (iii) Income under the head Salary ₹2,40,000
- (iv) Income under the head House Property ₹1,00,000
- (v) Income from short term capital gains ₹40,000
- (vi) Income from long term capital gains ₹50,000
- (vii) Casual income ₹60,000

Compute her total income and tax liability for the assessment year 2024-25.

**Answer:** Total Income: ₹6,45,000; Tax Liability: ₹27,560

#### **Problem 3.**

Mrs. X (resident but not ordinarily resident) have incomes as given below:

- (i) Income from growing and manufacturing of Tea in India ₹10,00,000
- (ii) Income from house property situated outside India ₹3,50,000, received outside India.
- (iii) Income from agriculture in Nepal ₹1,50,000, received in India
- (iv) Income from business in Paris and received in Paris ₹ 1,00,000

Compute her total income and tax liability for the assessment year 2024-25.

**Answer:** Total Income: ₹5,50,000; Tax Liability: **₹13,000**

#### **Problem 4.**

Mr. X (resident but not ordinarily resident) have incomes and losses as given below:

- (i) Income from house I in India ₹80,000
- (ii) Income from house II in India ₹1,00,000
- (iii) Carried forward loss assessment year 2012-13 from house III in India ₹50,000
- (iv) Income under the head Business/Profession in India ₹2,20,000
- (v) Royalty received in the UK for use of formula in U.K. ₹30,000
- (vi) Long term capital gains in India ₹1,00,000
- (vii) Income from agriculture in Indonesia but received in India and subsequently invested it in Indonesia ₹50,000
- (viii) Income from agriculture in India ₹2,00,000

Compute his total income and tax liability for the assessment year 2024-25.

**Answer:** Total Income: ₹5,50,000; Tax Liability: ₹5,200

#### **Problem 5.**

A partnership firm XY has agricultural income ₹2,00,000, income under the head business/profession ₹1,00,000 and long term capital gains ₹10,000.

Compute its tax liability for the assessment year 2024-25.

**CORRECTION IN INCOME TAX VOLUME 1 (50<sup>th</sup> Edition) PAGE NO. 269**

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Normal income ₹5,35,000	
Tax on (5,35,000 + 3,45,000) at slab rate	43,000
Tax on (3,00,000 + 3,45,000) at slab rate	(19,500)
Tax on normal income (43,000 – 19,500)	23,500
Tax before Rebate u/s 87A	51,500
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	26,500
Add: HEC @ 4%	1,060
Tax Liability	27,560

**Solution 3:**

	<b>Agricultural Income</b>	<b>Business Income</b>
Income from growing and manufacturing of Tea {Rule 8}		
Agricultural income 60% and business income 40%	6,00,000	4,00,000
Total	6,00,000	4,00,000

₹

Income under the head business/Profession	4,00,000
Income from agriculture in Nepal but received in India	1,50,000
Income under the head Other Sources	1,50,000
Gross Total Income	5,50,000
Less: Deductions under Chapter VI-A	Nil
Total Income	5,50,000
Agricultural income	6,00,000

**Computation of Tax Liability**

Tax on (5,50,000 + 6,00,000) at slab rate	82,500
Tax on (3,00,000 + 6,00,000) at slab rate	(45,000)
Tax on normal income (82,500 – 45,000)	37,500
<b>Less: Rebate u/s 87A</b>	<b>(25,000)</b>
<b>Tax before Education and Health cess</b>	<b>12,500</b>
<b>Add: HEC @ 4%</b>	<b>500</b>
<b>Tax Liability</b>	<b>13,000</b>

**Solution 4:**

₹

Income from House I	80,000
Income from House II	1,00,000
Income under the head House Property	1,80,000
Income under the head Business/Profession	2,20,000
Income under the head Capital Gains (LTCG)	1,00,000
Income under the head Other Sources	
{Income from agriculture in Indonesia, received in India}	50,000
Gross Total Income	5,50,000
Less: Deduction under Chapter VI-A	Nil
Total Income	5,50,000
Agricultural Income	2,00,000

