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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore but ≤ ₹ 5 crore	25%	Example 3 <ul style="list-style-type: none"> • Dividend income ₹ 60 lakhs; • STCG u/s 111A ₹ 54 lakh; • LTCG u/s 112A ₹ 55 lakh; and • Other income ₹ 3 crores 	Surcharge @ 15% would be levied on income-tax on: <ul style="list-style-type: none"> • Dividend income of ₹ 60 lakhs; • STCG of ₹ 54 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 112A. Surcharge @ 25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income.
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A	Not exceeding 15%		
(iv)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 5 crore	37%	Example 4 <ul style="list-style-type: none"> • Dividend income ₹ 60 lakhs; • STCG u/s 111A ₹ 50 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 6 crore 	Surcharge @ 15% would be levied on income-tax on: <ul style="list-style-type: none"> • Dividend income of ₹ 60 lakhs; • STCG of ₹ 50 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 65 lakhs chargeable to tax u/s 112A. Surcharge @ 37% would be leviable on income-tax computed on other income of ₹ 6 crores included in total income.
	Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A	Not exceeding 15%		
(v)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A and 112A) > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	Example 5 <ul style="list-style-type: none"> • Dividend income ₹ 55 lakhs; • STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore 	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 2.80 crore.

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Special Provision of Surcharge for short term 111A , Long term 112A, *Long Term 112* and Dividend Income

Surcharge @ 25% or 37% shall never be applicable on short term capital gain 111A , Long term capital gains 112A, *Long term capital gains 112* and dividend income i.e. surcharge of 25% or 37% shall be applicable only if total income excluding short term capital gain under section 111A, *Long term capital gains 112* and long term capital gain under section 112A, is exceeding ₹ 200 Lakhs or ₹ 500 Lakhs.

The calculations shall be done in the manner given below:

Example 1: Mr. X has income as given below:

Income under the head PGBP	₹505,00,000
LTCG 112A	₹101,00,000
STCG 111A	₹100,00,000

Compute his tax liability for A.Y. 2023-24.

Solution:

Computation of Total Income and Tax Liability of Mr. X

	₹
Income under the head PGBP	505,00,000
LTCG 112A	101,00,000
STCG 111A	100,00,000
Gross Total Income	706,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	706,00,000

Computation of Tax Liability

Tax on LTCG 100,00,000 (101,00,000-1,00,000) @ 10% u/s 112A	10,00,000.00
Tax on STCG 100,00,000 @ 15% u/s 111A	15,00,000.00
Tax on 5,05,00,000 at slab rate	1,49,62,500.00
Add: Surcharge on PGBP Income (1,49,62,500) X 37%	55,36,125.00
Add: Surcharge @ 15% on 25,00,000	3,75,000.00
Less: Marginal Relief	(14,83,000)

Working Note:

Tax + surcharge @ 37% on income of ₹505,00,000	204,98,625
Tax + surcharge @25% on income of ₹500,00,000	(185,15,625)
Increase in tax	19,83,000
Increase in income	5,00,000
Marginal Relief (19,83,000 – 5,00,000)	14,83,000

Tax Before cess	218,90,625.00
Add: Health and education cess @ 4%	8,75,625.00
Tax Liability	227,66,250.00

Example 2: Mr. X has income as given below:

Income under the head PGBP	₹202,00,000
Dividend Income	₹100,00,000

Compute his tax liability for A.Y. 2023-24.

Solution:

Computation of Total Income and Tax Liability of Mr. X

	₹
Income under the head PGBP	202,00,000
Dividend Income	100,00,000
Gross Total Income	302,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	302,00,000

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Option 1: Taking Dividend tax at slab rate for surcharge**Computation of Tax Liability**

Tax on Business Income 2,02,00,000 at 30%	60,60,000.00
Tax on Dividend Income 1,00,00,000 at slab rate	28,12,500.00
Tax Before Surcharge	88,72,500.00
Add: Surcharge on Dividend Income (28,12,500) X 15%	4,21,875.00
Add: Surcharge on PGBP Income (60,60,000) X 25%	15,15,000.00
Less: Marginal Relief	(4,75,000.00)

Working Note:

Tax + surcharge @ 25% on income of ₹202,00,000	75,75,000
Tax + surcharge @15% on income of ₹200,00,000	(69,00,000)
Increase in tax	6,75,000
Increase in income	2,00,000
Marginal Relief (6,75,000 – 2,00,000)	4,75,000

Tax Before cess	103,34,375.00
Add: Health and education cess @ 4%	4,13,375.00
Tax Liability	107,47,750.00

Option 2: Taking Dividend tax @ 30% for surcharge and PGBP income on slab rate**Computation of Tax Liability**

Tax on Business Income 2,02,00,000 at slab rate	58,72,500.00
Tax on Dividend Income 1,00,00,000 at 30%	30,00,000.00
Tax Before Surcharge	88,72,500.00
Add: Surcharge on Dividend Income (30,00,000) X 15%	4,50,000.00
Add: Surcharge on PGBP Income at slab (58,72,500) X 25%	14,68,125.00
Less: Marginal Relief	(4,56,250.00)

Working Note:

Tax + surcharge @ 25% on income of ₹202,00,000	73,40,625
Tax + surcharge @15% on income of ₹200,00,000	(66,84,375)
Increase in tax	6,56,250
Increase in income	2,00,000
Marginal Relief (6,56,250 – 2,00,000)	4,56,250

Tax Before cess	103,34,375.00
Add: Health and education cess @ 4%	4,13,375.00
Tax Liability	107,47,750.00

Option 3: Taking Dividend tax on average basis for surcharge Computation of Tax Liability

Tax on 3,02,00,000 at slab rate	88,72,500.00
Add: Surcharge on Dividend Income (88,72,500/3,02,00,000 x 1,00,00,000 = 29,37,913.91) X 15%	4,40,687.08
Add: Surcharge on PGBP Income (88,72,500/3,02,00,000 x 2,02,00,000 = 59,34,586.09) X 25%	14,83,646.52
Less: Marginal Relief	(4,61,030.63)

Working Note:

Tax + surcharge @ 25% on income of ₹202,00,000	74,18,232.61
Tax + surcharge @15% on income of ₹200,00,000	(67,57,201.98)
(88,72,500/3,02,00,000 x 2,00,00,000) x 115%	
Increase in tax	6,61,030.63
Increase in income	2,00,000.00
Marginal Relief (6,61,030.63 – 2,00,000)	4,61,030.63

Tax Before cess	103,35,802.97
Add: Health and education cess @ 4%	4,13,432.11
Tax Liability	107,49,235.08
Rounded off u/s 288B	107,49,240.00

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Example 8: Mr. X has income from business ₹ 550 lakhs and short term capital gain under section 111A ₹ 30 lakhs and long term capital gains under section 112A ₹ 41 lakhs, in this case tax liability shall be computed in the manner given below

Solution:

Income under the head business/profession from business	550,00,000
Income under the head capital gains	
Short term capital gains under section 111A	30,00,000
Long term capital gains under section 112A	41,00,000
Gross total income/total income	621,00,000
<i>Computation of Tax Liability</i>	
Total Income	550,00,000
Tax on ₹550,00,000 at slab rate	163,12,500
Add: Surcharge @ 37%	60,35,625
Tax on normal income	223,48,125
Tax on short term capital gain under section 111A 30,00,000 X 15%	4,50,000
Add: Surcharge @ 15%	67,500
Tax on long term capital gain under section 112A (41,00,000 – 1,00,000) X 10%	4,00,000
Add: Surcharge @ 15%	60,000
Tax liability before HEC	233,25,625
Add: HEC @ 4%	9,33,025
Tax Liability	242,58,650

Question 10: Write a note on taxability of income of Partnership Firm/Limited Liability Partnership Firm.

Answer: Partnership firm/LLP

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable @ **12%** provided total income is exceeding **₹ 1 crore**.

Marginal Relief

Marginal relief shall be allowed if income has exceeded ₹100 lakhs.

Health & education cess is applicable @ **4%**

Deductions under section 80C to 80U shall be allowed in the normal manner.

Partnership firm is regulated through Partnership Act, 1932 and Limited Liability Partnership firm is regulated through Limited Liability Partnership Act, 2008.

Question 11: Write a note on taxability of income of domestic company.

Answer: Domestic Company

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable

- @ **7%** provided total income is exceeding **₹100 lakhs but it is upto ₹1000 lakhs**
- @ **12%** provided total income is exceeding **₹1000 lakhs**.

