

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Tax after marginal relief	67,84,375
Add: HEC @ 4%	2,71,375
Tax Liability	70,55,750

(xiv) Computation of Tax Liability

Total Income	205,00,000
Tax on ₹205,00,000 at slab rate	59,62,500
Add: Surcharge @ 25%	14,90,625
Tax before marginal relief	74,53,125
Less: Marginal Relief	(2,68,750)

Working Note:

Tax + surcharge @25% on income of ₹205,00,000	74,53,125
Tax + surcharge @15% on income of ₹200,00,000	(66,84,375)
Increase in tax	7,68,750
Increase in income	5,00,000
Marginal Relief (7,68,750 – 5,00,000)	2,68,750

Tax after marginal relief	71,84,375
Add: HEC @ 4%	2,87,375
Tax Liability	74,71,750

(xv) Computation of Tax Liability

Total Income	501,00,000
Tax on ₹501,00,000 at slab rate	1,48,42,500
Add: Surcharge @ 37%	54,91,725
Tax before marginal relief	2,03,34,225
Less: Marginal Relief	(17,18,600)

Working Note:

Tax + surcharge @37% on income of ₹501,00,000	203,34,225
Tax + surcharge @25% on income of ₹500,00,000	(1,85,15,625)
Increase in tax	18,18,600
Increase in income	1,00,000
Marginal Relief (18,18,600 – 1,00,000)	17,18,600

Tax after marginal relief	1,86,15,625
Add: HEC @ 4%	7,44,625
Tax Liability	1,93,60,250

(xvi) Computation of Tax Liability

Total Income	505,00,000
Tax on ₹505,00,000 at slab rate	1,49,62,500
Add: Surcharge @ 37%	55,36,125
Tax before marginal relief	2,04,98,625
Less: Marginal Relief	(14,83,000)

Working Note:

Tax + surcharge @37% on income of ₹505,00,000	2,04,98,625
Tax + surcharge @25% on income of ₹500,00,000	(1,85,15,625)
Increase in tax	19,83,000
Increase in income	5,00,000
Marginal Relief (19,83,000 – 5,00,000)	14,83,000

Tax after marginal relief	1,90,15,625
Add: HEC @ 4%	7,60,625
Tax Liability	1,97,76,250

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 39

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

covered under section 111A and shall be taxable @ 15% and deductions under section 80C to 80U i.e. Chapter VI-A, shall not be allowed from **such long term or short term capital gains.**

"equity oriented fund" means a fund set up under a scheme of a mutual fund specified under clause (23D) of section 10 and,—

(i) in a case where the fund invests in the units of another fund which is traded on a recognised stock exchange,—

(A) a minimum of ninety per cent of the total proceeds of such fund is invested in the units of such other fund; and

(B) such other fund also invests a minimum of ninety per cent of its total proceeds in the equity shares of domestic companies listed on a recognised stock exchange; and

(ii) in any other case, a minimum of sixty-five per cent of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a recognised stock exchange:

Provided that the percentage of equity shareholding or unit held in respect of the fund, as the case may be, shall be computed with reference to the annual average of the monthly averages of the opening and closing figures;

Rebate u/s 87A shall be allowed from tax on LTCG or STCG 111A. (No Rebate u/s 87A from LTCG 112A)

Special provision for resident individual

In case of a resident individual if total income excluding long term capital gains and short term capital gain covered under section 111A, LTCG u/s 112A and casual income is below the amount which is exempt from income tax (i.e.2,50,000/3,00,000/5,00,000), in such cases deficiency in the exemption shall be allowed from long term capital gains or short term capital gain under section 111A or long term capital gains under section 112A as the case may be. Such benefit is not allowed to a non-resident.

Illustration 11:

Mr. X has incomes as given below:

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000

Deductions allowed under section 80C to 80U

2,00,000

Compute his tax liability for the assessment year 2020-21.

Solution:

₹

Computation of Total Income

• Income under the head salary	35,000
• Income under the head house property	45,000
• Income under the head business/profession	30,000
• Long term capital gains	1,10,000
• Long term capital gains u/s 112A	5,00,000
• Short term capital gains	25,000
• Short term capital gains u/s 111A	7,00,000
• Casual Income (winnings of lottery)	55,000
• Other income	3,000

Gross Total Income

15,03,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 66

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Illustration 27(B): Presume in the above case the company is the foreign company.**Solution:****Tax liability and additional tax liability of the company shall be as given below:**

	₹
Profit before tax	150,00,000.00
Income tax on ₹150,00,000 @ 40%	60,00,000.00
Add: Surcharge @ 2%	1,20,000.00
Add: HEC @ 4%	2,44,800.00
Income tax liability	63,64,800.00

Additional income tax of the foreign company shall be nil.

Tax liability of the shareholder shall be as given below:

Dividend from foreign company	7,00,000.00
Tax on ₹7,00,000 at slab rate	52,500.00
Add: HEC @ 4%	2,100.00
Tax Liability	54,600.00

Dividend in excess of ₹ 10 lakh

As per section 115BBDA, Dividend received by *All Assessee except a domestic company or a fund or institution or trust or any university*, exceeding ₹10 lakh shall be taxable @ 10%. No further deduction or expenditure shall be allowed from such income. Further any loss shall also not be allowed to be set off.

In case of non-resident entire amount is exempt.

E.g. Mr. X has dividend of ₹ 16 lakh from a domestic company and he has deduction under section 80C to 80U ₹ 1,00,000, in this case his tax liability shall be

Dividend Income	16,00,000
Less: Exempt u/s 10(34)	10,00,000
Income under the head Other Sources	6,00,000
Gross Total Income	6,00,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	6,00,000

Computation of Tax Liability

Tax on ₹ 6,00,000 @ 10% u/s 115BBDA	60,000
Add: HEC @ 4%	2400
Tax Liability	62,400

Question 20: Write a note on Interest or dividend income from UTI or Mutual funds.**Answer: Interest or dividend income from UTI or Mutual funds Section 10(35)**

If any person has received any interest or dividend from the UTI or Mutual Fund notified under section 10(23D), such income is exempt from income tax.

If UTI or Mutual Funds have distributed any interest or dividend, as per section 115R, 115S, 115T UTI or Mutual Funds, have to pay additional income tax (Corporate dividend tax) at the rate of 25% plus surcharge @ 12% plus HEC @ 4%, if the amount is distributed to individual or Hindu Undivided Family.

The effective rate shall be	25%
Add: Surcharge @ 12%	3%
Total	28%
Add: HEC @ 4%	1.12%
Total	29.12%

If amount is distributed to any other person, rate shall be 30% plus surcharge @ 12% plus HEC @ 4%.

The effective rate shall be	30%
Add: Surcharge @ 12%	3.6%
Total	33.6%
Add: HEC @ 4%	1.344%
Total	34.944%

e.g. If a mutual fund has paid dividend of ₹50 lakhs out of which dividends paid to individual or HUF are ₹20 lakhs, additional income tax payable shall be

Amount of Dividend	50,00,000.00
--------------------	--------------

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 99

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

EXAMINATION QUESTIONS**MAY – 2019 (OLD COURSE)****Question 5 (a)****Marks 3**

Miss Himanshi (68 years) is a resident individual. During the assessment year 2020-21, she has income from Long-term capital gain on transfer of equity shares ₹3,80,000 (Securities transaction has been paid on acquisition and transfer of the said shares) and income from Other sources ₹ 2,75,000.

Compute her tax liability for Assessment year 2020-21.

Solution:**Computation of Total Income**

	₹
Long term capital gains u/s 112A	3,80,000
Income from other sources	2,75,000
Gross Total Income	6,55,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	6,55,000

Computation of Tax Liability

Tax on Loan term capital gains 2,55,000 (3,80,000-1,00,000-25,000) @ 10% u/s 112A	25,500
Tax on normal income Nil (2,75,000-2,75,000)	Nil
Tax before health & education cess	25,500
Add: HEC @ 4%	1,020
Tax Liability	26,520

Note:

1. Rebate u/s 87A shall not be allowed since income is more than ₹5,00,000.
2. Basic exemption allowed is ₹3,00,000 as Miss Himanshi is 68 years old.

NOV – 2018 (NEW COURSE)**Question 6 (c)****Marks 5**

Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2020-21:

Income under the head Salary	27,88,000
Income under the head House Property	15,80,000
Income under the head Other sources	7,22,000

He has not claimed any deduction under chapter VIA. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income Tax Act, 1961.

Solution:**Computation of Total Income**

	₹
Income under the head Salary	27,88,000
Income under the head House Property	15,80,000
Income under the head Other sources	7,22,000
Gross Total Income	50,90,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	50,90,000

Computation of Tax Liability

Total Income	50,90,000
Tax on ₹50,90,000 at slab rate	13,39,500
Add: Surcharge @ 10%	1,33,950
Tax before marginal relief	14,73,450

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 105

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Question 3: Write a note on Taxability of gift received by HUF from its members.

Answer:

If any **Hindu undivided family** has received any gift from any of its members, it will be exempt from income tax. E.g. One HUF has received cash gift of ₹10,00,000 from one of its members, it will be exempt from income tax.

If HUF has given gift to its member, it will be taxable.

Question 4: Write a note on Taxability of stock-in-trade.

Answer:

If any person has received any asset as stock-in-trade, it will not be taxable as gift e.g. Mr. X is a dealer in gold and he has purchased gold for ₹20 lakhs but market value is ₹ 27 lakhs, in this case it will not be taxable as gift (because cost will be shown in the books as ₹20 lakhs and entire profit on sale shall be taxable under the head business/profession.)

Illustration 1: Mr. X, a dealer in shares, received the following without consideration during the P.Y.2019-20 from his friend Mr. Y, -

(1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2019.

(2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2019.

(3) A plot of land at Faridabad on 1st July, 2019, the stamp value of which is ₹ 5 lakh on that date. Mr. Y had purchased the land in April, 2014.

Mr. X purchased from his friend Z, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2019, the fair market value of which was ₹ 600 each on that date.

(4) Mr. X sold these shares in the course of his business on 23rd June, 2019.

(5) On 1st November, 2019, Mr. X took possession of property (building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2019 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by **account payee cheque** as down payment on the date of booking.

Compute the income of Mr. X chargeable under the head “Income from other sources” for A.Y.2020-21.