**Computation of Tax Liability**

Tax on Long term capital gain ₹1,00,000 @ 20% u/s 112	20,000
Normal income ₹4,50,000	
Tax on (₹4,50,000 + ₹2,00,000) at slab rate	20,000
Tax on (₹3,00,000 + ₹2,00,000) at slab rate	(10,000)
Tax on normal income (20,000 – 10,000)	10,000
Tax before Rebate u/s 87A	30,000
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	5,000
Add: HEC @ 4%	200
Tax Liability	5,200



**CORRECTION IN INCOME TAX VOLUME 1 (50<sup>th</sup> Edition) PAGE NO. 272**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

**Solution:**

**Computation of Income**

Sources	Agricultural Income	Business Income	Other Sources
(i) Income from growing and manufacturing of Rubber {Rule 7A} Agricultural income 65% and business income 35%	65,000	35,000	-
(ii) Income from Coffee grown and cured {Rule 7B} Agricultural income 75% and business income 25%	1,50,000	50,000	
(iii) Income from Coffee grown and cured outside India		1,25,000	3,75,000
(iv) Income from growing and manufacturing of Tea {Rule 8} Agricultural income 60% and business income 40%	6,00,000	4,00,000	
(v) Income from sapling and seedling grown in a nursery at Cochin	2,00,000	-	-
<b>Total</b>	<b>10,15,000</b>	<b>6,10,000</b>	<b>3,75,000</b>

**MAY – 2018 (New Course)**

**Question 5(b)**

**(7 Marks)**

Mr. Avani, a resident aged 25 years, manufactures tea from the tea plants grown by him in India. These are then sold in the Indian market for ₹40 lakhs. The cost of growing tea plants was ₹15 lakhs and the cost of manufacturing tea leaves was ₹10 lakhs.

Compute her tax liability for the Assessment year 2024-25.

**Solution:**

As per Rule 8, If any person is engaged in growing and manufacturing of tea, income shall be computed combined for agriculture as well as business and 40% of such income shall be business income and balance shall be agricultural Income. Combined income shall be as given below:

Sales – Cost of growing tea plants – cost of manufacturing tea leaves = ₹40 lacs – ₹15 lacs – ₹10 lacs = ₹15 lacs.

Business Income = 15,00,000 x 40% = 6,00,000

Agriculture Income = 15,00,000 x 60% = 9,00,000

**Computation of Tax Liability**

Tax on (6,00,000 + 9,00,000) at slab rate	₹ 1,50,000
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Tax on (3,00,000 + 9,00,000) at slab rate	(90,000)
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Tax on normal income (1,50,000 – 90,000)	60,000
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<b>Less: Rebate u/s 87A</b>	<b>(25,000)</b>
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<b>Tax before health &amp; education cess</b>	<b>35,000</b>
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<b>Add: HEC @ 4%</b>	<b>1,400</b>
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<b>Tax Liability</b>	<b>36,400</b>
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**MAY – 2017**

**Question 2(a) (ii)**

**(4 Marks)**

Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting and amounts received from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee can be regarded as agricultural income, as per the provisions of the provisions of the Income tax Act, 1961.

**Answer:**

**Rent received from letting out agricultural land for a movie shooting:** As per section 2(1A) Agricultural income means, any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. Hence, Rent received from letting out agricultural land for a movie shooting is not Agricultural income

**CORRECTION IN INCOME TAX VOLUME 1 (50<sup>th</sup> Edition) PAGE NO. 275****(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)**

Payment of government tax on agricultural lands	6,000
Expenses on power, irrigation cess and farm labour	10,000
Purchase of seeds	1,000
Tractor hire charges (for agricultural operations)	2,500

**Answer:****Computation of income from agriculture**

Salary from firm growing and manufacturing tea	24,000
40,000 x 60% (as per decision in R.M. Chidambaram Pillai v CIT)	
Sale of agricultural produce	1,75,000
Less : Government tax	(6,000)
Power, Irrigation cess etc.	(10,000)
Purchase of seeds	(1,000)
Tractor hire charges	(2,500)
<b>Agricultural income</b>	<b>1,79,500</b>