Marginal relief shall be allowed if income has exceeded ₹100 lakhs / 1000 lakhs

Health & education cess is applicable @ **4%**

Deductions under section 80C to 80U shall be allowed in the normal manner.

(If total turnover or gross receipts in P.Y. **2020-21** does not exceed 400 crores, tax rate shall be 25% instead

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@ 25% if total income has exceeded ₹200 lakhs but upto ₹500 lakhs.**@ 37% if total income has exceeded ₹500 lakhs.**

Surcharge of 25% or 37% shall be applicable only if total income excluding short term capital gain under section 111A and long term capital gain under section 112A, **long term capital gains u/s 112** and dividend income, is exceeding ₹ 200 Lakhs or ₹ 500 Lakhs

Deductions under section 80C to 80U shall be allowed in the normal manner.

Question 16: Write a note on Computation of Tax Liability of Local Authority.**Answer: Tax liability of local authority**

In order to maintain any town or city, there is always some authority responsible and such authority is called local authority e.g. MCD in Delhi. Such authority is allowed to collect house tax with regard to every type of house property and also some other tax are collected by such authority. In general income of such authority is exempt from income tax under section 10(20) but if such authority is doing any business, its income is taxable just like a partnership firm. Deductions under section 80C to 80U shall be allowed in the normal manner.

Question 17: Explain meaning of Person Section 2(31).**Answer: Meaning of Person Section 2(31)**

“Person” includes—

- (i) an individual,
- (ii) a Hindu undivided family,
- (iii) a company,
- (iv) a firm,
- (v) an association of persons or a body of individuals, whether incorporated or not,
- (vi) a local authority,
- (vii) every artificial juridical person, not covered above and income is taxable as slab rate (juridical means legal) e.g. ICAI or Delhi University etc.

Question 18 [V. Imp.]: Discuss Partial Integration of Agricultural Income?**Or****Discuss Indirect Taxing of Agricultural Income?****Or**

Under the Constitution, the power to levy a tax on agricultural income vests in the States. However, Parliament has also levied a tax on such income. Explain how this has been achieved?

Answer:**Agricultural Income Section 10(1)**

Under section 10(1), any **agricultural income in India is fully exempt** from income tax but if the agricultural income is from outside India, it is chargeable to tax. (As per entry no. 82 of Union List, Central Government has the power to levy income tax on income except agricultural income and power to levy tax on agricultural income has been given to the State Government vide entry no. 46 of State List)

Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)

If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non- agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (₹2,50,000 / 3,00,000 / 5,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply surcharge if any and allow rebate if any and

CORRECTION IN INCOME TAX VOLUME 1 (48th Edition) PAGE NO. 106**(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)****Question 2: Write a note on payment of interest for late payment of income tax**

Answer: As per section 234C, if any person has defaulted in payment of advance tax, interest shall be charged @ 1% per month for a period of 3 months on the amount of default in each installment, but for the last installment, interest shall be charged only for one month.

Income tax paid upto 31st March of previous year is also called advance tax.

As per section 234B, if advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment. If advance tax paid is 90% or more of actual tax liability, no interest is payable.

As per section 234A, if any person has paid income tax after expiry of the last date of filing of return of income, interest shall be payable @ 1% p.m. or part of the month for the period subsequent to the last date of filing of return of income.

Illustration 1: ABC Ltd. has estimated its tax liability for assessment year 2023-24 ₹4,40,000 and has paid advance tax accordingly but actual tax liability was found to be ₹10,00,000.

The company has paid balance amount on 02.12.2023 and filed return of income on the same date.

Compute interest payable under section 234A, 234B, and 234C.