Solution:

	Particulars	₹
(1)	Cash gift is taxable	75,000
(2)	Since bullion is included in the definition of property, it is taxable.	60,000
(3)	Stamp duty value of plot of land at Faridabad is taxable.	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. Z, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. X. Since Mr. X is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. X.	-
(5)	Difference between the stamp duty value of ₹23 lakh on the date of booking and the actual consideration of ₹20 lakh paid is taxable. (Difference amount is more than ₹50,000 and more than 5% of the consideration)	3,00,000
	Income from Other Sources	9,35,000

Illustration 2: Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

(i) X HUF received ₹ 75,000 in cash from niece of Mr. X (i.e., daughter of Mr. X’s sister). Mr. X is the Karta of the HUF.

(ii) Miss. X, a member of her father’s HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.

(iii) Mr. X received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹45,000 (FMV) from his nephew on the same day.

(iv) X HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

MULTIPLE CHOICE QUESTIONS**1. Gift of sum of money is exempt if**

- (a) aggregate value during particular year is less ₹50,000
- (b) aggregate value during particular year is upto ₹50,000
- (c) if value of individual gift is upto ₹50,000
- (d) aggregate value during particular year is less ₹1,00,000

2. In case of gift of immovable property, value to be taken into consideration shall be

- (a) market value of individual property
- (b) market value of all the properties
- (c) stamp duty value of individual property
- (d) stamp duty value of all the properties

3. For the purpose of gift, the term relative shall include

- (a) grand father of individual
- (b) brother's son of individual
- (c) brother of father of spouse
- (d) all the above

4. Property for the purpose of gift shall include

- (a) shares and securities
- (b) jewellery
- (c) mobile phone
- (d) work of art
- (e) (a), (b) and (d)

5. Which of the statement is correct

- (a) gift received by an employee is exempt upto ₹10,000
- (b) cash gift received by an employee upto ₹5,000 is exempt
- (c) gift in kind **received by an employee** upto ₹5,000 is exempt
- (d) gift in kind **received by an employee** upto ₹50,000 is exempt

6. Which of the statement is correct

- (a) scholarship received by any person is exempt u/s 10(17A)
- (b) award or reward of central government is taxable u/s 28
- (c) gift received by a professional from his client is taxable as per section 28
- (d) gift received by an employee exceeding ₹5,000 is taxable u/h other sources

7. which of the statement is false

- (a) gift received by HUF from its member is exempt
- (b) gift received from sister of spouse is exempt
- (c) gift of motor car received from a friend is exempt
- (d) cash gift upto ₹5,000 received from employer is exempt

8. The term relative do not include

- (a) lineal ascendant or descendant of individual
- (b) lineal ascendant or descendant of spouse of individual
- (c) lineal ascendant or descendant of brother of individual
- (d) none of the above

9. If any person has purchased immovable property for ₹20 lakh but stamp duty value is ₹23 lakhs, in this case taxable amount of gift shall be

- (a) 3 lakh
- (b) 1 lakh
- (c) Nil
- (d) 23 lakh

10. Which of the following gift is taxable

- (a) Mr. X received cash gift ₹51,000 from his friend
- (b) Mr. Y received cash gift ₹51,000 from his fiancée

PRACTICE PROBLEMS

TOTAL PROBLEMS 5

Problem 1.

Discuss taxability in the following cases:

- (i) Mr. X has received gift of ₹ 50,000 in cash from his friend.
- (ii) Mr. X has received gift of ₹ 2,50,000 in cash from his brother.
- (iii) Mr. X has received gift of ₹ 2,50,000 in cash from his mother's sister.
- (iv) Mr. X has received gift of ₹ 2,50,000 in cash from his father's brother.
- (v) Mr. X has received gift of ₹ 2,50,000 in cash from his cousin.
- (vi) Mr. X has received gift of ₹ 2,50,000 in cash from brother of his spouse.
- (vii) Mr. X has received gift of ₹ 2,50,000 in cash from his grand father.
- (viii) Mr. X has received gift of ₹ 2,50,000 in cash from spouse of his brother.
- (ix) Mr. X has received gift of ₹ 2,50,000 in cash from husband of his sister.
- (x) Mr. X has received gift of ₹ 2,50,000 in cash from sister of his brother's wife.
- (xi) Mr. X has received gift of ₹ 2,50,000 in cash from the sister of his spouse.
- (xii) Mr. X has received gift of ₹6,000 in cash on his birthday from each of his eleven friends.
- (xiii) Mr. X has received gift of ₹ 2,50,000 as property from his friend.
- (xiv) Mr. X has received gift of ₹2,50,000 in cash from his friend on the occasion of his marriage.
- (xv) Mr. X has received gift of ₹1,00,000 in cash and ₹1,00,000 as property from his fiancée.

Problem 2.

Mr. X submits the particulars for the previous year 2019-20 as given below:

1. He has received a gift of ₹27,000 from one of his friend on 01.09.2019.
2. He has received a gift of ₹11,000 on 01.10.2019 from his wife Mrs. X.
3. He has received a gift of ₹29,000 from his step daughter on 01.01.2020.
4. He has received a gift of ₹27,000 from grand mother of Mrs. X on 07.01.2020.
5. ***He has received a gift of ₹70,000 in kind from his employer on 01.03.2020.***
6. He has received gold as gift from his friend on 01.12.2019 with value ₹2,00,000.
7. He has received ₹27,000 as gift from his maternal aunt (mother's sister) on 10.12.2019.
8. He has received dividend of ₹2,00,000 from a domestic company on 31.03.2020.
9. He has received two gifts of ₹30,000 each from his neighbours on 01.06.2019.

Compute his tax liability for assessment year 2020-21.

Answer = Tax Liability: Nil

Problem 3.

Mr. X received gift in cash ₹5,00,000 from son of his father's brother and gift of ₹1,00,000 in cash from brother of father of Mrs. X. He has agricultural income ₹5,00,000.

Compute his tax liability for Assessment Year 2020-21.

Answer = Tax Liability: ₹83,200

(b) He is aged 81 years.

Answer = Tax Liability: ₹31,200

(c) He is non-resident and he has completed age of 80 years as on 31.03.2020.

Answer = Tax Liability: ₹83,200

Problem 4.

Mr. X received jewellery valued ₹8,00,000 from brother of his grand father and his agricultural income is ₹1,00,000.

Compute his income and tax liability for Assessment Year 2020-21.

Answer = Total Income: ₹8,00,000; Tax Liability: ₹91,000

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

- (i) Mr. X has received gift of ₹50,000 in cash from his friend, in this case it will not be considered to be his income.
- (ii) Mr. X has received gift of ₹2,50,000 in cash from his brother, in this case it will not be considered to be his income.
- (iii) Mr. X has received gift of ₹ 2,50,000 in cash from his mother's sister, in this case it will not be considered to be his income.
- (iv) Mr. X has received gift of ₹2,50,000 in cash from his father's brother, in this case it will not be considered to be his income.
- (v) Mr. X has received gift of ₹2,50,000 in cash from his cousin, in this case it will be chargeable to tax.
- (vi) Mr. X has received gift of ₹2,50,000 in cash from brother of his spouse, in this case it will not be considered to be his income.
- (vii) Mr. X has received gift of ₹2,50,000 in cash from his grand father, in this case it will not be considered to be his income.
- (viii) Mr. X has received gift of ₹2,50,000 in cash from spouse of his brother, in this case it will not be considered to be his income.
- (ix) Mr. X has received gift of ₹2,50,000 in cash from husband of his sister, in this case it will not be considered to be his income.
- (x) Mr. X has received gift of ₹2,50,000 in cash from sister of his brother's wife, in this case it will be considered to be his income.
- (xi) Mr. X has received gift of ₹2,50,000 in cash from the sister of his spouse, in this case it will not be considered to be his income.
- (xii) Mr. X has received gift of ₹6,000 in cash on his birthday from each of his eleven friends, in this case it will be considered to be his income because the total amount is exceeding ₹50,000.
- (xiii) Mr. X has received gift of ₹2,50,000 in kind from his friend, in this case it will be considered to be his income.
- (xiv) Mr. X has received gift of ₹2,50,000 in cash from his friend on the occasion of his marriage, in this case it will not be considered to be his income.
- (xv) Mr. X has received gift of ₹1,00,000 in cash and ₹1,00,000 as property from his fiancée, in this case gift in cash will be considered to be his income and the gift in kind shall also be considered to be his income.

Solution 2:

₹

Computation of income under the head Salary

<i>Gift in kind from his employer (70,000 – 5,000)</i>	<i>65,000.00</i>
<i>Less: Standard Deduction</i>	<i>(50,000.00)</i>
<i>Income under the head Salary</i>	<i>15,000.00</i>

Computation of income under the head Other Sources

Gift received from friend	27,000.00
Gifts received from neighbours	60,000.00
Gift received from friend in kind	2,00,000.00
Income under the head Other Sources	2,87,000.00
Gross Total Income	3,02,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,02,000.00

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 118

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Computation of Tax Liability

Tax on ₹1,02,000 at slab rate	Nil
Tax on ₹8,52,000 (₹10,00,000 – ₹1,48,000) @ 15%	1,27,800.00
Add: HEC @ 4%	5,112.00
Tax Liability	1,32,912.00
Rounded off u/s 288B	1,32,910.00

NOV – 2008**Question 2****(4 Marks)**

Mrs. X has received the following gifts during previous year 2019-20.

(i) On the occasion of her marriage on 14.08.2019, she has received ₹90,000 as gift out of which ₹70,000 are from relatives and balance from friends.

(ii) On 12.09.2019, she has received gift of ₹18,000 from cousin of her mother.

(iii) A cell phone of ₹71,000 is gifted by her employer on 15.08.2019.

(iv) She gets a gift of ₹25,000 from the elder brother of her husband's grandfather on 25.10.2019.

(v) She has received a gift of ₹2,000 from her friend on 14.04.2019.

(vi) She has won ₹4 lakh from a game show on electronic media.

Compute her tax liability for assessment year 2020-21.

Answer:

Computation of taxable income of Mrs. X from gifts for A.Y. 2020-21

Particulars	Taxable amount ₹	Reason for taxability or otherwise of each gift
• Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable.
• Cousin of Mrs. X's mother	18,000	Cousin of Mrs. X's mother is not a relative. Hence, the gift is taxable.
• Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the gift is taxable.
• Friend	2,000	Gift from friend is taxable.
Aggregate value of gifts	45,000	

Since the aggregate value of gifts received by Mrs. X during the previous year 2019-20 does not exceed ₹50,000, the same is not chargeable to tax under section 56(2)(x) of the Income-Tax Act, 1961.

Gift received from the employer in kind upto ₹5,000 is exempt from income tax but excess over it is taxable hence in this case taxable amount of gift shall be **₹66,000 (71,000 – 5,000)** and it will be taxable under the head Salary.