**Computation of Non agricultural income :**

Income from Business:

Cycle hire charges	2,40,000
Salary from firm (non –agricultural part – 40,000 x 40%)	16,000
Other sources:	
Dividends from Plantation company –	6,000
Interest on fixed deposit with companies:	18,000
<b>Non-Agricultural Income</b>	<b>2,80,000</b>

***Since total income is less than exemption limit, tax liability is nil.******Computation of Tax Liability***

<del><i>Tax on (2,80,000 + 1,79,500) at slab rate</i></del>	<del><i>10,475</i></del>
<del><i>Tax on (2,50,000 + 1,79,500) at slab rate</i></del>	<del><i>(8,975)</i></del>
<del><i>Tax liability (10,475 – 8,975)</i></del>	<del><i>1,500</i></del>
<del><i>Less: Rebate u/s 87A</i></del>	<del><i>(1,500)</i></del>
<del><i>Tax Liability</i></del>	<del><i>Nil</i></del>

## EXAMINATION QUESTIONS

**MAY – 2023**

**Question 4(a).****(6 Marks)**

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- (i) Mr. Chaman's salary income (computed) - ₹ 11,00,000
- (ii) Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 2,00,000
- (v) Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2023-24. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2023-24.
- (vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2024-25 in default regime.

**Solution:**

**Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2024-25**

<b>Particulars</b>	<b>Mr. Chaman</b>	<b>Mrs. Chaman</b>	<b>Naina, minor daughter</b>	<b>Neelabh, minor son</b>
	₹	₹	₹	₹
<b>Income under the head "Salaries"</b> Salaries (computed)	11,00,000			
<b>Profits and gains from business or profession</b> Income from Kathak performances		2,50,000		
<b>Capital Gains</b> Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss		(2,00,000)		
Income [before considering income of minor son and minor daughter]	<b>11,00,000</b>	<b>6,00,000</b>		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent.			3,56,000	
However, interest of ₹ 15,000 on saving bank account is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife	15,000			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
<b>Gross Total Income / Total Income</b>	<b>11,15,000</b>	<b>6,00,000</b>	<b>3,56,000</b>	<b>35,000</b>

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 301**

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

- 3,00,000 + 2,00,000 = 5,00,000

Deemed Dividend u/s 2(22)(a) shall be as follows-

<b>Market Value</b>	<b>Deemed Dividend</b>
5,00,000	5,00,000
7,00,000	5,00,000

**(ii) Issue of bonus shares etc. Section 2(22)(b)**

If any company has issued bonus shares to the equity shareholders, it will not be considered to be dividend but if the bonus shares have been issued to the preference shareholders, it will be considered to be dividend but to the extent of accumulated profits whether capitalised or not. Further, market value of the bonus shares shall be taken into consideration.

***Example***

Mr. X is holding 100 preference share in ABC Ltd. The company has issued him 100 bonus shares and their market value is ₹1,200. In this case, it will be considered to be dividend but only to the extent of accumulated profits whether capitalized or not.

**(iii) Distribution on liquidation Section 2(22)(c)**

If any company has distributed any amount to its shareholders in connection with its liquidation, it will be considered to be dividend but only to the extent of accumulated profits and any excess over it shall be considered to be full value of consideration as per section 46 and capital gains shall be computed accordingly.

***Example***

ABC Ltd. has 1,00,000 equity shares of ₹10 each and the company goes into liquidation on 31.07.2023 and company has net distributable amount of ₹60 lakhs after discharging all the liabilities including income tax and it includes accumulated profits of ₹20 lakhs and the entire amount was distributed among the shareholders and Mr. X is holding 10,000 equity shares which were purchased by him on **01.03.2023** for ₹1,10,000, in this case, tax treatment shall be as given below:

Net Distributable Amount	₹ 60,00,000
Share of Mr. X (10%)	6,00,000
Share of Mr. X out of accumulated profits which is considered dividend u/s 2(22)(c)	(2,00,000)
Balance to be considered full value of consideration	4,00,000
Less: Cost of acquisition of shares	(1,10,000)
Short term Capital Gain	2,90,000
Dividend u/s 2(22)(c)	2,00,000
Tax liability on ₹ 4,90,000 at slab rate	9,500
Less: Rebate u/s 87A	(9,500)
Tax Liability	Nil

**(iv) Distribution on reduction of share capital Section 2(22)(d)**

Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits e.g. Mr. X is holding 100 shares in ABC Ltd. of ₹10 each and company has paid ₹5 per share in connection with reduction of share capital, in this case amount so received shall be considered to be dividend but only to the extent of accumulated profits including capitalized profits.

