

(a) Fair market value of such asset on 31.01.2018	5,00,000	
(b) Actual sale value	40,000	
Loss u/s 112A		(60,000)
Tax Liability shall be		Nil

The purpose is to allow loss with regard to original cost.

Question 6: Write a note on computation of capital gains in case of transfer of shares.

Answer: Capital gains in case of transfer of shares

In case of original shares, cost of acquisition shall be the amount for which the asset was purchased but if it was purchased before 2001, cost of acquisition shall be the amount for which it was purchased or its market value as on 01.04.2001 whichever is higher. In case of bonus shares, cost of acquisition shall be nil but if bonus shares are issued before 01.04.2001, cost of acquisition shall be the market value as on 01.04.2001.

In case of right shares, cost of acquisition shall be the amount for which such shares have been purchased. If right to purchase right shares has been renounced, amount received shall be considered to be short term capital gains. Cost of acquisition for the right renouncee shall be the amount paid to the person renouncing the right and amount paid to the company.

In case of long term equity shares or long term units of equity oriented mutual funds or units of business trust, capital gains shall be computed as per section 112A provided securities transaction tax has been paid, such capital gains shall be taxed @ 10% in excess of ₹1,00,000 and while computing capital gains u/s 112A indexation is not applicable.

In case of short term equity shares or the units, capital gains shall be computed but as per section 111A, such capital gains shall be taxed @ 15%.

Illustration 4: Mr. X purchased 100 equity shares in ABC Ltd. on 01.10.1995 @ ₹10 per share. The company has issued 100 bonus shares on 01.10.1998 and market value of the shares on 01.04.2001 was ₹7 per share. The company has again issued 100 bonus shares on 01.10.2012.

The company has offered 100 right shares on 01.04.2019 @ ₹140 per share though the market value is ₹250 per share. Mr. X purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Y. He has charged ₹20 per share from Mr. Y for renouncing the right.

All the shares were sold by Mr. X and Mr. Y @ ₹300 per share on 01.01.2020 and securities transaction tax has been paid. (market value on 31-01-2018 is ₹200 per share)

Mr. X has income under the head house property ₹2,20,000 and has causal income ₹50,000 and has invested ₹1,00,000 in NSC.

Mr. Y has income under the head house property ₹3,50,000 and has invested ₹30,000 in NSC.

Compute tax liability of Mr. X and Mr. Y.

(b) Presume in the above STT is not Paid.

Solution:

₹

Computation of Capital Gains of Mr. X

Original Shares

Full value of consideration (100 x 300)	30,000.00
Less: Cost of Acquisition	(20,000.00)

Higher of

(i) COA = 100 x 10 = 1,000

(ii) lower of

(a) FMV as on 31-01-2018 = 100 x 200 = 20,000

(b) sale value = 100 x 300 = 30,000

COA = 20,000

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Long Term Capital Gain u/s 112A	10,000.00
<u>1st Bonus Shares</u>	
Full value of consideration (100 x 300)	30,000.00
Less: Cost of Acquisition	(20,000.00)
Higher of	
(i) COA (7 x 100) = 700	
(ii) lower of	
(a) FMV as on 31-01-2018 = 100 x 200 = 20,000	
(b) sale value = 100 x 300 = 30,000	
COA = 20,000	
Long Term Capital Gain u/s 112A	10,000.00
<u>2nd Bonus Shares</u>	
Full value of consideration (100 x 300)	30,000.00
Less: Cost of Acquisition	(20,000.00)
Higher of	
(i) COA = Nil	
(ii) lower of	
(a) FMV as on 31-01-2018 = 100 x 200 = 20,000	
(b) sale value = 100 x 300 = 30,000	
COA = 20,000	
Long Term Capital Gain u/s 112A	10,000.00
<u>Right Shares</u>	
Full value of consideration (50 x 300)	15,000.00
Less: Cost of Acquisition (50 x 140)	(7,000.00)
Short Term Capital Gain u/s 111A	8,000.00
<u>Renouncing of right to purchase shares</u>	
Full value of consideration	1,000.00
Less: Cost of acquisition	Nil
Short Term Capital Gain	1,000.00
<u>Computation of Total Income</u>	
Income under the head House Property	2,20,000.00
Income under the head Capital Gains	
Long term capital gains 112A	30,000.00
Short term capital gains 111A	8,000.00
Short term capital gains	1,000.00
Income under the head Capital Gains	9,000.00
Income under the head Other Sources	50,000.00
Gross Total Income	3,09,000.00
Less: Deduction u/s 80C	(1,00,000.00)
Total Income	2,09,000.00
<u>Computation of Tax Liability</u>	
Tax on casual income ₹50,000 @ 30%	15,000
Tax on (30,000 – 30,000) @ 10% u/s 112A	Nil
Tax on (8,000 – 8,000) @ 15% u/s 111A	Nil
Tax on normal income ₹1,21,000 at slab rate	Nil
Less: Rebate u/s 87A	(12,500)
Tax before health & education cess	2,500

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"specified agreement" means a registered agreement in which a person owning land or building or both, agrees to allow another person to develop a real estate project on such land or building or both, in consideration of a share, being land or building or both in such project, whether with or without payment of part of the consideration in cash.

Question 17: Write a note on capital gains on distribution of assets by a company on Liquidation.

Answer: Capital Gains on distribution of assets by companies in Liquidation Section 46

If any company is in liquidation and the company has distributed its assets to the shareholders in connection with liquidation, it will be exempt from capital gains.

If the same asset has been sold by the shareholder subsequently, its cost of acquisition shall be the amount for which the shareholder has received the asset from the company and capital gains shall be computed accordingly.

The amount received by the shareholder out of accumulated profits of the company shall be considered to be dividend under section 2(22)(c) and excess over it shall be considered to be full value of consideration for computing capital gains.

(Already discussed under the head Other Sources under section 2(22)(c))

Illustration 14: ABC Ltd. has issued one-lakh shares of ₹10 each and the company goes into liquidation on 01.10.2019 and distributable asset of the company are valued at ₹8 lakh. The company's accumulated profits on the date of liquidation are ₹3.5 lakhs which are included in ₹8 lakhs. Mr. X has purchased 100 shares in this company on 01.10.1998 for ₹ 10 each and market value of the shares on 01.04.2001 is ₹12 per share.

Compute dividends in the hands of Mr. X and also capital gains.

Solution:

	₹
Share of Mr. X in the distributable profits	
8,00,000 x 100/1,00,000	800
Accumulated profits	3,50,000
Proportionate share of Mr. X in accumulated profits	350
Dividends in the hands of Mr. X as per sec 2(22)(c)	350
<i>Computation of capital gains as per section 46</i>	
Full value of consideration	450
Less: Indexed cost of acquisition	
= (12 x 100) / Index of 01-02 x Index of 19-20	
= 1,200/100 x 289 = 3,468	(3,468)
Long-term capital loss	(3,018)

Question 18: Explain capital gains in case of buy back of shares.

Answer: Capital gains in case of buy back of shares Section 46A

If any company has purchased its securities, in such cases capital gain shall be computed in the hands of the holders in the normal manner. Similarly, if any company other than a domestic company has repurchased its own shares, capital gains shall be computed in the hands of the holders.

As per section 115QA, in case of shares of a domestic company, no capital gains shall be computed in the hands of its holders rather the company has to pay additional income tax @ 20% plus surcharge 12% plus HEC 4% on the amount of distributed income.

Distributed Income means the consideration paid by the company on buy-back of shares as reduced by the amount, which was received by the company for issue of such shares.

Question 19 [V. Imp.]: Write a note on transactions not regarded as transfer.

Answer: Transactions not regarded as transfer Section 47

The following transactions will not be considered as transfer and therefore, no capital gains will arise:-

(1) No capital gain shall be computed in case of transfer of any **capital asset through gift or will or inheritance** etc. however if gift is given w.e.f 01.10.2009 onwards, it will be taxable under the head other sources as per section 56.

Illustration 15: Mr. X purchased one house on 01.10.1998 for ₹2,00,000 and incurred ₹1,00,000 on its

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Problem 13.

Mr. X purchased a house property for ₹36,000 on 10.05.1993. He gets the first floor of the house constructed in 1997-98 by spending ₹80,000. He dies on 12.09.2003. The property is transferred to Mrs. X by his will. Mrs. X spends ₹40,000 during 2004-05 for renewals/reconstruction of the property. Mrs. X sells the house property for ₹14,50,000 on 15.03.2020 (brokerage paid by Mrs. X is ₹14,500). The fair market value of the house on 01.04.2001 is ₹1,10,000.

Find out the amount of capital gain chargeable to tax for the assessment year 2020-21.

Answer = Long Term Capital Gain: ₹10,15,299.12

Problem 14.

Mr. X a senior citizen (aged 65 years) sold residential building at Alwar for ₹40,00,000 on October 1st, 2019. This building was acquired by his father on 01.01.1999 for ₹1,00,000. On the death of his father on July 5th, 2006, he inherited this building. Fair market value of this property on 01.04.2001 was ₹1,50,000. He paid brokerage @ 1% to the real estate agent at the time of sale of the building. He purchased a residential building at Bangalore on March 7th, 2020 for ₹8,00,000 and deposited ₹3,00,000 on April 20th, 2020 in the bonds of National Highways authority of India redeemable after one year.

His other incomes are ₹ 50,000. He deposited ₹ 10,000 in public provident fund.

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

Answer = Total Income: ₹27,66,500; Tax Liability: ₹5,13,030

Problem 15.

Mr. X purchased 100 debentures in ABC Ltd. on 01.10.2004 @ ₹300 per debenture and subsequently the company has converted the debentures into shares on 01.10.2017 and for each debenture 3 shares were issued and market value of the shares on the date of conversion was ₹250 per share and **market value as on 31.01.2018 is 300** as on and subsequently assessee has sold all these shares on 01.04.2019 @ ₹500 per share and has paid brokerage @ 1% of the sale price. Compute capital gains in the hands of Mr. X in the following cases:

- (a) STT not paid
- (b) STT paid

Answer = (a) Long Term Capital Gains: ₹71,774.34 (b) Long Term Capital Gains u/s 112A: ₹58,500

Problem 16.

Mr. X purchased 500 debentures on 01.07.2001 of ABC Ltd. @ ₹ 390 per debenture and paid brokerage @ 1.5%. The debentures were converted into share @ 3 share for each debenture on 01.07.2011. Market value on the date of conversion was ₹ 170 per share. All the shares were sold on 01.07.2019 @ ₹900 per share and no securities transaction tax has been paid and paid brokerage @ 1.5%.

A sum of ₹1,00,000 was invested in purchasing a house on 28.06.2020 because the assessee did not have any house and ₹1,00,000 was deposited in capital gain account scheme on 30.06.2020 for availing exemption under section 54F and ₹ 50,000 was withdrawn on 02.07.2020 to construct first floor of the house purchased on 28.06.2020.

Compute total income and tax liability for assessment year 2020-21 and capital gains for various years.

Answer = Total Income: ₹6,43,780; Tax Liability: 81,910;

Assessment Year 2023-24: Long Term Capital Gain: ₹28,492.07

Problem 17.

Mr. X has submitted information regarding sale of certain assets as given below:

1. He purchased one house on 01.10.1998 for ₹5,00,000 and paid brokerage ₹25,000. He entered into an agreement to sell this house on 01.04.2001 for ₹5,10,000 but the buyer backed out. He constructed its first floor on 01.01.2014 by incurring ₹4,00,000 and subsequently this house was sold on 01.01.2020 for ₹160,00,000 and selling expenses were ₹85,000.
2. He purchased Preference shares in ABC Ltd. on 01.07.2013 for ₹1,50,000 and sold these shares on 31.03.2020 for ₹1,00,000.
3. He purchased one motor car for personal use on 28.02.2003 for ₹2,00,000 and sold it on 01.04.2019 for ₹2,10,000.
4. He purchased gold ornaments on 01.10.2000 for ₹2,10,000. Its market value on 01.04.2001 is

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Gross Total Income	20,32,750.00
Less: Deduction u/s 80C	(70,000.00)
Total Income	19,62,750.00
Computation of Tax Liability	
Tax on ₹2,500 @ 15% u/s 111A	375.00
Tax on ₹19,30,250 at slab rate	3,91,575.00
Tax on LTCG 112A (30,000-30,000)	Nil
Tax before health & education cess	3,91,950.00
Add: HEC @ 4%	15,678.00
Tax Liability	4,07,628.00
Rounded off u/s 288B	4,07,630.00

Computation of capital gains in case of Mr. Y

Full value of consideration (200 x 50)	10,000
Less: Cost of acquisition (50 x 155)	(7,750)
Short term capital gain u/s 111A	2,250

Working Note:

Cost of acquisition of right renouncee section 55

In relation to any financial asset purchased by any person in whose favour the right to subscribe to such asset has been renounced, means the aggregate of the amount of the purchase price paid by him to the person renouncing such right and the amount paid by him to the company or institution, as the case may be, for acquiring such financial asset.

Period of holding in case of right renouncee section 2(42A)

In the case of a capital asset, being a share or any other security subscribed to by the assessee on the basis of his right to subscribe to such financial asset or subscribed to by the person in whose favour the assessee has renounced his right to subscribe to such financial asset, the period shall be reckoned from the date of allotment of such financial asset.

Computation of Total Income

Income under the head Business/Profession	10,00,000.00
Income under the head Capital Gains	2,250.00
Gross Total Income	10,02,250.00
Less: Deduction u/s 80C	(50,000.00)
Total Income	9,52,250.00

Computation of Tax Liability

Tax on ₹2,250 @ 15% u/s 111A	337.50
Tax on ₹9,50,000 at slab rate	1,02,500.00
Tax before health & education cess	1,02,837.50
Add: HEC @ 4%	4,113.50
Tax Liability	1,06,951.00
Rounded off u/s 288B	1,06,950.00

(Deduction under section 80C is not allowed from short term capital gain on the transfer of equity shares on which STT has been paid.)

Solution 4: Computation of Tax Liability for the previous year 2019-20 under section 45(5)

Since the Government has made the first payment in the previous year 2019-20, Long term capital gain shall be taxed in the previous year 2019-20. However, Long term capital gain shall be computed in the year in which the asset has been acquired i.e. in the year 2014-15.

₹

Computation of capital gains

Full value consideration	55,00,000.00
Less: Indexed cost of acquisition = 5,00,000 / Index of 02-03 x Index of 14-15	

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EXAMINATION QUESTIONS

MAY – 2019 (OLD COURSE)

Question 4(a)**Marks 4**

Mr. Deepak has a residential house property taxable u/s 22. Such property was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 23,00,000. The sub-register refused to register the documents for the said value, as according to him, stamp value valuation, based on State Government guidelines was 28,00,000. Mr. Deepak preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31-03-2020 for ₹ 17,00,000 for self-occupation. On 01-03-2021, he sold such new residential house for ₹ 30,00,000. Compute his capital gain for the A.Y. 2020-21 and 2021-22. (Cost of indexation : 2001-02; 2005-06 and 2019-20 are, 100; 117 and 289)

Solution:**Computation of Capital Gains for the A.Y. 2020-2021 & 2021-22**

Sale consideration	₹ 23,00,000
Valuation made by Sub Register for stamp duty	₹ 28,00,000
Valuation made by the Divisional Revenue officer on a reference	₹ 25,00,000
Applying the provisions of section 50C to the present case, ₹ 25,00,000, being, the value adopted by the Divisional Revenue officer for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.	

A.Y. 2020-2021***Computation of Capital Gains***

Full value of consideration (section 50C)	25,00,000.00
Less: Indexed cost of acquisition = 2,00,000 / 117 x 289 = ₹ 4,94,017.09	(4,94,017.09)
Long Term Capital Gain	20,05,982.91
Less: Exemption u/s 54	(17,00,000.00)
Long Term Capital Gain	3,05,982.91

A.Y. 2021-2022

Since new house is sold within one year which is less than one year hence gain shall be treated as short term

Computation of Capital Gains

Full value of consideration	30,00,000.00
Less: cost of acquisition = (17,00,000-17,00,000)	Nil
Short Term Capital Gain	30,00,000.00

MAY – 2019 (NEW COURSE)

Question 3 (b)**Marks 6**

Mr. Roy owned a residential house in Noida. It was acquired on 09.09.2009 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2016.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on **20.07.2016**. The said house property was sold on **01.05.2019** and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2020. The property at Panchkula was sold for ₹ 3,25,00,000.

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Other Fixed Assets	430,00,000
Other assets	<u>440,00,000</u>
Total assets	980,00,000
<u>Less:</u>	
Liabilities	<u>(140,00,000)</u>
Net worth	<u>840,00,000</u>

Note: For calculating Net worth Book value shall be considered and revaluation shall be ignored.

Question 6 (a)**Marks 5**

Mr. Madhav made a gift of ₹2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2017, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. compounded annually. The balance in this account as on 1st April, 2019 was ₹2,75,000 and the bank credited a sum of ₹27,500 as interest on 31st March, 2020.

Madhav's father gifted equity shares worth ₹50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2010) in July 2010 which were purchased by him on 8th December, 2004 for ₹80,000. Manan received a dividend of ₹5,000 on these shares in October 2018. He sold these shares on 1st November, 2019 for ₹5,00,000 and deposited ₹3,00,000 in a company at 15% interest per annum.

Cost Inflation Index:

Financial Year	Cost Inflation Index
2004-05	113
2010-11	167
2019-20	289

Mr. Madhav has a taxable income of ₹3,50,000 from his profession during the financial year 2019-20. Compute his Gross Total Income for the A.Y. 2020-21.

Solution:**Computation of Gross Total Income for the A.Y. 2020-21**

Income from Profession		₹	3,50,000.00
Income under the head other sources			
Clubbing of Income of Manan section 64(1A)			
Interest Income (3,00,000 x 15% x 5/12)	18,750		
Dividend Income exempt u/s 10(34)	<u>Nil</u>		
	18,750		
Less: Exempt u/s 10 (32)	<u>(1,500)</u>		17,250.00
Income of Tapan (No clubbing since he is handicapped)			Nil
Income under the head capital Gains			
Full Value of consideration			5,00,000.00
Less: Indexed cost of acquisition (80,000/113 x 289)			<u>(2,04,601.77)</u>
Long term capital Gains			2,95,398.23
(It is assumed that STT is not paid on sale of shares of an Indian company)			
Gross Total Income			6,62,648.23
Rounded off u/s 288A			6,62,650.00

Notes:

- As per section 64(1A), income of minor child shall be clubbed with the income of the parents having higher income but minor child does not include minor child suffering from disability. In the given case master Tapan is handicapped so income of minor child shall not be clubbed.
- If the income of minor child is to be clubbed, **exemption shall be allowed under section 10(32) upto ₹1,500 per annum per child. Exemption can be given from LTCG.**

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Computation of Tax Liability

Tax on LTCG ₹34,22,690 (₹36,72,690 – 2,50,000) @ 20%	6,84,538.00
Add: HEC @ 4%	27,381.52
Tax Liability	7,11,919.52
Rounded off u/s 288B	7,11,920.00

Note: As per the decision of Gauhati High Court in CIT vs Rajesh Kumar Jalan (2006) and Punjab & Haryana High Court in CIT vs Jagriti Aggarwal (2011), exemption under section 54 is allowable even if the amount of capital gain is deposited in Capital Gains Accounts Scheme after the due date specified under section 139(1) but before the period specified for filing a belated return under section 139(4).

If we apply the above interpretation in this case, Mr. X would be eligible for exemption under section 54 in respect of ₹ 3,00,000 deposited in Capital Gains Accounts Scheme on 01.11.2020 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. X would be ₹ 33,72,690 and the consequent tax liability would also be ₹ 6,49,520.

NOV – 2013

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

Mr. X sold a house, held as a capital asset, to his friend Mr. Y on 1st December, 2019 for a consideration of ₹25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty valuation based on State Government guidelines was ₹45,00,000. Mr. X preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹35,00,000 (₹22,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. Mr. X had purchased the land on 1st June, 2006 for ₹5,19,000 and completed the construction of the house on January, **2018** for ₹14,00,000.

Cost inflation indices may be taken as 122 for the financial year 2006-07 and 289 for the financial year 2019-20.

Briefly discuss the tax implications in the hands of Mr. X for the assessment year 2020-21 and compute the capital gains chargeable to tax.

Solution:

As per section 50C, FVC shall be taken to be ₹22,00,000 for land and ₹13,00,000 for the building and capital gains shall be computed separately for land and building.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months. Therefore, land is a long-term capital asset, whereas building is a short-term capital asset.

Computation of Capital Gains chargeable to tax

Particulars	₹	₹
Long term capital gain on sale of land		
Consideration received or accruing as a result of transfer of land	22,00,000.00	
Less: Indexed cost of acquisition ₹ 5,19,000 /122 x 289		
Long-term capital gain (A)	<u>(12,29,434.43)</u>	9,70,565.58
Short-term capital loss on sale of building		
Consideration received or accruing from transfer of building	13,00,000	
Less: Cost of construction	<u>(14,00,000)</u>	
Short term capital loss (B)		(1,00,000)
Long-term capital gain (A-B)		8,70,565.58

Question 6(a).**(5 Marks)**

Compute the total income of Mr. X for the assessment year 2020-21 from the following particulars:

Particulars	Amount (₹)
Income from business before adjusting the following items:	1,75,000
(a) Business loss brought forward from assessment year 2014-15	70,000
(b) Current depreciation	40,000
(c) Unabsorbed depreciation of earlier year	1,55,000

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Income from house property (Gross annual value)	4,32,000
Municipal taxes paid	32,000
Mr. X sold a plot at Noida on 12 th Sep., 2019 for a consideration of ₹6,40,000, which had been purchased by him on 20th Dec., 2017 at a cost of ₹4,10,000.	
Long-term capital gain on sale of land	60,000
Dividend from domestic company on shares held as stock in trade	22,000
Dividend from a domestic company carrying on agricultural business	10,000
During the previous year 2019-20, Mr. X has repaid ₹1,67,000 towards housing loan from a scheduled bank. Out of ₹1,67,000, ₹97,000 was towards payment of interest and rest towards principal payments. Cost inflation indices are as under:	

Financial Year	Index
2016-17	264
2019-20	289

Solution:**Computation of total income of Mr. X for the A.Y 2020-21**

	Particulars	₹
I.	Income from house property	
	Gross Annual Value	4,32,000
	Less: Municipal taxes paid	<u>(32,000)</u>
	Net Annual Value (NAV)	4,00,000
	Less: Deductions under section 24	
	(a) 30% of NAV u/s 24(a)	(1,20,000)
	(b) Interest on housing loan u/s 24(b)	(97,000)
	Income under the head House Property	<u>1,83,000</u>
II.	Income from business	
	Income from business	1,75,000
	Less : Current year depreciation under section 32	<u>(40,000)</u>
		1,35,000
	Less: Set-off of brought forward business loss of A.Y.2014-15 under section 72	<u>(70,000)</u>
		65,000
	Less: Unabsorbed depreciation	<u>(65,000)</u>
	Income under the head Business/Profession	Nil
III.	Capital gains	
	Long term capital gain on sale of land	60,000
	Short terms capital gains on sale of land (6,40,000 – 4,10,000)	2,30,000
	Assessee has the option to set off remaining depreciation of ₹90,000 (1,55,000 – ₹65,000) from normal income or from LTCG	
	Option I	
	Normal income shall be 4,13,000 (₹1,83,000 + 2,30,000)	
	If depreciation is set off from normal income, balance amount of normal income shall be (4,13,000 – 90,000)	3,23,000
	Long term capital gain	60,000
	Gross Total Income	3,83,000
	Less : Chapter VI-A deduction section 80C [Principal repayment of housing loan]	<u>(70,000)</u>
	Total income	<u>3,13,000</u>
	Computation of Tax Liability	
	Tax on ₹2,53,000 at slab rate	150.00
	Tax on LTCG ₹60,000 @ 20%	12,000.00
	Tax before rebate	12,150.00
	Less: rebate u/s 87A	<u>(12,150.00)</u>
	Tax Liability	Nil

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

<u>Solution:</u>	Computation of capital gains for A.Y. 2020-21	₹
Full value of consideration (See Note-1)		80,00,000.00
Less: Indexed cost of acquisition = 10,00,000 / Index of 2001-2002 x Index of 2019-2020 = 10,00,000 / 100 x 289 = ₹28,90,000		(28,90,000.00)
Less: Indexed cost of improvement = 2,00,000 / Index of 2004-2005 x Index of 2019-2020 = 2,00,000 / 113 x 289 = ₹5,11,504.42		(5,11,504.42)
Long term capital gain		45,98,495.58
Less: Exempted u/s 54 -Purchase of new house		(25,00,000.00)
Long term capital gain		20,98,495.58
Gross Total Income		20,98,495.58
Less: Deduction u/s 80C to 80U		Nil
Total Income (rounded off u/s 288A)		20,98,500.00

Note:1- Since the value adopted by stamp valuation authority is higher than the sale value, hence, the value determined by stamp valuation authority shall be the sale consideration.

Note:-2 No exemption u/s 54EC is available since capital gain bonds are purchased after 6 months from the date of sale

Tax consequences in case the property purchased in January 2019 sold on December 2020**Tax consequences shall be for the Assessment Year 2021-22**

Full value of consideration	40,00,000.00
Less: Cost of Acquisition (25,00,000-25,00,000)	NIL
Short term capital gain	40,00,000.00

Question 3**(4 Marks)**

Mr. X purchased 100 shares of ABC Ltd. on 01.04.2005 at rate of ₹1,000 per shares in public issue of the company.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2018. He has also received dividend of ₹10 per share on 01.05.2019.

He has sold all the shares on 01.10.2019 at the rate of ₹3,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.1% to celebrate his 55th birthday. Market value as **on 31-01-2018 ₹2,000 per share**. The cost inflation Index are as follows:

Financial Year	Cost Inflation Index
2005-06	117
2019-20	289

Compute his total income and tax liability for Assessment Year 2020-21 assuming that he is having no income other than given above.

Solution:**Computation of Total Income and Tax Liability for A.Y. 2020-21** ₹**Bonus shares**

Full value of consideration (100 x 3000)	3,00,000.00
Less: Cost of Acquisition	Nil
Less: Expenses (3,00,000 x 1%)	(3,000.00)
Short term capital gain u/s 111A	2,97,000.00

Original Shares

Full value of consideration (100 x 3000)	3,00,000.00
Less: Cost of Acquisition	(2,00,000.00)

Higher of

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Question 7**(4 Marks)**

Mr. X received ₹15,00,000 on 23.01.2020 on transfer of his residential building in a transaction of reverse mortgage under a scheme notified by the Central Government. The building was acquired in March 2004 for ₹8,00,000.

Is the amount received on reverse mortgage chargeable to tax in the hands of Mr. X under the head 'Capital Gains'?

Cost inflation index for the Financial year 2003-04 = 109

Financial year 2019-20 = 289

Answer.

As per section 47, any transfer of a capital asset in a transaction of Reverse Mortgage under a scheme made and notified by the Central Government will not be regarded as a transfer. Therefore, capital gains tax liability is not attracted.

Section 10(43) provides that the amount received by an individual as a loan, either in lump sum or in installments, in a transaction of Reverse Mortgage would be exempt from income-tax. Therefore, the amount received by Mr. X in a transaction of Reverse Mortgage of his residential building is exempt under section 10(43).

MAY – 2010**Question 2****(4 Marks)**

Mr. X sold a house to his friend Mr. Y on 1st November, 2019 for a consideration of ₹25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on ₹45,00,000, which was the Government guideline value. Mr. X preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹32,00,000 (₹22,00,000 for land balance for building portion). The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is ₹32,00,000, what are the tax implications in the hands of Mr. X and Mr. Y for the assessment year 2020-21? Mr. X had purchased the land on the 1st June, 2008 for ₹5,19,000 and completed the construction of house on 1st March, 2018 for ₹14,00,000.

Cost inflation indices may be taken as 137 for the financial year 2008-09, 272 for the financial year 2017-18 and 289 for the financial year 2019-20.

Answer.

As per section 50C, FVC shall be taken to be ₹22,00,000 for land and ₹10,00,000 for the building and capital gains shall be computed separately for land and building.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months. Therefore, land is a long-term capital asset, whereas building is a short-term capital asset.

Particulars	₹
Long term capital gain on sale of land	
Full value of consideration	22,00,000.00
Less: Indexed cost of acquisition $5,19,000 / 137 \times 289$	(10,94,824.82)
Long-term capital gain	11,05,175.18
Short-term capital loss on sale of building	
Full value of consideration	10,00,000
Less: Cost of acquisition	(14,00,000)
Short term capital loss	(4,00,000)

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹7,05,175.18 (i.e., ₹11,05,175.18 – ₹4,00,000).

Income of Mr. Y

Income under the head other sources (32,00,000-25,00,000) 7,00,000

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Question 30 [V. Imp.]: Write a note on deductibility of expenditure on which tax has not been deducted at source.

Answer: Tax deduction at source for payment of interest, royalty etc. outside India Section 40(a)(i)

If any person has paid any interest, royalty or technical fee or other sum chargeable to income tax and the amount is being paid outside India or it has been paid in India to a non-resident or to any foreign company, amount shall be allowed to be debited only if tax has been deducted at source upto the end of the year and also tax has been paid to the government upto the last date of filing of return of income otherwise expenditure is disallowed however it is allowed in the year in which tax has been paid to the government.

(As per section 195, every person has to deduct tax at source on every payment made outside India)

Example: ABC Ltd. has paid ₹20 lakhs as interest outside India on 03.01.2020 and tax was deducted at source on 10.03.2020 and it was paid to the Government on 30.09.2020, expenditure is allowed in previous year 2019-20 but if tax was deducted at source on 01.04.2020, expenditure is not allowed in previous year 2019-20 but it is allowed in previous year 2020-21. If tax was deducted at source on 10.03.2020 but it was paid to the Government on 01.10.2020, expenditure is not allowed in previous year 2019-20 however it is allowed in previous year 2020-21.

Tax deduction at source for payment of interest, commission, brokerage etc. in India Section 40(a)(ia)

If any person has to pay any sum to a resident on which tax is to be deducted at source, in that case such person must deduct tax at source upto the end of the relevant previous year and also payment should be made upto the last date of ROI otherwise 30% of such expenditure is disallowed however it is allowed in the year in which tax has been paid to the government.

Example: ABC Ltd. has paid rent of ₹10 lakhs to XYZ Ltd. in India on 31.12.2019 and tax was deducted at source on 31.03.2020 and was paid to the Government on 30.09.2020, expenditure is allowed in previous year 2019-20 but if tax is deducted at source after 31.03.2020 or payment is made to the Government after 30.09.2020, expenditure allowed in previous year 2019-20 shall be $10,00,000 \times 70\% = 7,00,000$ and balance ₹3,00,000 is disallowed however it will be allowed in the year in which tax has been paid to the Government.

If any person has not deducted tax at source but person who received the payment has paid tax and filed return and it is confirmed by the Chartered Accountant, in that case it will be presumed that such person has deducted and paid tax on the date of filing of ROI by the person receiving payment. (applicable in section **40(a)(i)** & 40(a)(ia))

Example: ABC Ltd. has paid rent of ₹10 lakhs to XYZ Ltd. in India on 31.12.2019 and company has not deducted tax at source but XYZ Ltd. has deposited the tax and filed return on 30.09.2020, in this case it will be presumed that tax has been deducted on 30.09.2020 and paid to the Government on 30.09.2020 and 70% expenditure shall be allowed to ABC Ltd. in previous year 2019-20 and balance 30% in previous year 2020-21. e.g. ABC Ltd. has paid ₹1,00,000 to XYZ Ltd. being the amount of rent and no tax has been deducted at source, in this case expenditure is allowed because as per section 194-I, TDS is not applicable if rent payable is upto ₹1,80,000.

MAY – 2011 (4 Marks)

During the financial year 2019-20, the following payments/expenditure were made/incurred by Mr. X, a resident individual (whose turnover during the year ended 31.03.2019 was ₹99 lacs):

- (i) Interest of ₹12,000 was paid to ABC & Co., a resident partnership firm, without deduction of tax at source;
- (ii) Interest of ₹4,000 was paid as interest to Mr. Y, a non-resident, without deduction of tax at source;
- (iii) ₹3,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iv) He had sold goods worth ₹5 lacs to Mr. D. He paid Commission of ₹15,000 to Mr. Z on 02.07.2019. In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a) of the Income tax Act, 1961.

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Rounded off u/s 288B

90,260.00

Illustration 27: Mr. X submits the profit and loss account for the year ending 31.03.2020 as under—

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Household expense	20,000	Gross Profit	5,28,500
Interest on loan taken from Mrs. X	2,000	Income tax refund	3,000
Income tax	12,000	Interest on income tax refund	300
Interest on loan for payment of income tax	1,200	GST refund	1,000
Contribution to Unrecognised Provident Fund	4,000	Interest on GST refund	400
Expenditure on advertisement (revenue)	25,000	Bad debts recovered	5,000
Public provident fund contribution	7,000	Dividends from foreign company	3,000
Investment in post- office saving bank account	12,000		
Purchase of car (paid by account payee cheque)	2,45,000		
Purchase of computer (paid by account payee cheque)	35,000		
Purchase of plant (paid by account payee cheque)	23,000		
Net Profit	1,55,000		
	5,41,200		5,41,200

Addition Information:

Car, computer and plant and machinery were purchased on 01.10.2019 and were put to use on the same date. Compute Tax Liability of Mr. X for Assessment Year 2020-21.

