

Revised on 27.12.2020

NOVEMBER-2020
SOLUTIONS (As per FA, 2019)
TAX (GROUP-1) NEW
NLT2

Roll No.....

Total No. of Printed Pages-20

Total No. of Questions - 8

Maximum Marks - 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive Type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have Completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book of the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART-II

(70 Marks)

1. **Section-A** comprises questions **1-4**. In Section- A, answer Question No. **1** which is compulsory and any **2** questions from question No. **2-4**. All questions in Section-A relate to assessment year 2020-21, unless otherwise stated.
Section-B comprises questions **5-8**. In Section-B, answer Question No. **5** which is compulsory and any **2** Questions from question No. **6-8**
2. Working notes should from part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium. his/her answers in Hindi will not be evaluated.
4. All questions is Section B should be answered on the basis of position of GST law as amended by significant notifications/ circulars issued upto 30th April, 2020.

PART -II
Section A

Question 1**14 Marks**

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31.03.2020, you are requested to compute his total income and tax liability under normal as well as special provisions (AMT), if any, applicable to him for the Assessment Year 2020-21.

(i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹2,28,000. He has paid municipal taxes of ₹60,000 for the current financial year.

(ii) He owns an industrial undertaking established in a SEZ and which has commenced operation during the financial year 2017-18. Total turnover of the undertaking was ₹200 lakhs, which includes ₹140 lakhs from the export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-Tax Act, 1961. Profit from this industry is ₹25 lakhs.

(iii) He received royalty of ₹2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹40,000. The amount remitted to India till 30th September, 2020 is ₹2,30,000

(iv) Received 40,000 as interest on saving bank deposits.

(v) Received 47,000 as share of profit from an AOP where all the members are individual and which had paid the tax by normal rates of income tax.

(vi) He also sold his vacant land on 10.11.2019 for ₹10 lakhs. The stamp duty value of land as on 01.04.2001 was ₹4 lakhs. This land was acquired by him on 05.08.1995 for ₹1.80 lakhs. He had incurred registration expenses of ₹10,000 at that time.

The cost of inflation index for the year 2019-20 and 2001-02 are 289 and 100 respectively.

(vii) He paid the following amounts, out of his taxable income:

(a) Insurance premium of ₹39,000 paid on life insurance policy of son, who is not dependent on him.

(b) Insurance premium of ₹48,000 on policy of his dependent father,

(c) Tuition fees of ₹42,000 for his three children to a school. The fees being ₹14,000 p.a. per child.

Solution:**Income under the head house property****Let out House**

Gross annual value (Rent Received is taken as GAV)	2,28,000
Less: Municipal Taxes (60,000/2)	(30,000)
Net Annual value	1,98,000
Less: standard deduction @ 30% u/s 24(a)	(59,400)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head house property	1,38,600

Self - occupied house

Gross annual value	Nil
Less: Municipal Taxes (not allowed in case of self-occupied house)	Nil
Net Annual value	Nil
Less: standard deduction @ 30% u/s 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head house property	Nil

Income under the head Business/Profession

Profit from Industry	25,00,000
----------------------	-----------

Income under the head capital gains

Full value of consideration (as per section 50C)	14,00,000
(Since stamp duty value is exceeding 5% of actual consideration hence Stamp duty value shall be actual consideration)	
Less: Indexed cost of Acquisition	(11,56,000)
(4,00,000/100 X 289) (higher of actual cost and FMV as on 01.04.2001 shall be taken as COA)	
Long term capital gains (held for more than 24 months)	2,44,000

Income under the head other sources

Royalty income	2,88,000
Less: Expense on royalty	(40,000)
Royalty income	2,48,000
Interest on saving bank	40,000
Income under the head other sources	2,88,000

Gross Total Income	31,70,600
Less: Deduction u/s 10AA	
(25,00,000/200,00,000 X 1,40,00,000) X 100%	
	(17,50,000)
Less: Deductions u/s 80C - Insurance premium of son	(39,000)
Tuition fee Paid (Maximum of 2 children allowed)	(28,000)
Less: Deductions u/s 80QQB	(1,90,000)

Working Note:

(i) 15% of value of books	2,40,000
(2,88,000/18% x 15%)	
but cannot exceed amount received within 6 months from the end of the previous year i.e. 2,30,000	
Allowed	2,30,000
Less: Expenses	(40,000)
Deduction allowed	1,90,000

Less: Deductions u/s 80TTA	(10,000)
Total Income	11,53,600

Computation of Tax Liability

Tax on 2,44,000 @ 20% u/s 112	48,800.00
Tax on balance 9,09,600 at slab rate	94,420.00
Tax before Health and education cess	1,43,220.00
Add: HEC @4%	5,728.80
Tax Liability	1,48,948.80
Rounded off u/s 288B	1,48,950.00

Notes:

1. Taxability of BOI/AOP is not covered in syllabus, hence student can give any treatment. The above solution is given without taking into consideration the share from AOP. The provisions of AOP/BOI are given under section 67A/86/110/167B
2. As per section 80C, Insurance Premium of son is allowed but for father is not allowed. It is not specified whether policy of father is life policy or Mediclaim policy. It is presumed that it is life policy.
3. As per section 80C, Tuition fee shall be allowed for maximum of 2 children.
4. Municipal tax paid for self-occupied portion is not allowed.
5. As per section 10AA, Industrial undertaking was started in 2017-18 and for first five year assessee can claim 100% of export profit as exemption u/s 10AA. Export profit means Total Profit/Total Turnover x Export turnover.

AMT Provisions Section 115JC**Calculation of Adjusted GTI**

Total income	11,53,600.00
Add: Deduction u/s 10AA	17,50,000.00
Add: Deduction u/s 80QQB	1,90,000.00
Adjusted GTI	30,93,600.00

Since Adjusted GTI is exceeding 20,00,000 hence AMT provisions shall be applicable.

Calculation of Tax as per AMT

Adjusted GTI	30,93,600.00
Tax @ 18.5%	5,72,316.00
HEC @ 4%	22,892.64
Tax Liability	5,95,208.64
Rounded off u/s 288B	5,95,210.00

Since regular income tax payable is less than the alternate tax, hence assessee have to pay tax as per alternate minimum tax i.e. 5,95,210.

Question 2 (a)**9 Marks**

Mr. Mukesh born on 01.04.1960 furnished his original return for Assessment year 2020-21 on 30.07.2020. He has shown his salary income of ₹7.30 lakhs (computed) and interest from his savings bank of ₹12,700 and from his fixed deposits of ₹43,000. He also claimed deduction under section 80C ₹1.50 lakhs. He also claimed deduction u/s 80D of ₹25,000. He also claimed deduction u/s 80TTA of ₹10,000. His employer has deducted TDS of ₹33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance of ₹38,000 by account payee cheque for self and wife. He paid ₹1,500 in cash for his health check-up and ₹4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of ₹33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of ₹25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any Mediclaim policy.

He seeks your advice about possibility of revising his return and if possible file his revise return. Analyse the above narrated facts as per applicable provisions of the Income Tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the assessment year 2020-21.

Solution:

Mr. Mukesh was born on 01.04.1960 and he has completed 60 years as on 31.03.2020, hence he is a senior citizen.

Mr. Mukesh furnished his original return on 30.07.2020 and as per section 139(5) he can revise his return upto 31.03.2021 for the assessment year 2020-21.

Since he is senior citizen higher deductions can be claimed by Mr. Mukesh hence he needs to revise his return of income to claim the actual deductions allowed to him and also take the benefit of higher slab.

Re-computation of Total Income and Tax Liability

Income under the head salary	7,30,000
Income under the head other sources	
Interest from saving bank	12,700
Interest on FD	43,000
Income under the head other sources	55,700
Gross Total Income	7,85,700
Less: Deductions u/s 80C	(1,50,000)
Less: Deductions u/s 80D	
Health insurance for self and wife	(38,000)
Preventive health checkup for self	(1,500)
Medical insurance of mother (assumed paid in cheque)	(33,000)
Preventive health checkup for parents (paid 4,000 but limited to 3,500)	(3,500)
Medical expenditure of Father (paid 25,000 but limited to 13,500)	(13,500)
Less: Deductions u/s 80TTB	(50,000)
Total Income	4,96,200

Computation of Tax payable/Refundable

Tax on 4,96,200 at slab rate	9,810
Less: Rebate u/s 87A	(9,810)
Tax liability	Nil
Less: TDS	(33,950)
Tax Refundable	33,950