Solution:

Estimated Tax = 4,40,000 Actual Tax = 10,00,000

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Default
15.06.2022	1,50,000	66,000	84,000
Interest u/s 234C =	$84000 \times 1\% \times 3 = 2,520$		
15.09.2022	4,50,000	1,98,000	2,52,000
Interest u/s 234C =	$2,52,000 \times 1\% \times 3 = 7,560$		
15.12.2022	7,50,000	3,30,000	4,20,000
Interest u/s 234C =	$4,20,000 \times 1\% \times 3 = 12,600$		
15.03.2023	10,00,000	4,40,000	5,60,000
Interest u/s 234C =	$5,60,000 \times 1\% \times 1 = 5,600$		
Total interest payable u/s 234C			28,280

Interest under section 234B shall be computed from **01.04.2023** to 02.12.2023 and is as given below:

$10,00,000 - 4,40,000 = 5,60,000 \times 1\% \times 9 =$ 50,400

Interest under section 234A shall be computed from **01.11.2023** to 02.12.2023 and is as given below:

$5,60,000 \times 1\% \times 2 =$ 11,200

Total interest payable (28,280 + 50,400 + 11,200) 89,880

Illustration 2: ABC Ltd. has tax liability of ₹7,00,000 for the previous year 2022-23 and the company has not paid any advance tax and entire tax amount was paid by the company on 31.12.2023. In this case, interest shall be calculated in the manner given below:

1. Interest u/s 234C

		₹
15.06.2022	$1,05,000 \times 1\% \times 3 =$	3,150
15.09.2022	$3,15,000 \times 1\% \times 3 =$	9,450
15.12.2022	$5,25,000 \times 1\% \times 3 =$	15,750
15.03.2023	$7,00,000 \times 1\% \times 1 =$	7,000
Total interest payable		35,350

2. Interest u/s 234B (01-04-2023 to 31-12-2023)

$7,00,000 \times 1\% \times 9 =$ 63,000

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Explain briefly the applicability of section 22 for chargeability of income tax for:

- (i) House property situated in foreign country and
(ii) House property with disputed ownership.

Answer: Applicability of section 22 for chargeability of income-tax for –

(i) House property situated in foreign country

A resident and ordinarily assessee is taxable under section 22 in respect of a house property situated in foreign country. A resident but not ordinarily resident or a non resident is taxable in respect of income from such property if the income is received in India during the previous year.

(ii) House property with disputed ownership

If the title of ownership of the house property is under dispute in a court of law, the decision about who is the owner lies with the Court but till then income tax shall be required from the person who is the beneficial owner of the house property.

Illustration 30: Mr. Anand sold his residential house property in March, 2022. In June, 2022, he recovered rent of ₹10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2016 to March 2018. He could not realise two months rent of ₹20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2018-19.

Further, he had let out his property from April, 2018 to February, 2022 to Mr. Satish. In April, 2020, he had increased the rent from ₹12,000 to ₹15,000 per month and the same was a subject matter of dispute. In September, 2022, the matter was finally settled and Mr. Anand received ₹69,000 as arrears of rent for the period April 2020 to February, 2022. Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Solution:

Since the unrealised rent was recovered in the P.Y.2022-23, the same would be taxable in the A.Y.2023-24 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2022-23, and hence the same would be taxable in the A.Y.2023-24 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2023-24.

Computation of income from house property of Mr. Anand for A.Y.2023-24

Recovery of Unrealised Rent	10,000
Add: Arrear of Rent Received	69,000
Total	79,000
Less: Deduction @ 30%	(23,700)
Income under the head House Property	55,300

Illustration 31: Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year **2022-23**. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹ 65.

She took ownership and possession of a flat in Chennai on 1.7.2022, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2023. The municipal valuation is ₹32,000 p.m. and the fair rent is ₹4,20,000 p.a.

She paid the following to Corporation of Chennai: Property Tax ₹16,200 Sewerage Tax ₹1,800

She had taken a loan from Standard Chartered Bank in June, 2020 for purchasing this flat. Interest on loan was as under:

Period prior to 1.4.2022	₹49,200
1.4.2022 to 30.6.2022	₹50,800
1.7.2022 to 31.3.2023	₹1,31,300

Certificate confirming the amount of Interest has been deposited.

She had a house property in Bangalore, which was sold in March, 2018. In respect of this house, she received arrears of rent of ₹60,000 in March, 2023. This amount has not been charged to tax earlier.

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(3) The deduction under sub-section (1) shall be subject to the condition that the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2023.

(4) Where a deduction under this section is allowed for any interest referred to in sub-section (1), deduction shall not be allowed in respect of such interest under any other provision of this Act for the same or any other assessment year.