***Example***

Mr. X is holding 1000 shares of ABC Ltd. of ₹10 each and company has reduced its share capital and has refunded ₹5 per share to the shareholders, the amount so received by the shareholders shall be considered to be dividend to the extent of accumulated profit.

ABC Ltd. has share capital 50,00,000 and Reserve and Surplus ₹ 10,00,000 and company has distributed ₹15,00,000 in connection with reduction of share capital, in this case dividend under section 2(22)(d) shall be ₹ 10,00,000.

**(v) Loan and advance by a closely held company Section 2(22)(e)**

If any closely held company (also called company in which public are not substantially interested) has given any loan or advance to an equity shareholder who is holding not less than 10% of the voting power of the

**CORRECTION IN INCOME TAX VOLUME 1 (50th Edition) PAGE NO. 330**  
(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Gross Total Income	15,94,600.00
Less: Deductions u/s under Chapter VI-A	Nil
Total Income	15,94,600.00
<b><i>Computation of Tax Liability</i></b>	
Tax on ₹15,94,600 at slab rate	1,78,380.00
Add: HEC 4%	7,135.20
Tax Liability	1,85,515.20
Less: TDS	(60,000.00)
Tax Payable	1,25,515.20
Rounded off u/s 288B	1,25,520.00

**Illustration 2:** Mr. X has invested some amount in ABC Ltd. and the company has paid him interest of ₹3,60,000 after deducting tax at source @ 10%. The cheque was collected by the bank and the bank charges were 1%.

Compute his tax liability and tax refund for assessment year 2024-25.

**Solution:**

	₹
Gross interest (3,60,000 x 100 /90)	4,00,000.00
Less: bank charges u/s 57 (1% of 3,60,000)	(3,600.00)
Income under the head Other Sources	3,96,400.00
Total Income	3,96,400.00

***Computation of Tax Liability***

Tax on ₹3,96,400 at slab rate	4,820.00
Less: Rebate u/s 87A	(4,820.00)
Tax Liability	Nil
Less: TDS	<b>(40,000.00)</b>
Refund	<b>40,000.00</b>

Assessee can take benefit of section 197 (not 197A)

**Illustration 3:** Mr. X has invested some amount in ABC Ltd. and the company has paid him interest of ₹1,80,000 after deducting tax at source @ 10%. The cheque was collected by the bank and the bank charges were 1%.

Compute his tax liability and tax refund for assessment year 2024-25.

**Solution:**

	₹
Gross interest (1,80,000 x 100 /90)	2,00,000.00
Less: bank charges u/s 57 (1% of 1,80,000)	(1,800.00)
Income under the head Other Sources	1,98,200.00
Total Income	1,98,200.00

***Computation of Tax Liability***

Tax Liability	Nil
Less: TDS	(20,000.00)
Refund	20,000.00

In this case assessee can avail benefit of section 197 or 197A

**Illustration 4:** Mr. X has borrowed ₹1,00,000 from the market. The amount was invested in security of some company and the assessee has received a cheque for ₹ 45,000 (after TDS @ 10%) being the amount of interest and assessee has paid interest of ₹ 11,000. He has casual income ₹ 2,00,000

The cheque was given for collection to a bank and the bank has deducted collection charges of 2%.

Mr. X has income under the head house property ₹ 2,50,000.

Compute his tax liability / tax payable for assessment year 2024-25.

**Solution:**

	₹
Income under the head House Property	2,50,000.00
Income under the head other sources	
Interest income	38,100.00