Solution:

₹

Computation of income under the head Business/Profession

Net Profit as per profit and loss account	1,55,000
Add:	
• Household expenses	20,000
• Income tax	12,000
• Interest on loan for payment of income tax	1,200
• Contribution to Unrecognised provident fund	4,000
• Contribution to public provident fund	7,000
• Investment in post office saving bank account	12,000
• Purchase of car	2,45,000
• Purchase of computer	35,000
• Purchase of plant	23,000
Less:	
• Income tax refund	(3,000)
• Interest on refund	(300)
• Dividends	(3,000)
• Depreciation @ 30% on car (2,45,000 x 30%)	(73,500)
• Depreciation @ 40% on computer (35,000 x 40%)	(14,000)
• Depreciation @ 15% on plant (23,000 x 15%)	(3,450)
Income under the head Business/Profession	4,16,950

Computation of income under the head Other Sources

Interest on income tax refund	300
Dividends from foreign company	3,000

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Income under the head Other Sources	3,300
Income under the head Business/Profession	4,16,950
Gross Total Income	4,20,250
Less: Deductions u/s 80C	(7,000)
Total Income	4,13,250
Computation of Tax Liability	
Tax on ₹ 4,13,250 at slab rate	8,162.50
Less: Rebate u/s 87A	(8,162.50)
Tax Liability	Nil

Illustration 28: Mr. X submits his profit & loss account for year ending 31st March 2020.

Computed net profit after debiting the following amounts to	₹ 87,000
1. Provisions for doubtful debts	16,000
2. Depreciation reserve	21,000
3. Household expenses	20,000
4. Donations to poor persons and	10,000
5. Other charitable donations	20,000
6. Cash payment for purchases	80,000
7. Advertisement expenses ₹ 5,000 spent on a neon sign board purchased and put to use on 01.07.2019 and advertisement gifts to 50 customers at a cost of ₹ 100 each.	
8. Audit fee charged ₹5,000, including expenses on income-tax proceedings ₹3,000.	
9. Patents purchased for ₹70,000 (paid by account payee cheque) on 01.10.2019 and put to use on 07.10.2019.	
10. Preliminary expenses covered under section 35D: Market survey expenses ₹5,000; feasibility report expenses ₹10,000. Project cost ₹10,00,000.	
Incomes credited to profit and loss account were:	
(i) Interest on company deposit ₹ 50,000.	
(ii) Opening stock is valued at cost plus 15% basis, whereas closing stock was valued at cost minus 15% basis. Opening stock valued was ₹1,15,000; closing stock valued was ₹1,70,000.	

Compute his Tax Liability for the Assessment Year 2020-21.

Solution:***Computation of Business Income***

Net Profit as per profit and loss account	₹ 87,000.00
Add: inadmissible expenses	
• Provision for doubtful debts	16,000.00
• Depreciation Reserve	21,000.00
• Household Expenses	20,000.00
• Donations to poor persons	10,000.00
• Other charitable donations	20,000.00
• Cash purchases in excess ₹10,000	80,000.00
• Cost of neon sign board (capital expenditure)	5,000.00
• Patents purchased	70,000.00
• Installment for preliminary expenses under section 35D	12,000.00
(15,000 – 3,000)	

Working Note:

₹15,000 but subject to a maximum of ₹10,00,000 x 5% = ₹50,000,
installment allowed ₹15,000/5 = ₹3,000

• Opening stock overvalued 1,15,000 x 15/115	15,000.00
• Closing stock undervalued 1,70,000 x 15/85	30,000.00
Less:	
• Interest on company deposit	(50,000.00)

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Expenditure	Amount ₹	Income	Amount ₹
To Medicines Consumed	2,52,000	By Fee Receipts	8,49,500
To Staff Salary	1,55,000	By Rental income from house property	29,000
To Hospital Consumables	48,500	By Dividend from Indian companies	15,000
To Rent Paid	60,000		
To Administrative Expenses	1,28,000		
To Net Income	2,50,000		
	8,93,500		8,93,500

(i) Rent paid includes rent for his residential accommodation of ₹ 38,000 (paid in cash).

(ii) Hospital equipments (eligible for depreciation @ 15%)

01.04.2019 opening written down value

₹5,50,000

07.12.2019 acquired paid by account payee cheque (cost), put to use on the same date

₹2,50,000

(iii) Medicines consumed include medicines (cost) ₹12,000 used for Dr. Sagar's family.

(iv) Rent received—relates to a property situated at Mysore. The municipal tax of ₹ 3,500 paid in **December, 2019** has been included in the “administrative expenses.”

(v) He received ₹10,000 per month as salary from ‘Full Cure Hospital’. This has not been included in the “Fee Receipts” credited to income and expenditure account.

Dr. Sagar has not opted for presumptive taxation of Income u/s 44ADA. Compute Dr. Sagar's Taxable Income for the year ended 31.03.2020 and also his Tax Liability.

Solution:

₹

Computation of Income of Dr. Sagar

Net profit as per profit and loss account	2,50,000.00
Add: Inadmissible expenses	
• Rent for residential accommodation	38,000.00
• Medicines for personal use	12,000.00
• Municipal taxes	3,500.00
Less:	
• Depreciation on hospital equipment	(1,01,250.00)

Working Note:

₹

Depreciation on ₹5,50,000 @ 15%	82,500
Depreciation on ₹2,50,000 @ 7.5%	18,750

• Rental income from house property	(29,000.00)
• Dividend from Indian companies	(15,000.00)
Income under the head Business/Profession	1,58,250.00

Income from Salary

Salary	1,20,000.00
(10,000 x 12)	
Gross Salary	1,20,000.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	70,000.00

Income from House Property

Gross Annual Value	29,000.00
Less: Municipal Taxes	(3,500.00)
Net Annual Value	25,500.00
Less: 30% of NAV u/s 24(a)	(7,650.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	17,850.00
Income under the head Other Sources	
Dividend from Indian company {Exempt u/s 10(34)}	Nil
Gross Total Income	2,46,100.00

MULTIPLE CHOICE QUESTIONS

- 1. An assessee uses plant and machinery for the purpose of carrying on his business. Under section 31, he shall be eligible for deduction on account of-**
- both capital and revenue expenditure on repairs
 - current repairs
 - current repairs plus 1/5th of capital expenditure on repairs.
 - both (a) & (b)
- 2. An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2019 at ₹1,20,000. The WDV of the machinery at the beginning of the year i.e. on 1st April, 2019 is ₹1,35,000. No new machinery was purchased during the year. The shortfall of ₹15,000 is treated as -**
- Terminal depreciation
 - Short-term capital loss
 - Normal depreciation.
 - Any of the above, at the option of the assessee
- 3. Mr. X, acquires an asset which was previously used for scientific research for ₹2,75,000. Deduction under section 35(1)(iv) was claimed in the previous year 2014-15. The asset was brought into use for the business of Mr. X, after the research was completed. The actual cost of the asset to be included in the block of assets is -**
- Nil
 - Market value of the asset on the date of transfer to business
 - ₹2,75,000 less notional depreciation under section 32 upto the date of transfer.
 - Actual cost of the asset i.e., ₹2,75,000
- 4. A Ltd. has unabsorbed depreciation of ₹4,50,000 for the P.Y.2019-20. This can be carried forward-**
- for a maximum period of 8 years and set-off against business income.
 - Indefinitely and set-off against business income.
 - Indefinitely and set-off against any head of income
 - Indefinitely and set-off against any head of income except **casual income**.
- 5. Mr. X, a retailer acquired furniture on 10th May 2019 for ₹10,000 in cash and on 15th May 2019, for ₹15,000 and ₹20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for A.Y. 2020-21 would be –**
- ₹2,000
 - ₹3,000
 - ₹3,500
 - ₹4,500
- 6. XYZ Ltd. incurred capital expenditure of ₹1,50,000 on 1.4.2019 for acquisition of patents and copyrights. Such expenditure is -**
- Eligible for deduction in 14 years from A.Y.2020-21
 - Eligible for deduction in 5 years from A.Y. 2020-21
 - Subject to depreciation @ 25% under section 32
 - Subject to depreciation @ 15% under section 32
- 7. Under section 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month relevant for A.Y.2020- 21 and the maximum number specified under the section are -**
- ₹7,500 for each goods carriage in the case of an assessee owning not more than 10 goods carriages at any time during the year
 - ₹7,500 for each goods carriage in the case of an assessee owning less than 10 goods carriages at any time during the year
 - ₹1,000 per ton of gross vehicle weight for per month or part of a month for a goods carriage for an assessee owning not more than 10 goods carriages at the end of the previous year

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		Balance c/d	54,05,500
	60,48,500		60,48,500

Additional information:

1. A cash payment of ₹75,000 was given to him by a patient in appreciation of his medical services but was not recorded in books.
2. Flat was purchased on 01.04.2019 and was self occupied for residence for a month from the date of its purchase. Thereafter it was let out @ ₹5,500 p.m., the municipal value of the flats is ₹66,000 p.a. and municipal taxes assessed, though not paid, is ₹4,500.
3. One-third of motor car expenses relate to his personal use. Depreciation on car allowable under Income Tax Act for professional use is ₹12,000.
4. The rate of depreciation on surgical equipment is 15%. The written down value of equipment on 01.04.2019 is ₹60,000. He sold some of the equipment for ₹30,000 during the year. New equipment was purchased on 01.11.2019 for ₹90,000 and was put to use on the same date.

Compute his Total Income and Tax Liability for the Assessment Year 2020-21.

Answer = Total Income: ₹53,81,950; Tax Liability: ₹16,32,590

Problem 4.

Mr. X is an advocate in Delhi High Court. He keeps his books on cash basis. His receipts and payments account for the financial year 2019-20 is given below:

Receipts	Amount ₹	Payments	Amount ₹
Balance b/d	44,000	Rent Paid for Building	1,44,000
Consultancy fee	55,35,500	Office expenses	46,000
Remuneration from university as evaluator of LLB exams	7,000	New car purchased and put to use on 01.05.2019	3,00,000
Sale proceeds of residential house (it was purchased on 01.07.2018 for ₹3,00,000)	5,00,000	Computer purchased and put to use on 01.04.2019	50,000
Salary from law faculty for working as part time lecturer	45,000	Legal books purchased	30,000
Dividend from UTI	5,200	Car expenses	42,000
		Advance Income tax paid	22,000
		Electricity and water charges for the entire house	16,000
		Son's college tuition fee paid	54,000
		Gift to daughter	25,000
		Life insurance premium paid on own life (sum assured ₹50,000)	12,000
		Balance c/f	53,95,700
	61,36,700		61,36,700

Additional information:

1. On 31.03.2020 legal fees outstanding amounted to ₹22,000
2. Rent is payable @ ₹12,000 p.m.
3. 70% of the use of the car is for official purpose and 30% for personal purpose.
4. Legal books for ₹12,000 was purchased on 01.05.2019 and put to use on the same date and for ₹18,000 on 01.11.2019 and put to use on the same date.
5. Half of the house taken on rent is being used for residential purposes.

Compute the Total Income and Tax Payable of Mr. X for the Assessment Year 2020-21.

Answer = Total Income: ₹54,68,200; Tax payable: ₹16,40,190;

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		Donation to poor persons	5,000
		Drawings for personal use	1,02,000
		Balance c/f	4,00,000
	6,19,000		6,19,000

Mr. X has not opted for presumptive taxation of Income u/s 44ADA. Compute his Tax Liability for the Assessment Year 2020-21.

Answer = Tax Liability: Nil

Problem 10.

ABC Ltd. submits the profit & loss account for the year ending 31st March 2020.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Salary to staff	3,00,000	Gross Profit	5,27,000
Capital expenditure for promotion of family planning amongst employee	14,000	Rent of flats given to staff	24,000
GST (paid on 01.11.2020)	24,000	Sundry receipts	7,000
Gratuity paid to staff	24,000	Short term Capital gains on sale of land which was purchased two years ago	60,000
Reserve for future losses	30,000		
Reserve for bad debts	14,000		
Payment of advance income-tax	17,000		
Car expenses	20,000		
Depreciation	30,000		
Office expenses	12,000		
Repair of flats given to staff	24,000		
Sundry expenses	46,000		
Net Profit	63,000		
	6,18,000		6,18,000

Determine the Total Income and Tax Liability of company for the Assessment year 2020-21.

Answer = Total Income: ₹1,59,200; Tax Liability ₹49,670

Problem 11.

From the following profit and loss account of Mr. X for the year ending March 31st, 2020, compute his Total Income and Tax Liability for the Assessment Year 2020-21.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
Opening stock	4,62,000	Sales	103,00,000
Purchases	90,35,000	Closing stock	4,97,000
Salaries	8,50,000	Rental income from house property	84,000
Rent rate & taxes	1,25,000	Dividends from an Indian company	12,000
Legal charges	45,000	Income from owning and maintaining of race camels	20,000
Miscellaneous expenses	22,000		
Provision for gratuity	22,000		
Provision for Income Tax	53,000		
Salary to Mrs. X	36,000		
Depreciation	40,000		
Net Profit	2,23,000		
	109,13,000		109,13,000

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

Income from UTI		(6,500)
Depreciation [52,500-45,000]		(7,500)
Income under the head Business/Profession		6,91,000
Income under the head Other Sources		
Dividend from Indian company {exempt u/s 10(34)}		Nil
Income from mutual fund {exempt u/s 10(35)}		Nil
Gross Total Income		6,91,000
Less: deduction u/s 80C		(59,000)
Life insurance premium (Maximum 10% of sum assured)	34,000	
Tuition fees of Mr. X's son	5,000	
Investment in infrastructure bonds	20,000	
Total Income		6,32,000
Computation of Tax Liability		
Tax on ₹6,32,000 at slab rate		38,900
Add: HEC @ 4%		1,556
Tax Liability		40,456
Rounded off u/s 288B		40,460

Solution 28:

₹

₹

Computation of Total Income of Mrs. X**Income under the head Business/Profession**

Net profit as per profit and loss account		7,88,700.00
Add: inadmissible items		
• One fifth of car maintenance		3,300.00
• Interest on loan (50%)		30,000.00
• Municipal tax		2,000.00
• Depreciation as per books		
• (8,500 + 14,000 + 5,000 + 3,000)		30,500.00
• Printing bill for 2018-19		3,000.00
• Provident fund (Section 43B)		5,000.00
• Payment made in cash in excess of ₹10,000 {Sec 40A(3)}		30,000.00
Less:		
• Honorarium received from various institutions		(6,600.00)
• Dividend on shares		(10,500.00)
• Income from Unit Trust of India		(6,500.00)
• Profit on sale of equity shares		(20,800.00)
• Rent received		(62,000.00)
• Depreciation as per Income Tax Act		
• Car (85,840 x 15% x 4/5)	10,300.80	
• Computer (1,50,000 x 40% x 1/2)	30,000.00	
• Typewriter (15,000 x 15%)	2,250.00	
• Furniture (25,000 x 10%)	2,500.00	(45,050.80)
Income under the head business/profession		7,41,049.20
Income under the head House Property		
Gross annual value		62,000.00
Less: Municipal Taxes		(2,000.00)
Net annual value		60,000.00
Less: 30% of NAV u/s 24(a)		(18,000.00)
Less: Interest on capital borrowed u/s 24(b)		(30,000.00)
Income from house property		12,000.00
Income from capital gain (STCG)		20,800.00

CORRECTION IN INCOME TAX VOLUME 2 (45th Edition) PAGE NO. 206

(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

(1) Salary includes a payment of ₹12,000 per month to his brother-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹10,000 per month.

(2) Interest on saving bank deposit belongs to his wife who has deposited the money out of the pocket money given to her every month.

(3) Written down value of the assets as on 1st April, 2019 are as follows :

Motor Car (40% used for personal use)	₹2,00,000
Furniture and Fittings	₹50,000

(4) Medical expenses includes:

- Family planning expenditure ₹15,000 incurred for the employees which was revenue in nature.
- Medical expenses for his father ₹35,000. (Father's age is 65 years)

(5) The computer was purchased on 5th June, 2019 on credit. The total invoice was paid in the following manner:

- ₹18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2019.

(6) Bonus was paid on 30th September, 2020.

(7) General expenses include commission payment of ₹22,000 to Mr. Sridhar for the promotion of business on 17th September, 2019 without deduction of tax at source.

(8) He also received gold coins from a family friend on the occasion of marriage anniversary on 5th December, 2019. The market value of the coins on the said date was ₹55,000.

Compute the total income and the tax liability of Mr. Murari for the assessment year 2020-2021

Solution: Computation of Total Income and Tax Liability

	₹
Excess of Income over expenditure	1,52,500.00
Add: inadmissible expenses	
<i>Motor car expense (personal use 40% x 58,000)</i>	<i>23,200.00</i>
Purchase of computer	80,000.00
<i>Salary to relative in excess of market value section 40A (2) (2,000 x 12)</i>	<i>24,000.00</i>
Depreciation as per books	47,500.00
Family planning expenditure on employees	15,000.00
Medical expense for his father is a personal expenditure	35,000.00
Bonus being paid to employee after the due date of filing the return (section 43B)	10,000.00
Less:	
Share of Profit from HUF	(25,000.00)
Interest on saving bank deposits	(15,000.00)
Interest on Income-tax refund	(8,000.00)
Depreciation on motor car (₹2,00,000 @ 15% x 60%) (section 32)	(18,000.00)
Depreciation on computer (₹62,000 @ 40%) (section 32)	(24,800.00)
Depreciation on furniture (₹50,000 @ 10%) (section 32)	(5,000.00)
<i>Income under the head Business/profession</i>	<i>2,67,400.00</i>
Income under the head other sources	
Gift from friend on anniversary is taxable (section 56)	55,000.00
Share of profit from HUF is exempt (section 10 (2))	Nil
Interest from saving bank account (clubbed u/s 64)	15,000.00
Interest on income tax refund	8,000.00
Income under the head other sources	78,000.00
<i>Gross Total Income</i>	<i>3,45,400.00</i>
Less: Deduction u/s 80D (Medical expenditure on his father)	(35,000.00)
Less: Deduction u/s 80TTA	(10,000.00)
<i>Total Income</i>	<i>3,00,400.00</i>

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Computation of Tax Liability

<i>Tax on ₹3,00,400 at slab rate</i>	<i>2,520.00</i>
<i>Less: Rebate u/s 87A</i>	<i>(2,520.00)</i>
<i>Tax Liability</i>	<i>Nil</i>

Notes:

- As per section 36(1)(ix), family planning expenditure is allowed to companies in 5 annual equal instalments. In the given case assessee is an individual hence it is not allowed.
- As per section 43 payment of capital expenditure made in cash in excess of ₹10,000 shall not be included in cost of the asset.

Question 4(a)**Marks 5**

Mr. Dheeraj, a resident individual, is a dealer of food grains. During the previous year 2019-2020, total turnover of his business was ₹80 lakhs. (out of which ₹15 lakhs was received in account payee cheques and balance in cash). He estimates similar turnover in the previous year 2020-2021. As suggested by his tax consultant, Mr. Dheeraj wants to opt for computation of profit and gains of business on presumption basis under section 44AD for the previous year 2020-2021.

Guide Mr. Dheeraj relating to the provisions of advance tax with its due date along with the amount payable, if he opts for the above mentioned presumptive taxation.

Solution:**Special provision for computing profits and gains of business on presumptive basis. Section 44AD**

- If any assessee has turnover of his business **upto ₹200 lakhs**, such assessee is allowed to compute income on presumptive basis and income under the head business/profession shall be presumed to be **8% of the turnover** and no further deduction is allowed under section 30 to 38.
- Such option is allowed only to an **Individual/ HUF / Firm** who are resident but not to LLP or Company.
- Section 44AD is applicable only to business and not to specified profession and also it is not applicable for the persons having earning as commission or brokerage.
- Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year otherwise interest shall be charged @ 1% for one month on the amount of deposit default.
- The assessee shall be exempt from maintaining books of accounts or audit.

Rate of 6% shall be applied instead of 8% if the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account during the previous year or before the due date specified in subsection (1) of section 139 in respect of that previous year.

As per the above provision, Mr. Dheeraj can opt for presumptive taxation u/s 44AD and 100% of his tax liability shall be payable as advance tax on or before 15th March of the relevant previous year otherwise 1% interest shall be charged for one month on the amount of default.

As per above provision, 8% of turnover shall be considered as business income if payment is received in cash and 6% of turnover is payable in case payment is received in account payee cheque.

Income under the head business/profession

8% of 65,00,000	5,20,000
6% of 15,00,000	90,000
Income under the head business/profession	6,10,000

Question 4(b)**Marks 5**

Mr. Sharad, set up a manufacturing unit of detergent powder in notified backward area on 20th April, 2019. He purchased the following machineries (falling under 15% block) during the previous year 2019-2020.

	Amount (₹ lakhs)
(i) Machinery A, Machinery B and Machinery C from XYZ Limited on credit. (installed on 20 th June, 2019)	45
(ii) Machinery D from Suyog Limited (installed on 5 th September, 2019).	25

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(CORRECTED PART IS GIVEN IN BOLD ITALICS AND COLOURED)

NOV – 2012

Question No. 1 (a)	(6 Marks)
Mr. X provides the following information for the year ending 31.03.2020:	₹
(i) Rent from vacant site let on lease	1,12,000
(ii) Rent from house property at Delhi	20,000 p.m.
(iii) Turnover from retail trade in grains (No books of account maintained)	24,37,500
(iv) Arrears of salary received from ex-employer	40,000
(v) Purchase of 10,000 shares (non listed) of X Co. Ltd., on 01.01.2017	1,00,000
He received a 1:1 bonus on 01.01.2019. Sale of 5,000 bonus shares in September, 2019	2,20,000
(vi) Received ₹ 1,50,000 on 12.02.2020 being amount due from Mr. A relating to goods supplied by Mr. X's father, which was written off as bad debt by his father in Assessment Year 2018-19 and allowed as deduction. Mr. X's father died in July 2018.	
(vii) Brought forward business loss relating to discontinued textile business of Mr. X relating to the Assessment Year 2018-19.	1,97,500
(viii) Brought forward depreciation relating to discontinued textile business of Mr. X.	1,50,000
(ix) Mr. X contributed ₹ 30,000 to Prime Minister's National Relief Fund and ₹ 40,000 to Charitable Trust enjoying exemption u/s 80G by cheque.	
Compute the Total Income and the Tax thereon of Mr. X for the Assessment Year 2020-21.	

Answer: Computation of total income and tax liability of Mr. X for the A.Y. 2020-21

Income from Salaries		₹
Arrears of salary received from ex-employer		40,000.00
Less: Standard Deduction u/s 16(ia)		(40,000.00)
Income under the head salary		Nil
Income from house property		
Income from House Property at Delhi		
Gross Annual Value (GAV)		2,40,000.00
Less: Municipal taxes paid		Nil
Net Annual Value (NAV)		2,40,000.00
Less: Deduction under section 24 @ 30% of NAV		(72,000.00)
Income from house property		1,68,000.00
Profit and gains of business or profession		
Income from business of retail trade in grains (24,37,500 x 8%)		1,95,000.00
Less: Set-off of brought forward business loss relating to A.Y.2018-19 of discontinued textile business (Balance loss of 2,500 shall be carried forward)		(1,95,000.00)
Income from business		Nil
Capital gains		
Full value of consideration		2,20,000.00
Less: Cost of acquisition		Nil
Short term capital gains		2,20,000.00
Less: Depreciation for textile business		(1,50,000.00)
Balance short term capital gain		70,000.00
Income from other sources		
Rent from vacant site let on lease		1,12,000.00
Gross Total Income (1,68,000 + 70,000 + 1,12,000)		3,50,000.00
Less: Contribution to Prime Minister National Relief Fund section 80G		(30,000.00)
Less: Contribution to Charitable trust notified u/s 80G ₹40,000		(17,500.00)
Adjusted GTI = 3,50,000		
Q.A = 10% of ₹ 3,50,000 or ₹40,000 whichever is less		
= 35,000		
Deduction 50% of ₹ 35,000 = 17,500		
Total Income		3,02,500.00
Tax on ₹3,02,500 at slab rate		2,625.00
Less: Rebate u/s 87A		(2,625.00)
Tax Liability		Nil

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Interest on bank FD in the name of minor daughter [$1,50,000 \times 9\% \times 9/12$]	10,125	
Less: Exempt u/s 10(32)	<u>(1,500)</u>	8,625.00
Winnings from lottery		50,000.00
Income under the head Other Sources		3,29,625.00
Gross Total Income		6,29,125.00
Less: Deductions under Chapter VI-A		
Section 80C		
Repayment of housing loan ($48,000 \times \frac{3}{4}$)		(36,000.00)
Section 80D Medical Insurance Premium		
Own		(16,000.00)
Mother		(16,000.00)
Section 80TTB		(9,625.00)
Total income		5,51,500.00
Agricultural Income		1,00,000.00
Computation of Tax Liability		
Tax on agricultural income + non-agricultural income		
Tax on ₹1,00,000 + 5,01,500 at slab rate		30,300.00
Tax on agricultural income + ₹3,00,000		
Tax on ₹1,00,000 + ₹3,00,000 at slab rate		(5,000.00)
Tax on normal income (30,300 – 5,000)		25,300.00
Tax on ₹50,000 @ 30%		15,000.00
Tax before health & education cess		40,300.00
Add: HEC @ 4%		1,612.00
Tax Liability		41,912.00
Less: TDS		(15,000.00)
Less: Advance Tax		(20,000.00)
Tax Payable		6,912.00
Rounded off u/s 288B		6,910.00

Notes:

- (i) Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹30,000.
- (ii) Since $\frac{1}{4}$ th portion of house is used for business purposes, therefore, $\frac{1}{4}$ th share of interest paid is deductible while computing business income.
- (iii) Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
- (iv) Term deposit of ₹1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan ($\frac{3}{4}$ th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be ₹36,000 (i.e. $\frac{3}{4}$ th of ₹48,000).
- (v) Depreciation @15% has been provided on surgical instruments.

Question 7**(4 Marks)**

State under which heads the following incomes are taxable:

- (i) Rental income in case of dealer in 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
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

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Illustration 11: Mr. X retired w.e.f 01.10.2019 receiving ₹5,000 p.m. as pension. On 01.02.2020, he commuted 60% of his pension and received ₹3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a non-government employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
- He is a non-government employee and is in receipt of no gratuity at the time of retirement.

Solution:**(a) He is a government employee.**

Uncommuted pension received (October – March)		₹ 24,000.00
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less : Exempt u/s 10(10A)	₹(3,00,000)	<u>NIL</u>
Taxable pension		<u>₹ 24,000.00</u>

(b) He is a non-government employee, receiving gratuity ₹ 5,00,000 at the time of retirement.

Uncommuted pension received (October – March)		₹ 24,000.00
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	

Less: Exempt u/s 10(10A)

$\left(\frac{1}{3} \times \frac{₹3,00,000}{60\%} \times 100\%\right)$	<u>₹(1,66,666.67)</u>	<u>₹1,33,333.33</u>
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Taxable pension***₹1,57,333.33*****(c) He is a non-government employee and is not in receipt of gratuity at the time of retirement.**

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less : Exempt u/s 10(10A)		
$\left(\frac{1}{2} \times \frac{₹3,00,000}{60\%} \times 100\%\right)$	₹ (2,50,000)	₹ 50,000
Taxable pension		₹ 74,000

Pension by winners of gallantry award Section 10(18)

Pension received by individuals who are winners of **Param Vir Chakra, Maha Vir Chakra or Vir Chakra** or such other gallantry awards shall be fully exempt from income tax.

Similarly, pension received by the family members of an individual mentioned above shall be exempt from income tax.

Family pension received by family members of the persons who died in the course of operational duties Section 10(19)

Any family pension received by the widow or children etc. of the members of armed forces including paramilitary forces of the union shall be exempt from income tax provided death of such member has occurred in the course of operational duties.

Question 7: Write a note on deduction in case of contribution to Pension Scheme of Central Government.

Answer: Deduction in respect of contribution to Pension Scheme of Central Government Section 80CCD

1. Deduction is allowed to an **INDIVIDUAL**.

2. In case of an employee deduction shall be allowed equal to the amount contributed by the employee towards the Pension Scheme (also called New Pension System) but **maximum to the extent of 10% of retirement benefit salary**. If the **employer** has contributed any amount towards Pension Scheme, it will be added to the gross salary of the employee and also deduction shall be allowed for such contribution but maximum to the extent of:

- fourteen per cent.**, where such contribution is made by the Central Government;
- ten per cent.**, where such contribution is made by any other employer,

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year in which it has been received.

Example

Mr. X is employed in ABC Ltd. and is getting basic pay of ₹50,000 p.m. during the previous year 2019-20 and the employer has made the payment in time upto February 2020 but salary for the month of March 2020 was paid in April 2020, in this case his salary taxable in previous year 2019-20 shall be ₹6,00,000.

Example

Mr. X is employed in ABC Ltd. and is getting basic pay of ₹50,000 p.m. during the previous year 2019-20 and he has taken salary in advance for the month of April and May 2020 in the month of March 2020, in this case his salary taxable in previous year 2019-20 shall be ₹7,00,000.

Arrears of Salary

Sometimes salary of employee may be increased from retrospective effect i.e. from back date and employee may receive arrear of salary, such arrears are taxable in the year in which arrears have been received however relief shall be allowed under section 89.

Example

Mr. X is employed in ABC Ltd. getting basic pay ₹50,000 p.m. but the employer has increased his basic pay to ₹60,000 p.m. on 01.07.2019 but the increase is w.e.f 01.01.2019, in this case arrears of salary amounting to ₹30,000 shall be taxable in the year 2019-20 and accordingly his gross salary shall be considered to be ₹7,50,000.

Question 19: Write a note on relief under section 89.**Answer: Relief under Section 89**

If any person has received arrears of salary or advance of salary and because of this reason his tax liability has increased, he may claim relief under section 89 in the manner given below:

1. Compute tax liability for the previous year in which the arrear or advance of salary has been received including the amount of such arrear or advance.
2. Compute tax liability for the previous year in which the arrear or advance has been received excluding such arrear or advance.
3. Tax at step no. 1 minus tax at step no. 2 shall be the tax on such arrear or advance.
4. Compute tax liability of the previous year to which the arrear or advance relates including such arrear or advance.
5. Compute tax liability of the previous year to which arrear or advance relates excluding such arrear or advance.
6. Tax at step no. 4 minus tax at step no. 5 shall be tax on the arrears or advance in the year to which such arrear or advance relates.
7. Tax at step no. 3 minus tax at step no. 6 shall be the relief under section 89.

If there is no excess, no relief is admissible.

JUNE – 2009 (5 Marks)

Mr. X, an employee of a PSU, furnishes the following particulars for the previous year ending 31.03.2020:

	₹
i. Salary for the year	6,00,000
ii. Arrears of Salary for Previous Year 2018-19 received during the year	2,00,000
iii. Salary for the Previous Year 2018-19	6,00,000

You are requested by the assessee to compute relief under section 89 of the Income-tax Act, 1961, in terms of tax payable for previous year 2019-20.

The rates of Income-tax for the Previous Year 2018-19 are:

	Tax Rate (%)
On first ₹ 2,50,000	Nil
On ₹ 2,50,000 - ₹ 5,00,000	5
On ₹ 5,00,000 - ₹ 10,00,000	20
Above ₹ 10,00,000	30
Health & Education cess @ 4%	

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power of the company.

(iii) Any employee whose monetary income under the head 'Salaries' exceeds ₹50,000.

If any employee is not a specified employee, he will be considered to be non-specified employee and the above prerequisites shall be exempt from income tax.

Monetary income means income under the head salary but it will not include perquisite value of non monetary perquisites i.e. it will include:

(i) Basic Pay

(ii) Dearness Allowance/Dearness Pay

(iii) Bonus/commission/fees etc.

(iv) Taxable portion of all allowances

(v) Monetary perquisites

(vi) Any other payment in cash like gratuity, pension, leave salary etc. but it will not include contribution of **employer to provident fund or interest of provident fund.**

• Any arrears of salary or advance salary shall also be taken into consideration.

• Where salary is received from more than one employer during the relevant previous year, the aggregate salary from these employers is to be taken into account in determining the above ceiling limit of ₹ 50,000.

• Deduction under section **16(ia)**, 16(ii) and 16(iii) shall also be allowed.

Example

Mr. X is employed in ABC Ltd. getting basic pay ₹4,500 p.m., dearness allowance ₹500 p.m. Employer has paid children education allowance ₹300 p.m. for one child, entertainment allowance ₹35 p.m. Employer has also paid professional tax of ₹100 p.m. on behalf of the employee. Employer has provided him rent free accommodation with perquisite value ₹35,000 p.a.

The employee has received arrears of salary ₹4,000 and advance salary ₹3,000.

Compute employee's monetary income to determine whether he is the specified employee or non-specified employee.

Solution:

Computation of Monetary Income

	₹
Basic Pay	54,000
(4,500 x 12)	
Dearness Allowance	6,000
(500 x 12)	
Children Education Allowance {Sec 10(14), Rule 2BB}	2,400

Working Note:

	₹
Received = ₹300 x 12 =	3,600
Exempt = ₹100 x 12 =	(1,200)
Taxable =	2,400

Entertainment Allowance	420
(35 x 12)	
Professional Tax	1,200
(100 x 12)	
Arrears of Salary {Sec 15}	4,000
Advance Salary {Sec 15}	3,000
Gross Salary	71,020
Less: Standard Deduction u/s 16(ia)	(50,000)
Less: 16(iii) Professional Tax	(1,200)
Monetary Income	19,820

So, he is non-specified employee.

Question 24: Discuss the taxability of motor car facility given to an employee by his employer?

Answer:

As per **Section 17(2)(iii), Rule 3(2)**, if the employer has provided motor car facility for personal use, it will be taxable and perquisite value shall be 10% per annum of actual cost plus expenses incurred by employer but facility shall be taxable only in case of specified employees and if employer has recovered any amount

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Question 27: [V. Imp.] Write a note on taxability of educational facility.**Answer: Taxability of Educational Facility Section 17(2)(iii) Rule 3(5)**

- If the employer has provided free education or training facility to the employee, there is no perquisite value.
- If education facility is provided to the children of the employee, it is exempt to the extent of ₹1,000 p.m. per child. (irrespective of the number of children)
- If education facility is provided in employer's own institution, Still it is taxable however normal exemption of ₹1,000 p.m. per child shall be allowed. Value for this purpose shall be the cost of similar type of education in a similar type of institution in the same locality.
- If any amount has been recovered from the employee, it will be deducted and only the balance amount shall be taxed.
- Since the facility is covered under section 17(2)(iii), it is taxable only in case of **specified employees**.

Obligation of the employee met by the employer Section 17(2)(iv)

If the facility has been availed by the employee for education of members of his household and payment or reimbursement has been given by the employer, entire amount paid or reimbursed shall be taxable in case of specified as well as non-specified employees as per section 17(2)(iv).

- If the employer has given children education allowance, it is exempt upto ₹100 p.m. per child for two children.

Example

Mr. X is employed in ABC Ltd. and is a specified employee. Compute perquisite value of educational facilities in the following situations:

- The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹3,000.
- The employer has made arrangements for the education of his three childrens in his own school and has incurred ₹1,500 per month per child and has recovered ₹300 per month per child from the employee.
- If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed ₹1,500 per month per child.

Solution:

- There is no perquisite value.
- Perquisite value shall be ₹7,200.
- Perquisite value shall be ₹54,000.

Example

Compute perquisite value in the following situations:

- Mr. X is employed in ABC Ltd. and is getting salary of ₹4,000 p.m. The employer has incurred ₹1,500 p.m. on the education of his one son, perquisite value shall be _____.
- Mr. X is employed in ABC Ltd. and is getting a salary of ₹7,600 p.m. and the employer has incurred ₹1,500 p.m. on the education of his one adopted son, perquisite value shall be _____.
- Mr. X is employed in ABC Ltd. and is getting a salary of **₹10,000 p.m.** and employer has spent ₹500 p.m. on the education of his daughter in law, perquisite value shall be _____.
- Mr. X is employed in ABC Ltd. and is getting a salary of ₹4,000 p.m. and he has incurred ₹700 p.m. on the education of his one son, in this case perquisite value shall be _____.

Solution:

- Nil
- Nil**
- ₹6,000
- Nil

Question 28: Write a note on taxability of Transport Facility.**Answer: Transport Facilities Section 17(2)(iii), Rule 3(6)**

If the employer is **engaged in the business of carriage of goods or passengers** and the employer has provided facilities of free transport to the employee or to the members of his household, perquisite value shall be the amount charged by the employer from other person for similar facility.

If the employer has recovered any amount from the employee for such facility, it will be deducted and only

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(c) 12,000

(d) 7,000

30. which of the statement is not correct from the following

(a) If the population is upto 10 lakhs, taxable amount shall be 7.5% of rent free accommodation salary

(b) If the population is more than 10 lakhs but upto 25 lakhs, taxable amount shall be 10% of rent free accommodation salary

(c) If the population is more than 25 lakhs, taxable amount shall be 15% of rent free accommodation salary

(d) If the population is more than 10 lakhs, taxable amount shall be 15% of rent free accommodation salary

Answer

1. (d); 2. (d); 3. (b); 4. (a); 5. (b); 6. (b); 7. (a); 8. (a); 9. (b); 10. (c); 11.(c); 12.(c); 13.(c); 14.(c); 15.(a); 16.(c); 17.(c); 18.(b); 19.(a); 20.(b); 21.(a); 22.(a); **23.(d)**; 24.(c); 25.(a); 26.(a); 27.(a); 28.(a); 29.(b); 30.(d)

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Problem 7.

Mr. X is retired from ABC Ltd. on 27.11.2019 after serving the employer for 11 years 11 months and 11 days. The employer has paid him gratuity of ₹2,50,000. At the time of his retirement his basic pay was ₹12,500 p.m. The employer has allowed him pension of ₹6,200 p.m., the employee has requested for commutation of pension on 01.02.2020 and employer has allowed him commutation @ 52% of his pension and has paid ₹3,86,880. Compute his Tax Liability for the Assessment Year 2020-21.

Answer = Tax Liability: Nil

Problem 8.

Mr. X joined ABC Ltd. in the pay scale of ₹ 10,800 – 400 – 16,400 – 500 – 19,400 on 01.07.2001 and he resigned on 15.09.2019. He was allowed dearness allowance @ 50% of his basic pay, forming part of salary for retirement benefits.

On retirement, he received gratuity of ₹ 2,60,000. He was allowed pension of ₹6,000 per month with effect from 16.09.2019. He was allowed commutation of 75% of his pension on 01.01.2020 and received a sum of ₹6,00,000 as commuted pension.

Compute his Tax Liability for Assessment Year 2020-21.

Answer = Tax Liability: Nil

Problem 9.

Mr. X is retired from ABC Ltd. on 31.03.2020 after serving the employer for 30 years and 11 months and the employer has paid him leave salary of ₹5,00,000. At the time of retirement, he was getting basic pay ₹25,000 p.m. but it was ₹22,000 p.m. upto 31.07.2019. Further, the employee was getting dearness allowance ₹6,000 but it was ₹4,000 p.m. upto 31.07.2019 and 50% of the dearness allowance forms the part of salary for retirement benefits.

The employee was entitled for 3 months leave for every year of service, but the employee has availed 7 months leave throughout the service and has encashed 4 months leave.

Compute employee's Tax Liability for the Assessment Year 2020-21.

Answer = Tax Liability: ₹19,240

Problem 10.

Mr. X is retired from ABC Ltd. on **29.02.2020** after serving the employer for 21 years and 10 months. At the time of his retirement his basic pay was ₹13,000 p.m. but upto 30.09.2019 it was ₹9,500 p.m. The employer has allowed him dearness allowance @ 10% of his basic pay.

The employee was entitled for 45 days leave per year of service. During entire service the employee has availed 65 days leave and has encashed 45 days leave. The employer has paid him leave salary of ₹3,10,000 at the time of retirement.

Employer has also paid him gratuity of ₹2,50,000, pension of ₹6,000 p.m. and the employee was allowed commutation of 40% of his pension amounting to ₹ 2,88,000.

Compute his Tax Liability for the Assessment Year 2020-21.

Answer = Tax Liability: Nil

Problem 11.

Mr. X is retired from ABC Ltd. with effect from 01.12.2019 after serving the employer for 16 years. At the time of his retirement his basic pay was ₹43,000 p.m. The employee was entitled for 65 days leave per year of service. The employee has 780 days leave at his credit at the time of retirement (as per employer's record) which were encashed by the employer. An amount of ₹5,12,000 was paid by the employer.

Compute his Tax Liability for the Assessment Year 2020-21.

Answer = Tax Liability: ₹14,250

Problem 12.

Mr. X is employed in ABC Ltd. getting basic pay ₹45,000 p.m., dearness allowance ₹7,000 p.m. The

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p.m. on behalf of the employee and has allowed him entertainment allowance ₹200 p.m. out of which he has saved ₹ 100 p.m. The employer has paid medical allowance ₹300 p.m. but employee's expenditure is ₹500 p.m. Compute his income under the head Salary and Tax Liability for the Assessment Year 2020-21.

Answer = Income under the head Salary: ₹7,30,000; Tax Liability: ₹60,840

Problem 18.

Mr. X is employed in ABC Ltd. since 01.07.2003 in the pay scale of 35,000 – 300 – 36,500 – 500 – 40,000 – 750 – 47,500 – 1000 – 57,500. The employer has given him two increments in advance at the time of his taking up the job.

During the previous year 2019-20, he was allowed dearness allowance @ 11% of the basic pay. The employer has allowed him house rent allowance @ ₹3,000 p.m. Entertainment allowance ₹600 p.m. but the employee has saved ₹100 p.m. which was donated by him to a charitable institution.

The employer has paid Professional tax of ₹2,400 on his behalf on 02.04.2019 though it was due on 31.03.2019. The employer has paid conveyance allowance of ₹500 p.m. The employee has incurred ₹100 p.m. for official purpose, ₹150 p.m. for personal purpose and balance has been saved by the employee.

Compute his income under the head Salary and Tax Liability for the Assessment Year 2020-21.

Answer = Income under the head salary: ₹5,88,240; Tax Liability: ₹31,350

Problem 19.

Mr. X joined ABC Ltd. on 01.07.2012 in the pay scale of 25,000 – 1,500 – 31,000 – 1,600 – 39,000 – 1,800 – 49,800. The employer has allowed him 3 increments in advance at the time of taking up the job. The employee's salary is due on the 1st of next month.

Employee was allowed dearness allowance @ ₹10,000 p.m., during the previous year 2018-19 and @ ₹12,000 p.m. in 2019-20. The employee has resigned w.e.f. 01.03.2020. The employee was allowed pension @ ₹10,000 p.m. and his pension is due on the last day of the month.

Compute Tax Liability for the Assessment Year 2020-21.

Answer = ₹30,560

Problem 20.

Mrs. X is employed in ABC Ltd. **and her salary is** ₹5,40,000, but it is increased to ₹6,00,000 in previous year 2019-20 w.e.f. previous year 2018-19. Compute Tax Liability and relief under section 89.

Tax Rate of Previous Year 2018-19 for resident woman

If total income upto ₹2,50,000	Nil
On Next 2,50,000	5%
On Next 5,00,000	20%
On Balance amount	30%

Health & education cess @ 4%, rebate u/s 87A will be allowed up to ₹ 2,500 if total income of the person is up to ₹ 3,50,000.

Standard deduction u/s 16(ia) was ₹ 40,000 in year 2018-19

Answer = Tax Liability: ₹35,880; Relief: Nil

Problem 21.

Mr. X is employed in ABC Ltd. getting basic pay ₹40,000 p.m. and dearness allowance ₹5,000 p.m. (half of the dearness allowance forms part of salary for retirement benefit salary). The employee was working in sales deptt. and employer has allowed him commission @ 1.5% on the sales turnover of ₹20,00,000.

Employee has contributed ₹6,000 p.m. to the recognized provident fund. The employer has also contributed an equal amount. During the year interest of ₹20,000 was credited on 30.06.2019 @ 8.5% p.a.

The employer has provided him rent free accommodation which is owned by the employer himself and the population of the place is 14,00,000.

Compute his total income and tax liability for A.Y. 2020-21.

Answer = Total Income : ₹5,09,200; Tax Liability: ₹14,910

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₹

i.	Basic Salary	1,50,000 p.m.
ii.	Dearness Allowance	55,000 p.m.
iii.	Commission	35,000 p.m.
iv.	Transport Allowance	5,000 p.m.
v.	Medical Reimbursement	20,000 paid during the year

Mr. X resigned from the services on 30th September, 2019. He was paid gratuity of ₹ 20 lakhs on his retirement. A lumpsum amount of ₹ 36 lakhs was also paid from unrecognized provident fund. The provident fund amount consisted of employer contribution ₹ 13.20 lakhs and interest thereon ₹ 3 lakhs. The employee's contribution was ₹ 16.20 lakhs and interest thereon was ₹ 3.60 lakhs.

He had taken the possession of house on 28th February, 2020 after making payment of final installment of housing loan to bank. Loan was taken on 01-04-2018. The accumulated interest as on 31st march, 2019 was ₹ 1.5 lakh. He made payment of ₹ 2,20,000 during the year which included interest ₹ 1,10,000 for 11 months.

He started business of hiring of goods vehicle, purchased 3 small goods vehicle on 15th November, 2019 and 3 heavy vehicles having gross weight of 15 MTs each on 1st December, 2019. He did not maintain books of accounts for income and expenditure of hiring of goods vehicle. One of his friend gifted him ₹ 6 lakhs to purchase the vehicles.

He was holding 25% equity shares in CMF Ltd., an Indian company. The paid up share capital of company as on 31st March, 2019 was ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1st October, 2014. Company bought back 30% of its share on 30th April, 2019 under the provisions of Companies Act, 2013 on making payment of ₹ 60 per share.

He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2019-20. The policy was taken in April 2011 and sum assured was ₹ 1,50,000. He also made payment of ₹ 25,000 L.I.C pension fund and premium of ₹ 40,000 towards mediclaim policy for self and wife.

Compute total income and tax payable thereon for the Assessment year 2020-21. There was no change in salary of Mr. X from last two years. Cost inflation Index is:

Financial Year	Cost Inflation Index
2014-15	240
2019-20	289

Solution:**Computation of Total Income and Net Tax Liability of Mr. X of A.Y. 20-21****Computation of Income under the head Salary**

Basic Pay (1,50,000 x 6)	9,00,000	₹
Dearness Allowance (55,000 x 6)	3,30,000	
Commission (35,000 x 6)	2,10,000	
Transport Allowance (5,000 x 6)	30,000	
Medical Reimbursement	20,000	
Gratuity {Sec10(10)}	12,50,000	

Working Note:**Least of the following is exempt:**

1. ₹ 20,00,000
2. ₹ 20,00,000

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2. ₹ 20,00,000	
3. ₹ $1/2 \times (1,50,000 \times 10)/10 \times 10 = ₹ 7,50,000$	
Received = ₹ 20,00,000	
Exempt = (₹ 7,50,000)	
Taxable = (₹ 12,50,000)	
Employer contribution from URPF (lumpsum)	13,20,000
Interest on Employer's contribution	3,00,000
Gross Salary	43,60,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head Salary	43,10,000
Less: Loss under the head house property	(1,40,000)
Income under the head Salary	41,70,000
Income from house property	
Gross Annual Value (GAV)	Nil
Less: Municipal taxes paid	Nil
Net Annual Value (NAV)	Nil
Less: Deductions u/s 24 (a) 30% of NAV	Nil
Less: Deductions u/s 24 (b) Interest	(1,40,000)
Current Period interest ₹ 1,10,000	
Prior period installment ₹ 1,50,000 / 5 = ₹ 30,000	
(assumed all the conditions has been satisfied)	
Loss from House Property	(1,40,000)
Income under the head business/profession	
As per section 44AE	
Small goods vehicle (3 x 7500 x 5)	1,12,500
Heavy goods vehicle (3 x 15000 x 4)	1,80,000
Income under the head business/profession	2,92,500
Income under the head other sources	
Interest on Employee contribution	3,60,000
Gift from friend (section 56(2)(x))	6,00,000
Income under the head other sources	9,60,000
Gross Total Income	
Income under the head salary	41,70,000
Income under the head business/profession	2,92,500
Income under the head other sources	9,60,000
Gross Total Income	54,22,500
Less: Deduction u/s 80C – Repayment of housing loan	(1,10,000)
Less: Deduction u/s 80C – LIC	(20,000)
Less: Deduction u/s 80CCC – LIC Pension fund	(25,000)
Total	1,55,000
But Limited to 1,50,000	(1,50,000)
Less: Deduction u/s 80D (40,000 but limited to 25,000)	(25,000)
(assumed payment made through cheque)	
Total Income	52,47,500
Computation of Tax Liability	
Tax on normal income ₹ 52,47,500	13,86,750.00
Add: Surcharge @ 10%	1,38,675.00
Tax before health & education cess	15,25,425.00
Add: HEC @ 4%	61,017.00
Tax Liability	15,86,442.00
Round off u/s 288B	15,86,440.00

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Question 5(b)**Marks 2**

Examine with brief reasons, whether the following are chargeable to income tax and the amount liable to tax with reference to the provisions of the Income Tax Act, 1961:

- (i) Allowance received by an employee Mr. Ram working in a transport system at ₹12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

Answer:

- (i) As per section 10(14)/Rule 2BB, any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running of such transport from one place to another place is called outstation allowance. Such allowance is given in lieu of daily allowance. It is exempt to the extent of least of the following:

(i) **70% of the allowance**(ii) **₹10,000 p.m.**

In the given case allowance received is taxable and taxable amount shall be –

Amount received	1,44,000
Less: Exempt - least of the following	(1,00,800)
(i) 70% of 1,44,000 = 1,00,800	
(ii) ₹10,000 p.m. x 12 = 1,20,000	
Taxable amount	43,200

NOV – 2018 (OLD COURSE)**Question 3(a)****Marks 5**

Ms. Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd. She was appointed on 1st June, 2017 at a salary of ₹ 32,000 per month. During the previous year 2019-2020, she received the following amounts from her employer.

- (i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
(ii) Bonus for the previous year 2018-2019 amounting to ₹32,000 was received on 01st October, 2019.
(iii) Fixed Medical allowance of ₹ 20,000 for meeting medical expenditure.
(iv) She was also reimbursed the medical bill of her father-in-law dependent on her amounting to ₹ 3,000.
(v) Ms. Nandini was provided;
- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2017 at ₹ 15,000.
 - a domestic servant at a monthly salary of ₹ 1,000 which was reimbursed by her employer.
- (vi) Dye Hard Ltd. allotted 500 equity shares in the month of December 2019 @ ₹ 150 per share against the fair market value of ₹ 250 per share on the date of exercise of option by Ms. Nandini. The fair market value was computed in accordance with the method prescribed under the Act.
(vii) Professional tax ₹ 2,500 (out of which ₹ 1,800 was paid by the employer).

Compute the total Income of Ms. Nandini for the assessment year 2020-2021. (Assume that Ms. Nandini pays tax on the receipt basis)

Solution:

	₹
Basic Pay (32,000 x 12)	3,84,000
Dearness Allowance (3,200 x 12)	38,400
Medical Allowance (section 17(1))	20,000
Medical Facility taxable	3,000
Laptop facility (section 17(2)(viii) /Rule 3(7)(vii))	Nil
Servant reimbursement (1,000 x 12) (section 17(2)(iii) /Rule 3(3))	12,000
Equity Shares (500 x (₹ 250-₹ 150)) (section 17(2)(vi))	50,000
Professional Tax	1,800
Gross Salary	5,09,200
Less: Deduction u/s 16(ia)	(50,000)

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Less: Deduction u/s 16(iii)	(2,500)
Income under the head Salary	4,56,700
Gross Total Income	4,56,700
Less: Deduction u/s 80C to 80U	Nil
Total Income	4,56,700

Notes:

1. Bonus received on 01-10-2019 was for the previous year 2018-19 hence taxable in the year 2018-19.
2. Reimbursement of medical bill of father in law is fully taxable.
3. Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.
4. As per section 17(2)(vi), equity shares received at less than market price then difference of market price and amount recovered shall be taxable.

MAY – 2018 (NEW COURSE)**Question 4****Marks 10**

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. he has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (for 6 months) ₹50,000 P.M.

Salary received in India (for 6 months) ₹50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹15,000 per month as rent, but when he comes in India, he stays in the guest house of the company. During this period he is given free lunch facility. During the previous year company incurred an expenditure of ₹48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹5,000. His elder son is studying in India for which his employer spends ₹12,000 per year where as his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year the company paid premium of ₹5,000 and ₹10,000 respectively.

Compute Mr. Honey's taxable income from salary for the Assessment Year 2020-21.

Solution:**Determination of Residential Status**

As per section 6(1), Stay in India is 182 or more during the previous year, hence he is resident and his stay during the 7 years is more than 729 days and he is resident in India for more than a year in 10 years preceding the relevant previous year and not able to comply even a single condition of section 6(6)(a), hence he is ROR.

Computation of Income under the head salary for the A.Y. 2020-21

Basic Salary (50,000 x 12)	₹ 6,00,000.00
Rent free Accommodation {Sec 17(2)(i), Rule 3(1)}	94,680.00

Working Note:

15% of rent free accommodation salary or rent paid whichever is less

Rent free accommodation Salary

= Basic Pay + Children Education allowance + Hostel Allowance

= 6,00,000 + 31,200

= ₹6,31,200

15% of rent free accommodation Salary = ₹94,680

Rent Paid = ₹15,000 x 12 = ₹1,80,000

Perquisite value of unfurnished house = ₹94,680

Guest House facility (official purpose)

Exempt

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12% of RBS = 45,000

Employer's contribution = 3,00,000 x 20% = 60,000

60,000 – 45,000 = 15,000

Interest credited in recognised provident fund in excess of 9.5% **3,667*****(15,000/15% x 5.5%) x 2/3***Gross Salary **4,68,667**

Less: Standard deduction u/s 16(ia) (50,000)

Income under the head salary **4,18,667****Income under the head other sources**

Interest from axis bank saving account 10,000

Interest credited in recognised provident fund in excess of 9.5% **1,833*****(15,000/15% x 5.5%) x 1/3***

Interest from debentures 12,040

Income under the head other sources **23,873****Income from house property**

Arrears of rent 69,000

Less: 30% u/s 25A (20,700)

Income from house property 48,300

Income under the head Capital Gains**Gold chain and diamond ring lost**

Full Value of Consideration 2,92,000.00

Less: Indexed cost of acquisition (1,17,000/117 x 289) (2,89,000.00)

Long term capital gains 3,000.00

Gross Total Income***Income under the head Salary*** **4,18,667*****Income under the head other sources*** **23,873**

Income from house property 48,300

Long term capital gains 3,000

Gross Total Income 4,93,840

Less: Deduction u/s 80C

Employee contribution to RPF 30,000

Sukanya Samridhi account 60,000 (90,000)

Less: Deduction u/s 80D for major daughter (12,500)

Less: Deduction u/s 80CCD Contribution to Pension fund (1,196 x 12) (14,352)

Less: Deduction u/s 80TTA (10,000)

Total Income 3,66,988

Rounded off u/s 288A 3,66,990

Notes:

1. Interest on debentures is presumed to be gross receipts.
2. Residential house is sold in 2017 hence tax on such income is already given in 2017 hence no treatment is done in current year.
3. It is assumed in section 80D that Daughter is dependent.

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

Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme ₹50,000 every year since 2017 and was claiming deduction under section 80CCD. In December 2019, he opted out of the pension scheme and withdrew a lump sum amount of ₹2,00,000. Is the amount so withdrawn taxable? If yes, how much is the taxable amount?