Note:

1. As per section 80D, in case of senior citizen maximum deduction allowed shall be 50,000 and same in case of parents, if parent is a senior citizen then maximum deduction allowed shall be 50,000. In case of preventive health checkup maximum deduction allowed shall be 5,000 for both self and parents.
2. As per section 80TTB, if assessee is a senior citizen then he can claim deduction of Interest on FD and savings bank account and maximum amount allowed shall be 50,000.
3. As per section 87A, A resident individual shall be allowed to claim deduction if income is less than 5,00,000. Deduction allowed shall be lower of actual tax or 12,500.

Question 2 (b)**5 Marks**

State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2019-2020 under the Income -tax Act,1961. Assume that all payments are made to residents:

(i) Sanjay, a resident individual, not deriving any income from business or profession makes payment of ₹12 lakhs in January, 2020, ₹20 lakh in February, 2020 and ₹20 lakh in March, 2020 to Mohan, a contractor for reconstruction of his residential house.

(ii) ABC Ltd. makes the payment of ₹1,50,000 to Ramlal, an individual transporter who owned 6 goods carriages throughout the previous year, He does not furnish his PAN.

(iii) Smt. Sarita paid ₹5,000 on 17th April, 2019 to Smt. Deepa from the deposits in National savings Scheme account.

Answer:

(i) Yes, under section 194M since the aggregate of payments (i.e., ₹52 lakhs) exceeds ₹50 lakhs and his turnover is below ₹100 lakhs in the P.Y.2018-19. Hence, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y.2019-20 and section 194M gets attracted as the aggregate payments exceeds 50 lakhs, hence he is liable to deduct TDS @ 5% on 52,00,000 = 2,60,000.

(ii) As per section 194C, No tax shall be deducted at source in case of payment to a contractor in connection with transportation of goods where such contractor do not own more than 10 goods carriages at any time during the year and also submitted a declaration in this regard and has also furnished permanent account number. But in the given case transporter has not furnished his PAN hence ABC limited can deduct TDS u/s 194C.

As transporter has not furnished his PAN then section 206AA shall also be applicable and TDS shall be deducted @ 20% on 1,50,000 = 30,000.

(iii) As per section 194EE, the person responsible for paying to any person any amount from deposits under National saving scheme shall, at the time of payment thereof, deduct income-tax thereon at the rate of 10% provided amount is exceeding 2,500 in a financial year. In the given case amount exceeds 2,500 hence TDS shall be deducted @ 10% on 5,000 = 500.

Payments in respect of deposits under National Savings Scheme, etc. 194EE.

The person responsible for paying to any person any amount referred to in clause (a) of sub-section (2) of section 80CCA shall, at the time of payment thereof, deduct income-tax thereon at the rate of [ten] per cent Provided that no deduction shall be made under this section where the amount of such payment or, as the case may be, the aggregate amount of such payments to the payee during the financial year is less than two thousand five hundred rupees.

Investment u/s Section 80CCA has been discontinued w.e.f. 01.04.1992 hence question on NSS cannot be considered to be reasonable.

Question 3 (a)

8 Marks

Ms. Pooja a resident individual provides the following information of her income / losses for the year ended on 31st March, 2020:

S. No.	Particulars	(₹)
1	Income from salary (computed)	2,20,000
2	Income from house property (let out) (Net Annual Value)	1,50,000
3	Share of loss from firm in which she is a partner	10,000
4	Loss from specified business covered under section 35AD	20,000
5	Income from textile business before adjusting the following items:	3,00,000
	(a) Current year depreciation	60,000
	(b) Unabsorbed depreciation of earlier year	2,25,000
	(c) Brought forward loss of textile business of the A.Y. 2018-19	90,000

6	Long term capital gains on sale of debentures	75,000
7	Long term capital gains on sale of equity shares (STT not paid)	1,00,000
8	Long term capital gains on sale of equity shares listed in a recognized stock exchange (STT paid at the time of acquisition and sale)	1,50,000
9	Dividend from units of UTI	5,000

During the previous year 2019-20, Ms. Pooja has repaid ₹5,25,000 towards housing loan from a scheduled bank. Out of this ₹3,16,000 was towards payment of interest and rest towards principal.

Compute Gross total income of Ms. Pooja and ascertain the amount of loss that can be carried forward. Ms. Pooja has always filed her return within the due date specified under section 139(1) of the Income tax Act, 1961.

Solution:

Computation of Gross Total Income of Ms. POOJA

Income under the head salary

Income from salary (computed)	2,20,000
Less: Setoff of House property loss section 71	(2,00,000)
Income under the head salary	20,000

Income under the head House property

Net Annual Value (NAV given in question)	1,50,000
Less: Standard deductions @ 30% u/s 24(a)	(45,000)
Less: Interest on capital borrowed u/s 24(b)	(3,16,000)
Loss under the head house property	(2,11,000)
(as per section 71, Maximum setoff allowed from other heads is 2,00,000 and balance 11,000 shall be carried forward as per section 71B)	

Income under the head business/ profession

Income from textile business	3,00,000
Less: current year depreciation	(60,000)
Less: brought forward loss of textile business	(90,000)
Less: unabsorbed depreciation section 32(2)	(1,50,000)
(balance 75,000 shall be adjusted from capital gains)	
Income under the head business/profession	Nil

Income under the head capital gains

Long term capital gains on sale of debentures	75,000
Long term capital gains on sale of equity shares (STT paid)	1,50,000
Less: Setoff of long term capital loss on sale of shares (STT not paid) (section 70)	(1,00,000)
Less: Unabsorbed depreciation section 32(2)	(75,000)
Income under the head capital gains	50,000

Gross Total Income	70,000
--------------------	--------

Carried forward of losses

1. Loss of house property	11,000
---------------------------	--------

2. Loss from specified business u/s 35AD 20,000

(Shall be allowed to be adjusted from specified business income only)

Note 1: As per section 10(35), Dividend from units of UTI shall be exempt from tax.

Question 3 (b)

6 Marks

Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2020-21 from the following:

(i) Salary received by Shri Ram Kumar from a company ₹1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹2,40,000 per annum

(ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2019 for adequate consideration. The rent received from this let-out flat is ₹9,000 per month.

(iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹36,000 and Smt. Ram Kumar received ₹64,000 as interest from the firm and also had a share of profit of ₹12,000 and ₹26,000 respectively.

(iv) Smt. Ram Kumar transferred 10% debentures worth ₹3,00,000 to Shri Ram Kumar. The whole amount of ₹3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹39,000.

(v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2018. Master Rohit (Aged 13 years) received of ₹15,000 as income from this property on 20th February, 2020.

Solution: Computation of Gross Total Income of Shri Ram Kumar

Income under the head salary

Salary received	1,80,000.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head salary	1,30,000.00

Income under the head house property

Gross Annual value (9,000 x 5)	45,000.00
Less: Municipal taxes	Nil
Net Annual value	45,000.00
Less: Standard deduction @ 30% u/s 24(a)	(13,500.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	31,500.00

Income under the business/Profession

Interest income from Firm	36,000.00
---------------------------	-----------

Income under the head other sources

Interest income of debentures (39,000 / 3,30,000 x 30,000)	3,545.45
Gross Total Income	2,01,045.45

Computation of Gross Total Income of Smt. Ram Kumar

Income under the head salary

Salary received	2,40,000
-----------------	----------

Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	1,90,000

Income under the head house property (Transferred with adequate consideration)

Gross Annual value (9,000 x 7)	63,000
Less: Municipal taxes	Nil
Net Annual value	63,000
Less: Standard deduction @ 30% u/s 24(a)	(18,900)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	44,100

Income under the business/Profession

Interest income from Firm	64,000
---------------------------	--------

Income of Minor son – Rohit

Income from house property	15,000
Less: Exemption u/s 10(32)	(1,500)
Income under the head house property	13,500

Income under the head other sources

Interest on debentures (3,00,000 x 10%)	30,000.00
Interest income of debentures shall be clubbed u/s 64(1) (39,000 /3,30,000 x 3,00,000)	35,454.55
Income under the head other sources	65,454.55
Gross Total Income	3,77,054.55

Note:

(i) Mother of Shri Ram Kumar transferred a Property to master Rohit, it is not mentioned it is House Property, hence it is presumed that it is other than House Property. Accordingly income has been clubbed after exemption under section 10(32).

(ii) In case of transfer of debentures date of transfer is not given and whether it is transferred for adequate consideration or not is not mentioned. Above solution is given on the assumption that it is transferred for inadequate consideration and clubbing provisions shall be applicable.

Question 4 (a)

5 Marks

Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31.03.2020. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2020-21 as per Income Tax Act, 1961. (Give brief reasoning)

(1) Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest)

(2) Received ₹10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware Specific).

(3) He is also engaged in the business of running news agency and earned income of ₹10 lakhs from collection of news and views in India for transmission outside India.

(4) He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged ₹10 lakhs for these services from SKK & Co.

Solution:

(1) As per section 9, If loan has been taken by a non-resident, interest income shall be accruing / arising in India only if loan amount has been utilised in India in business/profession but if loan amount is utilised in any other source in India or it has been used outside India, interest income shall be accruing / arising abroad.

In the given case, loan amount is used for investing in Indian company debt fund for earning interest and not for business purpose hence interest income shall not be considered to be accruing arising from India and shall not be taxable in India.

(2) As per section 9, If any income is accruing and arising in India relating to royalty or technical fees etc., it will be taxable in India even if the person receiving income is non-resident and even if such non-resident do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India and also the non-resident has not rendered services in India. In the given case, income received for granting licence for computer software shall be deemed to be income accruing arising in India and shall be taxable in India.

(3) As per section 9, If any non-resident has the **business of running a news agency or of publishing newspapers, magazines or journals etc.** outside India, no income shall be deemed to accrue or arise in India to him from activities which are confined to the collection of news and views in India for transmission out of India but if newspaper etc. is being sold in India, there will be business connection or if there is telecasting or broadcasting of such news/views etc. in India, there will be business connection and income shall be taxable to that extent.

In the given case, income is from transmission outside India hence income shall not be deemed to accrue arise in India and shall not be taxable in India.

(4) As per section 9, income by way of fees for technical services payable by a person who is a non-resident, where the fees are payable in respect of services utilised in a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India.

In the given case, services utilized in a business in India hence income shall be accruing arising from India and same shall be taxable in India.

Question 4 (b)

5 Marks

Mr. Govind purchased 600 shares of "Y" limited at ₹130 per share on 26.02.1979. "Y" limited issued him, 1,200 bonus shares on 20.02.1984. The fair market value of these share at Mumbai Stock Exchange as on 1.04.2001 was ₹900 per share and ₹2,000 per share as on 31.01.2018. On 31.01.2019 he converted 1000 shares as his stock in trade. The shares was traded at Mumbai Stock Exchange on that date at a high of ₹2,200 per share and closed for the day at ₹2,100 per share.

On 07.07.2019 Mr. Govind sold all 1800 shares @ ₹2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid.

Compute total income of Mr. Govind for the assessment year 2020-21

Solution***Computation of Capital Gains of Mr. Govind*****Converted shares in to stock in to trade*****Capital gains shall be taxable in the year when such stock is sold.******Computation of Capital Gains under section 45(2)***

Full value of consideration (1,000 x 2,100)	21,00,000
Less: Cost of Acquisition (1,000 x 2,000)	(20,00,000)

Higher of
 (i) COA (1000 x 900) = 9,00,000
 (ii) lower of
 (a) FMV as on 31-01-2018 = 1000 x 2000 = 20,00,000
 (b) sale value = 1000 x 2,400 = 24,00,000
 COA = 20,00,000

Long Term Capital Gain u/s 112A	1,00,000
---------------------------------	----------

Balance Shares

Full value of consideration (800 x 2400)	19,20,000
Less: Cost of Acquisition (800 x 2,000)	(16,00,000)

Higher of
 (i) COA (800 x 900) = 7,20,000
 (ii) lower of
 (a) FMV as on 31-01-2018 = 800 x 2000 = 16,00,000
 (b) sale value = 800 x 2,400 = 19,20,000
 COA = 16,00,000

Long Term Capital Gain u/s 112A	3,20,000
---------------------------------	----------

Business Income

Sales consideration (2,400 x 1,000)	24,00,000
Less: Cost (1,000 x 2,100) (FMV on the date of conversion)	(21,00,000)
Business Income	3,00,000

Gross Total Income	7,20,000
Less: Deduction u/s 80C	Nil
Total Income	7,20,000

Note: At the time of conversion into Stock in Trade on 31.01.2019, the rates of share given are ₹ 2,200 per share and ₹2,100 per Share. It is not mentioned in the Act which rate should be taken hence any rate can be taken after giving a note.

As per section 2 (22B) "fair market value",in relation to a capital asset, means

- (i) the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date; and
 (ii) where the price referred to in sub-clause (i) is not ascertainable, such price as may be determined in accordance with the rules made under this Act

Question 4 (c)**4 Marks****EITHER**

Briefly explain the provisions relating to tax deduction at source on cash withdrawal under section 194N of the Income Tax Act, 1961.

Answer: TDS in case of Payment of certain amounts in cash Section 194N

Every person, being,—

- (i) a banking company to which the Banking Regulation Act, 1949 applies
- (ii) a co-operative society engaged in carrying on the business of banking; or
- (iii) a post office,

who is responsible for paying any sum, being the amount or the aggregate of amounts, as the case may be, in cash exceeding **one crore** rupees during the previous year, to any person (herein referred to as the recipient) from one or more accounts maintained by the recipient with it shall, at the time of payment of such sum, deduct an amount **equal to two per cent** of such sum, as income-tax:

Provided that in case of a recipient who has not filed the returns of income for all of the three assessment years relevant to the three previous years, for which the time limit of file return of income under sub-section (1) of section 139 has expired, immediately preceding the previous year in which the payment of the sum is made to him, the provision of this section shall apply with the modification that-

- (i) the sum shall be the amount or the aggregate of amounts, as the case may be, in cash exceeding twenty lakh rupees during the previous year; and
- (ii) the deduction shall be—
 - (a) an amount equal to two per cent. of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds twenty lakh rupees during the previous year but does not exceed one crore rupees; or
 - (b) an amount equal to five per cent. of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds one crore rupees during the previous year:

Provided further that the Central Government may specify in consultation with the Reserve Bank of India, by notification in the Official Gazette, the recipient in whose case the first proviso shall not apply or apply at reduced rate, if such recipient satisfies the conditions specified in such notification:

Provided also that nothing contained in this section shall apply to any payment made to,—

- (i) the Government;
- (ii) any banking company or co-operative society engaged in carrying on the business of banking or a post office;
- (iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the guidelines issued in this regard by the Reserve Bank of India under the Reserve Bank of India Act, 1934;
- (iv) any white label automated teller machine operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007;

Provided also that the Central Government may specify in consultation with the Reserve Bank of India, by notification in the Official Gazette, the recipient in whose case the provision of this section shall not apply or apply at reduced rate, if such recipient satisfies the conditions specified in such notification

OR

Ms. Julie received following amounts during the previous year 2019-20.

- (1) Received loan of ₹5,00,000 year from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹2,00,000 on the date of the loan.

(2) Received Interest on enhanced compensation of ₹5,00,000. Out of this interest, ₹1,50,000 relates to the previous year 2016-17, ₹1,90,000 relates to previous year 2017-18 and ₹1,60,000 relates to previous year 2018-19. She paid 1 lakh to her advocate for his efforts in the matter.

Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2020-21.

Answer:

(1) As per section 2(22)(e), If any closely held company (also called company in which public are not substantially interested) has given any loan or advance to an equity shareholder who is holding not less than 10% of the voting power of the company, in such cases such loan or advance shall be considered to be dividend in the hands of such shareholder but only to the extent of accumulated profits excluding capitalized profits.

In the given case, She is holding 10% and company is a closely held company, hence amount received to the extent of accumulated profits i.e. 2,00,000 shall be considered to be deemed dividend u/s 2 (22)(e) and company shall be liable to pay tax on such dividend and it shall be exempt in the hands of shareholders.

(2) **As per section 145B, interest received for late payment of compensation** from the Government or other similar agency in connection with compulsory acquisition of land or building shall be taxable in the year in which it has been received and it will be taxable under the head other sources however, **as per section 57 deduction shall be allowed @ 50% of such interest.**

Interest on enhanced compensation	5,00,000
Less: Deduction @ 50% u/s 57	2,50,000
Income under the head other sources	2,50,000