(5) For the purposes of this section,—

(a) “electric vehicle” means a vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle and has such electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy;

(b) “financial institution” means a banking company to which the Banking Regulation Act, 1949 applies, or any bank or banking institution referred to in section 51 of that Act and includes any deposit taking non-banking financial company or a systemically important non-deposit taking non-banking financial company as defined in clauses (e) and (g) of Explanation 4 to section 43B.

Illustration 14:

The following are the particulars relating to **Mr. X, Mr. Y**, salaried individuals for A.Y. 2023-24 –

Particulars	Mr. X	Mr. Y
Amount of loan taken	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	Deposit taking NBFC	Public sector bank
Date of sanction of loan	01.04.2022	31.03.2019
Date of disbursement of loan	01.05.2022	01.05.2019
Purpose of loan	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	–	–
Cost of electric vehicle	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2023-24 in the hands of Mr. X, Mr. Y. Assume that there has been no principal repayment during the P.Y.2022-23.

Solution:

Particulars	₹
<u>Mr. X</u> Deduction under Chapter VI-A Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs X 10% X 11/12 = ₹ 1,83,333, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
<u>Mr. Y</u> Deduction under Chapter VI-A Deduction u/s 80EEB is not permissible since loan was sanctioned before 01.04.2019	Nil

Question 10 [V. Imp.]: Write a note on deduction in case of donations to the Notified Institutions.

Answer: Deduction in respect of donations to certain Funds, Charitable Institutions, etc. Section 80G

Deduction is allowed to **all the assesseees** if they have given any donation or contribution to any of the below mentioned institutions or funds and deduction allowed shall be either **100%** or **50%** and for this purpose, the organisations shall be divided into four categories

Category A Deduction is allowed equal to 100% of donation

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3. Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2022. Nisha lent ₹5,00,000 out of the gifted amount to Krish on 1st April, 2022 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on **15th October, 2022**, which were sold for ₹ 75,000 on 30th December, 2022. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2022. She suffered loss of ₹ 15,000 in the business in Financial Year 2022-23.

In whose hands the above income and loss shall be included in Assessment Year 2023-24? Support your answer with brief reasons. **(4 Marks)**

Answer:

Interest on loan

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2022, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

Capital Gain on sale of shares of listed company

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@15% in the hands of Ms. Nisha

MAY – 2015

Question 6(a)(ii).

(4 Marks)

Mr. Ramesh gifted a sum of ₹5 lacs to his brother's minor son on 16.04.2022. On 18.04.2022, his brother gifted debentures worth ₹6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of ₹45,000 on debentures received by her.

Discuss the implications under the provisions of the Income tax Act, 1961.

Answer: In the given case, Mr. Ramesh gifted a sum of ₹5 lacs to his brother's minor son on 16.4.2022 and simultaneously, his brother gifted debentures worth ₹6 lacs to Mr. Ramesh's wife on 18.4.2022. Mr. Ramesh's brother's minor son invested the gifted amount of ₹5 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted .

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr.

Ramesh's brother's son from fixed deposits would be included in the total income of Mr. Ramesh's brother,

CORRECTION IN INCOME TAX VOLUME 1 (48th Edition) PAGE NO. 337

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Less: Rebate u/s 87A	(2,365.00)
Tax Liability	Nil
Less: TDS	(30,000.00)
Refund	30,000.00

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 2023-24.

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 2023-24.

Solution:

	₹
Income under the head House Property	2,50,000.00
Income under the head other sources	
Interest income	38,100.00
(45,000 x 100 / 90) - 11,000 - 900}	
(50,000 – 11,000 – 900)	
Casual income	2,00,000.00
Income under the head other sources	2,38,100.00
Gross Total Income	4,88,100.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,88,100.00

Computation of Tax Liability

Tax on Casual Income 2,00,000 X 30%	60,000.00
Tax on ₹2,88,100 at slab rate	1,905.00

Total Tax

Less: Rebate u/s 87A	(12,500.00)
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Tax before HEC 49,405.00***Add: HEC @ 4%*** 1,976.20***Tax Liability*** 51,381.20

Less: TDS	(5,000.00)
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Tax Payable 46,381.20***Rounded off u/s 288B*** 46,380.00***Question 4: Write a note on TDS in case of "Dividends".******Answer: TDS in case of "Dividends" Section 194***

Every company making payment of dividends to any resident shareholder shall deduct tax at source @ 10%, however, no tax shall be deducted at source if the following conditions have been satisfied: