

CORRECTION IN INCOME TAX VOLUME 1 (48th Edition) PAGE NO. 49
(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

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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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NOV – 2010 (2 Marks each)

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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MTP NOV -2020

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,

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(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) |
|----------------------|-------------|

Tax before HEC 49,405.00***Add: HEC @ 4%*** 1,976.20***Tax Liability*** 51,381.20

| | |
|-----------|------------|
| Less: TDS | (5,000.00) |
|-----------|------------|

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:

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EXAMINATION QUESTIONS

JULY – 2021 (NEW COURSE)

Question. 2.(b)

(2 × 4 = 8 Marks)

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payment are made to residents.

| S.No. | Particulars of the payer | Nature of Payment | Aggregate of payments made in the F.Y. 2022-23 (Amt. in ₹) |
|-------|---|--|--|
| (A) | Mr. Kale, receiving pension from Central Government | Contractual payment made during April 2022 for reconstruction of his residential house in Arunachal Pradesh | 52,50,000 |
| (B) | Mr. Rahul, a wholesale trader of spices whose turnover was ₹ 5 crores in F.Y. 2021-22 | Contract payment for Construction of Office godown during January to March, 2023 to Mr. Akhilesh, and individual | 50,00,000 |
| (C) | Mr. Golu, an individual carrying on garment trading business with turn-over of ₹ 95 lakhs in F.Y. 2021-22 | Payment of commission to Mr. Vinay for securing a contract for big Business House in November 2022 | 1,20,000 |
| (D) | XYZ Urban Co-operative bank | Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial year 2022-23 ABC & Co. has filed his tax returns for the last 3 financial year with in time. | 1,20,00,000 |

JAN – 2021 (NEW COURSE)

Question. 2.(a)

(8 Marks)

Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.

(i) On 1.5.2022, Mr. Brijesh made three fixed deposits of nine months each of ₹ 3 lakh each, carrying interest @ 9% p.a. with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2023.

(ii) Mr. Marwah, aged 80 years, holds 6½% Gold Bonds, 1977 of ₹ 2,00,000 and 7% Gold Bonds 1980 of ₹3,00,000. He received yearly interest on these bonds on 28.02.2023.

(iii) M/s AG Pvt. Ltd. took a loan of ₹ 50,00,000 from Mr. Haridas. It credited interest of ₹ 79,000 payable to Mr. Haridas during the previous year 2022-23. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2021-22 and 2023-24.

(iv) Mr. Prabhakar is due to receive ₹ 6 lakh on 31.3.2023 towards maturity proceeds of LIC policy taken on **1.4.2019**, for which the sum assured is ₹ 5 lakhs and the annual premium is ₹ 1,40,000.

NOV – 2019 (NEW COURSE)

Question. 2. (b)

(7 Marks)

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.