Gross Salary	66,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head Salary	16,000
Income under the head Other Sources	4,00,000
Gross Total Income	4,16,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,16,000
Computation of Tax Liability	
Tax on ₹16,000 at slab rate	Nil
Tax on ₹4,00,000 @ 30%	1,20,000
Less: Rebate u/s 87A	(12,500)
Tax before HEC	1,07,500
Add: HEC @ 4%	4,300
Tax Liability	1,11,800

MAY – 2008**Question 3****(1 Marks)**

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 123

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Question 4: Explain Payment of advance tax in case of capital gains/casual income/ newly setup business/ profession/ Dividend Income in excess of ₹ 10,00,000.**Answer: Payment of advance tax in case of capital gains/casual income/newly setup business/ profession/ Dividend Income in excess of ₹ 10,00,000 Section 234C**

In case of capital gains and casual income, no advance tax is payable on estimated basis but if there is actual accrual of casual income or capital gains, advance tax is to be paid in the subsequent installments and if such accrual is after 15th March, advance tax is to be paid upto 31st March of previous year otherwise interest shall be charged under section 234C.

Illustration 4: Mr. X has paid advance tax as given below:

Upto 15.06.2019	₹ 15,000
Upto 15.09.2019	₹ 45,000
Upto 15.12.2019	₹ 95,000
Upto 15.03.2020	₹1,70,000

He had long term capital gains of ₹3,00,000 on 01.01.2020 and his income under the head business/Profession is ₹11,00,000

He has filed return of income on 10.12.2020 and has paid difference of the tax on 10.12.2020.

Last date for filing of return is 31.07.2020.

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

Solution:**Computation of Tax Liability**

	₹
Normal Income	11,00,000
Long term capital gains	3,00,000
Total Income	14,00,000
Tax on ₹11,00,000 at slab rate	1,42,500
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 2020, 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 15.06.2019 (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 15.09.2019 (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 15.12.2019 (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 15.03.2020 (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 (01-04-2020 to 10-12-2020)**

40,600 x 1% x 9

₹3,654

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 124

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Interest u/s 234A(01-08-2020 to 10-12-2020)

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 01.10.2019 and had income ₹10,00,000 upto 31.03.2020, 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

15.06.2019	Nil
15.09.2019	Nil
15.12.2019 (1,17,000 x 75%)	87,750.00
15.03.2020 (1,17,000 x 100%)	1,17,000.00

Similar provision shall be applicable in case of Dividend Income in excess of ₹ 10,00,000

If any Assessee has received Dividend in excess of ₹10,00,000 then excess amount is taxable u/s 115BBDA @ 10% and in such case advance tax is payable on actual accrual of Dividend income i.e. advance tax is to be paid in the subsequent installments and if such accrual is after 15th March, advance tax is to be paid upto 31st March of previous year otherwise interest shall be charged under section 234C and Advance Tax shall not be payable on estimated basis.

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

Illustration 5: **ABC & Co. a partnership firm** started his business on 01.10.2019 and had earning from business from 01.10.2019 to 31.03.2020 ₹20,00,000, in this case **firm** need not pay advance tax upto 15.09.2019 but advance tax is to be paid in subsequent installments. **Firm** should pay advance tax on 15.12.2019 equal to (20,00,000 x 30% + HEC) x 75% = 4,68,000 and **firm** should pay total advance tax on 15.03.2020 equal to (20,00,000 x 30% + HEC) x 100% = 6,24,000.

Illustration 6: A partnership firm made the following payments of advance tax during the financial year 2019-20:

	₹
Upto June 15, 2019	4,15,000
Upto September 15, 2019	8,25,000
Upto December 15, 2019	16,64,000
Upto March 15, 2020	26,23,000

Return of income filed by the firm is ₹88,00,000 under the head “profits and gains of business or profession” and ₹9,50,000 by way of long term capital gains on sale of a property effected on December 1, 2019. What is the interest payable by the assessee under section 234B and section 234C for assessment year 2020-21? Assume that the return of income was filed on 30.09.2020 i.e. the due date and tax was fully paid on self assessment.

Solution:**Computation of Tax Liability**

	₹
Business income	88,00,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 180

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

In P.Y. 2015-16{ **May – 15**, June – 30, July-31, August- 31, September - 30 }Days of stay in India are **137**, so she is resident and also she is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence she is NOR.**In P.Y. 2016-17**

{ September – 24, October – 31, November – 30, December – 31, January – 31, February – 28, March – 26 }

Days of stay in India are 201, so she is resident and also she is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence she is NOR.

In P.Y. 2017-18

{February – 19, March – 26}

Days of stay in India are 45. So, she is non - resident.

In P.Y. 2018-19

{June – 9, July – 11}

Days of stay in India are 20. So, she is non – resident

In P.Y. 2019-20

{April – 28, May – 31, June – 30, July – 11}

Days of stay in India are 100. So, she is resident and also her stay during seven years preceding the relevant previous year is 729 days or less, hence she is NOR.

NOV – 2017**Question 2(a)****(5 Marks)**

DAISY Ltd., a foreign company, incorporated in USA and engaged in the Manufacturing and distribution of diamonds, set up a branch office in India in June 2019. The branch office was required to purchase uncut and unassorted diamonds from the dealers of Mumbai and export them to USA.

Out of 20 shareholders of DAISY Ltd., 12 shareholders are non-resident in India. All the major decisions were taken through Board Meetings held at USA.

(i) Determine the residential status of DAISY Ltd. for the Assessment Year 2020-21.

(ii) Discuss the tax treatment of profit from export business.

Answer:

(i) As per section 6(3), A company would be resident in India if

(a) it is an Indian Company; or

(b) its place of effective management in that year is in India.

In the given case, DAISY Ltd. a foreign company therefore it would be resident in India if its place of effective management in that year is in India.

Section 6(3) defines “place of effective management” to mean “a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of DAISY Ltd., its place of effective management for P.Y.2019-20 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in USA. Hence, DAISY Ltd, being a foreign company is a non-resident for A.Y.2020-21, since its place of effective management is outside India in the P.Y.2019-20.

(ii) If any non - resident is purchasing goods from India for the purpose of export, such income shall not be accruing/arising in India, hence it is not taxable in India.

MAY – 2017**Question 2(a) (i)****(4 Marks)**

During the last four years preceding the financial year 2019-20, Mr. Damodhar, a citizen of India, was present in India for 430 days. During the last seven previous years preceding the previous year 2019-20, he was present in India for 830 days.

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 197

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Gross Annual Value	1,26,500
Situation 3	₹

Computation of Gross Annual Value

(a) Fair Rent (16,000 x 12)	1,92,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,16,000
(d) Standard Rent (16,000 x 12)	1,92,000
(e) Expected Rent {Lower of (c) or (d)}	1,92,000
(f) Rent Received/Receivable (16,000 x 10)	1,60,000

In this case, if there was no vacancy, rent received/receivable would have been ₹16,000 x 12 = ₹1,92,000 hence rent received/receivable is lower in this case owing to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,60,000
Situation 4	₹

Computation of Gross Annual Value

(a) Fair Rent (12,000 x 12)	1,44,000
(b) Municipal Valuation (9,000 x 12)	1,08,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (7,000 x 12)	84,000
(e) Expected Rent {Lower of (c) or (d)}	84,000
(f) Rent Received/Receivable (20,000 x 10)	2,00,000

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

Gross Annual Value	2,00,000
--------------------	----------

Question 5: Write a note on House lying vacant for full year.

Answer: As per section 23(1)(c), if any House Property is lying vacant throughout the year, it will be considered to be deemed to be let out and income shall be computed in the similar manner as in case of a let out house. Expected Rent shall be considered to be Gross annual value.

As per section 23 (5), Where the property consisting of any building or land appurtenant thereto is held as stock-in trade and the property or any part of the property is not let during the whole of the previous year, the annual value of such property or part of the property, for the **period up to two year from the** end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.

Question 6: Write a note on unrealized rent.

Answer: Treatment of unrealised rent Explanation to Section 23(1)/Rule 4

Unrealised rent means such rent which is irrecoverable and is considered to be loss i.e. bad debt and in such cases, expected rent shall be computed for full year and while computing rent received or receivable, such unrealised rent shall be excluded and GAV shall be higher of expected rent and rent received/receivable (no special treatment like vacancy).

e.g. Mr. X has let out one house ₹50,000 p.m. , fair rent ₹45,000 p.m., municipal valuation ₹40,000 p.m. standard rent ₹70,000 p.m. and there was unrealized rent for 3 months, in this case GAV of the house shall be
Expected rent (45,000 x 12) 5,40,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 213

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

House I & II – Self-occupied

	₹
Income	(30,000)
Loss under the head house property	(30,000)

Question 11: Write a note on computation of Income of Unoccupied House.**Answer: Income of unoccupied house section 23(2)(b)**

As per section 23(2)(b), if any house cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him, in such cases assessee shall have the option to compute income of such house as if it is self-occupied i.e. it will not be considered to be deemed to be let out. **Benefit u/s 23(2) shall be allowed for maximum two houses.**

Question 12: Write a note on house property which is divided into different portions/units.

Answer: If any house property is divided into different portions, every portion shall be considered to be a separate house and income shall be computed accordingly. There is no need to treat the whole property as a single unit for computation of income from house property.

Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis. Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor on a reasonable basis.

Illustration 19: Mr. X owns a house in Madras. During the previous year 2019-20, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹3,00,000 p.a., fair rent is ₹2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹25,00,000 was taken by him during the year 2015 for acquiring the property. Interest on loan paid during the previous year 2019-20 was ₹1,20,000. Compute Mr. X's income from house property for the A.Y. 2020-21. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Solution:

There are two units of the house. Unit I with 2/3rd area is used by Mr. X for self-occupation throughout the year and no benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/3rd area is let-out through out the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. X for A.Y. 2020-21

Particulars	₹
Unit I (2/3rd area – self-occupied)	
Annual Value	Nil
Less: Deduction under section 24(b) 2/3 rd of ₹ 1,20,000	(80,000)
Loss from Unit I (self-occupied)	(80,000)
Unit II (1/3rd area – let out)	
Gross Annual Value	1,00,000

Working Note:

	₹
(a) Fair rent	90,000
(b) Municipal valuation	1,00,000
(c) Higher of (a) or (b)	1,00,000
(d) Standard rent	1,10,000
(e) Expected rent {Lower of (c) or (d)}	1,00,000
(f) Rent received/ receivable (8,000 x 12)	96,000
GAV = Expected rent	1,00,000

Less: Municipal Taxes	(10,000)
Net Annual Value	90,000
Less: 30% of NAV u/s 24(a)	(27,000)
Less: Interest on capital borrowed u/s 24(b)	(40,000)

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 232

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

of one house which was completed on 31.03.2015 and the house was let out at a rate of ₹80,000 per month w.e.f. 01.11.2018 and fair rent is ₹1,00,000 per month. Municipal taxes paid in previous year 2019-2020 ₹30,000. She has taken a fresh loan of ₹11,00,000 on 01.07.2018 @ 11% per annum and it was utilized to repay the original amount.

Compute her income tax liability for assessment year 2020-21.

Answer: Income Tax Liability: ₹54,180

Problem 14.

Mr. X took a loan of ₹ 6,10,500 @ 7% p.a. on 01.09.2016 from his friend for construction of one house which was completed on 01.06.2019 and it was let out @ ₹9,000 p.m. It remained vacant for 1½ month and there is unrealised rent of ₹1,000. The fair rent of house is ₹10,000 p.m. Assessee has repaid half of the loan amount on 01.07.2018 and remaining amount on 01.02.2020. He has also paid municipal tax of ₹3,000. His **income under the head salary ₹2,65,000.**

Compute his total income and tax liability for the assessment year 2020-21.

Answer = Total Income: ₹2,96,220; Tax Liability: Nil

Problem 15.

Mr. X has taken a loan on 01.07.2016 from SBI @ 11% p.a. of ₹15,00,000 for construction of one house which was completed on 01.11.2018 and was self occupied and municipal taxes paid in previous year 2019-20 ₹32,000. He has given repayment of loan of ₹70,000 on 01.01.2020. He has submitted a certificate confirming the amount of interest.

He has income under the head Salary ₹6,00,000

Compute income tax liability for assessment year 2020-21.

Answer: Tax Liability: Nil

Problem 16.

Mrs. X has taken a loan on 01.11.2015 from PNB @ 10% p.a. of ₹10,00,000 for purchase of one house which was purchased on 01.01.2016 and was self occupied and municipal taxes paid in previous year 2019-2020 ₹30,000. She has repaid the loan amount in annual installments of ₹50,000 starting from 01.01.2017. The house was vacant for 1 month in previous year 2019-20. She has submitted a certificate confirming the amount of interest.

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

Compute Income Tax Liability for assessment year 2020-21.

Answer: Tax Liability: ₹1,03,940

Problem 17.

Mr. X has taken a loan of ₹15,00,000 from State Bank on 01.07.2017 @ 10% p.a. and the residential house was completed on 01.05.2019 and was let out w.e.f. 01.06.2019 @ 80,000 p.m. and fair rent of the house is ₹90,000 p.m.

He repaid half of the loan amount on 01.01.2020.

Compute his Income Tax Liability for assessment year 2020-21.

Answer = Total Income: ₹3,59,250; Tax Liability: Nil

Problem 18.

Mr. X has taken a loan of ₹11,00,000 on 01.07.2016 @ 10% p.a. from his friend for construction of one house which was completed on 01.09.2018 and the house is self occupied during the previous year 2019-20 and Mr. X has paid municipal tax of ₹12,000.

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

Compute his income and Tax Liability for the assessment year 2020-21.

Answer: Total Income: ₹ 118,51,500; Tax Liability: ₹20,81,310

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 236

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

House II

It is self occupied. Its similar building rent is ₹64,000 and rent determined by municipality for charging house tax is ₹66,000 and its fair rent under Rent Control Act (p.m.) is ₹6,000. Municipal taxes payable ₹5,000.

The assessee has also recovered unrealised rent of ₹2,000 in the previous year 2017-18 but the expenses thereon are paid in the year 2019-20 amounting to ₹200.

House III

It is let out @ ₹50,000 p.m. and fair rent is ₹60,000 p.m. Water tax and house tax paid to municipality is ₹11,000. Insurance premium paid ₹6,500 and expenses on repairs ₹3,000.

Interest on capital borrowed for purchase of house is ₹55,000.

He has long term capital gains of ₹3,50,000.

Compute his total income and tax liability for assessment year 2020-21.

Answer = Total Income: ₹7,62,950; Tax Liability: ₹81,270

Problem 30.

Determine the income head under which the following incomes shall be taxable.

- (i) Mr. X has income from letting out house property.
- (ii) Mr. X has sold one house property.
- (iii) ABC Ltd. has 500 flats for the purpose of sale/purchase.
- (iv) Mr. X has let out an open land.
- (v) ABC Ltd. has 500 flats for the purpose of letting out.
- (vi) ABC Ltd. has constructed flats within its premises for letting out to the employees.
- (vii) Mr. X is engaged in the business of providing paying guest accommodation in his own building.
- (viii) Mr. X is engaged in the business of warehousing.
- (ix) Mr. X has sublet one house property.
- (x) Mr. X has let out his hotel building.

Answer = (i) House Property; (ii) Capital Gains; (iii) Business/Profession; (iv) Other Sources; (v) **Business/Profession**; (vi) Business/Profession; (vii) Business/Profession; (viii) Business/Profession; (ix) Other Sources; (x) House Property

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 256

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(c) Rent Received/Receivable (50,000 x 12)	6,00,000	
GAV = Expected Rent	7,20,000	
Less: Municipal Taxes		(11,000.00)
Net Annual Value		7,09,000.00
Less: 30% of NAV u/s 24(a)		(2,12,700.00)
Less: Interest on capital borrowed u/s 24(b)		(55,000.00)
Income from house III		4,41,300.00
Income under the head House Property		
House I and II		(30,000.00)
House III		4,41,300.00
Recovery of unrealised rent (house I) (2,000 – 600)		1,400.00
Income under the head House Property		4,12,700.00
Computation of Total Income		
Income under the head House Property		4,12,700.00
Income under the head Capital Gains (long term capital gain)		3,50,000.00
Income from Other Sources		250.00
Gross Total Income		7,62,950.00
Less: Deduction u/s 80C to 80U		Nil
Total Income		7,62,950.00
Computation of Tax Liability		
Tax on ₹4,12,950 at slab rate		8,147.50
Tax on ₹3,50,000 @ 20% u/s 112		70,000.00
Tax before health & education cess		78,147.50
Add: HEC @ 4%		3,125.90
Tax Liability		81,273.40
Rounded off u/s 288B		81,270.00

Solution 30:

- (i) Income under the head House Property.
(ii) Income under the head Capital Gains.
(iii) Income under the head Business/Profession.
(iv) Income under the head Other Sources.
(v) Income under the head Business/Profession.
(vi) Income under the head Business/Profession.
(vii) Income under the head Business/Profession.
(viii) Income under the head Business/Profession.
(ix) Income under the head Other Sources.
(x) Income under the head House Property.

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 258

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Date of completion of construction of properties	31 st March, 2012	25 th May, 2018
--	------------------------------	----------------------------

He had taken a loan of ₹18,00,000 for the construction of the House-II on 1st April, 2016. Interest was payable @ 10% per annum. **Certificate confirming interest has been submitted.** Till date, no payment was made towards the principal amount.

Compute his income under the head House Property

Solution:

As per the amendments now two house shall be treated as self-occupied and after two house all house shall be treated as deemed to be let out.

House I is Self-Occupied

Loss

Nil

House II is Self-Occupied

Loss

(2,00,000)

Working Note:

Prior period interest

From 01.04.2016 to 31.03.2018 $= 18,00,000 \times 10\% \times 2 = 3,60,000$

3,60,000 allowed in 5 equal instalments

 $= 3,60,000 / 5 = ₹ 72,000$ per annum

Current period interest

From 01.04.2019 to 31.03.2020 $= 18,00,000 \times 10\% \times 1 = ₹1,80,000$

Total Interest = ₹72,000 + ₹ 1,80,000 = ₹2,52,000 but restricted to 2,00,000

Income under the head house property

(2,00,000)

MAY – 2018 (OLD COURSE)**Question 3 (b)****Marks 5**

Mr. Rohan a residential individual, owns 3 houses in Chennai. One house is self-occupied by him, second house is self-occupied by his major son and the third house is vacant during the year.

You are required to highlight the steps involved to compute Income from House Property for Mr. Rohan under deemed to be let out concept.

Solution:**More than two house which are self-occupied (deemed to be let out property) Section 23(4)**

If any assessee has more than two house which are self-occupied, in such cases only two of these houses shall be considered to be self-occupied and income shall be computed under section 23(2) and all other houses shall be deemed to be let out and income shall be computed in the similar manner as in case of let out house. Expected rent shall be considered to be GAV of the house.

As per section 23(1)(c), if any House Property is lying vacant throughout the year, it will be considered to be deemed to be let out and income shall be computed in the similar manner as in case of a let out house. Expected Rent shall be considered to be Gross annual value.

As per section 23 (5), Where the property consisting of any building or land appurtenant thereto is held as stock-in trade and the property or any part of the property is not let during the whole of the previous year, the annual value of such property or part of the property, for the period up to one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil

NOV – 2017**Question 4(a)****(Marks 5)**

Mr. Aditya, a resident but not ordinarily resident in India during the Assessment Year 2020-21. He owns

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 283 & 284

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Donation to Delhi University @ 100%	(3,000.00)
Donation to Zila Saksharta Samiti @ 100%	(5,000.00)
Other donations u/s 80G	(19,550.00)

Working Note:

Donation to approved Charitable Institute	30,000
Donation to Government for promoting family planning	<u>10,000</u>
	<u>40,000</u>

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s
80C to 80U (Except 80G)
= 4,00,000 – 65,000 – 35,000 – 9,000
= 2,91,000

Qualifying amount = 10% of AGTI or donation whichever is less
= 29,100 or 40,000
= 29,100

Deduction for family planning ₹10,000
50% of balance amount (i.e. 19,100)
= 9,550

Total deduction = 10,000 + 9,550 = 19,550

Total Income 3,59,950.00

Computation of Tax Liability

Tax on LTCG ₹65,000 @ 20% u/s 112	13,000.00
Tax on STCG ₹35,000 @ 15% u/s 111A	5,250.00
Tax on ₹2,59,950 at slab rate	497.50
Less: Rebate u/s 87A	(12,500.00)
Tax before health & education cess	6,247.50
Add: HEC @ 4%	249.90
Tax Liability	6,497.40
Rounded off u/s 288B	6,500.00

NOV – 2002 (4 Marks)

For the assessment year 2020-21, the gross total income of Mr. X was ₹4,50,240 which includes long term capital gain of ₹45,000 and short term capital gain of ₹80,000. The gross total income also includes interest income (fixed deposits) from banks of ₹12,000.

Mr. X has invested in public provident fund ₹60,000 and also paid medical insurance premium ₹11,000 by cheque. Mr. X also contributed ₹15,000 by cheque to public charitable trust eligible for deduction u/s 80G.

Compute the total income and tax thereon of Mr. X, **who is 50 years old as** on 31.03.2020.

Answer:**Computation of Total Income**

	₹
Long Term Capital Gain	45,000.00
Short Term Capital Gain	80,000.00
Bank Interest	12,000.00
Other Income	3,13,240.00
Gross Total Income	4,50,240.00
Less: Deduction u/s 80C {Public Provident Fund}	(60,000.00)
Less: Deduction u/s 80D	(11,000.00)
Less: Deduction u/s 80G	(7,500.00)

Working Note:

AGTI = GTI – LTCG – Deductions u/s 80C to 80U (Except 80G)
= 4,50,240 – 60,000 – 45,000 – 11,000
= ₹3,34,240

Qualifying Amount = 10% of AGTI or Donation given whichever is less
= ₹33,424 or 15,000

= 15,000
50% of qualifying amount = ₹7,500

Total Income	3,71,740.00
Computation of Tax Liability	
Tax on long term capital gain ₹45,000 @ 20% u/s 112	9,000.00
Tax on normal income ₹3,26,740 at slab rate	3,837.00
Less: Rebate u/s 87A	(12,500.00)
Tax before HEC	337.00
Add: HEC @ 4%	13.48
Tax liability	350.48
Rounded off u/s 288B	350.00

Question 11 [V. Imp.]: Write a note on deduction in case of payment of rent.

Answer: Deduction in case of payment of rent Section 80GG

1. Deduction is allowed only to an **individual**.
2. He should not be **getting any house rent allowance** and also he is not being provided with **Rent Free Accommodation by his employer**.
3. He 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 carries on his business or profession.
4. The assessee may have house at any other place but it should not be self occupied i.e. it may be let out or vacant.
5. He has paid rent for the accommodation taken by him for his residence.
6. Deduction shall be allowed to such individual in case of payment of rent and deduction shall be allowed to the extent of the least of the following:
 - (i) Rent paid over 10% of the adjusted gross total income
 - (ii) ₹5,000 p.m.
 - (iii) 25% of the adjusted gross total income

Adjusted Gross Total Income = Gross Total Income – Long term capital gains (including LTCG u/s 112A) – Short term capital gains u/s 111A – All Deduction of section 80C to 80U except section 80GG.

- Deduction can be allowed even where the assessee is not an employee i.e. the persons having business/profession can also avail deduction under section 80GG.

Illustration 15: Mr. X has income under the head Business/Profession ₹5,00,000 and LTCG of ₹2,00,000, STCG u/s 111A ₹3,00,000 and casual income of ₹1,00,000.

He is paying rent for a house of ₹40,000 p.m. He has deposited ₹30,000 in home loan account scheme of National Housing Bank.

He has complied with all the condition of section 80GG.

Compute income tax liability for A. Y. 2020-21.

Solution:

	₹
Income under the head Business/Profession	5,00,000
Computation of income under the head Capital Gain	
Long Term Capital Gain	2,00,000
Short Term Capital Gain u/s 111A	3,00,000
Income under the head capital gain	5,00,000
Computation of income under the head Other Sources	
Casual income	1,00,000
Income under the head Other Sources	1,00,000
Gross Total Income	11,00,000
Less:	
Deduction u/s 80C	(30,000)
Deduction u/s 80GG	(60,000)

Working Note:

Least of the following:

1. ₹4,80,000 – 57,000 = 4,23,000
2. 60,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 292

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(i) Life insurance premium paid by cheque ₹22,500 for insurance of his life. The insurance policy was taken on 08-09-2016 and the sum assured is ₹2,00,000.

(ii) Premium of ₹26,000 paid by cheque for health insurance of self.

(iii) ₹ 1,500 paid in cash ~~for his health check-up~~ and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.

(iv) Paid interest ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(v) A sum of ₹ 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Solution:**Computation of Total Income for the A.Y. 2020-21****Income under the head salary**

	₹
Pension	6,60,000
Gross salary	6,60,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	6,10,000

Income under the head other sources

Interest income on Fixed Deposits	55,000
Income under the head other sources	55,000

Gross Total Income

	6,65,000
Less: Deduction u/s 80C- LIC (22,500 limited to 10% of 2,00,000)	(20,000)
Less: Deduction u/s 80D- Health Insurance	(26,000)
Less: Deduction u/s 80D- PHC of parents (6,000 limited to 5,000)	(5,000)
Less: Deduction u/s 80E Interest paid on higher studies	(6,500)
Less: Deduction u/s 80TTB - Interest on FD	(50,000)
Total Income	5,57,500

Note:

1. As per section 80D, Maximum deduction of PHC can be allowed is 5,000 whether paid in cash or by cheque.
2. As per section 80G, Deduction of Donation is not allowed if the payment is made in cash in excess of 2,000.
3. As per section 80TTB, Deduction shall be allowed in case of senior citizen receiving interest income from saving account or from FD. Maximum deduction can be 50,000.

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 299

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

4. He has donated ₹10,000 by cheque to MCD for family planning and has donated ₹3,000 by cheque to a charitable institution notified under section 80G.

Compute his total income and tax liability for the assessment year 2020-21.

Answer: Total Income: ₹3,10,900; Tax Liability: Nil

Problem 10.

Mr. X has incomes asunder:

1. Short term capital gains on sale of a capital asset ₹5,00,000.
2. Mr. X has donated ₹7,000 by cheque to the Prime Minister's National Relief Fund and ₹20,000 by cheque to Birla temple which is notified under section 80G.

Compute his total income and tax liability for the assessment year 2020-21.

Answer: Total Income: ₹4,83,000; Tax Liability: Nil

Problem 11.

Mr. X has incomes asunder:

- | | ₹ |
|---|----------|
| 1. Income from Business/Profession | 1,00,000 |
| 2. He has long term capital gains | 2,50,000 |
| 3. He has income from other sources | 1,10,000 |
| 4. He has donated ₹10,000 by cheque to National Defence Fund | |
| 5. He has donated ₹ 5,000 by cheque to charitable institution notified under section 80G. | |

Compute his total income and tax liability for assessment year 2020-21.

Answer: Total Income: ₹4,47,500; Tax Liability: ₹28,080

Problem 12.

Mr. X has incomes asunder:

- Long Term Capital Gains: ₹1,00,000
 Short Term Capital Gains: ₹2,55,000
 Casual income: ₹10,000

Donations given to charitable institutions notified under section 80G ₹45,000 paid by cheque and donation to MCD for family planning ₹3,000 paid by cheque.

Compute his total income and tax liability for the assessment year 2020-21.

Answer: Total Income: ₹3,50,250; Tax Liability: ₹8,890

Problem 13.

Mr. X is engaged in the business of manufacturing chemicals and has income under the head business/profession of ₹5,00,000 and has paid rent of ₹10,000 p.m. for taking a house on rent because he did not have any house in his name or in the name of his spouse or minor child or the Hindu Undivided Family of which he is a member. He has invested ₹75,000 in NSC which were taken in the name of his spouse.

Compute his total income and tax liability for assessment year 2020-21.

Answer: Total Income: ₹3,65,000; Tax Liability: Nil

Problem 14.

During the previous year 2019-20, Mr. X has income under the head house property ₹4,00,000. He has donated ₹12,000 by cheque to a notified institution for the purpose of scientific research.

Compute his total income and tax liability for the assessment year 2020-21.

Answer: Total Income: ₹3,88,000; Tax Liability:

Problem 15.

For the assessment year 2020-21, Mr. X submits the following information:

	House I	House II	
	₹	₹	
Income from business			9,800
Property income			
Fair Rent	75,000	82,000	
Rent Received/Receivable	78,000	85,000	
Municipal Valuation	76,000	75,000	
Municipal Taxes (due but outstanding)	13,000	14,000	

MULTIPLE CHOICE QUESTIONS

AGRICULTURAL INCOME

1. Which of the following would be agricultural income -

- (a) Income from breeding of livestock
- (b) Income from poultry farming
- (c) Rent received from land used for movie shooting
- (d) Rent received from land used for grazing of cattle required for agricultural activities

2. The proportion of agricultural and business income in case of income derived from the sale of coffee grown and cured by the assessee in India is -

- (a) 65% and 35%, respectively
- (b) 75% and 25%, respectively
- (c) 60% and 40%, respectively
- (d) 70% and 30%, respectively

3. The proportion of agricultural and business income in case of income derived by the assessee from growing of tea leaves in India and manufacturing of tea is -

- (a) 65% and 35%, respectively
- (b) 75% and 25%, respectively
- (c) 60% and 40%, respectively
- (d) 70% and 30%, respectively

4. In case of an individual aged 61 years, partial integration of agricultural income is not required if his-

- (a) Net agricultural income does not exceed ₹5,000.
- (b) Non-agricultural income does not exceed ₹2,50,000.
- (c) Non-agricultural income does not exceed ₹3,00,000.
- (d) Either (a) or (c) above.

5. Income derived from farm building situated in the immediate vicinity of an agricultural land would be treated as agricultural income if such land is situated in -

- (a) an area at a distance of 3 kms from the local limits of a municipality which has a population of 80,000 as per last census
- (b) an area within 1.5 kms from the local limits of a municipality and has a population of 12,000 as per last census
- (c) an area within 2 kms from the local limits of a municipality and has a population of 11,00,000 as per last census
- (d) an area within 8 kms from the local limits of a municipality and has a population of 10,50,000 as per last census

6. Mr. Harini earned income of ₹4,00,000 from sale of tea grown and manufactured in Shimla. Income from sapling and seedling grown in nursery at Cochin is ₹80,000. Her agricultural income is

- (a) ₹4,80,000
- (b) ₹4,00,000
- (c) ₹2,40,000
- (d) ₹3,20,000

7. Mr. Prem earned income of ₹22 lakhs from manufacture and sale of coffee grown, cured, roasted and grounded by him in India. The business income chargeable to tax in his hands would be -

- (a) ₹8,80,000
- (b) ₹5,50,000
- (c) ₹13,20,000
- (d) ₹16,50,000

8. Mr. X has agricultural land which he has given on rent, in this case income shall be

- (a) taxable under the head other sources
- (b) taxable under the head house property
- (c) taxable under the head Business/Profession
- (d) Agricultural income
- (e) none of these

9. Which of the following statements is correct?

- (a) Dividend received from a domestic company doing agriculture is agricultural income
- (b) Share received by a partner out of profits of partnership firm doing agriculture is taxable under the head Business/Profession
- (c) Salary and interest received by a partner from partnership firm doing agriculture is taxable under the head Business/Profession
- (d) none of these

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 333

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

EXAMINATION QUESTIONS**MAY – 2018 (Old Course)****Question 2(a)****(5 Marks)**

Miss. Kavita, a resident and ordinarily resident in India, has derived the following income for the year ended 31-3-2020.

	₹
(i) Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	1,00,000
(ii) Income from sale of coffee grown and cured in Yercaud, Tamil Nadu	2,00,000
(iii) Income from sale of coffee grown and cured in Colombo.	5,00,000
Sale Consideration was received in Chennai.	
(iv) Income from sale of tea grown and manufactured in Shimla.	10,00,000
(v) Income from sapling and seedling grown in a nursery at Cochin.	2,00,000
Basic operations were not carried out by her on land.	

You are required to compute the Income of Miss. Kavita for the Assessment Year 2020-21.

Solution:

Computation of Income

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

MAY – 2018 (New Course)**Question 5(b)****(7 Marks)**

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

Compute her tax liability for the Assessment year 2020-21.

Solution:

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

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

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

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

Computation of Tax Liability

	₹
Tax on (6,00,000 + 9,00,000) at slab rate	2,62,500
Tax on (2,50,000 + 9,00,000) at slab rate	(1,57,500)
Tax on normal income (2,62,500 – 1,57,500)	1,05,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 340

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(vii) If any person has transferred the asset to the spouse and the spouse has invested it in some partnership firm as capital contribution or otherwise, in this case interest received from the partnership firm shall be clubbed in the income of the transferor and capital as on first day of relevant previous year shall be taken into consideration.

If any salary has been received from partnership firm, it will not be clubbed.

If any share has been received from the profits of partnership firm, such shares shall be exempt under section 10(2A).

(viii). If any person has transferred any asset to the spouse and spouse has further transferred this asset, in this case, capital gain shall be considered to be the income of the transferor.

(ix) Cross-transfers are also covered

The Supreme Court, in case of Keshavji Morarji, observed that clubbing provisions shall be applicable in case of cross transfers also e.g. A making gift of ₹ 50,000 to the wife of his brother B for the purchase of a house by her and a simultaneous gift by B to A's minor son of shares in a foreign company worth ₹ 50,000 owned by him, in the case, the income arising to Mrs. B from the house property should be included in the total income of B and the dividend from shares transferred to A's minor son would be taxable in the hands of A.

Example: Mr. Vasudevan gifted a sum of ₹6 lakhs to his brother's wife on 14-6-2019. On 12-7-2019, his brother gifted a sum of ₹5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2019 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

Answer: In the given case, Mr. Vasudevan gifted a sum of ₹6 lakhs to his brother's wife on 14.06.2019 and simultaneously, his brother gifted a sum of ₹5 lakhs to Mr. Vasudevan's wife on 12.07.2019. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. 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. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142. Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹5 lakhs. This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation. However, the interest income earned by his spouse on fixed deposit of ₹5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹6 lakhs, since the cross transfer is only to the extent of ₹5 lakhs.

(x) If there is indirect transfer, clubbing provisions shall be applicable in that case also e.g. Mr. X gifted certain cash/ asset to his major son and son gifted the same asset to mother, in this case it will be considered transfer and income shall be clubbed in the income of Mr. X.

(xi) If any person has given loan to the spouse, income from such loan shall not be clubbed.

5. Transfer of the asset to the son's wife Section 64(1)

If any person has transferred the asset to the son's wife, in this case, clubbing provision shall apply in the similar manner as in the case of transfer of the assets to the spouse.

Such clubbing provisions are applicable from 01.06.1973.

6. Transfer of assets to any other person Section 64(1)

If any person has transferred the asset to any other person, clubbing provision shall not be applicable, but if the transferor has any right to receive any benefit from the asset or the benefit shall be received by the spouse of the

EXAMINATION QUESTIONS**MAY – 2019 (Old Course)****Question 4(b).****(3 Marks)**

Briefly explain with example, the meaning of Cross Transfer, the objective to make such transactions and implications thereof under the Income Tax Laws.

Answer: Refer answer given in the book.

NOV – 2018 (Old Course)**Question 3(b).****(5 Marks)**

Mr. Sharma, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2019-2020:

(i) He had written a book for Himalaya Publication on "Yoga and its benefits". A lump sum amount of royalty income earned in the previous year 2019-2020 amounted to ₹6,00,000. Expenses incurred for writing the book amounted to ₹20,000.

(ii) His friends gifted a statue of Lord Ganesh to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹55,000.

(iii) The following gift was received on the occasion of his son's (aged 10 years) thread ceremony;

- in-laws-gold chain worth ₹35,000

(iv) He had deposited ₹50,000 in fixed deposit with Bank of Baroda in the name of his son in March 2018. Interest earned on such deposit ₹5000.

(v) He donated ₹5,000 in cash to Swabhiman, a NGO set up for the destitute (the association was registered under section 80G of the Income Tax Act, 1961).

(vi) He paid life insurance premium on his life ₹10,000 (sum assured ₹1,00,000)

Compute the gross total income of Mr. Sharma for the assessment year 2020-2021.

Solution:**Computation of Gross Total Income of Mr. Sharma****Income under the head Other Sources**

	₹
Royalty income (6,00,000-20,000)	5,80,000
<i>Gift received from his friends is taxable and shall be clubbed in the income of her father (55,000 – 1,500)</i>	<i>53,500</i>
Interest from bank fixed deposits clubbed u/s 64(1A) (₹5,000 - ₹1,500)	3,500
Income under the head Other Sources	6,37,000
Gross Total Income	6,37,000

Notes:

1. Statue of Lord Ganesh is not covered under the definition of property as given under section 56 hence gift is not taxable.

2. Gold chain received is less than ₹50,000 hence it is not taxable. (section 56).

3. As per section 64(1A), Income of minor shall be clubbed with the income of parents having higher income and a deduction of ₹1,500 shall be allowed u/s 10(32).

NOV – 2018 (New Course)**Question 6(b).****(5 Marks)**

Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2020:

(i) M received a gift of ₹70,000 from her friend's father on the occasion of her birthday.

(ii) M won a prize money of ₹3,00,000 in National Quiz competition.

This was invested in debentures of a company, from which interest of ₹19,000 (gross) accrued during the year.

(iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹1,05,000.

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 350

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

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 16.4.2019 and simultaneously, his brother gifted debentures worth ₹6 lacs to Mr. Ramesh's wife on 18.4.2019. 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, assuming that Mr. Ramesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of ₹1,500 under section 10(32). Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh as per section 64(1)(iv).

This is because both Mr. Ramesh and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation. In the hands of Mr. Ramesh, interest received by his spouse on debentures of ₹5 lacs alone would be included and not the entire interest income on the debentures of ₹6 lacs, since the cross transfer is only to the extent of ₹5 lacs.

Hence, only proportional interest (i.e., 5/6th of interest on debentures received) ₹37,500 would be includible in the hands of Mr. Ramesh. The provisions of section 56(2)(vii) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

NOV – 2014**Question 6(a)(ii)****(4 Marks)**

Mr. X has four minor children consisting of three daughters and one son. The annual income of all the children for the Assessment Year 2020-21 were as follows:

First daughter (including Scholarship received ₹5,000)	10,000
Second Daughter	8,500
Third Daughter (Suffering from disability specified U/s 80U)	4,500
Son	40,000

Mr. X gifted ₹2,00,000 to his minor Son who invested the same in the business and derived income of ₹20,000 which is included above.

Compute the amount of Income earned by Minor Children to be clubbed in the hands of Mr. X.

Solution:

Computation of Amount of Income of minor children to be clubbed in the income of Mr. X

(i) Income of First Daughter	10,000	₹
Less: Scholarship received exempt u/s 10(16) (assumed received for education)	(5,000)	
Less: Exempt u/s 10(32)	(1,500)	
	<u>3,500</u>	
(ii) Income of Second Daughter	8,500	
Less: Exempt u/s 10(32)	(1,500)	
	<u>7,000</u>	
(iii) Income of Third Daughter who is suffering from disability shall not be clubbed		
(iv) Income of Son	40,000	
Less: Exempt u/s 10(32)	(1,500)	
	<u>38,500</u>	
Total Income to be clubbed (3,500 + 7,000 + 38,500)	49,000	

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 357

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Answer.

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be charged in the hands of Mr. X.

Question 4**(4 Marks)**

Mr. X and Mrs. X furnish the following information:

	₹
(i) Salary income of Mrs. X (computed)	4,60,000
(ii) Income of minor son 'B' who suffers from disability specified in Section 80U	1,08,000
(iii) Income of minor daughter 'C' from singing	86,000
(iv) Income from profession of Mr. X	7,50,000
(v) Cash gift received by 'C' on 02.10.2019 from friend of Mrs. X	48,000
(vi) Income of minor married daughter 'A' from company deposit	30,000

Compute the total income of Mr. X and Mrs. X for the assessment year 2020-21.

Answer: Computation of Total Income of Mr. X and Mrs. X for the A.Y. 2020-21

Particulars	Mr. X ₹	Mrs. X ₹
Salaries		4,60,000
Profits and gains of business or profession	7,50,000	
Income from other sources		
Income by way of interest from company deposit earned by minor daughter A [Note (iv)]	30,000	
Less: Exemption under section 10(32)	(1,500)	28,500
Gross Total Income	7,78,500	4,60,000
Less: Deduction u/s 80C to 80U	Nil	Nil
Total Income	7,78,500	4,60,000

Notes:

(i) The income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parents.

(ii) The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialized knowledge or experience will not be included in the income of his parent.

(iii) Under section 56, cash gifts received from any person/persons exceeding ₹ 50,000 during the year in aggregate are taxable. Since the cash gift in this case does not exceed ₹ 50,000 the same is not taxable.

(iv) The clubbing provisions are attracted even in respect of income of minor married daughter. The income of the minor will be included in the income of that parent whose total income is greater. Hence, income of minor married daughter 'A' from company deposit shall be clubbed in the hands of the Mr. X and exemption under section 10(32) of ₹ 1,500 per child shall be allowed in respect of such income.

NOV – 2007**Question 4****(3 Marks)**

Mr. X has four minor children consisting 2 daughters and 2 sons. The annual income of 2 daughters was ₹7,500 and ₹ 5,000 and of sons was ₹ 5,500 and ₹ 1,250 respectively. The daughter who was having income of ₹ 5,000 was suffering from a disability specified under section 80U. Work out the amount of income earned by minor children to be clubbed in the hands of Mr. X.

Answer.**Income earned by minor children to be clubbed with the income of Mr. X**

Income of first daughter to be clubbed (7,500 – 1,500 u/s 10(32))	6,000
Income of second daughter suffering from disability shall not be clubbed	Nil
Income of first son to be clubbed (5,500 – 1,500 u/s 10(32))	4,000
Income of second son to be clubbed (1,250 – 1,250 u/s 10(32))	Nil
Total Income to be clubbed as per section 64(1A)	10,000

The income of daughter suffering from disability specified under section 80U is not to be clubbed with the income of Mr. X.

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 379

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

As per section 56, if any person has entered into an agreement to sell any capital asset and some advance money was received but the buyer refused to purchase the capital asset and advance money was forfeited, in such cases the amount so forfeited shall be considered to be income under the head Other Sources. So Forfeiture of advance money shall be considered as income from other source and shall not be deducted from cost of acquisition of the property.

MAY – 2016**Question 4(a)****(2 x 2 = 4 Marks)**

Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- (i) ABC Private Limited, a closely held company, issued 10,000 share at ₹130 per share. (The face value of the share is ₹100 per share and the fair market value of the share is ₹120 per share).
- (ii) Mr. A received an advance of ₹50,000 on 01.09.2019 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹50,000 was forfeited.

Answer:

- (i) **Taxable:** As per section 56(2)(viib), If any closely held company receives any consideration for issue of shares that exceeds the face value of shares then the aggregate consideration received as exceeds the fair market value of shares is considered as income under the other sources. In the given case, ABC Private Ltd. issued shares at a price which exceeds the face value of shares. So the taxable amount shall be ₹1,00,000 (10,000 shares x (₹130-₹120))
- (ii) **Taxable:** If any person has entered into an agreement to sell any capital asset and some advance money was received but the buyer refused to purchase the capital asset and advance money was forfeited, in such cases the amount so forfeited shall be considered to be income under the head Other Sources. In the given case, Mr. A forfeited ₹50,000 against sale of his house shall be considered as income under the head other sources.

Question 7(a)(iii)**(2 Marks)**

Discuss **with reason**, whether the following transactions are true or false, as per the provisions of Income Tax Act, 1961:

Dividend received (on which no Dividend Distribution Tax has been paid) by a dealer in shares or one engaged in buying/selling of shares, is chargeable under the head “Income from other sources”. (Discussion must be on the head of income).

Answer:

True: Dividend received by a dealer of shares is chargeable under the head “Income from Other Sources”.

NOV – 2010**Question 7****(4 Marks)**

State under which heads the following incomes are taxable:

- (i) Rental income in case of a dealer engaged in business of letting out of house property**
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration

Answer.

	Particulars	Head of Income
(i)	<i>Rental income in case of a dealer engaged in business of letting out of house property</i>	<i>Profit and gains of business or profession</i>
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 386

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(i) On 1.10.2019, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2020.

(ii) On 01.06.2019, Mr. Ganesh made three nine month fixed deposits of ₹ 2 lakh each carrying interest @ **9% p.a.** with Dwarka Branch, Janakpuri Branch and Rohini Branches of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2020.

(iii) On 01.04.2019, Mr. Rajesh started a 1 year recurring deposit of ₹ 60,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.03.2020. PQR bank pays interest of ₹50,400.

Answer:

(i) ABC Co-operative Bank has to deduct tax at source @10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹4,500.

(ii) XYZ Bank has to deduct tax at source@10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 40,500 [$2,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 40,500 exceeds the threshold limit of ₹ 40,000, tax has to be deducted @ 10% under section 194A.

(iii) Tax has to be deducted under section 194A @ 10% by PQR Bank on the interest of ₹50,400 on recurring deposit on 31.03.2020 to Mr. Rajesh, since –

- (1) “recurring deposit” has been included in the definition of “time deposit”; and
- (2) such interest exceeds the threshold limit of ₹ 40,000.

Question 5: Write a note on TDS in case of Winnings from Lottery or Crossword Puzzle etc.**Answer: TDS in case of Winnings from Lottery or Crossword Puzzle etc. Section 194B**

Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) responsible for paying to any resident or non-resident, any income by way of **winnings from any lottery** or **crossword puzzle** or **card game** and **other game of any sort** shall deduct tax at source @ 30% provided the amount being paid or payable is exceeding ₹10,000 e.g. If ABC Ltd. has to pay ₹7,000 being winning of a lottery, no tax shall be deducted at source but if amount being paid is ₹10 lakh, tax to be deducted at source shall be ₹10,00,000 x 30% = ₹3,00,000

If any such winning is in kind, winning shall be released only after collecting the amount of tax e.g. Mr. X has won a motor car valued ₹5,00,000, in this case the organizer should collect tax of ₹1,50,000 and only after that motor car shall be released.

Question 6: Write a note on TDS in case of Winnings from Horse Race.**Answer: TDS in case of Winnings from Horse Race Section 194BB**

Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year), shall be required to deduct tax at source @ 30% in case of payment of winning from horse races but tax shall be deducted at source only if amount paid or payable during a particular year to a particular person is exceeding ₹10,000.

Example

ABC Ltd. has to pay winnings of horse race ₹3,00,000 to Mr. X, amount of TDS shall be ₹90,000 but if the amount to be paid is ₹2,000, amount of TDS shall be Nil.

Illustration 6: Mr. X purchased 20 lottery tickets of ₹ 250 each with a winning of ₹2.80 lakhs (after TDS @ 30%). He has also received interest of ₹72,000 after deducting tax at source @ 10% and the cheque was collected by bank and service charges @ 2% was taken by the bank. He has income from subletting of house property ₹9,000 p.m. He has received family pension of ₹ 4,000 p.m.

Compute his tax liability and also tax payable/refund for assessment year 2020-21.

Solution:

	₹	₹
Income from lottery ($2,80,000 / 70\% \times 100\%$)		4,00,000.00
Interest	80,000	
Less: Bank charges u/s 57 (2% of ₹72,000)	(1,440)	78,560.00
Sub-letting of house property ($9,000 \times 12$)		1,08,000.00
Family pension	48,000	

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 388

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

telecasting contract / Carriage of passenger by any mode of transport / Catering contract / Contract for construction / Contract for courier services / Contract of maintenance of plant and machinery etc.

5. If any person making payment for purchase of goods, no tax shall be deducted at source but if such person has supplied raw material etc. and contract is only for labour etc., tax shall be deducted at source e.g. ABC Ltd. purchased furniture for ₹10 lakh and no tax shall be deducted at source but if ABC Ltd. has supplied raw material like wood etc. and has paid ₹2 lakh for labour charges for making the furniture, tax shall be deducted at source.

Example

ABC Ltd. has given orders to Mr. X to stitch uniform for their employees and Mr. X purchased material from the market and has stitched uniform for ABC Ltd. and has charged ₹7,00,000, in this case amount of TDS shall be nil but if material is supplied by ABC Ltd. and Mr. X has charged ₹1,10,000 as labour charge, tax shall be deducted at source @ 1% i.e. ₹1,100.

6. **No tax shall be deducted at source** in case of payment to a contractor in connection with **transportation of goods** where such contractor do not own more than 10 goods carriages at any time during the year and also submitted a declaration in this regard and has also furnished permanent account number.

Example

ABC Ltd. has paid ₹5,00,000 to Mr. X for transportation of goods and Mr. X do not have more than 10 goods carriages and he has furnished a declaration in this regard and has submitted permanent account number, in this case no tax shall be deducted at source but if PAN has not been provided, tax shall be deducted at source @ 20%.

Question 8: Write a note on TDS in case of payment of Insurance Commission.

Answer: TDS in case of payment of Insurance Commission Section 194D

Every person responsible for making payment for insurance commission to a resident insurance agent shall deduct tax at source @ **5%** provided the amount paid or payable during a particular year to a particular agent is exceeding **₹15,000** e.g. If LIC has to pay commission of ₹5,00,000 to one of the agent Mr. X, amount of TDS shall be ₹5,00,000 x 5% = 25,000

Question 9: write a note on Payment on maturity of life insurance policy.

Answer: Payment on maturity of life insurance policy Section 194DA

In general payment on maturity of Life policy is exempt from income tax under section 10(10D) however sometimes the amount is taxable (if premium paid has exceeded the prescribed percentage (i.e. 10% / 15% / 20%)) and in that case tax has to deducted at source @ **5% on the amount of income** provided the amount paid or payable to any resident during a particular financial year is ₹1,00,000 or more.

Example

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

(i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 31.03.2020, towards maturity proceeds of LIC policy taken on 01.4.2017, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.

(ii) Mr. Y, a resident, is due to receive ₹ 3.25 lakhs on 31.03.2020 on LIC policy taken on 31.03.2012, for which the sum assured is ₹ 3 lakhs and the annual premium is ₹ 35,000.

(iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 01.8.2019 towards maturity proceeds of LIC policy taken on 01.08.2013 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 12,000.

Answer

(i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on 01.04.2017, the maturity proceeds of ₹ 4.50 lakhs are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income of ₹ 75,000 (₹ 4,50,000 - 3,75,000).

(ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01.04.2012, the sum of ₹ 3.25 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.

(iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.03.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 01.08.2019 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 400

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

11. Which of the following statement is correct.

- (a) As per section 192A tax shall be deducted at source @ 12% provided the amount paid or payable during a particular year is ₹ 50,000 or more
 (b) As per section 192A tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is ₹ 1,50,000 or more
 (c) As per section 192A tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is ₹ 50,000 or more
 (d) None of these

12. Which of the following statement is correct.

- (a) As per section 193 tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹ 10,000
 (b) As per section 193 tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹ 50,000
 (c) As per section 193 tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹ 5,000
 (d) None of these

13. Which of the following statement is correct.

- (a) As per section 194A, in case of payment of interest on fixed deposit by a bank to a senior citizen, tax deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹50,000
 (b) As per section 194A, in case of payment of interest on fixed deposit by a bank to a senior citizen, tax deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹40,000
 (c) As per section 194A, in case of payment of interest on fixed deposit by a bank to a senior citizen, tax deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹1,50,000
 (d) None of these

14. Which of the following statement is correct.

- (a) As per section 194C, tax shall be deducted at source @ 2% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 1,00,000
 (b) As per section 194C, tax shall be deducted at source @ 10% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 30,000

(c) As per section 194C, tax shall be deducted at source @ 1% in case of payment to individual or HUF and @ 2% in case of payment to any other person provided the amount being paid is exceeding ₹ 30,000

- (d) None of these

15. Which of the following statement is correct.

- (a) As per section 194H tax shall be deducted at source @ 5% provided the amount being paid or payable to a particular person during a particular year is ₹ 15,000 or more
 (b) As per section 194H tax shall be deducted at source @ 5% provided the amount being paid or payable to a particular person during a particular year is exceeding ₹ 15,000
 (c) As per section 194H tax shall be deducted at source @ 10% provided the amount being paid or payable to a particular person during a particular year is exceeding ₹ 15,000
 (d) None of these

Answer

1.(a); 2.(a); 3.(c); 4. (c); 5. (b); 6. (d); 7. (a); 8.(b); 9.(d); 10.(d); 11. (c); 12. (c); 13(a); 14. (c); 15. (b)

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 402

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(v) **As per section 194J**, TDS is required to be deducted if payment is made to a director and no limit of ₹30,000 is applicable in case of payment to director. In the given case, payment is made to director hence TDS is applicable and required to be deducted @ 10% on ₹12,000.

(vi) **As per section 194J**, TDS is required to be deducted @ 2% instead of 10% in case of person engaged in business of call centre. In the given case Radha Limited is engaged only in the business of operation of call centre. TDS is required to be deducted @ 2% on ₹ 70,000

MAY – 2019 (OLD COURSE)**Question 2 (b)****(3 Marks)**

The following issues arise in connection with the deduction of tax at sources under chapter XVII-B. Discuss the liability for tax deduction in these cases:

- (i) An employee of the Central Government receives arrears of salary for the earlier 3 years. He inquires whether amount will be received after deduction of tax at source during the current year.
- (ii) A T.V. channel pays ₹ 10 lacs as prize money to the winner of a quiz programme.
- (iii) A Nationalized bank pays ₹ 50,000 per month as rent of the Central Government for a building in which one of its branch is situated.
- (iv) A television company pays ₹ 50,000 to a cameraman for shooting of a documentary film.

Answer:

(i) As per section 192, in respect of salary payments to employees of Government deduction of tax should be made after allowing relief under section 89. In the given case arrears of salary received in current year if the same was not taxed earlier year then same will be taxable and TDS is required to be deducted but if the same was considered earlier as part of salary then TDS is not required in the current year.

(ii) Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) responsible for paying to any resident or non-resident, any income by way of **winnings from any lottery** or **crossword puzzle** or **card game** and **other game of any sort** shall deduct tax at source @ 30% provided the amount being paid or payable is exceeding ₹ 10,000.

In the given case a T.V. channel pays 10 lacs as prize hence TDS is required to be deducted @ 30%.

(iii) No tax is required to be deducted at source by the nationalized bank on the amount of rent, since such amount is paid to the Central Government.

(iv) The television company is required to deduct tax at source @ 10% u/s 194J on the professional fees payable to the cameraman for shooting a documentary film, since such amount exceeds ₹30,000 during the year.

NOV – 2018 (NEW COURSE)**Question 2 (b)****(2 Marks)**

Mr. Dhanapal wishes to purchase a residential house costing ₹60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for ₹65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably.

Answer:**TDS in case of Payment for purchase of immovable property Section 194-IA**

As per section 194IA, every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) making **payment to a resident** for purchase of **immovable property of ₹50 lakhs** or more shall deduct tax at source @ 1% of such sum but no tax shall be deducted at source in case of payment for purchase of **agricultural land which is situated in the rural area.**

(i) As per the above provision TDS is required to be deducted on purchase of residential house situated in Chennai.

TDS = 1% of ₹60,00,000 = ₹60,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 406

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(i) Wholesale Cloth business, whose turnover is ₹150 lakhs, for which accounts are audited u/s 44AB.

Income from such business ₹8,10,000.

(ii) Income from other sources ₹2,70,000.

(iii) Tax deducted at source ₹25,000.

(iv) Advance tax paid ₹1,03,000 on 14-3-2020 .

Return of income will be filed on 11-12-2020. The assessee is willing to pay the requisite self-assessment tax. Calculate the interest payable under section 234C and 234B of the income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return.

Solution: 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.

	₹
Income from Business	8,10,000
Income from Other source	2,70,000
Gross Total Income	10,80,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	10,80,000

Computation of Tax Payable

Tax on 10,80,000 at slab rate	1,36,500
Add: HEC @ 4%	5,460
Tax Liability	1,41,960
Less: TDS	(25,000)
Tax Payable before adjustment of advance tax	1,16,960
Less: Advance Tax	(1,03,000)
Tax Payable	13,960

Calculation of Interest u/s 234C**Interest under section 234C shall be computed in the manner given below:**

	Tax Payable	Tax Paid	Shortfall
15.06.2019	17,544 (1,16,960 x 15%)	Nil	17,544
Rounded off Rule 119A = 17,500			
Interest u/s 234C = 17,500 x 1% x 3 = 525			
15.09.2019	52,632 (1,16,960 x 45%)	Nil	52,632
Rounded off Rule 119A = 52,600			
Interest u/s 234C = 52,600 x 1% x 3 = 1,578			
15.12.2019	87,720 (1,16,960 x 75%)	Nil	87,720
Interest u/s 234C = 87,700 x 1% x 3 = 2,631			
15.03.2020	1,16,960 (1,16,960 x 100%)	1,03,000	13,960
Interest u/s 234C = 13,900 x 1% x 1 = 139			

Total interest payable u/s 234C	4,873
---------------------------------	-------

Calculation of Interest u/s 234B (01-04-2020 to 11-12-2020)

Since Advance Tax paid i.e. ₹1,03,000 is less than 90% of the actual tax payable i.e. ₹1,16,960, hence Interest u/s 234B shall be payable and Interest shall be –

$$13,900 \times 1\% \times 9 = 1,251$$

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 435

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Losses to be carried forward to A.Y. 2021-22

Loss of iron-ore business	70,000
Short term capital loss	20,000

Notes:

- The following income are exempt under section 10 –
 - Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
 - Agricultural income [Exempt under section 10(1)]
- It is presumed that loss from iron-ore business relates to P.Y.2013-14, the year in which the business was discontinued.

Question 1**(5 Marks)**

Determine the total income of Mr. X from the following information for the Assessment Year 2020-21:

	₹
(i) Interest received on enhanced compensation (It relates to transfer of land in the financial year 2014-15. Out of the above ₹65,000 relates to financial year 2019-20 and the balance relate to preceding years)	4,00,000
(ii) Business loss relating to discontinued business of the assessment year 2014-15 brought forward and eligible for set off.	1,50,000
(iii) Current year business income (i.e. financial year 2019-20) (Computed)	1,10,000

Answer.**Computation of total income of Mr. X for A.Y. 2020-21**

Particulars	Amount (₹)	Amount (₹)
Profits and gains of business or profession		
Current year business income	1,10,000	
<i>Less:</i> Brought forward business loss of discontinued business ₹1,50,000 set-off to the extent of current year business income as per section 72	<u>(1,10,000)</u>	Nil
Income from other sources		
Interest on enhanced compensation taxable on receipt basis under section 56(2)	4,00,000	
<i>Less:</i> Deduction under section 57 @ 50%	<u>(2,00,000)</u>	<u>2,00,000</u>
Total Income		<u>2,00,000</u>

The unabsorbed business loss of ₹40,000 (₹1,50,000 – ₹1,10,000) of A.Y. 2014-15 relating to discontinued business will be carried forward for set-off against income from any business in the next year i.e. A.Y. 2021-22.

MAY – 2010**Question 4****(6 Marks)**

Mr. X furnishes you the following details for the year ended 31.03.2020:

	₹
Income (loss) from house property	
House – 1	36,000
House – 2 Self occupied	(20,000)
House – 3	60,000
Profits and gains from Business or Profession	
Textile Business	2,00,000
Automobile Business	(3,00,000)
Speculation Business	2,00,000
Capital Gains	
Long-term capital gain from sale of shares (STT paid)	1,50,000
Long-term capital gain from sale of vacant site	2,00,000
Short-term capital loss from sale of building	1,00,000

CORRECTION IN INCOME TAX VOLUME 1 (45th Edition) PAGE NO. 452

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Answer: Refer answer given in the book**MAY – 2014****Question .****(2 x 2 = 4 Marks)**

(A) Mr. X submits his return of income on 12.09.2020 for AY 2020-21 consisting of income under the head house property and other sources. On 21.01.2021, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant **Previous Year**. Discuss.

(B) Where the Karta of an Hindu undivided family is absent from India, the return of income can be signed by any male member of the family? Give reasoning for the statement to be true or false.

Solution:

(A) Since Mr. X has income only under the heads “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2020-21 under section 139(1), in his case, is 31st July, 2020. Since Mr. X had submitted his return only on 12.09.2020, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or u/s 139(4) can be revised. Therefore, Mr. X can revise the return of income filed by him under section 139(4), to claim deduction under section 80TTA.

(B) The statement is false.

As per section 140, where the karta of a HUF is absent from India, any other **adult** member of the HUF, can sign the return of income.

Thus, a male member who is not an adult cannot sign the return of income. An adult member, whether male or female, can sign the return of income.

NOV – 2012**Question No. 7(a)****(4 Marks)**

Enumerate the circumstances in which an individual assessee is empowered to verify his return of income u/s 140 by himself or otherwise by an authorised signatory.

Answer: Refer answer given in the Chapter**NOV – 2011****Question 7****(2 Marks)**

State with reasons whether you agree or disagree with the following statements:

Return of income of Limited Liability Partnership (LLP) could be verified by any partner.

Answer:

Disagree. In case of limited liability partnership return is to be verified by designated partner, in case due to any unavoidable circumstances designated partner is not available then any partner can verify.

Question 7**(4 Marks)**

(i) State when a return of income can be treated as defective?

(ii) An assessing officer finds a defect in the return of income and intimated the defect vide letter dated 09.10.2019, which was received by Mr. Ram on 11.10.2019, What is the date by which Mr. Ram has to rectify the defect, assuming that Mr. Ram has not applied for extension of time.

Answer:

(i) Refer answer given in the chapter

(ii) Date by which Mr. Ram has to rectify the mistake:-

$$= 09.10.2019 + 15 \text{ days} = 24.10.2019$$

MAY – 2011**Question 7****(4 Marks)**

Specify the persons who are authorized to verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of:

(i) Political party;