CORRECTION IN INCOME TAX VOLUME -1

Special provision for collection of tax at source for non-filers of income-tax return Section 206CCA

(1) Notwithstanding anything contained in any other provisions of this Act, where tax is required to be collected at source under the provisions of Chapter XVII-BB, on any sum or amount received by a person (hereafter referred to as collectee) from a specified person, the tax shall be collected at the higher of the following two rates, namely:—

(i) at twice the rate specified in the relevant provision of the Act; or

(ii) at the rate of five per cent.

(2) If the provisions of section 206CC is applicable to a specified person, in addition to the provisions of this section, the tax shall be collected at higher of the two rates provided in this section and in section 206CC.

(3) For the purposes of this section "specified person" means a person who has not filed the returns of income for both of the two assessment years relevant to the two previous years immediately prior to the previous year in which tax is required to be collected, for which the time limit of filing return of income under sub-section (1) of section 139 has expired; and the aggregate of tax deducted at source and tax collected at source in his case is rupees fifty thousand or more in each of these two previous years:

Provided that the specified person shall not include a non-resident who does not have a permanent establishment in India.

Explanation.—For the purposes of this sub-section, the expression "permanent establishment" includes a fixed place of business through which the business of the enterprise is wholly or partly carried on.

ILLUSTRATION NO. 12 OF ICAI STUDY MATERIAL PAGE NO. 9.63

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2020-21 was ₹12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2021-22 was ₹ 95 lakh (₹ 20 lakh on 1.6.2021, ₹ 25 lakh on 12.8.2021, ₹ 22 lakh on 23.11.2021 and ₹ 28 lakh on 25.3.2022). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2020-21 was ₹ 15 crores.

(1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
(2) Would your answer be different if Mr. Gupta's turnover for F.Y.2020-21 was ₹ 8 crores, all other facts remaining the same?
(3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

Solution:

(1) Since Mr. Gupta's turnover for F.Y.2020-21 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2021-22, he is liable to deduct tax @ 0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –
No tax is to be deducted u/s 194Q on the payments made on 1.6.2021 and 12.8.2021, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.
Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2021 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].
Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2022.
Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

(2) If Mr. Gupta's turnover for the F.Y.2020-21 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2020-21 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.
No tax is to be collected u/s 206C(1H) on 1.6.2021 and 12.8.2021, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.
Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2021 (₹ 22 lakh – ₹5 lakhs, being the balance unexhausted threshold limit).
Tax of ₹2,800 (i.e., 0.1% of ₹28 lakhs) has to be collected u/s 206C(1H) on 25.3.2022.

(3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @ 5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹17 lakhs) and ₹1,40,000 (5% of ₹28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2021 and 25.3.2022, respectively.
In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹17,000 (i.e., 1% of ₹17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2021 and 25.3.2022, respectively.

CORRECTION IN INCOME TAX VOLUME 1 (47th Edition) PAGE NO. 16

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(ii) Total income	8,00,000
On first ₹2,50,000	Nil
On next ₹2,50,000 @ 5%	12,500
On balance ₹3,00,000 @ 20%	60,000
Tax before health and education cess	72,500
Add: health & education cess @ 4%	2,900
Tax Liability	75,400

(iii) Total income	10,00,000
On first ₹2,50,000	Nil
On next ₹2,50,000 @ 5%	12,500
On balance ₹5,00,000 @ 20%	1,00,000
Tax before health and education cess	1,12,500
Add: health & education cess @ 4%	4,500
Tax Liability	1,17,000

(iv) Total income	12,00,000
On first ₹2,50,000	Nil
On next ₹2,50,000 @ 5%	12,500
On ***next*** ₹5,00,000 @ 20%	1,00,000
On balance ₹2,00,000 @ 30%	60,000
Tax before health and education cess	1,72,500
Add: health & education cess @ 4%	6,900
Tax Liability	1,79,400

(v) Total income	20,00,000
On first ₹2,50,000	Nil
On next ₹2,50,000 @ 5%	12,500
On ***next*** ₹5,00,000 @ 20%	1,00,000
On balance ₹10,00,000 @ 30%	3,00,000
Tax before health and education cess	4,12,500
Add: health & education cess @ 4%	16,500
Tax Liability	4,29,000

Question 3: Explain Health and Education Cess

Answer: Health and Education Cess

If any tax is charged for any specific purpose, it is called Cess. Health and Education Cess shall be charged @ 4% on the amount of income tax.

Rounding off of Tax   Section 288B

Any amount payable, and the amount of refund due, shall be rounded off in the multiples of ₹10 in the similar manner as in case of total income under section 288A.

Question 4: Explain Previous Year and Assessment Year

Answer: Every person has to pay tax on Income of a particular financial year and such year is called previous year. Further computation of income and tax liability is computed in the subsequent year and it is called assessment year, eg. if income is to be computed for financial year 2021-22, it will be called previous year and subsequent year i.e. 2022-23 shall be called assessment year. The term previous year is defined u/s 3 and assessment year is defined u/s 2(9).

CORRECTION IN INCOME TAX VOLUME 1 (47th Edition) PAGE NO. 24

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

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 = 29,37,914) X 15%	4,40,687.10
Add: Surcharge on PGBP Income	
(88,72,500/3,02,00,000 x 2,02,00,000 = 59,34,586) X 25%	14,83,646.52
Less: Marginal Relief	***(4,61,031.00)***

Working Note:

Tax + surcharge @ 25% on income of ₹202,00,000	74,18,233
Tax + surcharge @15% on income of ₹200,00,000	(67,57,202)
(88,72,500/302,00,000 x 2,00,00,000) x 115%	
Increase in tax	6,61,031
Increase in income	2,00,000
Marginal Relief (6,61,031 – 2,00,000)	***4,61,031***

Tax Before cess	***103,35,802.62***

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Add: Health and education cess @ 4%	***4,13,432.10***
Tax Liability	***107,49,234.72***
Rounded off u/s 288B	***107,49,230.00***

Illustration 3:

Compute tax liability in the following cases for the assessment year 2022-23.

(i) Mr. X (resident) has total income of ₹50,05,000
(ii) Mr. X (non-resident) has total income of ₹52,00,000
(iii) Mrs. X (resident) has total income of ₹101,00,000
(iv) Mrs. X (non-resident) has total income of ₹85,00,000
(v) Mr. X (resident), aged 60 years has total income of ₹106,00,000
(vi) Mrs. X (resident), aged 60 years has total income of ₹57,00,000
(vii) Mr. X (non-resident), aged 60 years has total income of ₹108,00,000
(viii) Mrs. X (non-resident), aged 60 years has total income of ₹101,50,000
(ix) Mr. X (resident), aged 80 years has total income of ₹54,25,000
(x) Mrs. X (resident), aged 80 years has total income of ₹102,00,000
(xi) Mr. X (non-resident), aged 80 years has total income of ₹55,22,380
(xii) Mrs. X (non-resident), aged 80 years has total income of ₹45,00,000
(xiii) Mr. X (resident) has total income of ₹201,00,000
(xiv) Mr. X (resident) has total income of ₹205,00,000
(xv) Mr. X (resident) has total income of ₹501,00,000
(xvi) Mr. X (resident) has total income of ₹505,00,000
(xvii) Mr. X (non - resident) has total income of ₹300,00,000

Solution: **₹**

(i) Computation of Tax Liability

Total Income	50,05,000
Tax on ₹50,05,000 at slab rate	13,14,000
Add: Surcharge @ 10%	1,31,400
Tax before marginal relief	14,45,400
Less: Marginal Relief	(1,27,900)

Working Note:

Tax + surcharge on income of ₹50,05,000	14,45,400
Tax on income of ₹50,00,000	(13,12,500)
Increase in tax	1,32,900
Increase in income	5,000
Marginal Relief (1,32,900 – 5,000)	1,27,900

Tax after marginal relief	13,17,500
Add: HEC @ 4%	52,700
Tax Liability	13,70,200

(ii) Computation of Tax Liability

Total Income	52,00,000.00
Tax on ₹52,00,000 at slab rate	13,72,500.00
Add: Surcharge @ 10%	1,37,250.00
Tax before health & education cess	15,09,750.00
Add: HEC @ 4%	60,390.00
Tax Liability	15,70,140.00

(iii) Computation of Tax Liability

Total Income	101,00,000.00
Tax on ₹101,00,000 at slab rate	28,42,500.00
Add: Surcharge @ 15%	4,26,375.00
Tax before marginal relief	32,68,875.00

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Tax Before Surcharge	220,62,500.00
Add: Surcharge @ 15% on 12,50,000	1,87,500.00
Add: Surcharge on Dividend Income	
(208,12,500/7,00,00,000 x 1,00,00,000=29,73,214.29) X 15%	4,45,982.14
Add: Surcharge on PGBP Income	
(208,12,500/7,00,00,000 x 6,00,00,000 = 178,39,285.71) X 37%	66,00,535.71
Tax Before cess	292,96,517.85
Add: Health and education cess @ 4%	11,71,860.71
Tax Liability	304,68,378.56
Rounded off u/s 288B	304,68,380.00

(c)

Solution:

Computation of Total Income and Tax Liability of Mr. X	₹
Income under the head PGBP	90,00,000
LTCG 112A	51,00,000
STCG 111A	50,00,000
Dividend from domestic company	100,00,000
Gross Total Income	***291,00,000***
Less: Deductions u/s 80C to 80U	Nil
Total Income	***291,00,000***
Computation of Tax Liability	
Tax on LTCG 50,00,000 (51,00,000-1,00,000) @ 10% u/s 112A	5,00,000.00
Tax on STCG 50,00,000 @15% u/s 111A	7,50,000.00
Tax on 1,90,00,000 at slab rate	55,12,500.00
Tax Before Surcharge	67,62,500.00
Add: Surcharge @ 15%	10,14,375.00
Tax Before cess	77,76,875.00
Add: Health and education cess @ 4%	3,11,075.00
Tax Liability	80,87,950.00

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

Income under the head Salary	₹150,00,000
LTCG 112A	₹21,00,000
STCG 111A	₹10,00,000
Dividend from domestic company	₹30,00,000

Compute his tax liability for A.Y. 2022-23.

(b) Suppose income under the head Salary ₹300,00,000

(c) Suppose income under the head Salary ₹500,00,000

Solution:

Computation of Total Income and Tax Liability of Mr. X	₹
Income under the head Salary	150,00,000
LTCG 112A	21,00,000
STCG 111A	10,00,000
Dividend from domestic company	30,00,000
Gross Total Income	211,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	211,00,000
Computation of Tax Liability	
Tax on LTCG 20,00,000 (21,00,000-1,00,000) @ 10% u/s 112A	2,00,000.00
Tax on STCG 10,00,000 @15% u/s 111A	1,50,000.00
Tax on 1,80,00,000 at slab rate	52,12,500.00
Tax Before Surcharge	55,62,500.00

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Example 6: 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
<u>Solution:</u>

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
Computation of Tax Liability	
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: <u>Partnership firm/LLP</u>
Long term capital gains are taxable @ **<u>20%</u>**, STCG u/s 111A shall be taxable @ **<u>15%</u>** , LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **<u>10%</u>** and casual income @ **<u>30%</u>** and other incomes are also taxable @ **<u>30%</u>**.
Surcharge shall be applicable @ **<u>12%</u>** provided total income is exceeding **<u>₹ 1 crore</u>**.
<u>Marginal Relief</u>
Marginal relief shall be allowed if income has exceeded ₹100 lakhs.
Health & education cess is applicable @ **<u>4%</u>**
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: <u>Domestic Company</u>
Long term capital gains are taxable @ **<u>20%,</u>** STCG u/s 111A shall be taxable @ **<u>15%</u>** , LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **<u>10%</u>** and casual income @ **<u>30%</u>** and other incomes are also taxable @ **<u>30%</u>**.

Surcharge shall be applicable
- @ **<u>7%</u>** provided total income is exceeding **<u>₹100 lakhs but it is upto ₹1000 lakhs</u>**
- @ **<u>12%</u>** provided total income is exceeding **<u>₹1000 lakhs</u>**.

Marginal relief shall be allowed if income has exceeded ₹100 lakhs / 1000 lakhs
Health & education cess is applicable @ **<u>4%</u>**
Deductions under section 80C to 80U shall be allowed in the normal manner.
(If total turnover or gross receipts in P.Y. ***2019-20*** does not exceed 400 crores, tax rate shall be 25% instead

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Question 14: Write a note on Computation of Tax Liability of HUF.

Answer: Tax liability of Hindu undivided family

Hindu undivided family means any family which is Hindu by religion and its senior most male member is called karta and karta is responsible for control and management of HUF. Parental property / business etc received by karta shall be considered to be common property and taxability shall be as given below: Normal income of Hindu undivided family shall be computed at the normal slab rate as given below:

Income shall be taxable at the slab rates given below:

If total Income upto ₹2,50,000	NIL
On next ₹2,50,000	5%
On next ₹5,00,000	20%
On Balance amount	30%

Slab rate of senior citizen is not applicable to HUF even if age of Karta or its member is exceeding 60 years or 80 years.

Surcharge shall be applicable

@ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.

@ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.

@ 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 ***and dividend income***, is exceeding ₹ 200 Lakhs or ₹ 500 Lakhs

All other provisions shall be similar to individual but rebate under section 87A is not allowed. Tax rates for LTCG /LTCG 112A/ STCG u/s 111A and casual income are the same for all the persons.

If normal income of resident HUF is less than the exemption limit, the difference of the amount shall be allowed to be deducted from long term capital gain and if long term capital gains are not sufficient, it will be allowed to be adjusted from short term capital gains under section 111A or long term capital gains u/s 112A but it will not be allowed to be adjusted from casual income.

(What is HUF is given in the Hindu Law and it is not covered in the syllabus)

Example

XY HUF has income under the head business/profession ₹20 lakhs and its Karta Mr. X has individual income ₹12 lakhs, in this case tax liability of HUF and that of Karta shall be

Tax liability of HUF ₹20 lakhs at slab rate	4,12,500
Add: HEC @ 4%	16,500
Tax Liability	4,29,000
Tax Liability of Karta ₹12 lakhs at slab rate	1,72,500
Add: HEC @ 4%	6,900
Tax Liability	1,79,400

Question 15: Write a note on Computation of Tax Liability of Body of Individuals/Association of Persons.

Answer: Tax liability of BOI/AOP

Body of individual means a group of individuals which is neither a company nor a partnership firm. If it is registered in some other Act, it will be called incorporated BOI. E.g. cooperative society or Trust etc. If such a group includes persons other than individual also, it will be called AOP.

In general normal income shall be taxable at normal slab rate but rate may change as per provisions of section 167B. (NOT COVERED IN SYLLABUS)

Surcharge shall be applicable

@ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.

@ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.

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

@ 37% if total income has exceeded ₹500 lakhs.

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

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 ***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: <u>Tax liability of local authority</u>

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: <u>Meaning of Person</u> <u>Section 2(31)</u>

"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:

<u>Agricultural Income</u> <u>Section 10(1)</u>

Under section 10(1), any **<u>agricultural income in India is fully exempt</u>** 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)

<u>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?)</u>

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 health & education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

MULTIPLE CHOICE QUESTIONS

1. The basic source of income-tax law is -
(a) Income-tax Act, 1961
(b) Income-tax Rules, 1962
(c) Circulars/Notifications issued by CBDT
(d) Judgments of Courts

2. A domestic company means -
(a) Only an Indian company
(b) Both Indian company and a foreign company having a branch in India
(c) Both Indian company and a foreign company having business connection in India
(d) Both Indian company and a foreign company which has made the prescribed arrangement for declaration and payment of dividends in India out of the income chargeable to tax in India

3. The rates of income-tax are mentioned in -
(a) The Income-tax Act, 1961 only
(b) Both Income-tax Act, 1961 and Income-tax Rules, 1962
(c) The First Schedule to the Annual Finance Act
(d) Both Income-tax Act, 1961 and the First Schedule to the Annual Finance Act

4. The surcharge applicable in the case of an individual is -
(a) 10% of tax payable if total income exceeds ₹50 lakhs but does not exceed ₹1 crore
(b) 10% of tax payable if total income exceeds ₹1 crore but does not exceed ₹2 crore
(c) 15% of tax payable if total income exceeds ₹1 crore but does not exceed ₹2 crore
(d) Both (a) and (c), as the case may be.

5. In respect of a non-resident assessee, who is of the age of 60 years or more but less than 80 years at any time during the previous year 2021-22, -
(a) Basic exemption of ₹2,50,000 is available
(b) Basic exemption of ₹3,00,000 is available
(c) Basic exemption of ₹5,00,000 is available
(d) No basic exemption limit would be available

6. In case of a domestic company whose gross receipts for the P.Y. *2019-20* is upto ₹400 crores, the rate of tax applicable is -
(a) 29% , (b) 25% , (c) 30% , (d) None of the above

7. The surcharge applicable to a domestic company for A.Y. 2022-23 is -
(a) 5%, if total income exceeds ₹1 crore.
(b) 10%, if the total income exceeds ₹1 crore
(c) 7%, if the total income exceeds ₹1 crore but does not exceed ₹10 crore, and 15%, if the total income exceeds ₹10 crore.
(d) 7%, if the total income exceeds ₹1 crore but does not exceed ₹10 crore, and 12%, if the total income exceeds ₹10 crore.

8. The surcharge applicable to a foreign company for A.Y. 2022-23 is -
(a) 5%, if the total income exceeds ₹1 crore.
(b) 10%, if the total income exceeds ₹1 crore.
(c) 2%, if the total income exceeds ₹1 crore but does not exceed ₹10 crore and 5% if the total income exceeds ₹10 crore.
(d) 2%, if the total income exceeds ₹10 crore.

9. The rate of tax applicable to a partnership firm for A.Y. 2022-23 is -
(a) 25% (b) 30%
(c) 35% (d) 40%

10. Where the total income of an artificial juridical person is ₹3,10,000, the income-tax before cess payable is ₹.............. and surcharge payable is ₹.............
(a) ₹3,000; surcharge – nil.

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than 10% but if stamp duty value is ₹ 111,00,000, taxable amount shall be ₹ 11,00,000 because stamp duty is exceeding by more than 10% of actual consideration.

If the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same and in such cases, the stamp duty value on the date of the agreement shall be taken into consideration but part of consideration should have been paid ***by account payee cheque, an account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed. (Other electronic mode means Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay)*** on or before the date of agreement. E.g. Mr. X has entered into agreement with a builder ABC Limited on 01.07.2016 for purchase of one building for ₹20,00,000 but stamp duty value was ₹27,00,000 and advance of ₹3,00,000 was given by ***account payee*** cheque but property was transferred in his name on 01.07.2021 and on that date stamp duty value was ₹35,00,000, in this case amount of gift shall be ₹7,00,000 (27,00,000 – 20,00,000). (Difference amount is more than ₹50,000 and more than 10% of the consideration). Similarly, it will also be considered to be normal income.

The gift is exempt in the following cases

(a) If any individual has received any gift from any of his relative, it will be exempt from income tax. The term relative shall include

(a) spouse of the individual;
(b) brother or sister of the individual;
(c) brother or sister of the spouse of the individual;
(d) brother or sister of either of the parents of the individual;
(e) any lineal ascendant or descendant of the individual; (ascendant means mother/ father/ grand mother / grand father and so on: Descendant means son / daughter / grand son / grand daughter etc.
(f) any lineal ascendant or descendant of the spouse of the individual;
(g) spouse of the person referred to in items (b) to (f)

Whether mother's parents shall be included in lineal ascended is a question of law.

(b) If any individual has received any gift from any person of any amount on the occasion of his/her marriage. If gift is received by the parents of such individual, in that case it will be taxable. If any individual has received gift on the occasion of anniversary, it will be taxable.
(c) If any person has received any gift under a will/ inheritance, it will be exempt from income tax.
(d) in contemplation of death of the payer or donor (Contemplation of Death means the apprehension of an individual that his life will end in the immediate future by a particular illness etc.)
(e) from any local authority or charitable hospital or charitable educational institution or charitable trust or other similar organisation.

Question 2: Explain meaning of property.

Answer:

"PROPERTY" means the following capital asset of the assessee, namely:—
(*i*) immovable property being land or building or both;
(*ii*) shares and securities;
(*iii*) jewellery;
(*iv*) archaeological collections (relating to past/ ancient)
(*v*) drawings (a picture or diagram made with a pencil, pen, or crayon without paint.)
(*vi*) paintings;
(*vii*) sculptures;
(*viii*) any work of art; or
(*ix*) bullion (Gold and silver in the form of biscuits / bricks / bars)

If *any person* has received gift of any other property, it will not be taxable e.g. motor car or plant and machinery or a watch or a mobile phone etc.

E.g. Mr. X received a mobile phone valued ₹70,000 from his friend, in this case, it will be exempt from

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Tax on ₹3,00,000 @ 20%	60,000
Add: HEC @ 4%	8,100
Tax Liability	2,10,600

(Tax liability excluding capital gains i.e. ₹14,00,000 - ₹3,00,000 = ₹11,00,000 at slab rate + HEC @ 4% 1,48,200)

Interest u/s 234C

Since capital gains arises on 1st January 2022, installments for 15th June, 15th September and 15th December shall be checked without including tax on capital gain and shall be as given below:

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹
Upto 15.06.2021 (1,48,200 x 15%)	22,230.00	15,000	7,230.00

Rounded off under rule 119A = 7,200

Interest u/s 234C = 7,200 x 1% x 3 = 216

Upto 15.09.2021 (1,48,200 x 45%)	66,690.00	45,000	21,690.00

Interest u/s 234C = 21,600 x 1% x 3 = 648

Upto 15.12.2021 (1,48,200 x 75%)	1,11,150.00	95,000	16,150.00

Rounded off under rule 119A = 16,100

Interest u/s 234C = 16,100 x 1% x 3 = 483

Installment for 15th March shall be including tax on capital gains and is as given below:

Upto 15.03.2022 (2,10,600 x 100%)	2,10,600	1,70,000	40,600

Interest u/s 234C = 40,600 x 1% x 1 = 406

Total Interest u/s 234C ***₹1,753***

Interest u/s 234B (01-04-2022 to 10-12-2022)

40,600 x 1% x 9 ₹3,654

Interest u/s 234A (01-08-2022 to 10-12-2022)

40,600 x 1% x 5 ₹2,030

Similar provision shall be applicable in case of a newly setup Business/Profession

If any Assessee has started Business/Profession in the current year, assessee shall be exempt from payment of advance tax prior to commencement of Business/Profession i.e. advance tax has to be paid in installments subsequent to commencement of Business/Profession.

If Business/Profession has been started after 15th March, advance tax should be paid upto 31st March otherwise Interest shall be charged under section 234C for one month @ 1%.

Example: Mr. X started his business on 01.10.2021 and had income ₹10,00,000 upto 31.03.2022, In this case, he will be required to pay advance tax in the manner given below:

	₹
Income under the head Business/ Profession	10,00,000
Gross Total Income/Total Income	10,00,000
Computation of Tax Liability	
Tax on 10,00,000 at slab rate	1,12,500
Add: HEC @ 4%	4,500
Tax Liability	1,17,000

Advance Tax Payment

15.06.2021		Nil
15.09.2021		Nil
15.12.2021	(1,17,000 x 75%)	87,750.00
15.03.2022	(1,17,000 x 100%)	1,17,000.00

Illustration 5: ABC Ltd. started his business on 01.10.2021 and had earning from business from 01.10.2021 to 31.03.2022 ₹20,00,000, in this case company need not pay advance tax upto 15.09.2021 but advance tax

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PRACTICE PROBLEMS

TOTAL PROBLEMS 24

Problem 1 TO 10

Determine residential status of Mr. X for the assessment year 2022-23, who stays in India during various financial years asunder:

Previous Years	1	2	3	4	5	6	7	8	9	10
2021-22	65	183	181	69	300	70	72	95	180	93
2020-21	91	90	87	110	97	99	94	92	91	90
2019-20	190	78	98	91	103	104	101	100	99	80
2018-19	89	120	189	196	110	98	97	96	95	90
2017-18	87	91	92	93	94	95	94	93	92	100
2016-17	86	99	92	95	99	100	101	100	99	90
2015-16	84	66	93	94	365	210	209	208	207	80
2014-15	105	210	91	93	—	0	91	92	91	90
2013-14	110	110	92	92	362	300	200	100	—	100
2012-13	112	94	93	91	10	99	88	77	66	110
2011-12	100	96	91	90	310	100	99	92	94	120
2010-11	91	199	90	89	210	92	94	96	98	130
2009-10	94	81	89	8	92	80	70	60	50	100
2008-09	97	82	88	87	88	55	65	75	85	80
2007-08	99	83	87	86	84	40	50	60	70	60

Answer = (1) ROR; (2) ROR; (3) ROR; (4) ROR; (5) ROR; (6) NOR; (7) ROR; (8) ROR; (9) ROR; (10) NR

Problem 11.

Mr. X, a citizen of USA, has come to India for the first time on 01.07.2017. The particulars of his arrival and departure are as given below:

Date of arrival	**Date of departure**
01.07.2017	11.12.2017
27.03.2018	21.07.2018
10.09.2018	01.03.2019
01.01.2020	23.09.2020
01.02.2021	01.07.2021
11.02.2022	——

Determine his residential status for various years.

Answer = 2017-18 – Non-Resident (NR)
2018-19 – Resident but not ordinarily resident (NOR)
2019-20 – Resident but not ordinarily resident (NOR)
2020-21 – Resident but not ordinarily resident (NOR)
2021-22– Resident and ordinarily resident (ROR)

Problem 12.

Mr. X, a citizen of U.K., has come to India for the first time on 01.07.2017. The particulars of his arrival and departure are as given below:

Date of arrival	**Date of departure**
01.07.2017	07.09.2017
01.01.2018	08.03.2018
11.07.2018	20.09.2018

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Municipal taxes paid	10%	10%
Fire Insurance paid	1,500	650
Ground rent due	700	900
Land revenue paid	600	800
Interest payable on capital borrowed for purchase of flat	45,000	Nil

Income of Mr. X from his proprietary business–warehousing corporation is ₹7,00,000. Determine the total income and tax liability for the assessment year 2022-23, you are informed that Mr. X could not occupy flat for 2 months commencing from December 1st, 2021 and that he has attained the age of 82 on 23.08.2021.

Answer = Total Income: ***₹6,70,000***; Tax Liability: ₹35,360

Problem 24.

Mr. X and Mr. Y constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area at the first floor.

Mr. X started construction of the house on 01.04.2020 and completed it on 31.03.2021. Mr. X occupied the entire house on 01.04.2021. Mr. X has availed a housing loan of ₹25 lakhs @ 12% p.a. on 01.04.2020 and has also submitted a certificate from the lender certifying the amount of interest.

Mr. Y started construction on 01.04.2020 and completed it on 30.06.2021. Mr. Y occupied the ground floor on 01.07.2021 and let out the first floor for a rent of ₹20,000 per month. However, the tenant vacated the house on 31.12.2021 and Mr. Y occupied the entire house during the period 01.01.2022 to 31.03.2022. Mr. Y has availed a housing loan of ₹15 lakhs @ 10% p.a. on 01.07.2020 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 31.03.2022. Compute income from house property for Mr. X and Mr. Y for the previous year 2021-22 (assessment year 2022-23).

Answer = Mr. X: ₹ (2,00,000); Mr. Y: ₹ (92,000)

Problem 25.

Mrs. X is the owner of a house property. She borrowed ₹60,000 from life insurance corporation of India on 1st September 2014 @ 15% p.a. for the construction of this house. The construction was completed on 31.03.2017. Since then the house is under her self-occupation. On 1st June 2021 the house was let out @ ₹3,000 p.m. The tenant vacated the house on 1st August 2021. She occupied the house for self-occupancy. The house is again let out @ ₹3,500 p.m. from 1st October 2021.

Other particulars of the house for the previous year 2021-22.	**₹**
Municipal Valuation	22,000 p.a.
Municipal taxes disputed, hence not paid	2,200 p.a.
Ground rent for the previous year 2021-22 outstanding	3,200
Insurance premium paid	1,200
Refund of first loan instalment to LIC on 01.10.2021	15,000

Compute the income from house property for assessment year 2022-23.

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

Problem 26.

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 ₹7,500 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

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= 5,70,000

Total Income	10,10,000
Computation of Tax Liability	
Tax on casual income ₹ 1,00,000 @ 30%	30,000
Tax on LTCG ₹2,00,000 @ 20%	40,000
Tax on STCG 111A ₹ 3,00,000 @ 15%	45,000
Tax on ₹4,10,000 at slab rate	8,000
Tax before health & education cess	1,23,000
Add: HEC @ 4%	4,920
Tax Liability	1,27,920

MAY – 2000 (4 Marks)

Mr. X is a retired Government officer aged 40 years, who derived the following income in respect of financial year 2021-22. He resides in Cochin:

	₹
Salary	6,00,000
Interest from bank deposits (fixed deposits)	2,00,000

He has paid ₹28,000 as premium to effect an insurance on his health and it was paid by a cheque. He pays a rent of ₹10,000 per month in respect of furnished accommodation. He is eligible for deduction under Section 80GG. Compute his total income and tax liability for assessment year 2022-23.
What are the conditions to be satisfied by him to qualify for the deduction?

Answer:	₹
Salary	6,00,000.00
Less: Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	5,50,000.00
Income under the head Other Sources {Bank Interest}	2,00,000.00
Gross Total Income	7,50,000.00
Less: Deduction under section 80D	(25,000.00)
Less: Deduction under section 80GG	***(47,500.00)***

Working Note:
Least of the following:
1. ₹1,20,000 – ₹72,500 = ₹47,500
2. ₹60,000
3. 25% x 7,25,000 = ₹1,81,250
(AGTI = ₹7,50,000 – ₹25,000 = ₹7,25,000)

Total Income	***6,77,500.00***
Computation of Tax Liability	
Tax on ₹6,77,500 at slab rate	***48,000***
Add: HEC @ 4%	***1,920***
Tax Liability	***49,920***

Conditions to be fulfilled for grant of deduction under section 80GG :

1. The assessee should not be getting any house rent allowance and also he is not being provided with Rent Free Accommodation by his employer.
2. The assessee should not have any house in his name or in the name of the spouse or in the name of minor child or in the name of Hindu Undivided Family of which he is a member, at a place where he ordinarily resides or performs duties of his office or employment or carries on his business or profession.
3. Also he should not have house even at any other place which he has declared to be self occupied.
4. The assessee has paid rent for the accommodation taken by him for his residence.

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Example 1: Mr. X received royalty of ₹2,00,000 from abroad for a book authored by him which is a work of artistic nature. The rate of royalty is 20% of value of books and expenditure made for earning this royalty was ₹50,000. The amount remitted to India till 30th September, 2021 is ₹1,20,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (2,00,000-50,000)	1,50,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB	70,000

15% of value of books (2,00,000/20% x 15%)	1,50,000
but cannot exceed amount brought in India within 6 months from the end of the previous year i.e.	1,20,000
Allowed	1,20,000
Less: Expenses	(50,000)
Deduction allowed	70,000

Example 2: Mr. X received royalty of ₹6,00,000 from abroad for a book authored by him which is a work of artistic nature. The rate of royalty is 25% of value of books and expenditure made for earning this royalty was ₹2,50,000. The amount remitted to India till 30th September, 2022 is ₹3,80,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (6,00,000-2,50,000)	3,50,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB	1,10,000

15% of value of books (6,00,000/25% x 15%)	3,60,000
but cannot exceed amount brought in India within 6 months from the end of the previous year i.e.	3,80,000
Allowed	3,60,000
Less: Expenses	(2,50,000)
Deduction allowed	1,10,000

Example 3: Mr. X received royalty of ₹10,00,000 from ABC Ltd. situated in India for a book authored by him which is a work of artistic nature. The rate of royalty is 10% of value of books and expenditure made for earning this royalty was ₹5,00,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (10,00,000-5,00,000)	5,00,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB	3,00,000

Royalty received	10,00,000
Less: Expenses	(5,00,000)
Deduction allowed	5,00,000
But maximum ₹3,00,000	

Example 4: Mr. X received royalty (lumpsum) of ₹6,00,000 from abroad for a book authored by him which is a work of artistic nature. Expenditure made for earning this royalty was ₹2,50,000. The amount remitted to India till 30th September, 2022 is ₹4,00,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

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from a concern in which his or her spouse has substantial interest and further salary etc. is being received **without any technical or professional qualification**, in such case, salary etc. so received shall be clubbed in the income of the spouse having substantial interest. However clubbing shall not be applicable in relation to any income arising to the spouse where the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his or her technical or professional knowledge and experience.

If the spouse has substantial interest along with his relative, even in that case clubbing provisions are applicable.

Example

Mr. X is holding 11% shares of ABC Ltd. and his father is holding 10% shares in ABC Ltd. and his wife Mrs. X is employed in ABC Ltd. without any technical or professional qualification, in this case, salary income of Mrs. X shall be clubbed in the income of Mr. X.

(ii) Technical and professional qualification shall include not only degree or membership but also any experience or expertise or any natural talent also, as decided in **Batta Kalyani v. CIT, (HC).**

(iii) As per section 2(41), Relative, means the husband, wife, brother or sister or any lineal ascendant or descendant.

(iv) As per section 2(32), Substantial Interest means having 20% or more of the equity shares in a company or having 20% of more of the shares in profits in any other concern.

(v) Both husband and wife have substantial interest in a concern: Where both husband and wife have substantial interest in a concern and both are in receipt of income by way of salary etc. from the said concern, such income will be includible in the hands of that spouse, whose total income, excluding such income is higher. E.g. Mr. X has 12% shares in ABC limited and Mrs. X has 13% shares in ABC limited and both are getting salary of 13,00,000 and 10,00,000 from ABC limited without any technical or professional qualification. Mr. X has income under the head house property 6,00,000 and Mrs. X has income under the head house property 7,00,000, in this case salary income of both of them shall be clubbed in the income of Mrs. X. Tax liability of each one of them shall be:

Mr. X

Income under the head house property	6,00,000
Gross Total Income	6,00,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	6,00,000
Computation of Tax Liability	
Tax on 6,00,000 at slab rate	32,500
Add: HEC @ 4%	1,300
Tax Liability	33,800

Mrs. X

Income under the head house property	7,00,000
Income under the head salary	
Salary of Mr. X	13,00,000
Salary of Mrs. X	10,00,000
Gross salary	23,00,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	22,50,000
Gross Total Income	29,50,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	29,50,000
Computation of Tax Liability	
Tax on 29,50,000 at slab rate	***6,97,500***
Add: HEC @ 4%	***27,900***
Tax Liability	***7,25,400***